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SHARES

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TAP INTO RICH DIVIDEND STREAMS WITH OUR **INVESTMENT TRUST OF THE WEEK**

FREE REPORT INSIDE ON GROWTH AND INNOVATION COMPANIES

What will happen to the retail sector in 2019?

Companies haven't got a chance if they don't listen to the customer

We're now entering that time of the year when experts give their predictions for the year ahead covering a wide range of topics, from economics to politics and markets to currencies. We'll discuss all the hot topics in the 13 December issue of *Shares* so you're better informed going into 2019.

Ahead of that edition it is worth looking at how US market research group Forrester expects the retail sector to behave next year.

It says the sector will diverge into one of two strategies. One path is to depend on the marketplace for direction with retailers struggling to influence either price or the customer. The other is to develop a digital strategy where it is easy to test how different touchpoints work best for the retailer's brand and customer relationship.

Being strong digitally is seen as paramount for retailers to succeed in 2019. Also important is the need to have greater levels of automation to help combat cost pressures such as rising wages and to also improve productivity.

Ultimately these predictions are all common sense and one would hope are already items on the boardroom agenda. Sadly my impression of Forrester's report is that many retailers are late to the game with embedding technology at the centre of their business, and there may still be cultural issues which prevent full adoption.

For example, some retailers have very short-term goals to increase sales quarter after quarter, whatever the cost. Getting them to be more strategic in their thinking, such as applying artificial intelligence to create better customer experiences, may be beyond their mind-set because it involves taking a longer-term view.

RETAIL CAN LOOK STRAIGHTFORWARD

Numis analyst Simon Bowler says retail can look very straightforward: buy stuff, sell it for more. However, he notes that no other sector has seen more insolvencies in the past five years. One could suggest that's partially down to old fashioned business practices and also financial weakness which meant certain companies weren't able to cope with competitive pressures.

It is impossible to summarise exactly how a perfect retailer should look and act. To get anywhere close to providing the answer you need to consider traits which define a successful business. For example, being a good browsing destination, so that consumers can view, research and ultimately purchase, is as important as having good product, argues Bowler.

Retailers ultimately need to understand how consumers look for products and what would drive a purchase, plus have superior levels of customer service.

Retailers must listen to the customer and give them what they want and in the manner they desire, not simply 'pile them high, sell them cheap' and in a process dictated by the board with no consideration for the people buying the goods.

Getting the basics right is fundamental to a retailer's survival as this is an industry whose turmoil could get worse in the years ahead.

Forrester warns that an economic slowdown will catch many retailers off-guard as customers rein in spending after piling up credit and other debt. Sadly it says most retailers will ignore the warning signs of the next financial slowdown.

Now is really the time for retailers to sharpen their practices, forge long-term emotional loyalty with customers and stress test their business to see how it would survive in tougher times.

By **Daniel Coatsworth** Editor

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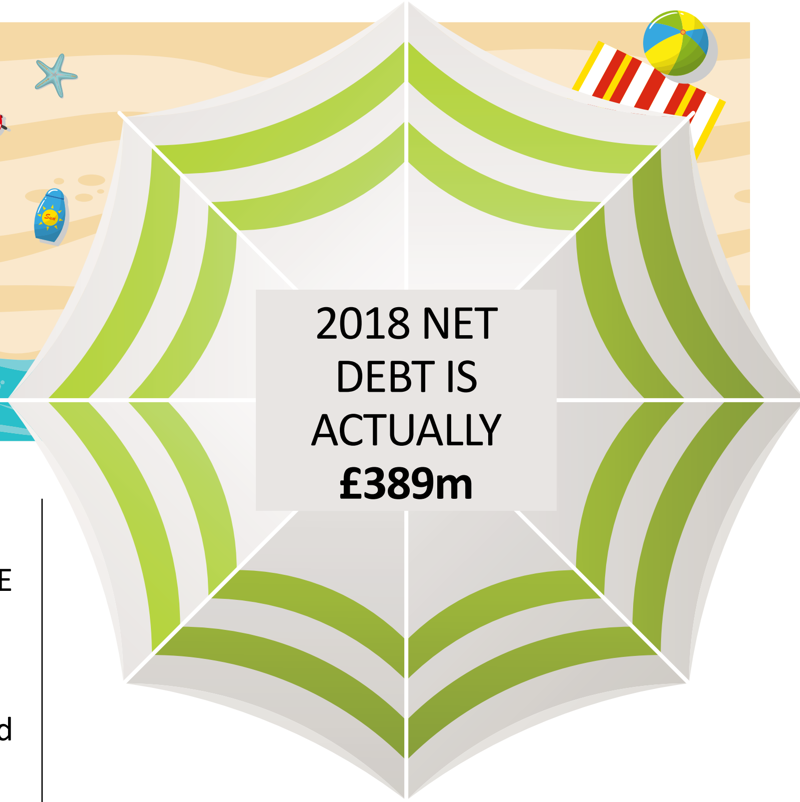
Thomas Cook hurt by debt and trading problems

The tour operator has endured a terrible year amid profit warnings and inflated borrowing levels



Travel agent **Thomas Cook (TCG)** has a long and proud history but this famous British brand, once a regular constituent of the FTSE 100, appears to be facing a much bleaker future.

On 27 November the company delivered its second profit warning in a matter of months. A toxic mix of weak trading and one-off items has led to full year operating profit coming in some £30m below expectations at £250m.

The company had already lowered guidance from £323m to £280m in early September after a summer heatwave led people to sun themselves at home rather than jetting off abroad.

Its experience shows the dangers of standing still in a highly competitive market. The Thomas Cook name probably still has value but holidaymakers are increasingly less likely to use traditional platforms and instead will look to build their own tailor-made trips online.

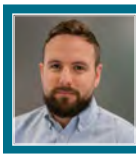
BORROWINGS MOUNT UP

Higher than expected borrowings also prompted the company to suspend its dividend. Analysts had forecast Thomas Cook would move to a net cash position by 2020 but this goal now seems a bit of a stretch.

In 2012 the company bottomed out at just 13p having traded above 300p before the financial crisis hit. It then staged a recovery to 190p in 2014 as it successfully deleveraged its balance sheet. Today it has fallen from grace once more, now trading at 38p.

The company now faces on uncertain backdrop, with Brexit not only a threat to spending on holidays but also potentially disruptive in terms of UK nationals visiting EU destinations, particularly in a no-deal scenario.

Its recovery plan involves a marketing push for its higher margin own-brand hotels and an aim to boost exposure to niche holidays. Arguably rivals such as **TUI (TUI)** have already stolen a march on Thomas Cook in these areas.



By **Tom Sieber** Deputy Editor

Is the UK addicted to paying on plastic?

Credit card spending is up as savings rates dwindle

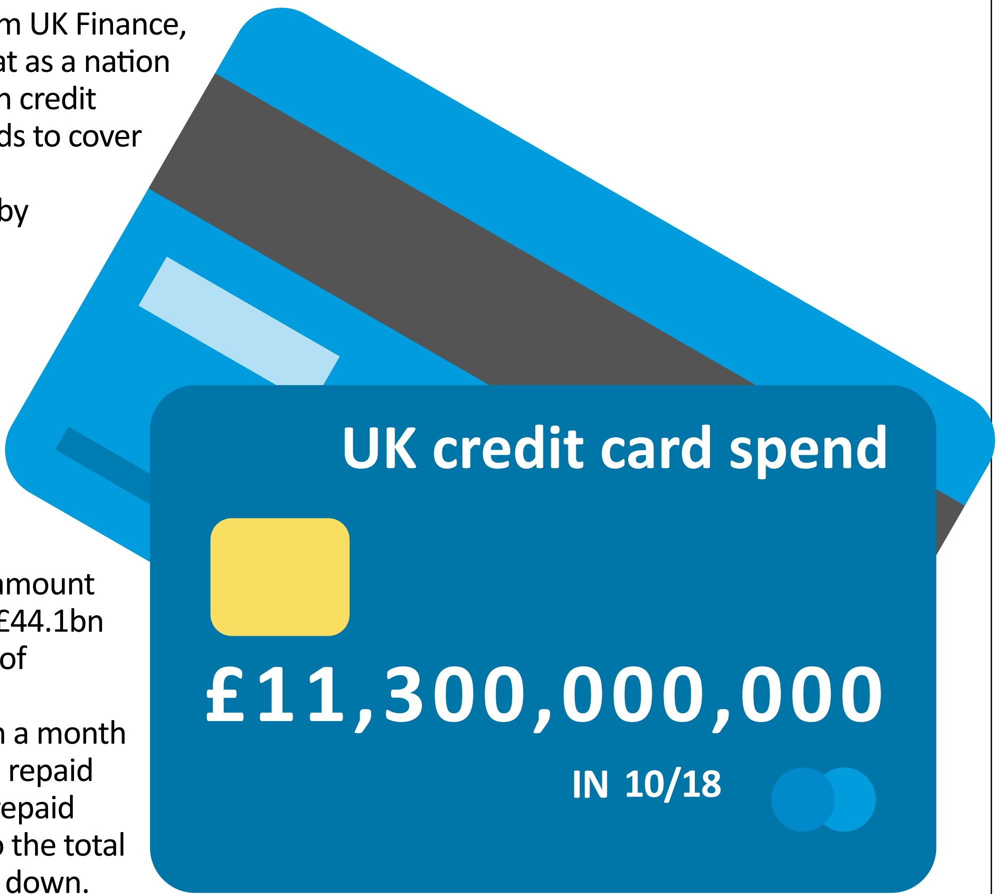
The latest monthly figures from UK Finance, a trade association, show that as a nation we are relying increasingly on credit cards rather than cash or debit cards to cover our everyday outgoings.

Spending on credit cards issued by high street banks hit £11.3bn last month, an increase of 12% on October last year.

Possible reasons for using credit cards rather than cash or debit cards are the increased consumer protection which cards provide and the accumulation of loyalty points or other benefits.

The good news is that the total amount of outstanding credit card debt of £44.1bn has barely changed since the start of the year.

On average we've spent £10.5bn a month this year on credit cards and we've repaid £10.4bn a month. Last month we repaid slightly more than we borrowed so the total amount outstanding actually went down.



However, the UK Finance figures don't include store card borrowing or spending on credit cards issued by non-traditional banking providers like **Tesco (TSCO)** and **Sainsbury's (SBRY)**.

Their products often have more attractive interest rates and every little beep goes towards loyalty points and vouchers to spend in-store.

Neither supermarket breaks out credit and store card balances from its total customer lending but based on their latest results it could be as high as £5bn for Sainsbury's and half as much again for Tesco.

The mounting borrowings on cards could have implications for the banking sector, if the level of bad debts goes up, and any industries reliant on consumer spending. It may also have an influence on the Bank of England's future plans for interest rates.

AJ Bell personal finance analyst Laura Suter notes the household savings ratio is near record lows at just 3.9% – the fourth lowest figure since records began in 1963 according to the Office for National Statistics. The savings ratio is the amount of money households save as a percentage of their total disposable income.

'As wage growth has recently hit a near-10-year high and is higher than inflation, we would hope to see the rate at which people are saving start to pick up, while others will use it an opportunity to pay off their costly debt,' Suter adds.

By **Ian Conway** Senior Reporter

Faroe rejects takeover bid and Amerisur secures farm-out

Significant corporate activity in the oil and gas sector despite oil price volatility

The decision of **Faroe Petroleum (FPM:AIM)** to reject a hostile takeover bid from 28% shareholder DNO (26 Nov) reflects the lack of generosity in the initial 152p cash offer.

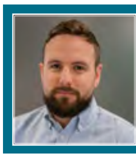
While this represented a 20% premium to the price at which the shares traded before the bid emerged, it is materially lower than the 170p+ seen as recently as October.

Broker Cantor Fitzgerald comments: 'In our view DNO has taken advantage of the recent oil price weakness in order to attempt to acquire the company on the cheap'.

Canaccord Genuity analyst Charlie Sharp thinks a rival bid is unlikely given Norwegian firm DNO's big shareholding. Investors will be watching closely to see if DNO returns with a more generous offer.

Meanwhile, sector peer **Amerisur Resources (AMER:AIM)** appears to have got a better deal with its $93m farm-out agreement with US firm Occidental (23 Nov).

This should facilitate an acceleration of exploration drilling on Amerisur's acreage in Colombia, at limited cost to the company, targeting upwards of 650m barrels of oil equivalent. Amerisur chief executive John Wardle has subsequently bought £1m worth of stock.



By **Tom Sieber** Deputy Editor

Sun shines on UK solar funds

UK basks in most third quarter sunshine hours since 2006

THE SUMMER'S sweltering temperatures may have played havoc with tour operators' holiday bookings but it has done wonders for the UK's growing solar power industry.

The three months to 30 September was the sunniest third quarter in the UK since 2006, according to data from the Department for Business, Energy and Industrial Strategy.

The period enjoyed an average of 6.5 hours of daily direct sunshine (with no cloud cover), 1.3 hours more than for the same period in 2017, and an extra 48 minutes per day than the 10-year mean between 2002 and 2011.

That's led to bumper irradiation levels for UK solar funds **Next Energy Solar (NESF)** and **John Laing Environmental Assets (JLEN)**, with 85% and 25% respectively invested in solar projects. The portfolio of **Bluefield Solar Income Fund (BSIF)** is exclusively invested in solar projects.

By **Steven Frazer** News Editor

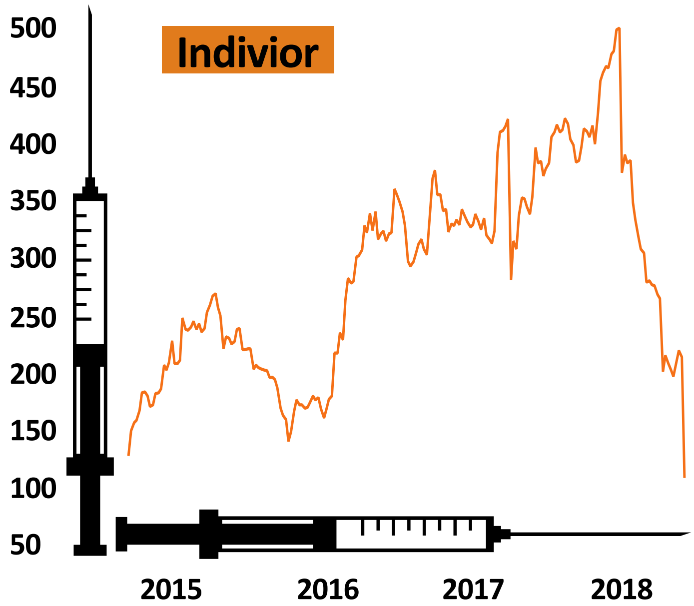
Indivior, Centrica, Greggs and more big news from the past week

We examine some of the key announcements and the market reaction

Shares in **Indivior (INDV)** have more than halved in value since 20 November and are now trading at an all-time low of 96.52p thanks to a court injunction being lifted on rival Dr Reddy's Laboratories. The latter is trying to launch a generic version of Indivior's opioid treatment, Suboxone.

Jefferies analyst James Vane-Tempest warns 'seismic changes' are needed to salvage Indivior's intellectual property and he is worried about a potential breach of debt covenants. He says Indivior will need to significantly cut its Suboxone price, double cost savings to $200m in 2019 and delay early-stage R&D activities.

British Gas owner **Centrica's (CNA)** third quarter update revealed it was still losing customers, just not at the rate it was a year earlier. This 'achievement' did not impress the market.



BETTER NEWS IN THE FOOD SECTOR

A trading update from food-on-the-go outlet **Greggs (GRG)** showed strong sales momentum underpinning profit upgrades. Like-for-like sales were up 4.5% in the eight weeks to 24 November. Cake selling franchise **Cake Box (CBOX:AIM)** reported 44% revenue growth to £8.28m in the six months to 30 September despite the period encompassing the kind of warm weather which you might expect to depress demand for its eggless and fresh cream personalised celebration cakes.

There was more bad news from the troubled outsourcing sector as **Babcock (BAB)** and **Interserve (IRV)** served up poorly received updates. Both companies revealed big adjustments and one-off items.

BLACK FRIDAY FEARS

Early reports suggest this year's Black Friday retail event (23 Nov) may have proved more difficult for UK retailers than expected, with in-store footfall down and the growth in online sales failing to make up the balance.

Barclaycard says shoppers were buying more items but spending less on the big day, with the emphasis on smaller treats rather than big ticket items. Shopper monitor Springboard reported a 6% drop in shopping centre, town centre and retail park footfall.

Hard-pressed retailers kick-started their discounting earlier this year, enabling bargain-hunting consumers to spread their spending over a longer period. However, UK shoppers are forecast to spend over £2,000 each online alone in November and December, according to Adobe research, while department store John Lewis has reported record sales in Black Friday week.

By **Lisa-Marie Janes with Tom Sieber and James Crux**

Investors on solid ground with VP Group

Rental expert has all the right qualities of a great investment

VP GROUP ↗ BUY
(VP.) £10.00
Stop loss: 800p

Market cap: £390m

One recurring theme when polling UK fund managers on their current stock picks is that they are rejoicing at the chance to buy high-quality businesses on single-digit earnings multiples.

VP Group (VP.), the specialist equipment rental firm, was almost trading on a single-digit rating earlier this month despite generating a return on average capital employed of 15% in the last financial year.

