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CAN STOCKS **FIGHT BACK** AFTER US-CHINA TRUCE?

FIRST LOOK INSIDE **FUNDSMITH'S NEW SMITHSON** INVESTMENT TRUST

HOW INHERITANCE TAX COULD BE **MADE EASIER** FOR 250,000 PEOPLE

Sharp increase in FTSE 100 CEO departures

Unilever boss is the latest in a long line of blue chip bosses heading for the door

The announcement that Paul Polman is stepping down next year as chief executive (CEO) of consumer goods giant **Unilever (ULVR)** is significant for more than one reason.

While his departure isn't really a surprise, given shareholders recently won a battle to keep the company's headquarters in the UK and its place secured in the FTSE 100, Polman's exit also makes him the fifth FTSE 100 CEO scheduled to be replaced in 2019 – and we haven't even started the year yet.

Furthermore, there have already been 16 CEO changes among FTSE 100 stocks in 2018, well ahead of the average of 12 since 2011.

One of the last times this amount of change happened was 2007 when 17 companies in the FTSE 100 index had new CEOs. At that point, the economy was doing well and the departing leaders arguably got out at the top. Fast forward to the present and it does seem like we are in a familiar situation.

Various parts of the world are seeing a few creaks in their economy and life seems to get tougher (unless you are in the US). Many of the current batch of departing CEOs will be leaving with large salaries, generous pensions and hopefully a legacy of earnings growth.

The new batch may find it a lot tougher, particularly if global economic activity starts to become volatile.

Some of the new CEOs were hired to fix a business. Others have been hired to re-energise a company experiencing structural end-market changes, including Carolyn McCall at media group **ITV (ITV)**. And some are just following the cycle of natural replacement and inheriting the top seat at a business already in top shape, such as Brendan Horgan at construction equipment rental group **Ashtead (AHT)**.

We know there will be new heads at insurers **Aviva (AV.)** and **Direct Line (DL.)** either this year or next year although they have yet to confirm who will be the new CEOs.

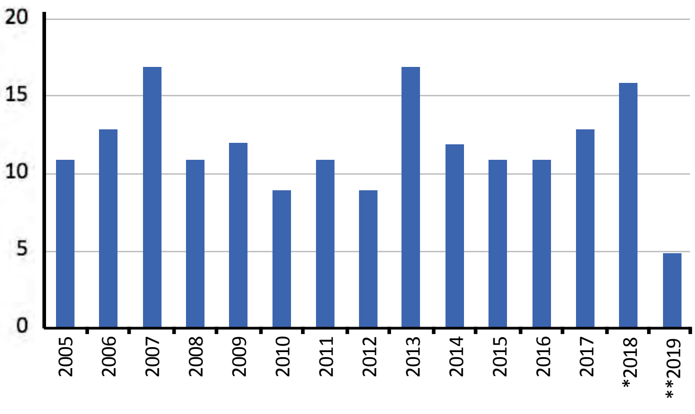
B&Q's owner Kingfisher is a prime candidate for leadership change

In the case of the latter, incumbent Paul Geddes told the *Financial Times* in August that he will be leaving after 10 years in the job, which he said was the right length of time for a CEO. Accountant PWC said in May 2017 that five years was the global average tenure for a chief executive.

Running a FTSE 100 company is a very demanding job and shareholders will not put up with a sub-standard performance. While only a few CEO changes this year (and those scheduled for 2019) have been linked to business troubles, it seems fair to suggest that next year's revolving doors could be spinning even faster if leaders don't have the skills to navigate their ships through choppier waters.

We would keep a close eye on **Standard Life Aberdeen (SLA)** and **Kingfisher (KGF)** as two prime candidates for leadership change, particularly because their shares have been miserable performers this year.

NUMBER OF FTSE 100 CEO CHANGES PER YEAR



Source: AJ Bell
* Year to date. ** Changes already announced and planned

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The **Baillie Gifford American Fund** aims to deliver significant outperformance for investors by seeking out exceptional growth companies in America and owning them for long enough that the advantages of their respective business models and the strength of their individual cultures become the dominant drivers of their stock prices. It is a strategy that we have employed since the fund launched in 1997.

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Over the last five years the Baillie Gifford American Fund has delivered a total return of 207.1% compared to 111.0% for the sector**.

Standardised past performance to 30 September**

	2014	2015	2016	2017	2018
American Fund	9.8%	10.6%	40.3%	20.7%	49.4%
Average of IA North America	15.4%	2.8%	30.1%	14.6%	19.3%

Past performance is not a guide to future returns.

Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

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Long-term investment partners

*Source: Bailie Gifford & Co and S&P 500 TR in GB as at 30.09.18. **Source: FE, S&P, single pricing basis, total return as at 30.09.18. Your call may be recorded for training or monitoring purposes. Baillie Gifford & Co Limited is the Authorised Corporate Director of the Baillie Gifford ICVCs. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co. Both companies are authorised and regulated by the Financial Conduct Authority.

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VIEWING SHARES AS A PDF?

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First look at the stocks inside Fundsmith's new Smithson fund

The popular new investment trust reveals significant US bias to portfolio

The UK's biggest ever investment trust launch **Smithson (SSON)** has unveiled its top holdings and the stocks which have contributed to its performance since making its stock market debut on 19 October.

Strong demand from private investors saw an initial targeted fundraise of £250m raised to £600m and in the end the trust, which is focused on mid and small cap stocks, secured £822.5m.

This fundraising achievement reflected the popularity of fund manager Terry Smith who has delivered strong returns for investors from his flagship **Fundsmith Equity (B41YBW7)** fund.

More than 97% of Smithson's net proceeds have already been put to work in the market. The accompanying table shows that 10 biggest positions out of a portfolio of 29 stocks.

UK investors should be familiar with property listings site **Rightmove (RMV)** and health, safety and regulations-led electronics equipment supplier **Halma (HLMA)**, which is a constituent of *Shares' Great Ideas* portfolio.

There are also a significant number of overseas stocks in the Smithson portfolio, nearly half of which is invested in the US, including in top holding Verisk Analytics.

The 2009 stock market debut from New Jersey-headquartered data analysis and risk assessment firm Verisk was backed by, among others, legendary investor Warren Buffett through his Berkshire Hathaway vehicle which originally founded the group back in the 1970s.

Buffett sold his holding earlier this year as the company, whose main business involves crunching data for the insurance sector, enjoyed a strong run from its IPO (initial public offering).

Looking at other US stocks held by Smithson, Texas airline bookings platform Sabre is also in the top 10 as is credit checking outfit Equifax and auto dealer software firm CDK Global.

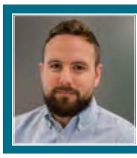
The trust, steered by Simon Barnard with the support of Smith, has held up well amid global stock market volatility, with its net asset value (NAV) falling 0.6% since inception. Its shares are trading just above the £10 issue price, at around a 5% premium to NAV.

The top five contributors to performance in November were Australian software company Technology One, US domain name specialist Verisign, specialist engineering simulation expert Ansys, Sabre and Verisk Analytics.

The top five detractors were Danish asset management IT provider Simcorp, CDK Global, **Domino's Pizza Group (DOM)**, Domino's Pizza Enterprises and bioscience group Chr. Hansen.

SMITHSON TOP 10 HOLDINGS

- VERISK ANALYTICS
- SABRE
- EQUIFAX
- CHECK POINT
- MASIMO
- RIGHTMOVE
- CDK GLOBAL
- ANSYS
- COGNEX
- HALMA



By **Tom Sieber** Deputy Editor

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Smithson and Fundsmith Equity referenced in this article

May to (eventually) get her way on Brexit, predicts investment bank

Berenberg sees success, even if it takes two rounds of votes

Theresa May's deal is still the most likely Brexit outcome, even if it takes a second vote to pass, according to analysis by investment bank Berenberg.

The Brexit question remains one of the UK's most contentious political decisions in a generation, and the outcome is still very much up for grabs. The Prime Minister's preferred option is expected to be voted down when MPs decide on the issue in parliament on 11 December.

But Berenberg's strategists believe that any initial protest veto could be overturned in a second vote as frustrations subside in a desperate attempt to avoid a hard Brexit extreme option.

The UK Brexit Bill rules state that any second parliamentary vote would need to happen within three weeks of the first one, making 18 December – two days before parliament's Christmas shut down on 20 December – a likely date.

While Berenberg admits that all options remain on the table right now, including hard Brexit and no Brexit at all, the investment bank remains convinced that some sort of soft Brexit is highly likely.

It believes a middle way would be in the best interests of the UK economy, saying that a 'softer Brexit would likely trigger a temporary acceleration in UK real GDP growth and limit the Brexit damage to long-term growth potential'.

By **Steven Frazer** News Editor

Woodford Patient Capital Trust: analyst says 'buy now'

Stifel investment expert says various portfolio companies are now making progress

STIFEL ANALYST Iain Scouller believes now is the time to buy investment trust **Woodford Patient Capital Trust (WPCT)**, trading on a 13% discount to net asset value (NAV) and which was heavily out of favour until a few months ago.

Scouller says the long wait may be over for investors with many companies in the portfolio making encouraging progress, helping to boost NAV.

Recent examples include energy tech company Industrial Heat enjoying a revaluation uplift of 357% to $112.9m in September and biopharmaceutical firm Autolus floating on NASDAQ in June.

The analyst says unquoted companies in the trust which account for 80% of NAV may be moving closer to a stock market debut or further revaluations.

Investors will have to decide whether the potential risks outweigh the possible gains with Woodford Patient Capital Trust as 65% of NAV is generated via the top 10 investments.

Any bad news that impacts the top 10, which includes cancer specialist Autolus, artificial intelligence company Benevolent AI and biotech Prothena, could disproportionately affect the performance of the trust.

Last year, it suffered a poor performance amid various issues including a key clinical trial failure at Prothena. (LMJ)

Will new float Manolete be the next Burford Capital superstar stock?