It comprises five market-leading equipment rental businesses in the UK and two overseas units. Its main UK markets are the maintenance and upgrade of rail, transmission and water infrastructure together with civil engineering, construction and housebuilding.

Despite the negativity surrounding domestic growth and the risks to the UK economy from Brexit, 'day to day activity seems to be continuing largely unaffected' according to chairman Jeremy Pilkington.

If anyone can claim to have 'been there, done that' it's the senior management team at VP. The chairman was first appointed to the board in 1979, followed by chief executive Neil Stothard in 1997.

Its core markets are driven by major infrastructure projects which require a high level of ongoing government investment.

For example, Network Rail receives funding in five-year blocks called Control Periods to ensure that it provides a safe, reliable and efficient service to train operators.

The current Control Period, CP5, expires next March and the budget for CP6 from next year to 2024 has been increased by almost 20% to £48bn.

Similarly the water industry invests in maintaining and improving its service on a five-year basis with the current spending programme up to 2020 estimated by Ofwat at £44bn.

VP supplies the indispensable kit which contractors need to make sure the work is carried out as per requirements.

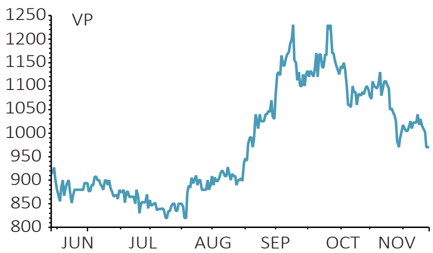
Its other UK businesses are focused on construction, where it is involved in the fit-out and repair-and-maintenance processes, and housebuilding where it supplies equipment to the new-build market.

In construction, trading at its Hire Station subsidiary is buoyant and revenues have received a major boost with last year's acquisition of Brandon Hire, while the housebuilding market is supportive.

The weak link at the moment is the overseas offshore oil and gas market where demand for compressors and generators is heavily dependent on exploration and production spending which in turn depends on crude prices.

However management are confident that the business can ride out the current lull and it isn't causing a distraction.

With expert investors like Tellworth fund manager Paul Marriage raving about the stock (see 8 November edition of *Shares)*, VP is a welcome domestically-focused addition to our *Great Ideas* roster at £10.



By **Ian Conway**
Senior Reporter

Navigating Choppy Waters

SENECA INVESTMENT MANAGERS

Seneca Global Income & Growth Trust plc

- Investors have enjoyed calm seas for many years. With interest rates and inflation rising, there may be choppy waters ahead.
- As a genuinely multi-asset trust, Seneca Global Income & Growth Trust plc (SIGT) has the flexibility to trim its sails to the prevailing winds, by increasing or reducing exposure to a range of asset classes as investment markets change.
- Foreseeing more difficult conditions ahead, we began to trim our equity positions in the first half of last year. SIGT is now materially underweight* equities, and this process of de-risking will continue.
- As value investors we continue to find opportunity elsewhere in the investment seascape, which we believe will further enhance the defensive qualities of the Trust.
- We make significant use of specialist investment trusts which offer a combination of attractive starting yields, the prospect of income growth, and strong asset backing in the fields of property, aviation, copyright and infrastructure.
- In addition, we are extending our exposure to cash and managed liquidity**, to add a greater element of capital preservation to the Trust.
- Most importantly, as experienced navigators with a versatile craft, in addition to navigating choppy waters, we aim to be positioned to take advantage of smoother seas ahead, when the current squalls have abated.

Growth, Income and Low Volatility

- Our multi-asset expertise and approach have delivered successful outcomes for investors over the last five years***.
- The Trust pays quarterly dividends, offering a current yield of circa 4.1%[1]. Over its last five financial years to April 2018 the Trust has grown its dividend at a compound rate of 4% per annum, ahead of CPI every year****.
- Over a typical investment cycle[2], we aim for the Trust to achieve a total return of at least CPI plus 6% after costs, with low volatility. In addition, we aim to grow aggregate dividends at least in line with inflation.
- Over the five years to end October 2018, the Trust delivered an NAV return of +35.4% with volatility circa two thirds that of the major equity indices[3]. Details of the Trust's returns can be found in the performance tables below.

Cumulative performance (%) to 31.10.2018	3 months	6 months	1 year	3 years	5 years
Trust share price	-6.4	-6.0	-6.4	26.4	49.3
Trust NAV	-4.7	-3.6	-4.0	24.4	35.4
Benchmark[4]	2.6	4.5	8.8	18.4	27.0

Discrete annual performance (%)	31 October 2018	31 October 2017	31 October 2016	31 October 2015	31 October 2014
Trust share price	-6.4	16.7	15.7	11.8	5.6
Trust NAV	-4.0	15.1	12.7	7.7	1.1
Benchmark[4]	8.8	5.1	3.6	3.6	3.6

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

Things To Be Aware Of

[1]Current yield: the yield calculation is based on the latest quarterly dividend, annualised, compared against the month end share price.
[2]Seneca Investment Managers Ltd defines a typical investment cycle as one which spans 5-10 years, and in which returns from various asset classes are generally in line with their very long term averages. There is no guarantee that a positive return will be achieved over this or any other period.
[3]Annualised volatility of returns over five years versus FTSE World ex-UK and FTSE All Share.
[4] Benchmark: CPI plus 6% from 06.07.17. Previously LIBOR GBP 3 Months plus 3%, all after costs for the period ending 31.10.2018 a forecast CPI is used.

*In relation to strategic asset allocation
**Managed Liquidity is a term used to describe assets that can be quickly converted into cash. This category includes investments in open ended funds which invest in corporate bonds and covered bonds (these will have a minimum credit rating of AA-) and money market instruments (these will have a minimum rating of A). These funds offer very low risk exposure to interest rate, credit spread and currency risks.
***The Trust has outperformed its benchmark over the last five years and has grown its dividends in excess of inflation over each of the last five financial years. It has delivered these returns with materially lower volatility than equity markets over the last five years.
****There is no guarantee that dividends will continue to increase or grow ahead of CPI.
Performance and dividend data sources: Seneca Investment Managers Ltd, Bloomberg & Morningstar. Share prices calculated on a total return basis with net dividends reinvested. NAV returns based on NAVs excluding income and with debt valued at par. Returns do not include current year revenue.

Past performance should not be seen as an indication of future performance. The information in this article is as at 31.10.2018 unless otherwise stated. The value of investments and any income from them will fluctuate, and investors may not get back the full amount invested.

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All calls are recorded. FP18-309

Tap into rich dividend streams with this global investment trust

Securities Trust of Scotland generates a geographically diverse source of income for investors

Quarterly-dividend paying **Securities Trust of Scotland (STS)** looks very attractive for investors wanting a geographically diverse source of income from a group of high qualiy businesses.

A 4.8% discount to net asset value (NAV) offers an attractive entry point, while a plump 3.8% dividend yield is tasty versus the returns you'd get on cash in the bank.

Managed by Martin Currie's head of income Mark Whitehead, the fund's objective is to achieve rising income and long-term capital growth through a reassuringly balanced portfolio of global equities; as at 31 October, the book was diversified across 45 holdings and 14 countries.

Whitehead looks for attractively valued, sustainably growing companies and quality is very important to the manager.

The benefits of 'going global' are twofold; a global income portfolio offers more choice than a country specific income portfolio and avoids the risk of income concentration that can trip-up a single country portfolio.

Admittedly, the outlook for future rates of global growth has become more clouded, yet all the stocks in Whitehead's portfolio should exhibit a combination of attractive dividend yield and dividend growth.

SECURITIES TRUST OF SCOTLAND BUY
(STS) 162.5p
Stop loss: 115p

Total assets: £171m

Furthermore, the fund has this year increased its exposure to defensive companies, a canny move in light of the return of market volatility in October.

Whitehead believes 'a defensive style, particularly higher-yielding stocks should continue to perform more consistently over the short to medium term after years of meaningful underperformance, particularly as volatility is rising and as we near the end of the economic cycle'.

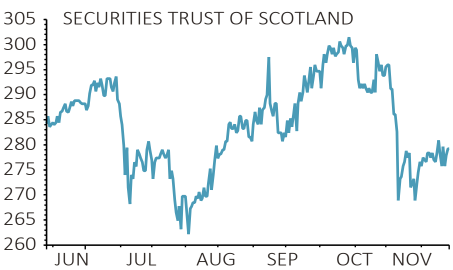
One key quality measure for Securities Trust of Scotland is the effectiveness of companies' environmental, social and governance practices, which are critical to sustaining business growth and driving investor returns.

In the six months ended 30 September, net asset value total return was 11.1%, although the share price total return was a lesser 8.9%, as the discount to NAV widened. However, earnings-enhancing share buybacks are helping to reduce the discount volatility.

Top 10 holdings as at 31 October included tech titan Microsoft; healthcare giant Merck, taking more market share in the US lung cancer market; and also the US consumer goods multinational Procter & Gamble, where organic sales growth has accelerated.

The trust will also provide investors with exposure to industrial gas company Air Products as well as Zurich Insurance, a high-quality, generous dividend payer geared into rising interest rates which Whitehead expects will generate premium growth in line with global premium inflation.

Other portfolio names include US aerospace and defence leviathan Lockheed Martin.




By **James Crux**
Funds and Investment Trusts Editor

ANGLO AMERICAN
(AAL) £15.62

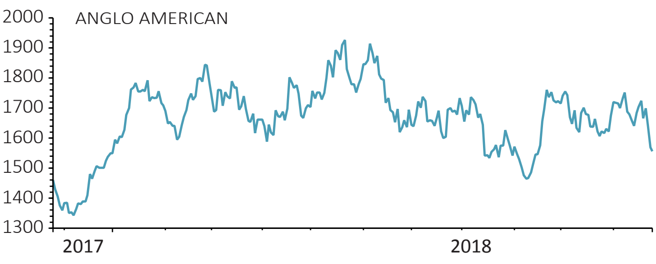
Loss to date: 5.4%
Original entry point:
Buy at £16.52, 12 July 2018

THE FTSE 100 miner has held up well considering the negative backdrop for commodity stocks – a brewing trade war, falling oil prices, fears about China's appetite for raw materials and general concerns about a slowdown in global economic growth.

This backdrop might explain why Anglo appears in the list of most shorted stocks, plus the fact that platinum prices have been weak this year, so too rough diamond prices. It is a major producer of both commodities.

We take comfort in the stock's resilience during troubled times. We're only down 5.4% since initiating the *Great Idea* trade in July which is an outperformance versus the FTSE 100, down 7.3% over the same period.

The business is prioritising debt reduction to further strengthen its balance sheet. Jefferies analyst Christopher LaFemina says Anglo has high-quality copper production growth and lots of cost cutting opportunities.



SHARES SAYS:

Having an investment in Anglo American requires faith in sustained global economic growth and for geopolitical tensions to ease.

This is one of the cheapest stocks in the large cap mining sector with the added option that someone might try to break up the company if its valuation stays cheap. We acknowledge this is a high-risk trade, but we're sitting tight for now. (DC)

MAJESTIC WINE
(WINE:AIM) 301.5p

Loss to date: 20% (stopped out)
Original entry point:
Buy at 433.5p, 9 Aug 2018

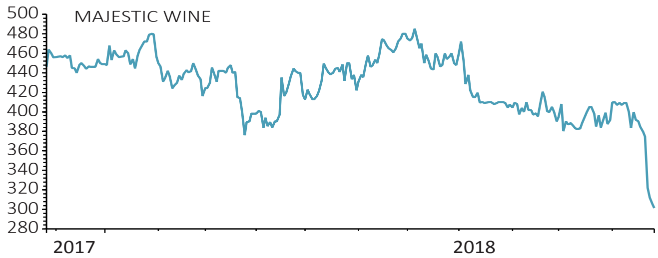
UNFORTUNATELY, OUR bullish summer call on quality wine specialist **Majestic Wine (WINE:AIM)** hasn't worked out, the shares triggering our stop loss on news (22 Nov) of a 63% decline in half year adjusted pre-tax profit to £2.5m.

Our hopes that the extended summer heatwave would boost sales at the Watford-headquartered retailer were too optimistic, and forecasts have been materially downgraded to reflect challenging market conditions for the Majestic Retail and Commercial businesses and the higher costs of growing the Naked Wines arm.

Chief executive Rowan Gormley insists Majestic is 'doing well in a tough market' and says the business is on track to meet a £500m sales target in the 2019 financial year.

However, the UK retail business is facing a sluggish domestic market and increased investment behind Naked will impact profit near-term.

Full year EBIT (earnings before interest and tax) from Majestic Retail and Commercial is also now expected to be 'at best flat year on year', versus previous guidance for growth.



SHARES SAYS:

We got it wrong with Majestic Wine and are shocked by the latest results. Cut your losses and move on.

HALMA

(HLMA) £13.42

Gain to date: 6.3%

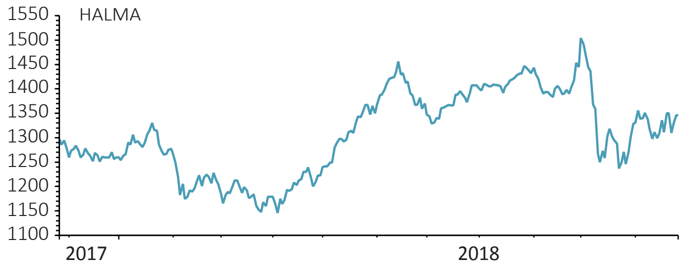
Original entry point: £12.62, 18 October 2018

MORE RECORD-BREAKING results from **Halma (HLMA)** will surprise no one familiar with this health, safety and regulations-led electronics equipment supplier. What does stand out is the broad spread of the performance in the half year to 30 September, with each of its four divisions putting up double-digit organic, constant currency-adjusted growth.

To deliver 23% underlying, FX-adjusted progress in the US is a real achievement, and one that shows the scope for further growth even from seemingly more mature markets.

If organic growth is one of the key measures of Halma's journey so far this year, operating margins (adjusted for amortisation charges, acquisitions, disposals and restructuring costs) of 20.1% is another, smack bang in the middle of management's 18% to 22% long-run target. Converting 86% of £117.9m (adjusted) operating profit to cash is also right on track with its 87% long-term average.

Halma aims to double every five years or so, aided by select small acquisitions, the latest of which – Limotec and Navtech – add up to five so far in 2018. These additions should be able to retain an entrepreneurial culture with the wider group's support.



SHARES SAYS: ↗

Often looks expensive yet always seems to deliver, Halma is a long-term, high-quality buy. (SF)

POLAR CAPITAL

WHY THERE IS STILL GOOD REASON TO BE POSITIVE ON HEALTHCARE INVESTMENTS

Benefiting from new healthcare trends

STRUCTURAL CHANGE

We continue to see evidence the healthcare industry has embarked on a period of major structural change. Governments and health insurers are improving the efficiency of healthcare systems, delivering better healthcare to more people for less money, thanks to three principle drivers: an ageing population, new technology and economic pressure.

The baby-boomer generation expects a far healthier, more active retirement than their parents because of advances in medicine that are now standard. Increased longevity also means a significant part of healthcare expenditure is now devoted to managing long-term chronic conditions such as heart disease, diabetes and dementia.

At the same time, recent medical advances have seen the emergence of new, expensive treatments for hitherto untreatable conditions. As a result, healthcare spending, on an absolute basis and as a percentage of GDP, continues to rise in most countries driven by increasing demand.

TECHNOLOGICAL DISRUPTION

Technology is the major catalyst for change. Advances in information technology, especially data analytics, are helping governments and health insurers predict healthcare needs and value a product or service. The way healthcare is managed, delivered and paid for is already changing and is a trend we expect to continue over the coming decade.

Technological innovations we are seeing across many industries – healthcare included – have driven a major change in consumer expectations. Companies such as Amazon, Netflix, Facebook and Uber have set new standards in the delivery of products and services. Customers want everything they do to be seamless and in real time – Facebook-like in experience, Amazon-like in reliability.

LARGE-CAP GROWTH

Innovation tends to come from smaller companies as the industry disrupters, but their valuations are looking stretched. There is also the uncertainty going into 2019 – Brexit, trade wars, rising interest rates, geopolitical uncertainty – which makes a stronger case for investing in the defensive growth characteristics of large healthcare stocks.

Within a varied healthcare universe, it is important to actively manage sub-sector exposures as well as individual positions. This year has shown, again, that you can get a large dispersion of returns among companies in the same sub-sector.

The opportunity is to find companies and management that have differentiated assets and who are adapting to a rapidly changing healthcare landscape. Not all large companies will be able to drive such change, some will get left behind. We are already seeing some large companies adopt a proactive strategy in trying to be the agents of change, making investment decisions today that will help shape the future of healthcare tomorrow.

VALUATION

Moreover, there is a choice of large companies with good growth opportunities that are attractively valued on a relative and absolute basis. At the same time, with a relatively low risk profile, we believe large caps can deliver attractive rates of return in a low-growth world.

This is an evolving process and while the ultimate goal is to improve the efficiency of healthcare systems, the near-term direction of travel and how we get there are critical in identifying companies that are well-positioned and those that may fall behind. We expect the next 18 months to be more supportive of the larger players in healthcare.

Dan Mahony, manager of the Polar Capital Healthcare Trust, will be speaking at the AJ Bell Retirement Conference on 11 December.

You can also visit the team at the Polar Capital stand at the event at the America Square Conference Centre.

Why is the oil price collapsing?

We look at the likely trajectory for Brent Crude after the Black Friday crash

Black Friday is a term typically associated with the retail sector, but it could have summed up the mood of boardrooms in oil and gas firms across the globe on 23 November when oil hit its lowest level in 12 months after a significant intraday crash in prices.

Even after crawling back just above $60 per barrel at the time of writing, the global Brent Crude index is still down around 30% from the year-to-date highs above $85 seen in early October.

A month ago all the talk was of the impact on global output from US sanctions on major producer Iran. Everyone is now pointing to a big surplus of supply and US president Donald Trump is calling for lower prices.

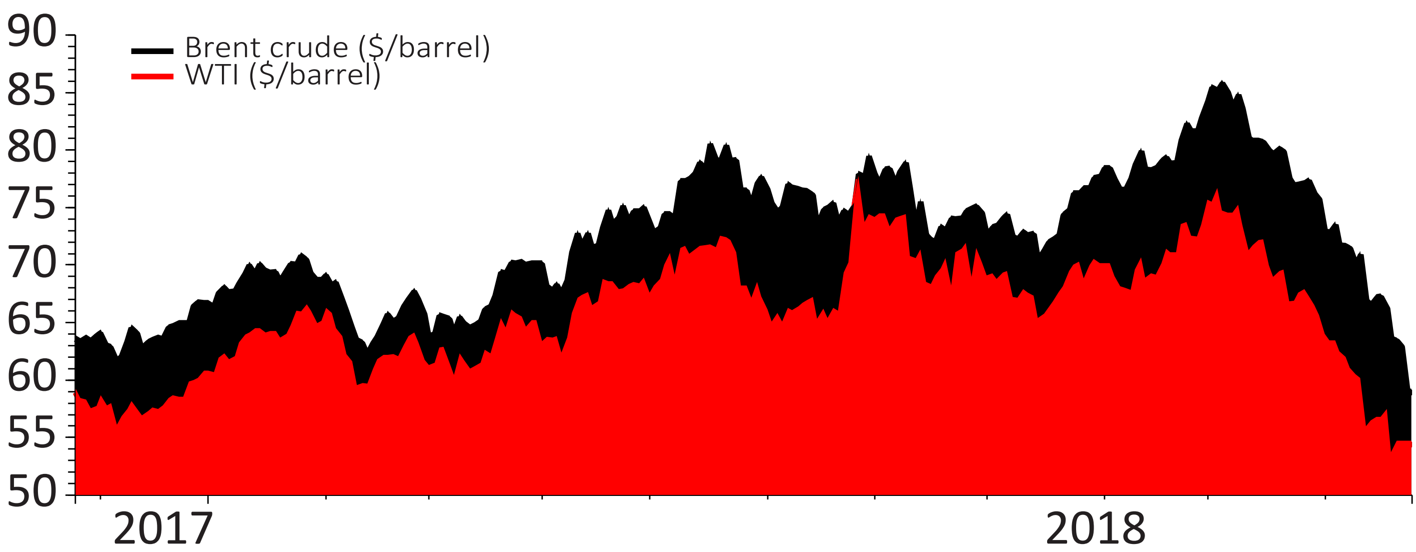
IS THE FALL IN THE OIL PRICE DUE TO A SUPPLY GLUT?

The perceived risk of oversupply in the market reflects the fact the US included more waivers in its sanctions than expected. This meant Iranian production and exports remained robust at a time when Saudi Arabia had been ramping up its own output to compensate for the anticipated shortfall.

WHAT IS HAPPENING IN THE US?

The US yardstick West Texas Intermediate (WTI) remains at a big discount to Brent, at barely above $50 per barrel, reflecting the strong domestic oil production in the US, although the spread between the two has come down a little amid the recent volatility.

BRENT CRUDE AGAINST WTI OVER THE LAST 12 MONTHS



The key infrastructure hub in Cushing, Oklahoma saw stocks fall by 116,000 barrels in the week to 21 November, the first decline in nine weeks.

WHAT ELSE IS CONTRIBUTING TO THE FALL?

Oil, like other commodities, is driven by supply and demand factors, yet financial speculation also plays a role.

AJ Bell investment director Russ Mould comments: 'Fundamentals such as supply and demand will ultimately prevail – and the OPEC cartel clearly has an influence on supply since it produces around a third of the globe's daily oil requirements – but they can be drowned out in the short term by speculation, as traders (using leverage, or borrowed cash, to try and maximise returns) move in and out of positions via the futures markets.'

Mould notes that since the number of short or 'sell' positions fell to a record low this summer, they have since started to tick up, while at the same time buyers of oil (those with long positions) have started to lock in profit. This exacerbated the weakness in the oil price.

Traders were likely reacting to the wider market sell-off of so-called 'risk' assets, of which oil is one, and the perceived risk to demand from global tensions over trade.

IS THIS IS A REPEAT OF THE 2014 CRASH?

The oil analyst team at Canadian bank BMO don't think so. They comment: 'The collapse in crude oil prices over the 2014-2016 and 1998-1999 periods were driven largely by excess supply as OPEC misjudged market conditions. This translated to a significant build in global crude oil and product inventories that weighed on crude oil and petroleum product prices.

'We do not see a replay of this (situation) in 2019 assuming OPEC reduces production levels in recognition of higher production from Iran. Global inventory levels are in line with historical averages and should not prove problematic given our demand assumptions,' adds BMO.

CAN THE IMMINENT OPEC MEETING MAKE ANY DIFFERENCE?

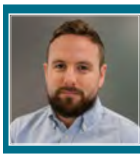
Producers' cartel OPEC is widely expected to take some action to curb output at its meeting on 6 December. In the current climate this is likely to do little more than stabilise oil prices. If OPEC fails to act, then another big fall cannot be ruled out.

HOW WILL THIS IMPACT THE OIL AND GAS INDUSTRY?

Oil majors like **BP (BP.)** and **Royal Dutch Shell (RDSB)** responded in the wake of the 2014 oil price crash by streamlining their operations. This should alleviate concerns over their capacity to maintain generous dividends, a key selling point of their shares.

Fourth quarter performance may reflect the weakening oil price and could lead to wider scrutiny over industry spending plans for 2019. It could therefore be bad news for the oil services space, which had just started to reap the benefits of oil's recovery.

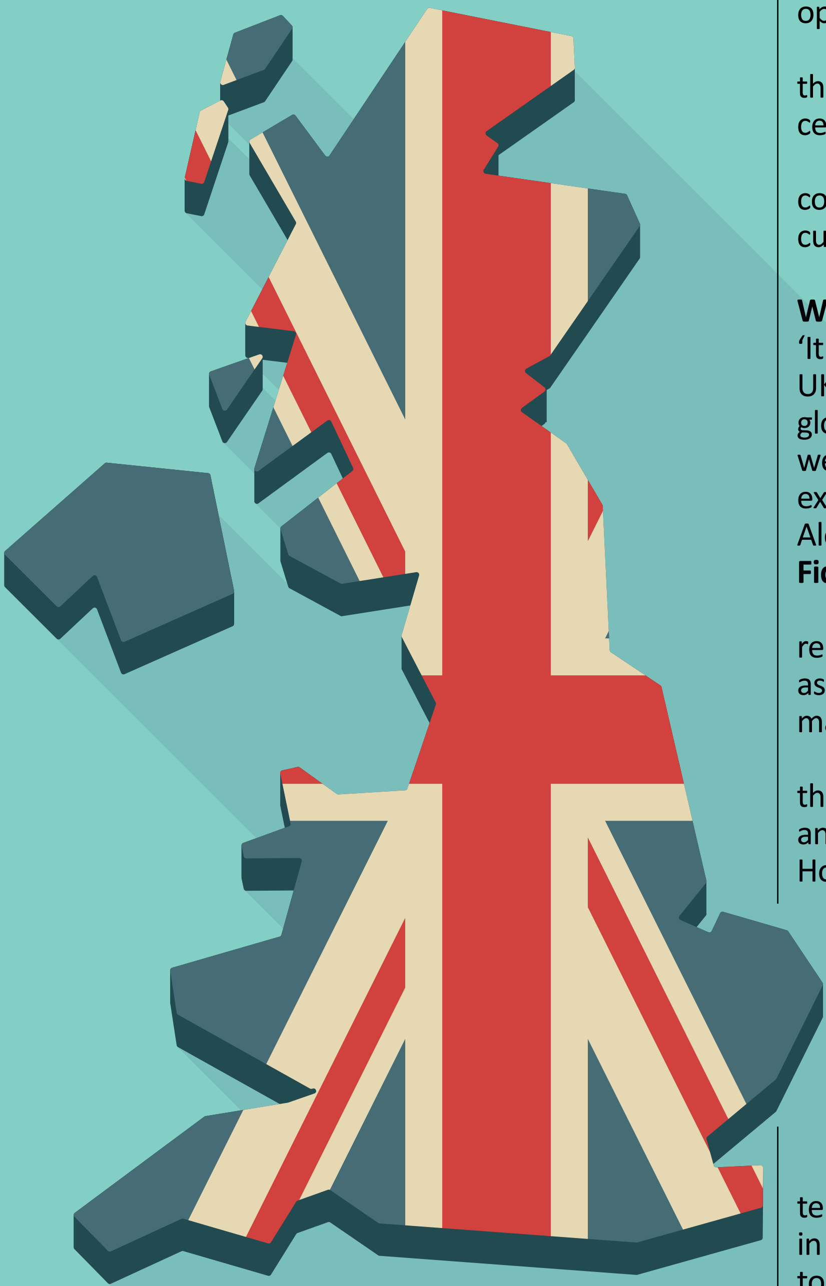
BMO believes any reduction in spend may have longer-term positive implications for the oil price with already too few projects sanctioned to deliver the required growth in supply between 2020 and 2025.



By **Tom Sieber**
Deputy Editor

BARGAIN UK STOCKS

THE EXPERTS SAY BUY NOW



The broader UK stock market is very cheap on multiple metrics as a result of investors worrying how Brexit will impact the UK economy and domestic earners.

The fear has spread so that many investors are nervous about UK equities in general, even though a lot of the companies generate their earnings overseas. This situation presents an opportunity to buy some real bargains.

Many fund managers and investment experts say the time to buy is now rather than waiting for more certainty over the direction of Brexit.

In this article we look at UK equities in the context of other markets and reveal five stocks currently exciting fund managers.

WHY THE EXPERTS ARE BULLISH

'It might be counterintuitive to think that the UK market could be among the top performers globally in the year that we leave the EU (if indeed we do). But markets have a way of confounding expectations and surprising the consensus,' says Alex Wright, fund manager of investment trust **Fidelity Special Values (FSV)**.

He is confident that clarification in the relationship between the UK and EU would act as a catalyst for investors to revisit the UK equity market.

Sterling began to rise last week on talk that the EU would wave through the draft Brexit deal, and indeed that was confirmed on 25 November. However, the deal is not yet set in stone.

Getting parliamentary approval is the big hurdle still to clear and success would be the real, material catalyst for investors to take another look at the UK market.

There is no guarantee that MPs will vote in favour of Theresa May's Brexit plan and failure could cause another stock market wobble.

Investors must therefore consider the near-term risk to any UK-related investments they make in the run-up to the parliamentary vote, confirmed to happen on 11 December.

The price you would pay from waiting is the loss of potential gains from the market rebounding upon a smooth Brexit agreement.

WHY BUY NOW?

'One thing I have learned from investing in unloved companies is that you shouldn't necessarily wait for good news to become obvious before investing. By investing when all the bad news is "in the price" and no good news is expected at all, you put the odds in your favour. I think this is a situation we are in in the UK at the moment,' says Wright.

Paul Mumford, a fund manager at Cavendish Asset Management, believes there is a good chance for UK domestic earners to bounce on the stock market in 2019.

He is little surprised that 'Red October', the big sell-off in equities last month, took as long to materialise as it did. His view is that the uncertainties created by long-winded and complex Brexit negotiations, plus the drop in sterling, could have triggered something similar earlier in the year.

The plus side of October's market adjustment is that it has created a host of good opportunities on UK equity markets. 'There's great value out there,' he says, particularly among companies with strong UK domestic earnings if the pound strengthens through 2019.

HOW CHEAP IS THE UK MARKET?

At the start of the year we were paying almost 16 times forward earnings for the broad UK equity market (as dictated by the FTSE All-Share index), now we're paying less than 13-times, equivalent to a 20% discount. The same percentage gap is noted on the FTSE 100 and FTSE 250 indices.

Approximately half of the FTSE 250's constituents generate their earnings from the UK and about one quarter of the FTSE 100 is considered to be UK domestic.

UK CREDIT RATINGS

Until 2013 the UK had an AAA sovereign bond rating, the highest possible level of credit rating.

The big three credit agencies, Fitch, Moody's and S&P, have subsequently cut their ratings due to austerity, high levels of indebtedness and most recently fears that Brexit will damage the economy.

S&P still rates the UK as AA but its outlook is negative which means there is more than a one third chance of a downgrade in the next two years.

To put that in context, Italy is rated BBB by S&P which is six 'notches' or levels below the UK's rating while Greece and Turkey are rated B+ which is 10 notches below the UK.

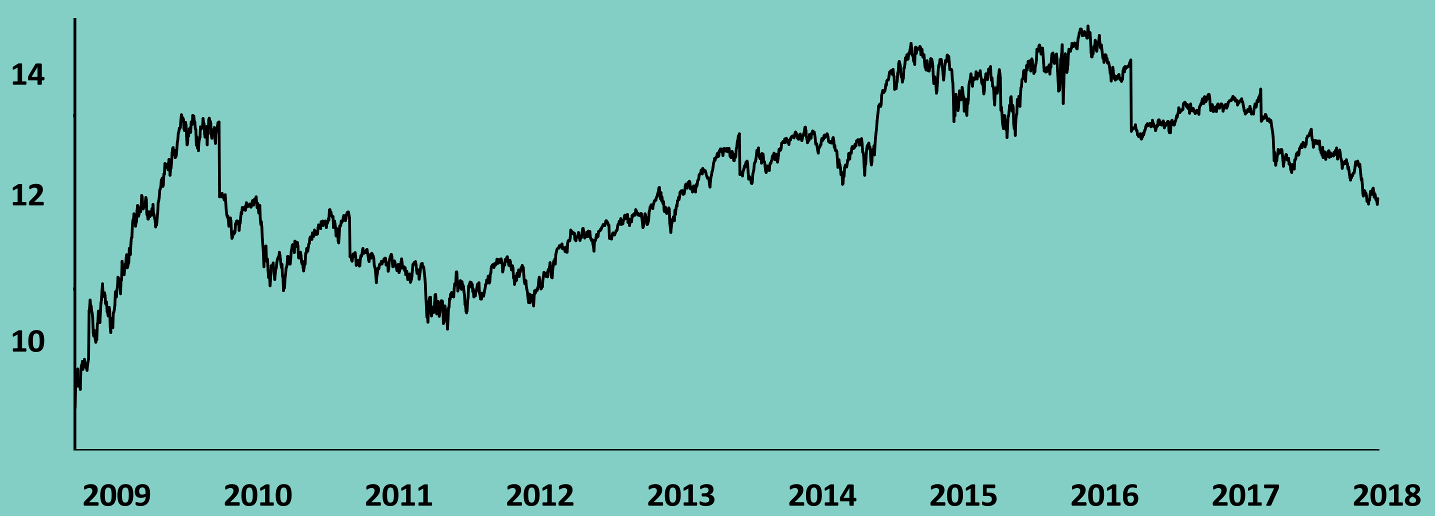
Even in a worst-case 'no-deal' Brexit scenario it is unlikely that the UK's rating will approach those of Italy, Greece or Turkey.

The biggest companies in the FTSE 100 are global businesses and as such they tend to have the highest credit ratings.

For example **Royal Dutch Shell (RDSB)** sports an AA- rating (just one notch below the UK government) and **GlaxoSmithKline (GSK)** sports an A+ rating (two notches below).

More UK-focused companies will have lower ratings; for example, **Lloyds (LLOY)** has a BBB+ rating. This may not look great alongside GlaxoSmithKline but it's still one notch higher than Italy's rating. (IC)

FORWARD PE MULTIPLES FOR THE FTSE ALL-SHARE



Source: Bloomberg

In addition to Brexit investors have been spooked by rising interest rates (particularly in the US) and US bond yields exceeding 3%. 'Rising bond yields tend to depress the multiple we are willing to prescribe to earnings, which causes an equity de-rating. They also place pressure on stretched balanced sheets,' comments Henry Dixon, a fund manager at Man GLG.

He says investors should consider the current state of affairs with regards to earnings expectations, as they are a 'crucial part of the investment game', namely the fact that upgrades or downgrades are major share price catalysts.

The accompanying tables show the earnings expectations at the start of certain years and then how the market performed over the respective 12-month period.

The first table shows the years where the market was most optimistic – occasionally resulting in a negative return. The second table shows years where the market was most pessimistic in terms of earnings expectations and, low and behold, most of the periods had a strong positive return.