The litigation finance company is set to float on the UK stock market on 14 December

Investors who missed the 18-fold rise in **Burford Capital's (BUR:AIM)** share price between March 2014 and October 2018 may be interested to know there will soon be another litigation finance company on the stock market.

Manolete Partners is hoping to float on 14 December, raising £16.3m in new cash plus a further £13.1m for selling shareholders. The new money will be used to invest in new and higher-value claims in order to generate greater returns.

The business, to be valued at £76m upon listing, focuses solely on buying or funding insolvency claims in the UK, unlike sector peer Burford which is a global player.

Every year there are over 14,000 corporate insolvencies and 40,000 bankruptcies yet just 7% of claims are bought or funded so the scope to expand is clear.

Since 2009 Manolete has invested in 249 cases generating gross recoveries on 173 completed cases of almost £28m. In the last five years profit on completed cases has averaged two to three times the firm's investment.

Litigation is risky and costly, and even when a case looks strong a lack of funding can prevent it from being heard. Even if solicitors can be persuaded to work on a 'no-win, no fee' basis there are court costs and barristers' costs to pay.

Manolete has relationships with 280 insolvency practitioners which act as lead generators. Its in-house solicitors then review and select the cases.

Once a case has been chosen, the insolvency practitioner chooses its own lawyers and Manolete bankrolls the process, buying or funding the case and taking on all the risk for a pre-agreed share of the net proceeds.

This frees the insolvency practitioner from all costs, including those of the defendant if the case is lost, leaving them to concentrate on getting a successful outcome. The majority of completed cases have taken less than a year to settle.

The UK insolvency market is unique in allowing litigation firms to buy cases. By buying rather than funding a case Manolete gets greater managerial control and the upside tends to be greater.

One of its better-known cases was against two directors of manufacturer **Cobham (COB)** who were sued in 2016 for £2.3m over the collapse and closure of one of its subsidiaries. Other examples include cases involving breach of contract, misfeasance (e.g. managing a business where there is an unfortunate result through carelessness) and illegal distribution of capital.

Manolete is highly regarded in the industry but for founder Steve Cooklin the biggest accolade is the fact that 60% of cases are repeat business from its insolvency practitioner partners.

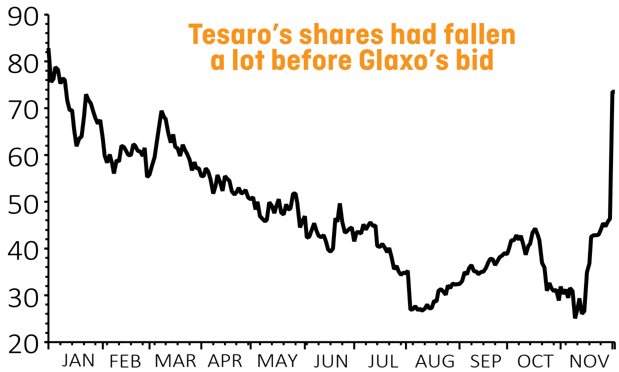
By **Ian Conway** Senior Reporter

Glaxo, Kier, Intu, Thomas Cook and other news

Some of the key announcements and share price movers other the past week

Pharmaceuticals giant **GlaxoSmithKline (GSK)** suffered a big fall in its share price on 3 December after announcing the $5.1bn acquisition of US cancer drug maker Tesaro.

Glaxo offered a premium of 62% to Tesaro's previous closing price; shares in the latter have been weak amid doubts over the prospects for its flagship ovarian cancer drug Zejula.



The FTSE 100 constituent does not expect any contribution to profit until 2022 from Tesaro and warned the purchase would instead weigh on earnings in the coming two years.

The company also announced the sale of malted milk drink brand *Horlicks* to **Unilever (ULVR)** for $3.75bn.

TAKEOVER SCRAPPED

In the property and construction space shopping centre investor **Intu Properties (INTU)** fell sharply after a consortium led by near-30% shareholder Peel, chaired by Intu's deputy chairman John Whittaker, together with Canadian real estate investor Brookfield and Saudi Arabia's Olayan, scrapped plans for a £2.8bn takeover (29 Nov).

Construction and infrastructure firm **Kier (KIE)** surprised the market late on the afternoon of 30 November by announcing a heavily discounted £264m rights issue to shore up its balance sheet. Some analysts are concerned it isn't raising enough money.

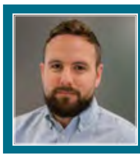
Travel operator **Thomas Cook (TCG)** remained in freefall as speculation mounted it would need its own cash call in the wake of the profit warning issued on 27 November. The shares are now down around 60% since the warning at 20.2p, a six-year low.

Better-than-expected full year results from soft drinks firm **Britvic (BVIC)** helped boost its share price on 29 November. Investors reacted to guidance that already impressive levels of cash flow will increase 'materially' in 2019 as investment in the business reduces to more normal levels.

The company, which owns brands such as *Fruit Shoot* and *J20* as well as producing and distributing PepsiCo brands in the UK, chalked up healthy organic revenue growth of nearly 3% in the 12 months to 30 September.