'The market is looking for 5% to 6% earnings growth in 2019 from UK equities which is the lowest data point we've had over the past 30 years,' says Dixon. As you can see from the historical examples below, low expectations could lead to decent returns assuming Brexit doesn't get messy.

LOWER VALUATIONS VERSUS FOREIGN PEERS

Another way of measuring the level of cheapness

PERIODS WITH RELATIVELY HIGH EARNINGS EXPECTATIONS

Year	Expected earnings growth at the start of the year, %	This is how the FTSE All-Share performed*, change in %
2000	16.0	-5.9
1994	27.8	-5.8
2011	14.8	-3.5
2010	25.2	14.5
1996	18.8	16.7
1992	19.0	20.5
2003	19.1	20.9
1997	15.1	23.4
1995	21.6	23.9
1993	22.2	28.4
Average		**13.3**

PERIODS WITH RELATIVELY LOW EARNINGS EXPECTATIONS

Year	Expected earnings growth at the start of the year, %	This is how the FTSE All-Share performed*, change in %
1989	9.7	36.1
2009	2.8	30.1
2005	9.6	22.0
1991	9.6	20.8
2013	9.1	20.8
2006	9.3	16.8
2016	5.9	16.8
2012	8.4	12.3
2007	8.1	5.3
2015	9.3	1.0
Average		**18.2**

Source: Man GLG/Morgan Stanley. *Total return in the UK market is to compare big London-listed stocks with their overseas counterparts. Here are some examples:

- Construction group **CRH (CRH)** is trading on 11.4 times 2019 forecast earnings versus New York-listed Vulcan Materials which is on 21-times.
- Aerospace engineer **Meggitt (MGGT)** is trading on 13.9 times 2019 forecast earnings versus New York-listed United Technologies which is on 16.2-times.
- Banking group **Lloyds (LLOY)** is trading on 7.2 times 2019 forecast earnings versus Euronext-listed KBC which is on 10.6-times.
- Insurance and asset management group **Aviva (AV.)** is trading on 6.9 times 2019 forecast earnings versus Xetra-listed Allianz which is on 9.8-times.

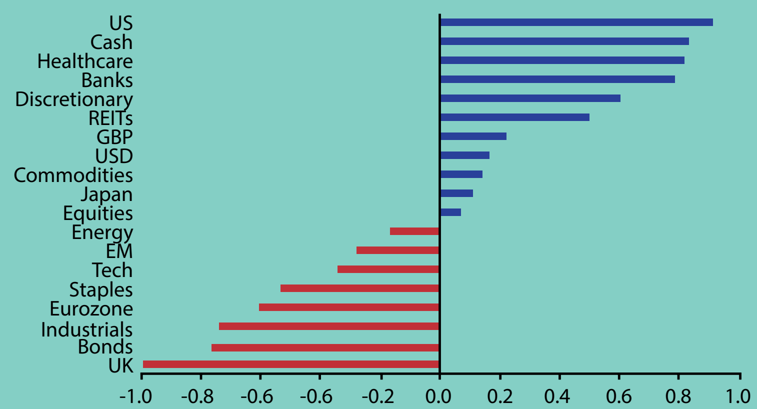
'The FTSE All-Share PE (price-to-earnings ratio) is trading at an approximate 15% discount to the FTSE World index PE. That is cheaper than during the financial crisis a decade ago, and you would have to go back to the late 1980s and then to the mid-1970s to find similar situations,' says Dixon.

LOW APPETITE FOR UK STOCKS

Bank of America Merrill Lynch asks fund managers around the world every month how they are positioning their portfolios and UK stocks have been consistently out of favour for a long time.

The latest survey finds that 27% of fund managers are underweight UK assets as the approaching Brexit deadline 'stokes renewed uncertainty'. Underweight means holding a smaller amount of certain assets compared to their weighting in a benchmark index.

FUND MANAGERS ARE NEGATIVE ON UK ASSETS



Source: BoEA Marrill Lynch Global Fund Manager Survey: weightings relative to the survey since 2001 (or 2006 for real estate and commodities)

HOUSEBUILDERS IN NEGATIVE TERRITORY

London-listed housebuilders are almost exclusively focused on the UK and their share prices are heavily tied to what happens with the Brexit process.

The relief offered by a successful deal with the EU would not fully solve the issues they face, even if that could provide a sentiment-driven boost to housebuilding stocks.

The industry faces an unhelpful combination of flat or falling house prices, partly driven by economic uncertainty but also a consequence of the regulatory impact on the buy-to-let space.

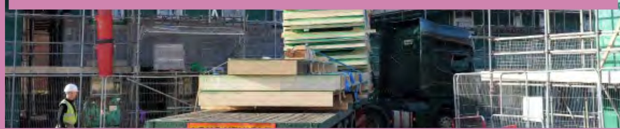
Furthermore, rising costs are weighing on the sector including labour as the availability of workers is likely to be affected by whatever form the UK's exit from the EU takes.

Some housebuilders are trading on double-digit dividend yields which is typically a sign that the market doesn't believe the dividend or earnings forecasts.

However, some experts believe now is a good time to reappraise the sector following significant share price declines this year.

For example, the managers of **Standard Life Investments UK Equity Unconstrained (B79X967)** and **Mercantile Investment Trust (MRC)** both highlight **Bellway (BWY)** as an undervalued opportunity. Wesley McCoy from Standard Life describes it 'one of the best operators in the market'. (TS)

MANY HOUSEBUILDERS ARE TRADING ON HIGH YIELDS



Company	Yield (%)*
Taylor Wimpey	11.8
Persimmon	10.8
Bovis Homes	10.6
Barratt Developments	9.3
Redrow	6.1
Berkeley	5.7
Bellway	5.6

Source: SharePad, 26 November 2018.
*Based on forecasts for 2019 financial year

'Investors know that UK-focused stocks are cheap (many on single-digit PEs) and they are underweight. With growth elsewhere slowing down and GBP stabilising they are looking to reduce that underweight slowly,' says Steve Davies, fund manager at investment trust **Jupiter UK Growth (JUKG)**

WHAT COULD HAPPEN NEXT?

It seems fair to suggest that Theresa May's Brexit plan may not be approved first time by parliament, thus requiring revisions. Such news could cause a stock market wobble but we don't believe it would cause long-lasting pain for investors.

No-one knows for sure at the moment so investors must take on board the risk that buying UK stocks could result in a loss before a gain.

Investors must also consider a far worse outcome. 'I don't think a hard Brexit outcome is an impossibility,' says Oliver Brown, fund manager at **MFM UK Primary Opportunities (B8HGN52)**. 'The ramifications are unknown for the UK in terms of trading agreements, so a hard Brexit could cause a sharp de-rating in UK stocks. As such, it feels a roll of the dice with some equities at present.'

A Brexit deal approved without a major hitch may trigger a rally in the pound which would be negative for the FTSE 100's large number of overseas earners as their share prices are sterling-denominated.

You must also consider that the Brexit deal could lead to a rise in inflation if the terms result in it being more expensive to buy goods from abroad. That could prompt the Bank of England to raise interest rates which theoretically would be negative for equities.

There are so many variables that investors should not consider buying UK equities today to be an easy win. Our view is that you should embrace the current state of fear to buy decent businesses as long-term holdings. There may be bumps along the way, but that always comes with the territory of investing.

WHY HAVE UK BANKING SHARES STRUGGLED THIS YEAR?

One of the big mysteries of the UK market this year has been the poor performance of the banks despite higher interest rates.

While the Bank of England has raised interest rates twice in the last 12 months, the FTSE 350 banking index is down 19% against a 10% fall for the FTSE 100.

Normally higher rates mean higher revenues as banks jack up borrowing costs and hold off on raising savings rates. With 3.5m mortgage borrowers on variable or 'tracker' rates the banks ought to be raking it in.

The problem is more savers are locking in fixed-rate deals to avoid higher charges. In the case of banking group **CYBG (CYBG)**, 78% of its £25bn mortgage book is fixed-rate and in the past year 96% of all new mortgages were fixed.

At the same time companies are awash with cash and are sticking it on deposit. Almost all of the increase in CYBG's current accounts was due to businesses stashing away cash.

The net result of these trends is that interest costs are rising while interest income from lending is falling, which is bad news for banks. Add in uncertainty over Brexit and no wonder investors are shunning the sector. (IC)

LONDON-LISTED BANKS HAVE BEEN POOR PERFORMERS THIS YEAR

Bank	Share price year to-date*
CYBG	-40%
Metro Bank	-40%
Royal Bank of Scotland	-18%
Barclays	-17%
Lloyds	-14%
HSBC	-13%

Source: SharePad. *Data to 26 November 2018

FIVE UK STOCKS FUND MANAGERS SAY TO BUY

AUTO TRADER (AUTO) 434.5P

Auto Trader's share price was hit in October when rival business Motors.co.uk was bought by Ebay and investors worried the latter would become a much stronger player in the car market. Fortunately Auto Trader's half year results on 8 November helped to win back investor interest with strong numbers including pre-tax profit up 9% to £114.5m.

We continue to rate the business highly and so does **Mercantile (MRC)** fund manager Guy Anderson who sees the firm as 'a long-term compounder' for his investment trust portfolio.

He says Auto Trader is 'clearly a category killer and a market leader by a significant margin'.

Providing an online market place for car retailing, Auto Trader is 'focused on used car transactions, has excellent pricing power, very high operating margins and generates a lot of cash it can return to shareholders,' adds Anderson.

Investors need to keep a close eye on its average revenue per retailer and whether this metric comes under pressure in the wake of the more competitive environment.

CLOSE BROTHERS (CBG) £15.29

Merchant bank Close Brothers is often perceived as a good barometer of the health of the UK economy thanks to its lending to small businesses. Something of an all-rounder, the company has operations across lending, deposit taking, wealth management and securities trading.

Wesley McCoy, fund manager of **Standard Life Investments UK Equity Unconstrained (B79X967)** flags the company as a good one among UK shares.

He says: 'The business specialises in taking the right risk at the right time. It sailed through the last crisis and has already shrunk lending in the hottest unsecure areas. This leaves it poised to perform strongly when others give up. Exactly the kind of long-term positioning that can stand the test of a rockier political and economic climate. The market thinks short term, Close thinks longer.'

The shares trade on 11.1 times forecast earnings for the year to July 2019.

HOWDEN JOINERY (HWDN) 471.2P

There are 27m homes in the UK and with today's busy lifestyles few of us have the time or skills to install a kitchen ourselves. When the time comes to upgrade, we employ a skilled fitter and that's where Howden Joinery enters the equation.

Howden sells directly to the building trade rather than retail customers. Last year it sold over 4m kitchen cabinets, 2m million internal doors and 650,000 sinks and taps, making it one of country's leading kitchen and joinery suppliers. The business has over 650 depots in the UK and almost half a million customer accounts.

Steve Davies from Jupiter UK Growth Fund likes Howden, saying it is generating strong like-for-like sales growth in a flat market and boasts high returns on capital.

First-half sales were up 7.5% (6.1% on a like-for-like basis) while investment in new stores and new product lines held operating profits back to a 4.5% rise.

The business is seen generating £245m of earnings before interest and tax this year on capital employed of less than twice that amount. In other words its return on capital employed is over 50%. On that basis the current rating of 14 times forecast earnings seems cheap.

Total returns (share price gains and dividends reinvested) over the last 10 years are 2,980% compared with 170% for the FTSE 100 index. That means an average compound annual share price increase of 40%, yet year-to-date the shares are flat.

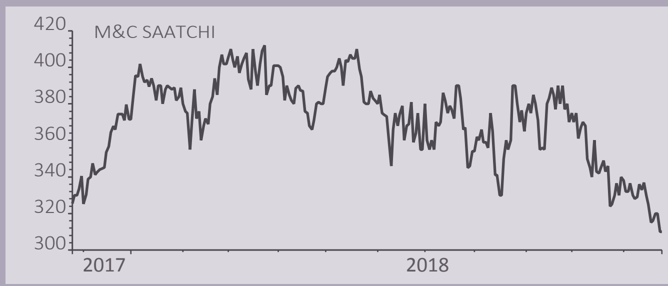
M&C SAATCHI (SAA:AIM) 310P

Advertising business M&C Saatchi is a heritage name in the sector but has branched out from traditional advertising to areas like customer relationship management and mobile advertising.

The business laid the foundations for its current earnings growth with a big investment phase in the wake of its 2004 IPO, opening up new offices in new geographies. Earnings per share advanced 17% in 2017 and are expected to grow a further 16% in 2018.

First half results this year beat expectations. In September, stockbroker N+1 Singer noted that the second half momentum looked promising 'with enough client wins and mandates to achieve the full year and more'. The broker said the only reason it did not upgrade forecasts significantly was UK macro-economic uncertainty and caution over Brexit.

The company is not as heavily focused on consumer goods firms as some of its peers and the stock appeals to Aviva Investors' head of UK equities Trevor Green on its current price-to-earnings ratio of 12.6-times.



MERLIN ENTERTAINMENTS (MERL) 349P

Trevor Green, head of UK equities at Aviva Investors, flags Merlin as being an attractive stock in the current market.

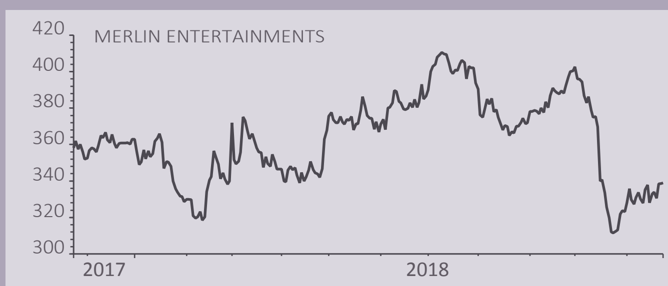
Merlin runs theme parks and attractions in different parts of the world including the hugely popular Legoland sites. The company is expanding its hotel capacity with the hope of encouraging customers to spend more than one day at its sites per visit.

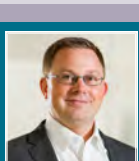
Its shares took a big hit in October when a trading update spooked the market with news of cost pressures, particularly tighter labour markets and the National Living Wage in the UK. That suggests near-term risks to profit margins.

The shares were also weak in the days leading up to the trading update because of negative read-across from a rival. Theme park operator Parques Reunidos issued a profit warning in early October which led some investors to worry about the state of the industry.

Share price weakness is therefore understandable in the wake of these negative issues. As such, anyone interested in buying the shares would need to take a much longer-term view and be comfortable with volatile periods for the share price.

Stockbroker Numis predicts Merlin will report £277.4m pre-tax profit for 2018 (2017: £271m). It then forecasts earnings growth will accelerate in 2019 to £291.3m.





By **Daniel Coatsworth**
and the *Shares* team

Octopus extends its tentacles to equity income

The asset manager is targeting quality companies with real growth potential beyond the usual FTSE 100 names

A new UK income fund has thrown its hat into the ring as investors search for reliable and regular dividend-paying investments. Octopus Investments will launch **FP Octopus UK Multi Cap Income Fund** on 10 December, targeting a 4% annual yield with dividends to be paid quarterly for the convenience of investors.

UK income is already a very crowded space in the funds world, so new products need to have something special about their investment process to stand out from the crowd.

Octopus has a reputation as a small cap and venture capital trust expert, so launching a multi-cap income product seems a peculiar next step for the asset manager.

Fund manager Chris McVey argues that the existing investment strategy of Octopus will only need to be tweaked, because it will rely largely on 'the same bottom-up process', with a small and medium-sized company bias.

'We will be able to leverage the skills across the team,' says McVey who will run the day-to-day operations of the fund, with 20-year small cap investment veteran Richard Power providing additional advice.

OPTIMISTIC ON UK STOCKS

McVey and his Octopus colleagues fundamentally believe in the long-term growth potential of the UK stock market, and they hope to stand out from the UK income crowd by addressing the herd mentality of the wider fund management industry.

'We think there are concentration problems in the UK equity funds space, with most managers wanting to own stakes in a relatively small number of stocks.'