Refractory products firm **RHI Magnesita (RHIM)** advanced after exciting investors and analysts at a site visit on 28 November with its plans for a big efficiency drive driven by a cut in its number of global manufacturing plants and increased use of automation.

Elsewhere flooring seller **Victoria (VCP:AIM)**, historically an AIM star but tarnished of late by margin pressure, saw executive chairman Geoff Wilding buy £4.9m worth of stock. (TS)



By **Tom Sieber** Deputy Editor

The outlook for Telecom Plus is very attractive

Energy price caps and extra services could spark forecast-beating performance

After several years fighting its corner in a viciously competitive energy market the tide is finally set to turn in favour of multi-services supplier **Telecom Plus (TEP)**.

Trading as *Utility Warehouse*, the company is Britain's biggest independent energy supplier (not one of the big six), supplying gas and electricity to more than 621,000 UK homes and businesses.

It also offers home phone, broadband and mobile into a single billing package, and more recently added home insurance to its roster. Furthermore, it has a cashback card that provides discounts on a wide range of third parties offers. More than a fifth of customers (21.8%) take five services or more. Altogether it is currently providing 2.43m services across the UK.

This strategy will eventually be bolstered with plans to extend its services offering. Boiler cover, pet insurance and possibly water supply could feature in the future.

This is good news for shareholders for two distinct reasons. First, it should cap churn well below the industry's 20% annualised mark. Churn is the measure of customers switching away to a rival, and Telecom Plus's metric stands at 12%.

Second, it means the company earns better gross profit margins. For example, where energy margins run at around 10%, communication gross profit comes in at more than 40%.

TELECOM PLUS
BUY
(TEP) £13.64
Stop loss: £10.00

Market value: £1bn

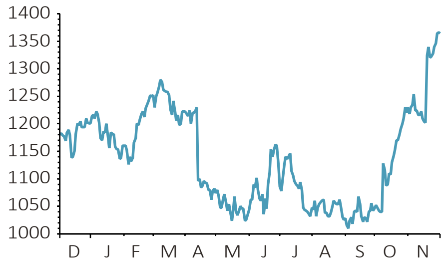
ENERGY PLAYING FIELD LEVELLING OUT

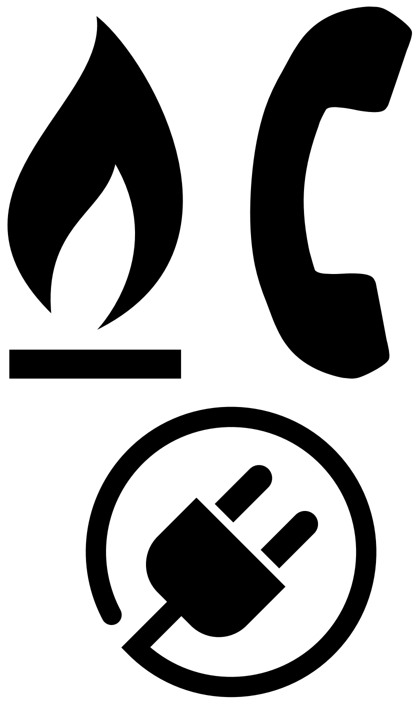
The arrival of Ofgem tariff price caps in January 2019 should blunt the big six energy providers' ability to use highly profitable standard variable tariffs to fund discounted introductory offers to win customers, a game Telecom Plus has refused to play.

Despite this improving backcloth the company resisted the temptation at half year results (20 November) to raise guidance. That leaves its pre-tax profit steer within the £55m to £60m range, versus £54.3m last full year to 31 March 2018.

That tallies with management's typically conservative nature but it may equally imply scope to beat those estimates, and see future forecasts raised which would push the share price higher.

The stock has in the past traded close to £19 levels and we wouldn't rule out getting back to those levels on a 12 to 18-month basis.





In the meantime, Telecom Plus is a cash generative business that pays out more than 80% of earnings as dividends. Next year's expected full year dividend of 56.1p per share implies an 85% payout ratio. It also equates to an inflation-beating income yield of 4.1%.

By **Steven Frazer**
News Editor

Schroder's trust is a winning way to invest in European property

Schroder European Real Estate Investment Trust is cheap and offers a substantial yield

We believe **Schroder European Real Estate Investment Trust (SERE)** is an excellent means of getting property exposure in your portfolio which is partly diversified away from the risks facing UK assets.

Despite achieving the 5.5% yield promised at its December 2015 IPO (based on the issue price in euros) and having nearly fully deployed all of its capital, the investment trust is trading at an 8% discount to net asset value (NAV).

While this may reflect some negative sentiment towards Europe, it is markedly different from geographical peer **Aberdeen Standard European Logistics (ASLI)** which trades at a 5.3% premium to NAV.

Logistics is a popular area as investors look to take advantage of the structural shifts in the retail sector which have made warehousing facilities extremely important for companies.

Schroder's acquisition of three warehouses in the Netherlands for €21.3m and a warehouse in France for €9.3m in the 12-month period to 30 September 2018 increased the portfolio's industrial weighting to 13%.

SCHRODER EUROPEAN REAL ESTATE INVESTMENT TRUST ↗ BUY

(SERE) 111.75p
Stop loss: 89.4p

Total assets: £209m

Fund manager Jeff O'Dwyer tells *Shares* this weighting could increase to 20% assuming a planned acquisition goes through as the company looks to spend the €15m left over from the sale of interests in two French Casino supermarkets for €44.8m in February.

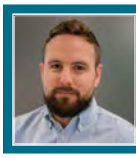
According to O'Dwyer this would leave a balanced portfolio with a further 50% in offices as well 25% in retail. He says the fund has seen better value in smaller lot sizes noting 'yields on the bigger logistics assets have been chased down to 4.5% and we feel a little nervous at that level'.

In the year to 30 September as a whole, the investment trust acquired €52m worth of assets at an average net income yield of around 8%. The year also saw the fund achieve a NAV total return of 7.5%.

It hopes to further boost returns by proactively managing its assets. For example, it is due to complete a refurbishment programme at its Metromar shopping centre in Seville in the first quarter of 2019.

The investment approach is built on Schroder's 'winning cities' philosophy, with focus on major urban centres enjoying superior employment, economic and population growth. Examples include Berlin, Hamburg, Stuttgart, Frankfurt and Paris.

Stockbroker Numis neatly sums up the appeal of the fund: 'It has a fully-invested, diversified portfolio which is delivering one of the highest fully covered yields (7.4c a year equating to 6.5% sterling yield at current exchange rates), from a conservatively geared balance sheet.'



By **Tom Sieber**
Deputy Editor

MARLOWE

(MRL:AIM) 434p

Gain to date: 1.9%

Original entry point:

Buy at 426p, 28 June 2018

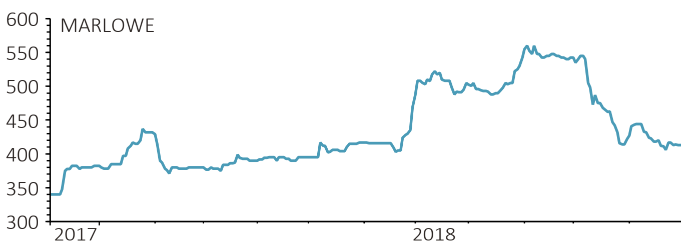
THE SAFETY EXPERT says full year results will now be better than previous market expectations, thanks to good trading across its business and positive contribution from recent acquisitions.

Stockbroker Cenkos has subsequently upgraded its earnings per share forecast by 18% to 17.9p for the year to March 2019, and by 19% to 20.5p for 2020.

Marlowe's chief executive Alex Dacre says half-year organic growth was just below 5%, approximately split into 6% for its water division and 4% for its fire division. He believe the company can achieve 7% annual organic growth in the long term via cross-selling and efficiency gains.

He is looking to increase the scale of acquisitions and is targeting deals in the health and safety auditing and inspection market. 'This is an attractive market underpinned by critical regulation, following similar themes to the rest of our business,' comments Dacre.

Marlowe's current focus is installing, testing, inspecting and certifying fire systems to make sure they are working and comply with legislation. It does the same with water and ventilation systems.



SHARES SAYS:

This is a buy-and-build business with niche interests experiencing rapid earnings growth. Half year pre-tax profit grew by 26% to £0.7m. Approximately 70% of its revenue is recurring, linked to contracted maintenance typically on three to five year deals. Keep buying the shares. (DC)

CLINIGEN

(CLIN:AIM) 865.75p

Gain to date: 0.1%

Original entry point:

Buy at 865p, 11 October 2018

WE ARE FLUMMOXED by speciality pharma firm **Clinigen's (CLIN:AIM)** lack of share price momentum as it pursues an ambitious strategy in a bid to become the Amazon of hard-to-access medicines.

An investor presentation late last month saw the company outline plans to drive growth of its unlicensed medicines via its Cliniport online platform.

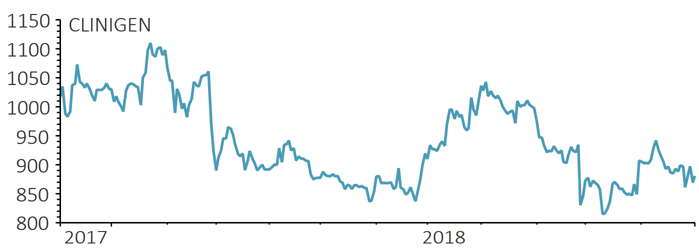
Cliniport could become a vital platform for healthcare professionals by helping them discover over 400 speciality medicines, as well as find drugs that are currently at risk of shortage.

The platform can also help find alternative medicines for specific diseases and boost knowledge around unlicensed drugs, which comprised 45% of Clinigen's profit last year.

Numis analyst Stefan Hamill says growing Cliniport into a scalable e-commerce platform for hard-to-access medicines could drive future traction and earnings upgrades, but concedes there is 'much to do'.