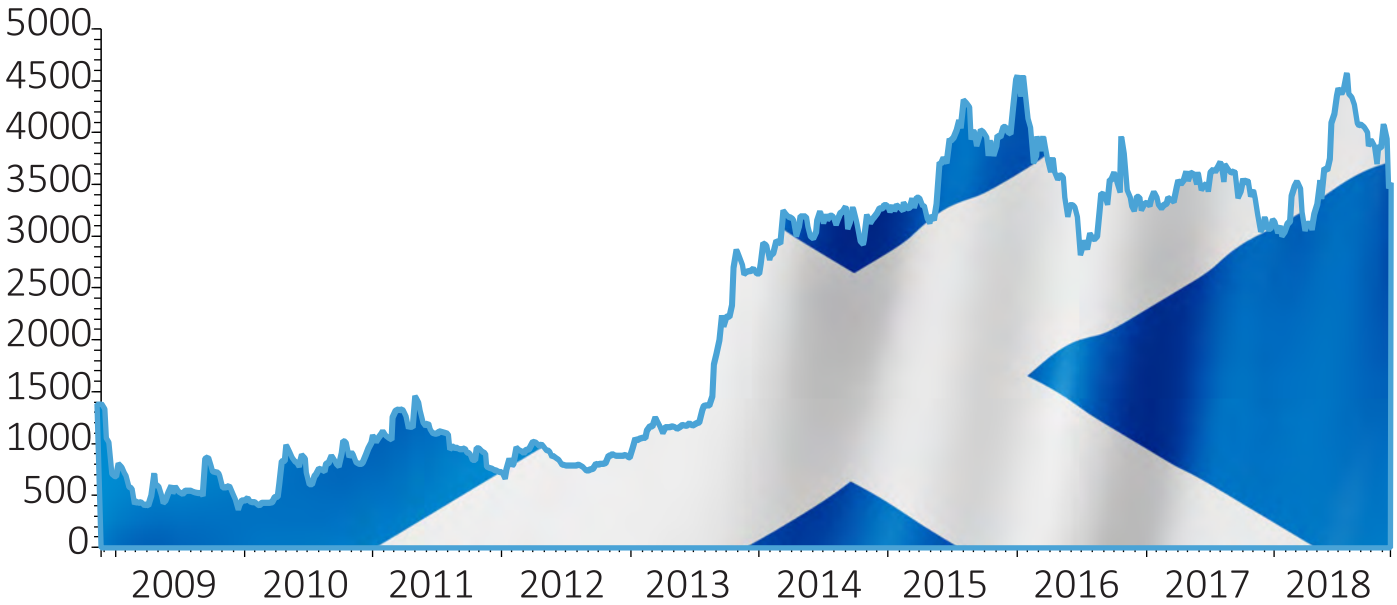
According Octopus just 10 stocks represent 54% of forecast FTSE 100 dividend payments for 2018, and almost three quarters of traditional income funds hold these stocks.

These include household names such as oil giants **BP (BP.)** and **Royal Dutch Shell (RDSB)**, telecoms group **Vodafone (VOD)**, utility firm **National Grid (NG.)** and some of the high street banks.

That's not to say that the new Octopus income fund will ignore these income giants entirely, but it wants to provide investors with access to a wider pool of investment opportunities and

> It's our knowledge and expertise of these under-researched smaller companies that make the fund distinctive

STV 10-YEAR TOTAL RETURN



STV has delivered a 167% total return for shareholders over the past 10 years, which is share price gain plus all dividends reinvested

the faster growth in earnings and dividends demonstrated by small and mid-sized companies.

Sticking to the Octopus stock selection knitting means McVey will concentrate on what he perceives to be 'high quality businesses with real, long-term growth potential being run by very good management'.

Octopus says it will blend some of the UK's largest and most profitable companies with those mid and smaller sized companies with 'hidden potential to provide superior returns'.

The asset manager adds: 'It's our knowledge and expertise of these under-researched smaller companies that make the fund distinctive and complementary to many of the other UK equity income funds which focus far more on larger companies.'

WHAT COULD FEATURE IN THE PORTFOLIO?

The fund launch has not come out of the blue. The Octopus team has been running a draft income portfolio for more than two years and McVey already has a good idea of some of the stocks he wants in the portfolio.

Chief among them is Scottish broadcaster **STV (STVG)**, which last month inked a four-year strategic partnership with Virgin Media north of the border regarding high definition regional programming.

Regularly mooted as an acquisition target for larger peer **ITV (ITV)**, STV will have doubled its dividend since 2015, presuming it comes good on this year's anticipated 20p per share payout.

In 2019 analysts predict that the company will lift the dividend by an inflation-busting 5%, implying a 6.3% yield for investors over the next 12 months.

Other names cited by McVey as stocks with the right characteristics for potential inclusion in the Octopus fund include affordable housebuilder **MJ Gleeson (GLE)** and cinema operator **Cineworld (CINE)**, which trade on prospective 2019 income yields of 5.2% and 5% respectively.

Early bird investors can benefit from a discounted annual management charge of 0.3% that will mean an ongoing charge figure (OCF) just 0.45%. But this is limited to within the first year and only until the fund's total capital hits £50m. After that OCF reverts to 1.26%.

The OCF reflects how much of an investment is eaten away by running costs. For example, if a fund has an OCF of 0.5%, then for every £1,000 you invest, £50 goes on costs, such as fund manager fees for running the portfolio, administration, marketing and regulation.

By **Steven Frazer**
News Editor

SEEIT eyes 'third wave' of infrastructure trusts

SDCL Energy Efficiency Income Trust is hoping to float on 11 December

There is a growing appetite among investors for assets whose returns are relatively uncorrelated to the wider market given the recent volatility in stocks.

The team behind upcoming investment trust float **SDCL Energy Efficiency Income Trust**, or SEEIT for short, are certainly hoping to capitalise on this situation as they look to raise £150m to invest in a series of energy efficiency projects.

The investment trust will act as the financier for infrastructure investments and subcontract the installation work to third parties.

The trust will be managed by Sustainable Development Capital (SDCL), an investment firm with expertise and experience in the energy efficiency space. It has a target to deliver a total return of between 7% and 8% a year with an initial dividend of 5% rising to 5.5% in the year to March 2021. The shares are expected to start trading on 11 December.

Founder and chief executive of SDCL Jonathan Maxwell tells *Shares* that SEEIT is the first of a third wave of infrastructure-linked vehicles after the larger, generalised infrastructure plays like **HICL (HICL)** and the renewable energy investors like **Greencoat UK Wind (UKW)**.

He says the proposition tackles four big challenges in the energy market, namely security, carbon emissions, cost and the pressures on supply.

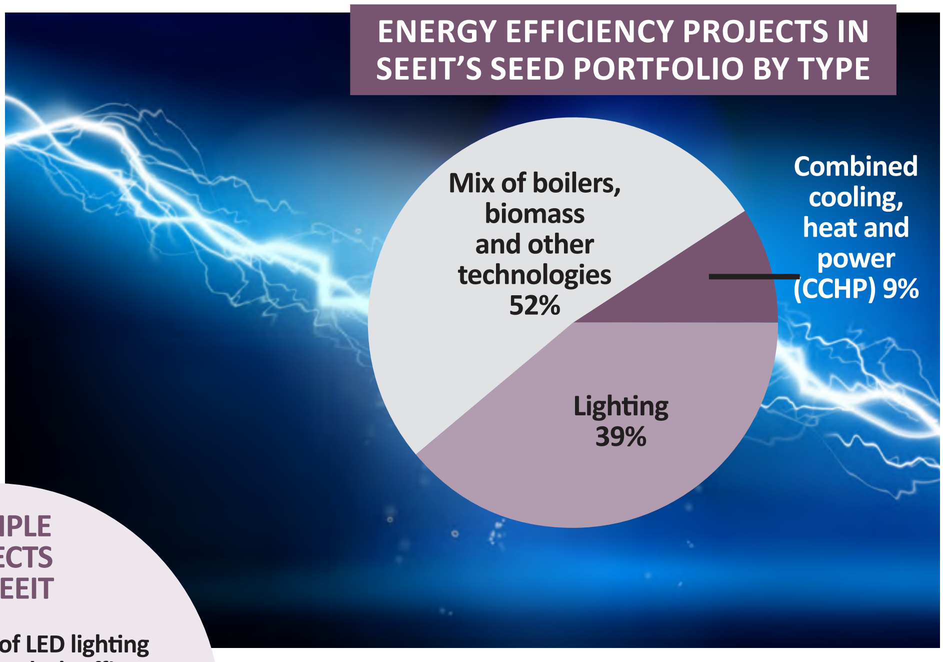
The seed portfolio is primarily made up of operational assets or contracts agreed with high quality clients, diversified by contract length, technology and sector.

This includes nine energy efficiency projects valued at £57m, and three contracted investment commitments with identified customers totalling £30m, which have not yet been drawn down. A £500m pipeline has also been identified. Around half of the projects are contracted for more than 10 years and 94% more than five years.

The projects are diversified by sector, with 59% in industrial applications, 21% in the banking sector and the remainder across various other sectors including healthcare and parking.

Maxwell believes the company might be fully invested more rapidly than the six-to-nine-month timeframe which has been outlined in the trust's launch documents.

ENERGY EFFICIENCY PROJECTS IN SEEIT'S SEED PORTFOLIO BY TYPE



EXAMPLE PROJECTS FOR SEEIT

- The installation of LED lighting in many of Santander's offices and branches across the UK
- The installation of a CCHP unit at St Bart's hospital in London
- The installation of biomass boilers at Moy Park poultry farms in Lincolnshire

By **Tom Sieber**
Deputy Editor

Janus Henderson
INVESTORS

Overseas investors are capitalising on Brexit fears

UK equities are out of favour among international investors, but foreign companies are comfortable enough with the UK's long-term future to buy up British businesses – at attractive valuations. Neil Hermon, fund manager of Henderson Smaller Companies Investment Trust, explains why.

Away from the media circus surrounding the UK's exit negotiations with the EU, overseas companies are quietly taking advantage of the pessimism towards UK equities by buying British businesses at attractive valuations.

Overseas companies are seeing value in the UK; in fact 2017 was the first year since 2011 in which British companies saw a net increase in direct foreign investment. The trend can be seen building from 2015, when there were 145 merger and acquisition (M&A) deals involving overseas investors (inward M&A). In 2016, inward M&A deals increased 80% to 262 and in 2017 there were 259.

The first quarter of 2018 followed suit with 75 deals and Q2 statistics show 182 completed inward M&A deals – although this increase is mainly a result of a new methodology for collecting M&A data by the UK's Office for National Statistics, namely around capturing smaller company deals.

The numbers suggest that if we don't notice the value in UK equity markets, others will. Henderson Smaller Companies Investment Trust has been a big beneficiary of this trend, with small and medium-sized companies in the UK attracting the interest of overseas companies.

FOREIGN TAKEOVERS

Since January 2017, the Trust has profited from 10 M&A deals whereby a company we held in the portfolio was acquired, with seven of those

deals involving an overseas buyer.

A recent example of such corporate activity is US private equity firm Silver Lake Partners' takeover of ZPG Group, which owns property website Zoopla and price comparison service uSwitch. We bought ZPG at 332p per share in January 2017 and sold it for 489p in June, representing a total return of 47.2% over the 18-month period.

Another example is Fenner, a polymer technology firm that provides engineering solutions across a variety of markets. The company was acquired by French conglomerate Michelin this summer for about £1.2bn. We first bought a position in Fenner in April 2017 at 316p and sold it for 609p, representing a total return of 92% in just over 12 months.

These examples demonstrate not only the opportunities for growth investors in the UK's small and mid-cap markets, but also the confidence overseas investors have in British companies. That message is easily lost amid the furore of Brexit, but there are good reasons why global investors are putting money in the UK.

A GREAT BRITISH BRAND

The UK is a well established brand with a long history of international trade, and it was considered the easiest place in Europe to do business in the World Bank's Doing Business report. We have a strong rule of law that shields British businesses from corruption and criminality, and will remain a strength of UK corporate culture when it leaves Europe's political union.

The UK is home to some of the best universities in the world and leads in Europe as the number one destination for higher education. This means UK companies are well placed to recruit top talent from around the world. The country's central geographic location helped it to become a global superpower, and this could be a supportive factor in developing a new network of trade agreements.

Sterling may have suffered since the referendum – and it could become a source of further frustration as the months roll on – but it remains one of the UK's strengths. An independent currency and central bank working towards a resilient and robust economy is a huge positive as the UK undergoes this transitional period.

BIG OPPORTUNITIES IN SMALLER COMPANIES

We think now is a good time to buy UK small and mid-cap. Valuations are certainly reasonable; the UK market is cheap by international standards and offers good value relative to historic levels.

We are mindful of the UK's situation with Brexit negotiations entering their final stages. We might see the UK economy do well or badly on the back of the Brexit deal, which is why the Trust's portfolio is geographically diverse in terms of revenues; almost half of the sales made by the portfolio companies go overseas. This diversification, we think, is important as we edge closer to the Brexit deadline.

Henderson Smaller Companies Investment Trust has a strong growth bias and a track record of delivering superior total returns for shareholders over a medium to long-term horizon. In fact, the Trust has outperformed the Numis Smaller Companies Index on a total return basis in 14 of the past 15 financial years.

A £1,000 lump sum investment in the Trust on 31 October 2002 would now be worth £12,577 (as at 30 October 2018), with a compound return of 17.4%. That's not to say we are going to live off past glories, because they won't guarantee future results, but we will continue to employ the same principles and consistent strategy that has rewarded our shareholders.

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

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FEATURE

Passive funds on the rise – but is it time for active?

A falling market may warrant turning to the skills of fund managers

The use of passive funds has been increasing for years, with investors drawn to their simplicity and low cost. But are they the right investment for all markets, and what happens if a market dip is on its way?

Passive investments track an index or market, such as the FTSE 100 index of leading UK companies, and will replicate the performance of that market.

It will never outperform the market and will follow it up as well as down. This means if the FTSE 100 rises by 5%, so too will your investment, but likewise if it falls by 5%, your investment pot will fall by the same amount.

Because there is no fund manager running the money and picking stocks, as there is with active funds, passive investments are typically cheaper. What's more, as passive funds have grown in size they have passed on cost savings to investors. **Our recent article** showed that the cheapest exchange-traded funds, a form of passive investment, charge just 0.04% – which is 40p for every £1,000 invested.

WHY ARE THEY SO POPULAR?

Investors are flocking to passive investments at the moment. The most recent figures from industry trade body the Investment Association, which tracks where UK investors are putting their money, shows that they allocated £1bn to tracker funds in September.

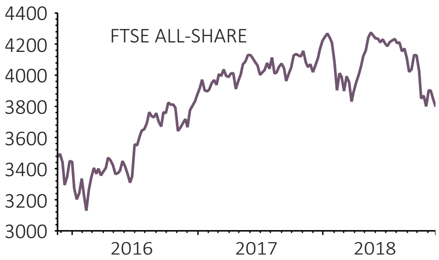
This is remarkable when the net sales for all funds that month were just £642m (the figures collate inflows and outflows, with other fund types seeing a net outflow).

Tracker funds now represent 15% of the total fund market today, compared to 6% a decade ago, according to the Investment Association data, and there is now £195bn of money invested in them in total.

The latest figures from AJ Bell YouInvest on the most popular funds in October show this trend clearly.

Among the top 15 investments were a healthy dose of passive funds. This was split between pure trackers and passive portfolios that allocate money across a number of different asset types and stocks markets, such as AJ Bell's own passive funds and Vanguard's LifeStrategy funds – each of which have a range of different funds with varying allocations to different countries' stock markets, bonds and cash.

Another large chunk of the most popular funds was in more simple trackers, which just track one market. The most popular markets were the FTSE 100, FTSE 250 and the S&P 500 index in the US.



However, markets have fallen in recent months. In October the FTSE All-Share had its worst month's performance in more than three years, with the past 10 years only seeing eight months that had greater falls.

What's more the FTSE 100 was down 5% over September and October, leaving it down 7% in the year so far.

UNAPPRECIATED RISKS WITH PASSIVE INVESTMENTS

If investors fear further market falls – whether due to Brexit, trade wars, the fall in grace of the FAANG technology stocks or some other reason – should they switch to active fund managers?

Jane Sydenham, investment director at wealth manager Rathbones, says: 'One of the key issues here is that passive funds are really untested in a serious market fall. We are 10 years into a bull market, in which passive investing has exploded in popularity, such that it now dominates daily market activity – that was not really true in 2008.'

Trackers have no ability to outperform the market, and in a declining market that means these investors have no way of limiting their downside. An active fund manager will aim to avoid the worst-performing companies and stop investors' savings falling as much as the market does in any downturn.

What's more, they will also be able to buy the dips, and snap up unfairly discounted shares in a market fall. This relies on you picking the right fund manager who makes the right calls in hard markets – no easy feat when many fund managers have been investing in a bull market for the past decade.

Sydenham comments: 'In theory, it is likely that active funds will perform better as they can hold liquidity and buy more concentrated positions of oversold holdings when they have fallen heavily.

'In markets that are no longer distorted by quantitative easing, there should also be more dispersion between stronger and weaker stocks, and that should also favour active funds, but the managers of active funds have to still make the right decisions, so investors need to be confident in the ability of the active manager.'

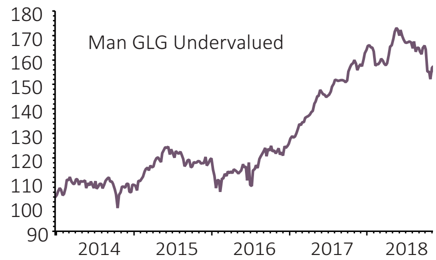
WAYS TO PLAY CHEAP UK MARKETS

One particular area of opportunity is in domestically-focused UK stocks, which have been hit since the referendum vote and during the ongoing Brexit uncertainty, meaning many companies are now sitting on healthy discounts.

> **One of the key issues here is that passive funds are really untested in a serious market fall**

Currently FTSE 100 companies are trading on 12.5 times earnings, which is below the historical average, with a dividend yield of 4.5% – above the long-term average.

Investors who think there is opportunity for UK-focused stocks to rebound could consider investment fund **Man GLG Undervalued Assets (BFH3NC9)**. Henry Dixon, who runs this £1.2bn portfolio, aims to hunt out discounted companies that he thinks will rise in value.



Investors looking for downside protection can invest in funds that specifically aim to reduce volatility and protect in a market downturn.

A good example is the £2.5bn **Janus Henderson UK Absolute Return (B5KKCX1)**, a fund run by Benjamin Wallace and Luke Newman. The fund can 'short' stocks, so effectively bet against them, and aims to deliver a positive return and to drop less than the FTSE All-Share in a falling market.