Clinigen also told attendees of its investor day that it had achieved $1m in cross-selling since buying packaging and distribution services group CSM in October, with a further $1m of sales pending.

Numis forecasts Clinigen will achieve £85.9m pre-tax profit in the year to June 2019, rising to £104.1m in 2020.



SHARES SAYS:

We remain buyers as we see value in Clinigen's strategy. (LMJ)

Can stocks fight back after US-China truce?

Two of the market's big concerns have now been addressed

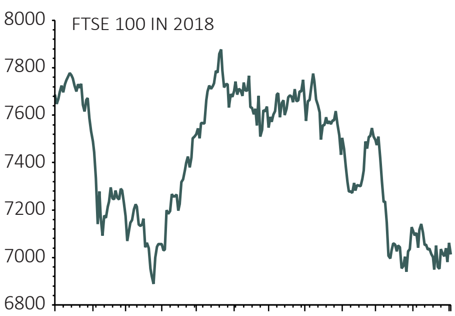
The final quarter of 2018 was shaping up to be a bruising period for investors as stocks drifted in September and then capitulated in October amid a host of economic and geopolitical concerns.

A truce on the trade war between the US and China seems to have been a catalyst for an easing of these concerns and the FTSE 100 is now comfortably back above the 7,000 mark and other major market indices are clawing back some of the ground lost in recent weeks.

In this article we will look at why there has been a stock market recovery and consider if it can be sustained.

WHY HAVE STOCKS BEEN SO VOLATILE IN 2018?

Several factors lie behind the stock market volatility seen in 2018 but the big one has been US interest rates, in particular suggestions that rates could rise faster than the market expects, leading to rising yields on US government debt.



This in turn negatively impacts equities as the income available from relatively lower risk government-issued bonds becomes more attractive than that from higher risk stocks and shares.

As rising yields also reflect higher costs of borrowing, they can be indicative of pressure on business and consumer spending.

Meanwhile political uncertainty created by Brexit and the US mid-term elections, combined with bubbling tensions over trade between the US and China, have added to the pressure on financial markets.

And a sell-off in the technology sector, which has helped fire some of the big gains seen in recent years, has been another factor as investors have become more uncomfortable with the sky-high valuations in this space.

A look at the performance of FTSE 350 sectors from the start of 2018 to the recent low seen on 23 November shows industries with particularly strong exposure to economic conditions have been among the worst performers.

WHAT'S HAPPENED TO MAKE INVESTORS MORE POSITIVE?

Two pieces of news have emerged in the last week to put investors in a sunnier mood.

First on 28 November the head of the US Federal Reserve Jerome Powell said that current interest rates were just below the range of estimates for a neutral rate.

Previously Powell had said a neutral rate (essentially an interest rate for 'normal' economic conditions) was a 'long way off'.

Characterised as a 'Powell Put' traders took this to mean that rate hikes might slow or even be paused entirely.

Then on 2 December it emerged that following a meeting at the G20 summit in Argentina between the respective leaders of the US and China, Donald Trump and Xi Jinping, the two countries had agreed a 90-day ceasefire in their trade war.

This addressed, at least partly, another key market worry and sparked a fresh round of gains for global shares.

WHY OIL MATTERS

The FTSE 100, where oil companies **BP (BP.)** and **Royal Dutch Shell (RDSB)** have significant weightings, was also boosted by talks between Saudi Arabia and Russia at the G20 which brought the promise of a coordinated effort in the oil market, only slightly soured by news Qatar is quitting OPEC, a cartel of oil producers.

This follows a big sell-off in the oil price from highs above $85 per barrel in early October to around $60 per barrel as we write. Oil and other natural resources were also lifted by hopes that progress on trade between the US and China would support the Chinese economy and support its consumption of commodities.

Unsurprisingly, oil stocks and miners are among the best performers since stocks hit their most recent trough.

WHAT WILL HAPPEN NEXT?

Having opened sharply higher on 3 December, many markets including the FTSE 100 have since surrendered some of those gains, dampening hopes for a so-called 'Santa Rally'.

Investors should never base their investment decisions on stock market superstitions but research from asset manager Schroders suggests global stock markets have risen in 79% of Decembers since 1987 making it the best month of the year for stocks on average over the last 32 years.

Beyond a positive mood created by the Christmas spirit, one of the reasons for a strong showing in December could be a lack of news flow, negative or otherwise, to knock markets off course.

In 2018 UK investors do not have that luxury – with MPs widely expected to vote down Theresa May's draft Brexit deal on 11 December, thus prolonging Brexit uncertainty. An OPEC summit today (6 December) could also have a bearing on UK stocks given the FTSE 100's weighting towards the oil sector.

Best FTSE 100 performers in the wake of the trade war truce

Company	Performance 3 December (%)
Antofagasta	7.9
Evraz	7.6
Anglo American	7.0
Wood Group	6.2
BHP Group	5.9
GVC	5.1
Hargreaves Lansdown	4.7
Burberry Group	4.6
Smurfit Kappa	4.4
Rio Tinto	4.0

Source: SharePad

THE LONG-TERM PICTURE

Longer term the multi-asset investment team at BMO Asset Management are still positive on equities. 'Growth is above trend in most major countries. With the exception of a few special cases in emerging markets, recession is absent,' they note.

'Inflation is also generally low, and the spectre of deflation has receded completely. US interest rates are rising, and the Federal Reserve is shrinking its balance sheet. But interest rates remain low even in the US and are ultra-low in Europe and Japan.

'We must expect volatility to continue but, in our view, the bull market still has further to run.'

By **Tom Sieber**
Deputy Editor

TASTY INCOME

FUNDS THAT PAY 5% OR MORE

The quest for income remains at the top of the agenda for many investors. While UK interest rates have started to go up, they are still low relative to history and so cash savings accounts are unlikely to offer any decent levels of interest.

For example, the best paying instant access cash savings rate is currently 1.5% from Goldman Sach's new Marcus service and Kent Reliance. Fixed-rated accounts are more attractive as you are being rewarded with extra interest for locking away your money. Atom Bank has the best rate for a three-year fixed term at 2.4% and Investec is top for two years at 2.35%.

Only one of those rates would offset the impact of inflation, currently running at 2.4%. The others wouldn't provide enough to fully offset the real value of your money being eaten away. That is why savers are turning to the stock market to obtain better returns.

HOW MUCH COULD YOU GET FROM THE MARKETS?

You could get in the region of 4.5% income from buying a tracker fund linked to the performance of the FTSE 100. For example, a £50,000 investment in **iShares Core FTSE 100 ETF (ISF)** could generate £2,250 a year in dividends based on the 4.5% yield.

That is certainly more attractive than the returns you could expect from cash, although the risks are much higher because the value of your money can do down as well as up in the stock market.

But wouldn't it be nice if you could get an even greater level of income? We can still fondly remember the days of getting 5% or 6% on a cash ISA (a decade ago).

Fortunately you don't need a time machine to find that level of return today. You can get 5% or more quite easily at the moment if you look at funds and investment trusts. We pick six funds to buy later in the article.

'If you want high yield you cannot get it without taking capital risk,' warns Ryan Hughes, head of active portfolios at AJ Bell. This is very important – the higher the yield, typically the higher risk you have to take on.

Our research has found more than 200 products which offer such generous yields, although the information is based on what they paid in the last reported year rather than forecasts.

You should never assume funds will always repeat or increase the level of dividends each year as it all depends on their underlying portfolio which can change on a regular basis. However, an active fund manager is paid to find the best opportunities so you can take some guidance from historical yields as to what a fund may offer in the future.

The list of funds and investment trusts that yield 5% or above can be roughly lumped into four categories:

- Income boosters
- Emerging market debt
- High yield bonds
- High yield equity income

INCOME BOOSTERS

Income boosters are also known as income maximiser or enhanced income funds. Examples include **Schroder Income Maximiser (B53FRD8)** which yields 7% and **Insight Equity Income Booster (B8SFP07)** which yields 8%.

They sell options on some of their holdings which dilutes the potential for capital growth. This process can be hard to understand and so investors may wish to look elsewhere if they can't get their head round the process.

The fund sells an option which gives the buyer the right, but not the obligation, to buy a stock from the fund at a pre-determined 'strike' price on a specified date. The fee the fund receives for selling the option is distributed to investors as dividends, topping up income from the underlying portfolio.

Investors appear to be increasingly discerning between winners and losers, which presents opportunities for active management

If the stock doesn't go up enough to hit the strike price before the contract expires the fund keeps the premium. If it does hit the strike price the fund still keeps the premium but it has to pay away any additional increase in the stock's value over and above the strike price.

EMERGING MARKET DEBT

The strong US dollar in 2018 has weighed on emerging markets as many companies have dollar-denominated debt. Currency crises in Argentina and Turkey have also weighed on general investor sentiment towards this part of the investment market.

However, many fund managers argue that issues affecting some parts of emerging markets won't necessarily affect other parts, and that you shouldn't view it as a single entity.

'Emerging markets in aggregate have shifted to current account surpluses, floating exchange rates and a reduced reliance on US dollar debt funding. However, those emerging economies (and companies) pursuing less prudent policies have been punished heavily by financial markets,' says Chetan Sehgal, lead portfolio manager at **Templeton Emerging Markets Investment Trust (TEM)**.

'Investors appear to be increasingly discerning between winners and losers, which presents opportunities for active management,' adds Sehgal.

One example is **M&G Emerging Markets Bond (B4TL2D8)** which yields 6.2%. 'In our opinion, the fund manager is well-experienced in this specialist fixed income asset class and the fund further benefits from the support of a strong fixed income unit at M&G,' says the investment team at AJ Bell who include the product on their favourite funds list.

'The flexibility of the investment approach allows the manager to invest with conviction and this adds further appeal to the fund.' The fund invests in emerging government debt in US dollars and local currency, and corporate debt in US dollars.

HIGH YIELD BONDS

These types of funds will invest in bonds with a lower credit rating than investment-grade corporate and government bonds. You get a higher yield in exchange for investing in higher-risk assets.