Both the Man GLG and Janus Henderson products feature on AJ Bell's list of favourite funds.

By **Laura Suter**
AJ Bell Personal Finance Analyst

How much cash is the right amount for your portfolio?

We look at how to manage your money and factor in cash held via investments

Rising cash levels are a hot topic at the moment – from conversations among investors in the pub and on internet message boards, to well-respected professional investors amassing more cash than usual.

The bouts of volatility in stock markets in recent months have caused some to panic and claim that we should cash out to avoid market falls. Warren Buffett, the renowned investor, has even built up record levels of cash in the investment company he runs, Berkshire Hathaway.

But with inflation running at higher than the majority of savings accounts will pay in interest, any move to cash means taking a real term cut in the spending power of your money – it's not a free option. So how much cash is the right amount to have?

STEP 1: YOUR EMERGENCY POT

Any investor should have a cash pot that they can access immediately to use as a buffer in an emergency. This could be a bout of ill health or losing your job, for example.

The rule of thumb for emergency cash is between three and six months' expenditure – that's to cover your essential outgoings, rather than matching six months of income.

Whether you save three months or six months of costs into this pot depends on your own circumstances. For example, if you're a two income family and can afford much of your essential outgoings should one of you lose your job, you may err on the lower end of this scale.

STEP 2: HOLIDAY, NEW CAR, BUYING A YACHT?

Next you need to work out the big purchases you're going to make in the next five years that you can't afford from your usual income.

What you include in this pot depends on your own preferences, your surplus income each month to be able to afford extra luxuries out of normal income, and your attitude to risk.

Included in this pot might be

Remember to adequately budget for your holidays any holidays you plan on taking, a new car that you know you might need to buy in the next few years, offspring going to university that you're helping to pay for, or a deposit for a home that you plan to buy in the next few years.

STEP 3: ASSESS YOUR TRUE CASH LEVEL

Setting your emergency pot and your short-term savings aside, you then want to determine how much cash you want in your investment pot. Before doing this you need to work out the true cash level in your portfolio. Many base this purely on the 5% or 10% of their portfolio they have sitting in cash – but the level is likely to be much higher.

Many fund managers will sit on large levels of cash at any point in time – either in the very short term, because they have sold something and are waiting for a new investment opportunity, or strategically, as they are waiting for market falls and have set aside cash to spend. It's the latter figure you need to look out for.

This is particularly the case at the moment. Marcus Brookes, who runs the multi-manager funds at fund house Schroders, has been bearish on markets for some time and currently has almost 24% in cash.

Other examples include the Marlborough Defensive fund, which has more than 21% of its assets in cash, while the **SVS Church House Deep Value Investment Fund (B79XM02)** has almost 24% in cash or cash equivalents (cash equivalents usually means Government bonds that have a very short time until they mature). **Stewart Investors Worldwide Equity (B4KJBJ0)** fund has just over 18% in cash.

Property funds in particular usually have high levels of cash holdings. This is because


Property funds may hold more cash than you think

property is an inherently illiquid asset, taking a long time to sell, and so property funds need to hold a decent level of cash in order to meet any requests for redemptions from investors.

The effects of this situation were seen just after the Brexit referendum in 2016, when fears about the UK property market led many investors to sell their property fund holdings.

In turn, many property funds ran out of 'liquid assets' or cash to meet these sell requests, and so ended up shutting the funds to redemptions. As a result, some have increased their cash levels in the wake of the panic, in order to help buffer against the same thing happening again.

The £3.3bn **L&G UK Property (BK35DTI)** fund has among the highest cash holdings of the property funds, with almost a quarter of the fund in cash, but the accompanying table shows the cash levels of these funds.

So when you think you have £10,000 invested in the markets in a property fund, you may actually only have £8,000, or in some cases £7,500, invested in bricks and mortar.

EXAMPLES OF FUNDS WITH LARGE CASH HOLDINGS

Fund	Cash holding	Fund size
Legal & General UK Property Fund	24.7%	£3.3bn
Aberdeen UK Property	21.6%	£2.2bn
SLI UK Real Estate Fund	21.3%	£2.45bn
Aviva Investors UK Property	20.6%	£882m
Janus Henderson UK Property PAIF	19.2%	£3bn
M&G Property Portfolio	15.2%	£3.6bn
Columbia Threadneedle UK PAIF	14.8%	£1.6bn
Kames Property Income	14.2%	£757m
Royal London - Property	7.9%	£416m

Source: AJ Bell

You need to do the forensic look-through into your funds to determine the true level of cash. Most funds will publish this cash figure on their factsheets, although some don't make it obvious or use more complicated language.

STEP 4: WHY DO YOU WANT TO HOLD CASH?

The level of cash you want in your investment portfolio depends on three questions:

1. **Are you nervous of market falls and want to build a bit more safety in your portfolio?** This is an understandable reason to hold cash, and can help limit your losses if a market fall was to happen – but make sure you know why you're holding it and what you're waiting for.

2. **Is everything a bit expensive?** If you're struggling to find investments that you want to buy at current prices then you might want to keep some cash for the short time to buy at a later date. The benefit of this and the above point is that should markets fall you'll have a ready pot of money available to buy the dips.

3. **Are you reaching a crucial, costly stage in your life?** Many people will want to amass a bigger cash buffer if they are embarking on a more expensive stage of their life or where they will become reliant on their investments.

An obvious example is if you're nearing retirement and want to ensure you have a certain level of income set aside and safe. Other examples might be if you're setting up your own business or taking a career break and won't have a reliable source of income for a while.

STEP 5: GET THE CASH FROM SMART PLACES

If you're planning to sell assets to generate cash for any of these reasons, then get it from the right place. Use this as an opportunity to rebalance your portfolio, to ensure it's sticking to your original asset allocation.

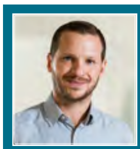
This usually means selling some of the funds that have performed well and reinvesting that money back into the ones that have underperformed. But if you want to generate cash you should be selling those outperformers and keeping the cash from there, rather than indiscriminately selling from any old fund.

By **Laura Suter**
AJ Bell Personal Finance Analyst

'Which is better: a Lifetime ISA or a pension?'

AJ Bell expert Tom Selby compares the two savings vehicles

Greavesy from Beverley:
'I've been thinking about opening a Lifetime ISA but I'm not sure if it's the right thing to do.
Will I get more compared to a pension? And how does the exit penalty work?'



By **Tom Selby**
Tom Selby, AJ Bell
Senior Analyst

Any UK resident aged 18-39 is eligible to open a Lifetime ISA and pay in up to £4,000 a year. This money will automatically be topped up by a 25% Government bonus, up to a maximum of £1,000.

Once you have opened a Lifetime ISA you can keep paying in until the day before your 50th birthday and receive the 25% bonus. After this point, you can no longer make further deposits. This means someone who pays in the maximum to a Lifetime ISA each year could benefit from £32,000 in bonuses over their lifetime.

Withdrawals are tax-free if the money is used to fund the purchase of your first home (provided it is worth £450,000 or less, is in the UK and bought with a mortgage), after your 60th birthday or if you become terminally ill.

Any other withdrawals will be hit with a Government-imposed exit penalty of 25%. Because that's 25% of all the money you take out, you could end up losing more than the Government bonus.

Let's run through the example of someone saving the maximum £4,000 in a Lifetime ISA in one year and so had that topped up to £5,000 by the Government. We assume there was no investment growth.

If they took all the money out in circumstances other than a first home purchase, terminal illness or reaching their 60th birthday, the entire £5,000 would be hit with a 25% penalty. That means £1,250 would go back to the Government – meaning they've lost the £1,000 bonus and a further £250 on top.

When it comes to saving for retirement, there are a number of things to consider. Firstly, most people in employment are automatically enrolled into a workplace pension where they receive a contribution from their employer.

There is no similar employer contribution for a Lifetime ISA, so if you are considering a Lifetime ISA instead of, rather than in addition to, a workplace pension you will almost certainly be better off staying in your workplace scheme.

Higher and additional-rate taxpayers get a larger bonus (in the form of tax relief) from a pension than a Lifetime ISA, although only 25% of pension withdrawals are tax-free from age 55, with the remaining 75% taxed in the same way as income.

If you're a basic-rate taxpayer the bonus for saving in a pension and a Lifetime ISA is identical, and with tax-free withdrawals – albeit from age 60 – a Lifetime ISA could be worth considering depending on your personal circumstances. A Lifetime ISA could also prove a useful alternative vehicle for anyone at risk of breaching the £1.03m pensions lifetime allowance.

You still need to consider that investment returns from both a pension and a Lifetime ISA are unpredictable.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **editorial@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide guidance and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

Why equities are hoping corporates stay in credit

Investors need to start watching credit spreads for warning signs about the markets

One of the many arresting features of the 2007-09 financial crisis and resulting equity bear market was how stock markets were laid waste by problems in US housing and the bond markets.

In other words, those investors who had heavy equity exposure were blindsided by a downturn in different asset classes which looked entirely unrelated – until it turned out that they were not unrelated at all and a downturn in US housing roiled bonds, drained banks and markets of liquidity and all boats sank together (just as the rising tide of cheap money had lifted them all higher).

Investors who are heavily exposed to equities may need to look beyond more obvious candidates – such as tariffs, trade wars, Brexit, Italy or rising interest rates – when stress-testing their portfolios, as one year ends and another comes on to the horizon.

And if there is to be a surprise coming out of left field, perhaps it is the bond markets which could deliver a nasty blow, at least if recent price and yield action is any guide. Rising interest rates and tighter monetary policy (especially in the US) could therefore exert a powerful influence, but they could do so via the fixed-income market, at least initially, if current trends continue.

SPREAD THINLY

Thankfully that is still a matter of 'if' rather than 'when' but the seemingly inexorable slide in the price of the New York-listed exchange-traded fund iShares iBoxx Investment Grade Bond ETF must be followed closely for two reasons.

First, this instrument, which trades under the ticker of LQD, peaked last December and has since lost 8% of its value. That might not sound a lot but it is when the yield bottomed at 3.21% when the price peaked, because the capital losses have eaten up a lot of income already.

CORPORATE BONDS' PRICES PEAKED AND YIELDS BOTTOMED IN LATE 2017

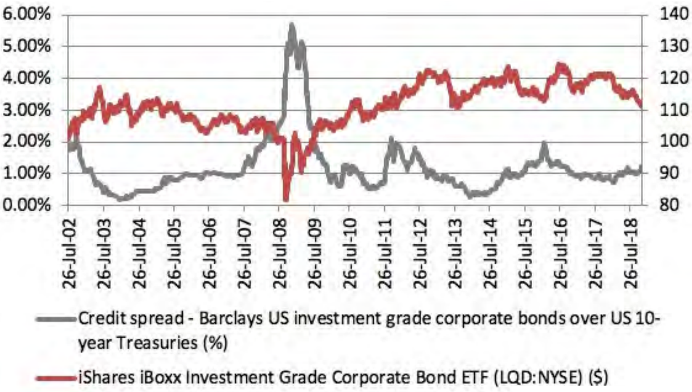
Source: Refinitiv data

As investors know only too well, bond prices and yields move inversely, so when prices rise, then yields fall and vice-versa.

Yields are now rising and so – even more pertinently – are credit spreads. At the time of writing, the aggregate yield available from the members of the basket of bonds that makes up the LQD ETF is 4.33%. That compares to 3.07% from US 10-year Treasuries so the premium yield – or spread – is 1.26%.

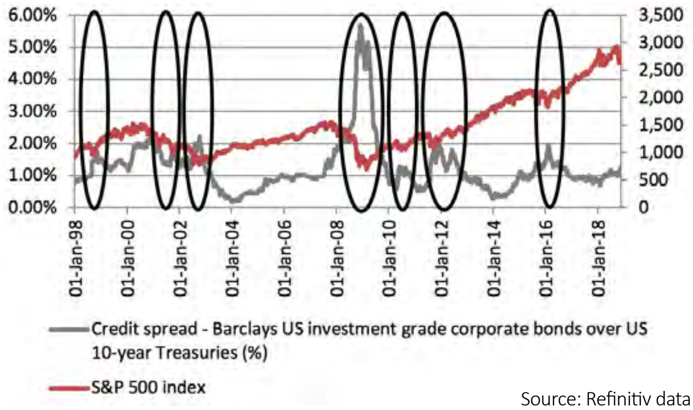
That compares to the lows of barely 0.25% in early 2016, as the US Federal Reserve slowly embarked upon its mission to 'normalise' monetary policy and this year's 0.72% low-point in January, as bonds and stocks basked in the perceived benefits of US president Donald Trump's tax cuts.

INVESTMENT GRADE CREDIT SPREADS ARE GENTLY RISING IN THE US



Source: Refinitiv data

WIDENING INVESTMENT GRADE CREDIT SPREADS HAVE WARNED OF STOCK MARKET TROUBLE IN THE PAST



Source: Refinitiv data

This gradual widening of the credit spread reflects Fed policy, and particularly the faster pace at which the central bank is withdrawing quantitative easing. It may also reflect how US corporations have borrowed freely, enthused by record-low interest rates and cheap money.

Research this summer from S&P Global revealed that US corporate debt has risen from $3.6trn to $6.3trn in the past five years alone.

The good news is US firms have $2.1trn in cash on their balance sheets. The bad is that most of this liquidity sits with barely 25 firms. Strip those out and many investment-grade borrowers have a similar cash-to-debt ratio as 'junk', high-yield rated bond issuers, at around 21%.

That statistic may explain why more than 40% of the total value of US corporate bonds were rated BBB for the first time ever this summer, according to S&P Global's research. Credit quality is slipping.

BUYBACK BLUES

Bond investors are paying attention because they are demanding higher coupons to compensate themselves for the risk, and a higher premium relative to Treasuries even as their yields rise.

Equity market participants are paying attention too. Thankfully, spreads are moving higher at a slow pace. But investors will need little reminding that a sudden spike in credit spreads has been a harbinger of increased equity volatility, and even some nasty falls, on at least six occasions in the last 20 years.

In addition, one equity strategy which had previously worked very well has started to encounter trouble, namely encouraging companies to carry out share buybacks.

The US-listed Invesco Buyback Achievers ETF peaked in January and its UK-listed counterpart **Invesco Global Buyback Achievers ETF (BUYB)** did the same and has since fallen by 13%.

BUYBACK STOCKS AND STRATEGIES SEEM TO BE RUNNING OUT OF PUFF

Source: Refinitiv data

This is not to say that all share buybacks are bad. In theory companies with so much cash on their balance sheet that they can afford to give it back should be a good thing.

But many of these companies have been using cheap debt to fund the buybacks and as debt gets more expensive that may look less smart, from the perspective of the holders of both the bonds and the equity.

By **Russ Mould**
AJ Bell Investment Director

Sensyne Health marries healthcare with AI

We reveal how the £219m company's collaboration with the NHS could benefit both parties

Small cap **Sensyne Health (SENS:AIM)** operates in the fast-growing specialist area combining healthcare and artificial intelligence.

It is also a story with an ethical bent as the model should help deliver income to the NHS.

Sensyne Health, which joined AIM in August 2018 raising £60m, analyses anonymous data from the NHS to help improve medical practice and care using artificial intelligence algorithms developed by Oxford University.

The company is keen to increase its capacity to curate and analyse significant datasets, prompting a recent agreement with accounting firm EY.

The deal will allow Sensyne Health to boost capacity, increase its scale more rapidly and develop a framework for the ethical use of patient medical data.

HOW DOES SENSYNE HEALTH GENERATE SALES?

Sensyne Health generates sales by using data that is made anonymous by the NHS through a pre-agreed tool with analysis of the data also pre-approved by the relevant NHS trust.

This data is processed by the company before being sold to pharmaceutical firms to underpin medical research and to improve clinical trials.

Thanks to the model used by Sensyne, the NHS retains ownership of the data and patient confidentiality remains uncompromised.

Clinical trial failures, particularly at the Phase III stage, can have a significantly negative impact on pharmaceutical businesses so anything that improves the chances of success should be a compelling proposition.

Clients contact Sensyne Health with questions and requests for specific information that can be answered using the high-quality data from the NHS.

A request for information is expensive, costing between £100,000 and £150,000, with analysis generally taking a few weeks with the help of computer scientists.

HOW DOES THE NHS PARTNERSHIP WORK?

Sensyne Health currently has access to NHS patient data from Oxford University Hospital, South Warwickshire, and Chelsea and Westminster Foundation Trusts.

Each trust will receive £5m worth of shares in Sensyne when a partnership is formed, plus a royalty on any products developed using its data.

The NHS trusts collectively hold a 10% stake in Sensyne Health, encouraging beneficial collaboration between both parties. The stake in NHS hands is likely to increase when more trust partnerships are agreed.

BENEFITS OF CURATING DATA

Sensyne Health has a range of digital health products that can generate and curate data, such as GDm-Health, a system that can be used to monitor gestational diabetes.

Chief executive officer Paul Drayson says GDm-Health has allowed Sensyne Health to create a database on diabetes in pregnancy, helping to improve management of the condition.

LICENSING EXCITING DISCOVERIES WITH LITTLE RISK

A company can get analysis on patient data on a specific condition before a clinical trial starts through Sensyne Health to help with the design and find out what patients were treated with.

Research conducted by Sensyne Health can lead to the creation of new intellectual property that can be licensed to pharmaceutical companies for upfront and milestone payments, as well as royalties.

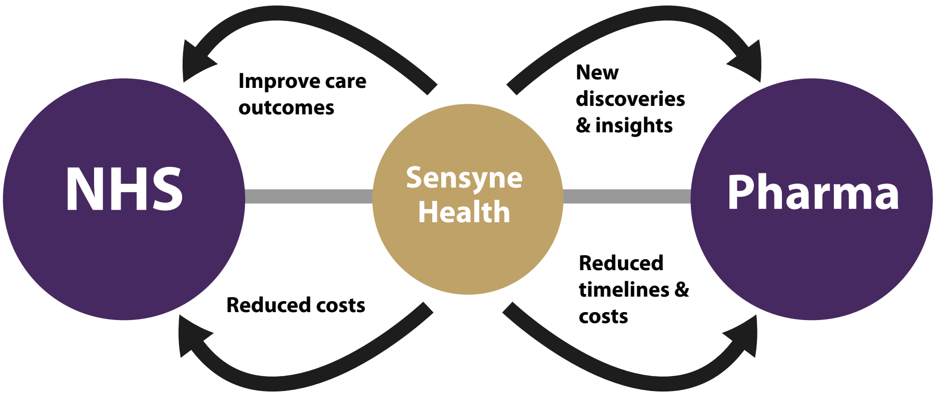
The company has no UK-listed competitors, with the closest rival being DeepMind Health. This is a subsidiary of DeepMind Technologies, owned by Google parent company Alphabet.

DeepMind Health uses NHS data via partnerships to develop technologies for improvements, although it has not been an easy time for the business.

Google recently came under fire over its decision to move DeepMind Health into Google Health. Critics say this breaks a pledge with the NHS that data will never be connected to Google accounts or services.

Peel Hunt analyst Miles Dixon says the decision may create challenges for NHS partnerships, particularly after London's Royal Free Hospital previously failed to comply with UK data protection laws when working with DeepMind.

HOW THE COMPANY LOOKS TO CONNECT LIFE SCIENCES AND HEALTHCARE



Source: Peel Hunt, Sensyne Health

WHAT ARE THE RISKS?

Sensyne Health has bold plans to double the number of NHS trust partnerships to six over the next two years.

The company is not profitable but does generate revenue, with sales expected to rise from £0.1m to £0.6m in the year to 31 December 2019 according to the forecasts available from house broker Peel Hunt.

In 2020, sales are forecast to rise to £2.3m before jumping more than five-fold to £12.5m in 2021, although the business is still expected to be loss-making at that point.

One of the difficulties for Sensyne Health is finding the right people in a competitive field and this is where a big chunk of the IPO proceeds is being spent.

Drayson says Sensyne Health's biggest expense is its people, not its artificial intelligence platform. He wants to recruit more staff, particularly computer scientists to analyse the data, from 40 to 80 by the end of 2018.

Another key risk is that Sensyne Health may be unable to seal new NHS partnerships at the pace it hopes.

WHAT IS THE POTENTIAL?

Data analytics in artificial intelligence could be lucrative with a potential peak market worth approximately $60bn according to the McKinsey Global Institute.

Dixon notes some significant transactions in this space 'Google paid over £400m for the London-based start-up DeepMind in 2014 and Roche recently completed a $1.9bn acquisition of Flatiron Health,' he says.

However with the company not likely to be profitable for some time, investors are going to have to be patient and likely accept volatility in the share price along the way.

By **Lisa-Marie Janes**
Reporter

KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT SEVEN DAYS

Full year results

6 Dec: CareTech, EasyHotel.

Half year results

4 Dec: Consort Medical. **6 Dec:** DS Smith.

Trading Statements

4 Dec: Ferguson, McColl's. **5 Dec:** Joules.
6 Dec: Ted Baker.

WHO WE ARE

EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTER Ian Conway

REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

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

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

CONTACT US:
support@sharesmagazine.co.uk

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PRODUCTION
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Designer: Matt Ely

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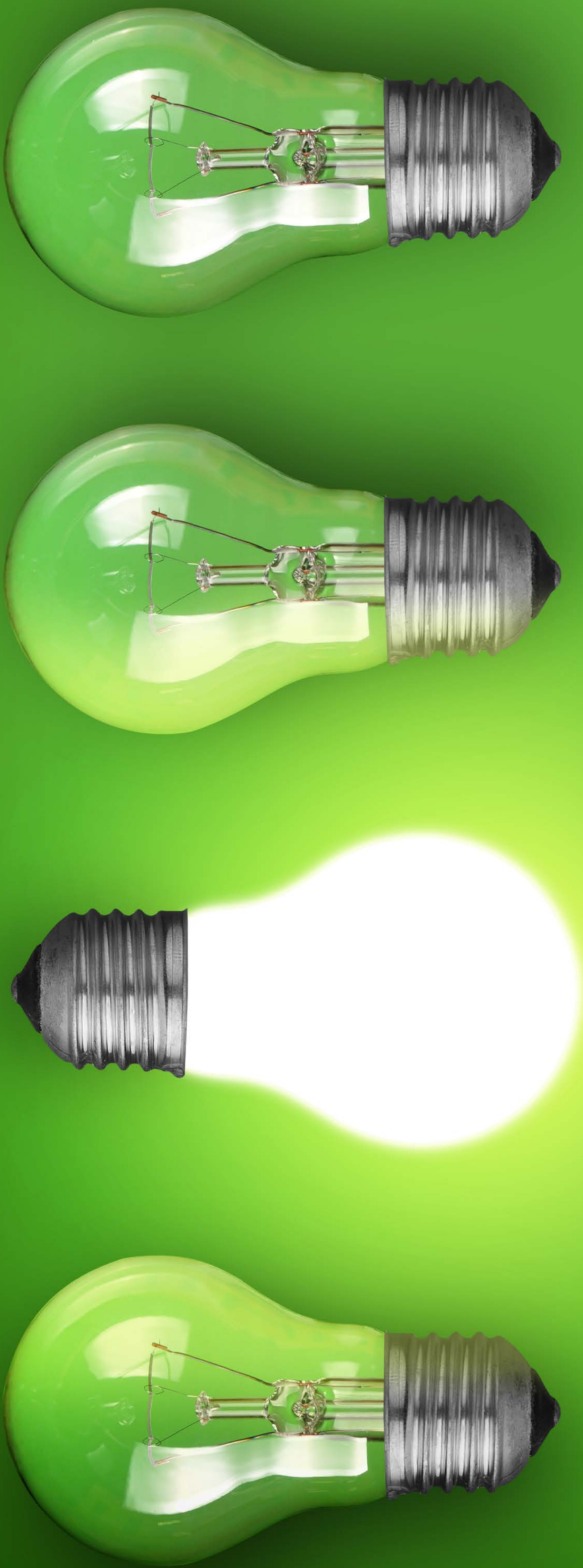
THIS WEEK: 13 PAGES OF BONUS CONTENT

SHARES SPOTLIGHT

Growth & Innovation



ELECOSOFT

PLUTUS POWERGEN

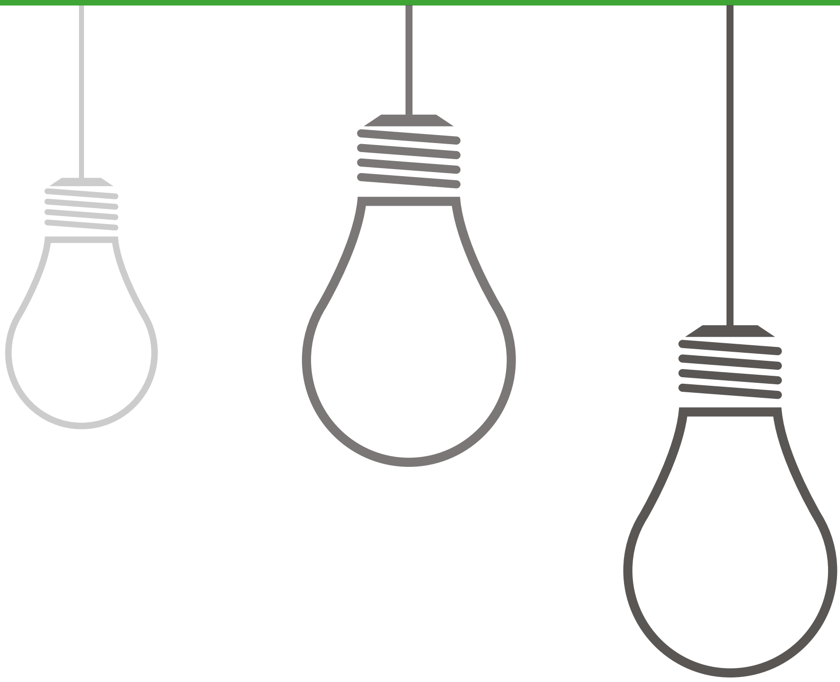
PPHE HOTEL

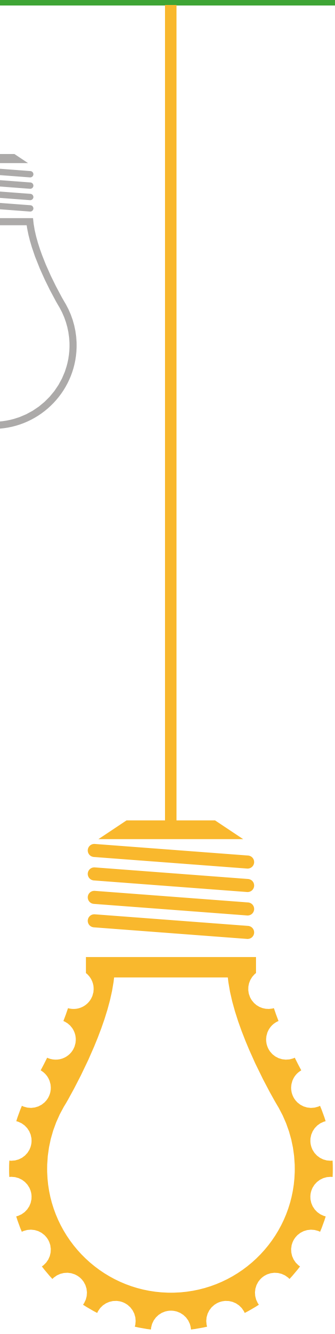
SOPHEON

ST MARK HOMES

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

NOVEMBER 2018





Introduction

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

It provides small caps with a platform to tell their stories in their own words.

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

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

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

Some of the firms profiled in *Spotlight* will appear at our investor evenings in London and other cities where you get to hear from management first hand.

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

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

A guide to investing in travel and leisure stocks

The ins and outs of a diverse space

The travel and leisure sector is a diverse grouping but the industry as a whole has benefited in recent years from a shift in people spending their money on 'things' to focus on experiences instead.

However, a more uncertain consumer environment in the run up to Brexit, greater regulation of the gambling industry and over-saturation in the casual dining space are all factors which have contributed to an 8.3% fall in the sector year-to-date in 2018

What's included in this sector: For the most part these are companies which have direct contact with us as consumers. As such it is easy to see how many of these businesses operate. For example, your local pub might be part of a group listed on the stock market and you can see if it looks busy or empty if you go out for a drink or a meal.

Risk profile: This varies across the sector. The likes of hotels, travel operators and pubs are impacted by what is going on in the economy. If people feel confident, they are more likely to spend money with these businesses but when household budgets are tighter companies in particular can come under significant pressure.

The objectives you might have for investing in this sector: Travel and leisure stocks are largely a play on the economy and will perform well when consumer confidence is high. Successful concepts in the leisure space have demonstrated their ability to perform strongly even against a difficult economic backdrop.

Higher profile companies in this sector:

- **EasyJet (EZJ)** – Low cost airline focused on Europe
- **Domino's Pizza (DOM)** – Pizza takeaway franchise has endured an up and down performance in 2018
- **GVC (GVC)** – Recently acquired Ladbrokes Coral having previously been an online-only gambling play

- **TUI (TUI)**– Travel operator which has exposure to the fast growing and high margin cruise ship business

Emerging names:

- **Hollywood Bowl (BOWL)** – The UK market leader in ten pin bowling has been busily upgrading its sites
- **Hostelworld (HSW)** – An online hostel-focused booking platform
- **Everyman Media (EMAN:AIM)** – Independent cinema chain

Affected by:

- **Interest rates**
- **Consumer confidence**

A strong economy tends to mean good demand for the goods and services provided by consumer-focused companies. If people are confident in their earning potential they are more likely to spend money on non-essential items. Interest rates are also important because they affect how much of a person's pay is allocated to mortgage repayments or other borrowings.

Affects:

- **GDP growth**
- **Resources**

As leisure is a material part of the wider economy, how much people are spending here has a direct impact on the UK's economic growth. Levels of consumer demand also have implications for oil stocks as they source the crude oil used to create the fuel for the jet planes which take you on holiday.

Numbers to watch out for:

- Like-for-like sales – A comparison of this year's sales to last year's sales which only includes the shops or premises operating during both time periods
- Consumer confidence index – a measure of how consumers feel about the economy
- Revenue per available room – Is used by hotels to measure how much money they are making from each room

TRAVEL & LEISURE 2018
BEST AND WORST PERFORMERS

COMPANY	YTD PERFORMANCE (%)
Webis	95.6
PPHE Hotel	40.9
The Gym	38.4
EI	30.6
Celtic	27.3
Dart	21.8
Whitbread	18.1
City Pub	11.8
Heavitree Brewery	11.8

COMPANY	YTD PERFORMANCE (%)
Sportech	-52.1
Comptoir	-55.0
PCG	-56.7
Ten Lifestyle	-58.2
Thomas Cook	-60.1
Minoan	-62.4
Tasty	-65.7
Veltyco	-91.0
Fastjet	-91.8

Source: SharePad, 26 November 2018

Elecosoft®

Building on technology: the Elecosoft story

Website: www.elecosoft.com

Headquartered in London, with operations in the UK, Sweden, Germany, Benelux and the USA, **Elecosoft's (ELCO:AIM)** software solutions cover the building lifecycle from planning and project management, to estimating and timber engineering on to 3D design, property maintenance management and digital marketing solutions.

Originally listed on the London Stock Exchange in 1939, the Company's long history has seen the business pivot from being a construction materials manufacturer to being totally digital.

Elecosoft started acquiring software businesses in the 1990s and 2000s, providing software such as planning, computer aided design (CAD) and visualisation software.

When the global financial crisis hit in 2008 and there was an overnight fall in construction activity Eleco had to divest a large part of its core construction components manufacturing businesses and focus on its cash generative software businesses, a survival strategy planned and executed under the direction of long-time executive chairman John Ketteley.

Now Elecosoft has been transformed into a growing, highly cash generative and well financed international construction software specialist with 49 per cent of its revenues received from maintenance, support and software training. The Elecosoft share price increased from 6p in 2013 to 72p at the time of writing and it would seem that the transitioning strategy has paid off.

Elecosoft counts amongst its customers 90% of the top 100 UK contractors, 40 of the top 50 construction companies in Sweden and seven of the UK's top 10 retailers. Its software has been used on prestigious international projects such as The Shard in London, the Reichstag Dome in Berlin, Hong Kong International Airport and the third Bosphorus Bridge in Turkey.

INTRODUCING... ELECOSOFT

AN AIM-QUOTED SPECIALIST INTERNATIONAL PROVIDER OF CONSTRUCTION SOFTWARE AND RELATED SERVICES TO THE GLOBAL ARCHITECTURAL, ENGINEERING, CONSTRUCTION AND OWNER/OPERATOR INDUSTRIES.

ACQUISITIONS

Elecosoft continues to build on its success with strategically placed acquisitions that enhance its software offering and expand its prestigious customer base.

In July 2018, it strengthened its portfolio with the acquisition of Shire Systems Ltd, a well-established UK provider of Computer Maintenance Management Software, (CMMS) with a 30 plus year history and over 800 active customers. In 2016 Elecosoft also acquired ICON, a leading Software as a Service

(SaaS) provider of Building Information Management data to the UK retail sector, with customers including Asda, Next and Sainsbury's.

GROWTH

The board of Elecosoft continues to see significant growth opportunities for its software to enhance the performance of businesses in construction but also in other sectors, by improving the timeliness, cost-efficiency and risk profiles of customers' projects.

Elecosoft is also particularly well placed to maximise opportunities from Building Information Modelling (BIM). BIM is a digital framework that enables collaboration on a building project pre-construction, during the build and then post construction when operating the building. It creates a common data environment (CDE), which ensures that everyone working on a construction project knows what's been done, when and by whom.

This allows for easier collaboration, record keeping and improved efficiencies. The UK government made use of BIM mandatory in 2016 and this has provided Elecosoft with a competitive advantage as BIM is increasingly being implemented in other countries. Accordingly, as Elecosoft has experienced the move to BIM alongside its UK customers, it is able to provide support, insight and guidance about the adoption of BIM in other markets.

UPDATE

Elecosoft announced in November 2018 its acquisition of profitable German soft furnishings visualisation business, Active Online GmbH. This will create synergistic opportunities with Elecosoft's ESIGN flooring visualisation business providing the opportunity to develop a unique online interior platform for visualising all types and designs of interior coverings and flooring with the capability to transfer product data related to products included in the visualisation along the whole supply chain.

ELECOSOFT ADDS VALUE

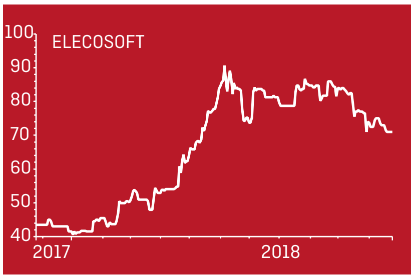
The flexibility of an in-house Product Development team means Elecosoft works closely with its customers and partners in developing its industry-tailored solutions. Elecosoft's products and services are recognised for their alignment to the specific needs of AECO customers in its core markets. Since rebranding the group in 2015, its improved market presence has ensured it is delivering a cohesive message whilst expanding the integrated portfolio.

ELECOSOFT PROTECTS VALUE

Elecosoft is a truly 'people' business, with a geographical footprint in seven countries and a 200 plus strong employee team, of which 50 are software developers and 59 are client focused. Its strong customer relationships mean that it works closely with customers and partners in generating recurring business and meeting their strategic requirements. In 2017, Elecosoft invested 14% of revenue in innovative software solutions and in 2016 15%.

ELECOSOFT'S STRATEGIC OBJECTIVES

Elecosoft's strategic objective is to continue to drive innovation and growth, by developing its current portfolio of integrated software solutions and making them available across multiple platforms and devices, whilst expanding Elecosoft's sales and marketing capabilities, channel capacity and operational territories.



PPHE Hotel Group focused on creating value for shareholders

Website: pphe.com


Park Plaza Victoria Amsterdam

PPHE Hotel Group's (PPH) property portfolio comprises of 46 hotels, resorts and campsites in operation in popular European destinations, totalling approximately 8,800 rooms and 5,983 campsite pitches and mobile homes across the UK, the Netherlands, Germany, Hungary and Croatia.

In the UK, PPHE is one of the largest owner/operators of upper upscale hotels in central London, operating more than 3,200 hotel rooms in the city, including the recently opened Park Plaza London Waterloo and Park Plaza Westminster Bridge London, its largest in terms of room count (1,019).

In addition, the group wholly owns and operates under the art'otel brand which has two iconic developments in the pipeline in London, both scheduled to open in 2022.

PPHE also has a controlling ownership interest (51.97% of the share capital) in Arena Hospitality Group, one of Croatia's best-known hospitality groups.

Most of the group's hotels operate under the Park Plaza Hotels & Resorts brand through its perpetual exclusive licence from Radisson Hotel Group, one of the world's largest hotel groups.

Through this relationship, PPHE's operations benefit from the use of Radisson Hotel Group's central reservation and distribution system, technology, rewards programme with over 20m members, negotiated agency commissions and access to international marketing capabilities.

STRONG TRACK RECORD

PPHE is a well-established company with a strong track record. It acquired its first hotel in Eindhoven in The Netherlands in 1989.

In 2007, the group's shares (under the name Park Plaza Hotels Limited) were listed on AIM at 550p per share, raising £85 million. In 2011, the group migrated from AIM to the London Stock Exchange Main Market and during the summer of 2018 transferred to a premium listing.

PPHE has delivered a total return to shareholders of 436% over the last five years.

INTRODUCING... PPHE HOTEL GROUP

AN INTERNATIONAL HOSPITALITY REAL ESTATE COMPANY, WITH A £1.6BN PORTFOLIO OF PRIMARILY PRIME FREEHOLD AND LONG LEASEHOLD ASSETS IN EUROPE.

HYBRID BUSINESS MODEL

PPHE's business model enables it to transform hospitality real estate potential into value and profits for shareholders, through developing, owning and operating these assets.

'Unlike most hospitality businesses, we own more than 80% of our hotel portfolio, giving us greater control over our investment strategy, the quality of our property portfolio and operations.

'This model has generated attractive operating returns and continuous asset value appreciation,' comments Daniel Kos, PPHE Hotel Group's chief financial officer.

Shareholder value is created through; identifying and purchasing real estate with a significant upside potential; developing, re-developing and repositioning new or existing properties to improve operating performance and maximise returns; and through appropriate financing of properties which enables the group to release capital for new investments, enabling further growth.

HIGH QUALITY PROPERTY PORTFOLIO

The group's high-quality prime property portfolio was independently valued at £1.6bn (by Savills and UniCredit in mid-2018). The group has recently disclosed The European Public Real Estate Association (EPRA) performance measurements to aid investors in analysing its real estate business and better reflect the hybrid owner/operator business model.

EPRA NAV per share at 30 June 2018 was £24.21. In the last seven years (31 Dec 2010 to 31 Dec 2017, the compound annual growth rate (CAGR) was 20.7%.

EPRA earnings per share to 30 June 2018 increased by 3.8% to £1.08 per share. The interim dividend increased by 45% to 16.0p per share (H1 2017: 11.0p per share).

Park Plaza London Waterloo

DEVELOPMENT OPPORTUNITIES

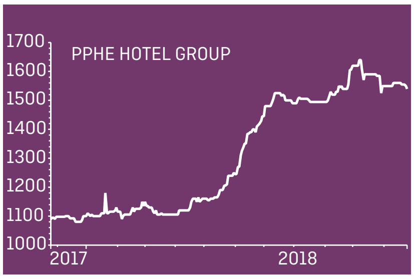
Future growth will be driven by a combination of repositioning and redevelopment of existing assets and new hotel projects including the opening of two new lifestyle hotels in London; art'otel london hoxton and art'otel london battersea power station.

Major refurbishment programmes are also currently underway in the UK and the Netherlands. 'We are fortunate enough to be in a strong cash position meaning we're able to consider further acquisitions to broaden our portfolio – an area where we are keen to maintain momentum' adds Kos.

INVESTMENT PROPOSITION

The hybrid business model provides investors with the opportunity to invest in an integrated hospitality platform focused on premium hospitality real estate, strong cashflow and value growth through value-added investing and control over operations.

The group has a high-quality property portfolio, an attractive development and refurbishment pipeline with solid yield, an experienced management team and a proven track record of creating value for shareholders.



CREATING SHAREHOLDER VALUE: PARK PLAZA LONDON WATERLOO

Park Plaza London Waterloo is an excellent example of PPHE's ability to adapt its model and seize an opportunity to develop a high-quality hotel and create value for shareholders.

In 2013, Hercules House, a redundant office building close to Waterloo station, was acquired. Planning permission was granted in 2014 and construction commenced to extend the footprint and develop the property into a world class hotel with nearly 500 rooms.

Construction was completed in June 2017 and the hotel opened to guests. The total cost of investment in the property (including acquisition of the site) was £125m.

In July 2017, the hotel was sold for £161.5m and leased back for 199-years, unlocking over £36m in cash whilst securing operating income and maintaining control of operation of the hotel for many years to come.

Plutus is addressing the UK energy deficit through flexible generation

Website: www.plutuspowergen.com

As the energy environment in the UK is tightening, **Plutus Powergen (PPG:AIM)** aims to help mitigate the current and forecast risk of an energy deficit by developing a portfolio of 20MW power sites, which can be switched on at a moment's notice at times of peak demand.

Flexible energy is becoming increasingly necessary and prominent in the UK as its energy mix changes to include renewables, which by their very nature, provide power intermittently. Combined with this intermittency, larger carbon intensive sources of generation are being retired, meaning that the supply-demand margin is becoming increasingly constrained.

TEAM OF EXPERTS

Plutus' team of industry and financial experts recognised the imbalance in energy supply and, from a standing start in 2015, rapidly grew the company; it already successfully operates 120MW comprising six 20MW projects across the UK.

These first six projects, which take circa 12 months to develop and hold capacity mechanism (CM) contracts for 15 years, were funded via EIS/Rockpool Investments with Plutus retaining ongoing 44.5% interests as well as earning management fees; a further gas site with the same partner is also being developed.

The group is now concentrating on developing higher-margin gas fuelled power generation in which it holds majority stakes. To this

INTRODUCING... PLUTUS POWERGEN

A POWER COMPANY FOCUSED ON THE DEVELOPMENT, CONSTRUCTION AND OPERATION OF FLEXIBLE ENERGY GENERATION ('FLEXGEN') PROJECTS IN THE UK.

end, it has a robust pipeline of gas operations totalling circa 300MW from its relationship with Reliance Energy; 40MW of plants are under site assembly in house and aims to enter planning in the next few months.

In line with this strategic shift to the development of higher-margin gas operations, the company is looking to dispose of its six operating FlexGen sites and is in advanced discussion with potential buyers. It is hoped that the sale of these assets will be completed during 2019 to generate substantial cash resources, which can then support the rapid build-out of the company's gas FlexGen sites.

Additionally, it is looking to widen its exposure and diversify its offering through the development of hybrid sites that incorporate energy storage technologies, thereby enabling Plutus to supply energy more efficiently and provide solutions to the low inertia and intermittent green energy upon which the UK is increasingly depending. Its agreement with land and property developer, London & Devonshire Trust Ltd, to identify and develop energy storage projects in the UK will play a key role in this regard.

FINANCIALS

The company's current revenue model is based on multiple streams enabling it to optimise its performance and adapt to changing energy dynamics.

The project financials of a typical gas site are compelling. Each site, running for about 2,000 hours per annum, costs circa £12.5m to build and will generate an EBITDA of £3m per year when CM payments commence, giving a potential IRR of 20%.

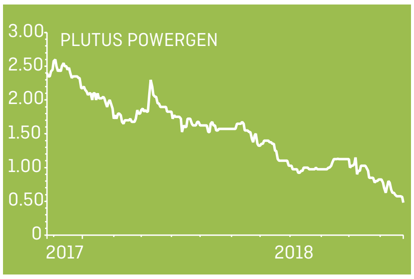
Looking ahead, the company remains positive. The market in which it operates has gone through a period of significant change, with several UK-wide reviews across the industry undertaken. These are now complete, providing relative future certainty for all UK energy providers. In turn, as funders can also view the market with greater clarity, is it apparent that there is appetite for both equity and debt.

STRONG TEAM

The team has a proven value creation track record and extensive sector experience. COO Paul Lazarevic previously held senior roles in the energy industry including a grid balancing technology company, RWEnpower and ExxonMobil. On the corporate side, both Chairman, Charles Tatnall, and Interim CEO/CFO, James Longley, have backgrounds in funding and building SMEs and have held several directorships with both private and listed companies in the US, Canada and the UK.

OUTLOOK

The company continues to make progress as it focuses on delivering near and longer term returns for shareholders. It has a good track record having brought six projects to fruition in a short timeframe and developed a meaningful pipeline of new gas sites. Plutus is an evolving story; its diversification into different power generation and energy storage types highlight its adaptability and focus on supplying energy more efficiently, whilst supporting its core values aimed at promoting sustainability.



Your Partner for Innovation Performance™

Sopheon delivers profitable growth with high market potential

Website: www.sopheon.com

Listed on AIM, **Sopheon (SPE:AIM)** has spent recent years successfully evolving from a niche software offering into a mission-critical enterprise platform in a market increasingly acknowledged by industry analyst firms like Gartner and Forrester Research.

This market – Enterprise Strategy & Innovation Management – is expected by some to become the next major pillar of enterprise software alongside enterprise resource planning (ERP) and customer relationship management (CRM). The rewards for Sopheon of this shift are apparent.

Revenue and profit are up; new client acquisition in the first half of 2018 was up by 50% over the same period last year; the strong business momentum in the performance during the first half of this year continued into a record third quarter, traditionally the quietest quarter of the year for the company. This robust performance has caused broker finnCap to raise Sopheon's revenue estimate and EBITDA (earnings before interest, tax, depreciation and amortisation) forecast for 2018.

Many view the continued delivery of commercial results as emblematic of the growing maturity of the market Sopheon serves, and of its rising reputation for value underpinned by increasing adoption of its solutions.

Sopheon is helping companies drive business performance with strategy-driven enterprise innovation management

INTRODUCING... SOPHEON

A PROVIDER OF ENTERPRISE SOFTWARE THAT CONNECTS STRATEGY WITH OPERATIONAL EXECUTION FOR IMPROVED CORPORATE GROWTH PERFORMANCE.

SOPHEON EXPLAINED

Sopheon is listed on the AIM exchange. Initially offering knowledge management software solutions, Sopheon later applied these knowledge-management concepts to a new software solution named Accolade.

Accolade was the first software to automate a manual business process called Stage-Gate, which was employed by over 70% of companies in high-intensity research and development (R&D) industries like chemicals and consumer goods.

'As the business matured, we developed unique domain expertise in the innovation investment decision-making process and how it varied across different industry verticals,' says Sopheon CEO Andy Michuda.

'We have a history of leading the market with technology "firsts" and continue to do so in our development of the expanded enterprise software market. Accolade is used to manage over $25bn in corporate investment budget, which has earned the trust of some of the world's largest and most widely-recognised market leaders to partner with Sopheon in our expansion effort.'

Fast forward to today, and Sopheon's software has been implemented by over 250 customers – many Global 500 organisations as well as mid-cap companies – and is used by more than 60,000 users in over 50 countries.

Sopheon counts amongst its clients PepsiCo, P&G, Beiersdorf, BASF, Honeywell, Merck, Lockheed Martin, Northrop Grumman, Electrolux and Philips. Sopheon is the only company named in Gartner research across all areas of the Enterprise Innovation Management lifecycle, and is named a 'Leader' in the Forrester Wave for Strategic Portfolio Management.

Sopheon has transitioned its software from an R&D decision support and process automation tool into a mission-critical enterprise platform for investment decision making and strategy execution. By connecting strategic funded initiatives to the operational execution activity, Sopheon is now helping corporations


Sopheon connects the enterprise to enable collaboration, speed and business agility

navigate and stay ahead in today's fast moving and highly disrupted digital markets.

THE INVESTMENT CASE

Digital disruption and consumerisation are creating enormous market opportunity for companies like Sopheon.

- According to the Yale School of Management 75% of the S&P 500 will be replaced by new firms by 2027.
- Entrepreneur Daniel F Prosser reckons only 13% of companies execute on strategy, and according to *The Economist* only 56% of initiatives are considered successful.

The external markets are moving and changing faster than companies can react. This has created urgency at the executive leadership level and in the boardroom to act with the speed and nimbleness of a small start-up in order to remain relevant.

To realise this ambition companies need to operate with increased transparency and alignment to execute on their strategy more quickly and more successfully. This is achieved by connecting strategic funded initiatives with operational execution activities into a single, shared system of record enabling fast, informed and iterative decision making.

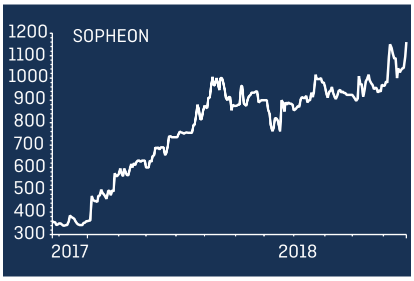
Sopheon is well positioned to become this new enterprise system of record.

ACCELERATING GROWTH

Sopheon's focus on expanding its solution to the emerging Enterprise Strategy & Innovation Management market extends the company's ambitions to sustain its own impressive growth trajectory.

The outlook for the Enterprise Strategy & Innovation Management solutions market appears particularly positive.

When considered along with the market opportunities being created by the rush toward digital and business transformation, Sopheon has the potential to continue to satisfy both customer and shareholders alike successfully into the future.



St Mark Homes is building momentum

Website: www.stmarkhomes.co.uk

St Mark Homes (SMAP:NEX) is primarily focused on mid-tier developments in London and the South East and has successfully completed over 20 property developments since inception, creating over 500 new homes for homeowners in the South East of England.

It has a small but highly qualified and experienced management team and usually partner with other trusted developers and parties who can bring acquired sites, construction and sales expertise to our development projects.

'The company focuses on the mid-range residential market with projects typically between 10-50 units, selling below £1,000 per sq ft' says Sean Ryan, finance director. 'We have continued to focus our efforts on residential developments within the Government's London Help to Buy scheme limit of £600k – this market that has proved to be quite resilient' says Ryan.

Barry Tansey, chief executive

Sean Ryan, finance director

St Mark is currently engaged with, and has committed capital to, developments in Sutton, Wembley, Battersea and Hounslow – all well positioned schemes which offer good value to homebuyers.

ROBUST PERFORMANCE

Notwithstanding the slowdown in the residential market in London generally, the company continues to return decent results - profit for 2017 was £383,738 representing earnings per share of 7.32p. The Company paid an annual dividend in July of 5.5p to shareholders representing a dividend yield of almost 6%.

The company schemes in Battersea and Hounslow are expected to mature in the coming months and although profit recognition may arise in early 2019 rather than the current financial year the directors are committed to driving performance and to maintaining dividend distributions to shareholders.

'We have remained disciplined in project selection and financial management down through the years and this has allowed us to maintain a strong dividend reward to our shareholders,' says Barry Tansey, CEO.

The company successfully launched a bond in association with Crowdstacker in the later part of 2017 and early 2018 raising almost £3.5m in the process. The resulting funds have been deployed in its projects at Wembley and Sutton.

INTRODUCING... ST MARK HOMES

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