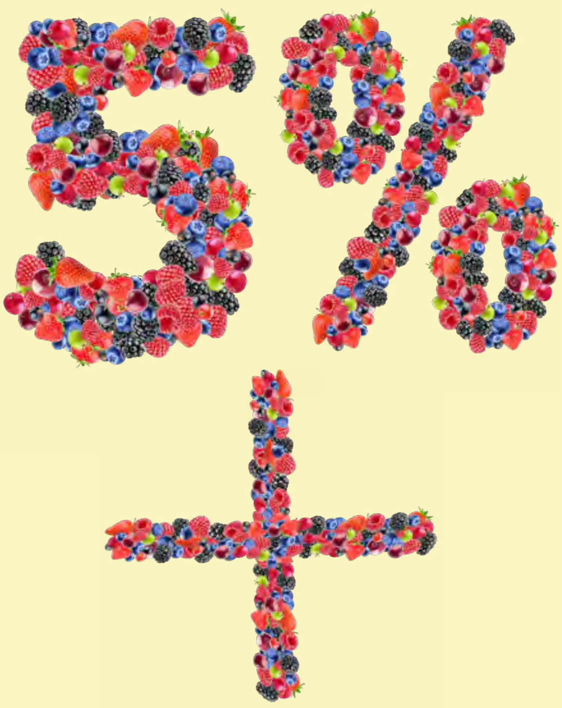
Examples include **Invesco High Yield Fund (BJ04GF1)** which yields 6.1%. It focus on companies with predictable earnings and recurring cash flow, plus it invests in bonds where returns are more tied to company performance. 'For example, this might be a company that has undergone a restructuring that we now think can become more cash generative,' says the asset manager.

HIGH YIELD EQUITY INCOME

A dividend yield above 5% is often the result of a company's share price being depressed, perhaps through trading or financial difficulties, or simply external issues out of its control. Therefore anyone investing in equity income funds offering yield above this level must look at the portfolio and see why it is offering an above-market return (based on the FTSE 100 yielding 4.5%).

Schroder UK Alpha Income (B073JS2) is a good example, offering a historic yield of 5.3%. Its portfolio contains oil stocks which have been hit by the recent decline in the oil price; tobacco stocks which have suffered from increased regulatory pressure on the sector; banks which have been facing a price-war in the mortgage market and being more cautious on lending; and telecoms where competition has also been tough.

Buying such a fund would require you to take a view on these sectors in the hope that they have recovery potential, or faith that the fund manager finds better places to invest.



EXAMPLES OF FUNDS THAT YIELD 5% OR MORE

FUND	YIELD
Fair Oaks Income	15.5%
UBS Global Enhanced Income	8.0%
Doric Nimrod Air One	7.9%
Honeycomb Investment Trust	7.1%
Gabelli Merger Plus Trust	7.0%
Impact Healthcare REIT	6.7%
Axiom European Financial Debt Fund	6.4%
P2P Global Investments	6.1%
The PRS REIT	6.1%
Aberdeen Global High Yield Bond	5.5%
BlackRock Global Multi Asset Income	5.4%
JPMorgan Russian Securities	5.2%

Source: Trustnet. Historic yield.

Some of the other funds on the list of 5%+ yielders include ones with niche interests such as aircraft leasing or debt vehicles which may not be to everyone's liking.

'A lot of funds yielding above 5% are products which have been untested in a market downturn, such as peer-to-peer lending. There are subsequently questions about liquidity in a downturn and the level of discounts to net asset value you may see with some of the more niche investment trusts,' says Hughes at AJ Bell.

'You've also got areas like solar power where you may get a good yield but technology developments may render the equipment out of date in a few years' time. In that situation all your returns may come from dividends and the value of your capital could be heavily eroded over time.'

Hughes says investors should consider higher-yielding funds as satellite investments which sit around a core portfolio. They will help to diversify your income stream away from traditional assets but shouldn't be the largest part of your overall investments.

SIX HIGH YIELDING FUNDS TO BUY NOW

JANUS HENDERSON FAR EAST INCOME (HEFL)
YIELD: 6.6%

ANNUALISED TOTAL RETURN

3 YEARS	12.5%
5 YEARS	7.2%
10 YEARS	11.8%

Source: Morningstar, Trustnet

Janus Henderson Far East Income looks highly attractive for income seekers wishing to diversify dividend sources away from uncertain UK-listed shores, while simultaneously supplementing portfolios with a fund with a strong 10-year net asset value growth record.

Managed by Mike Kerley, the investment trust seeks to provide a growing annual dividend and capital growth from a diversified portfolio of investments from the Asia Pacific region.

Improving corporate governance and fast-growing earnings are helping to drive dividend growth in Asia Pacific, where companies have low levels of debt, and countries boast growing middle class populations and swathes of innovative companies.

Dividends from Asia Pacific companies rose by 12.7% in the year to May 2018 and have tripled since 2009 substantially ahead of the rest of the world, says Janus Henderson.

Kerley focuses on well-managed companies with attractive valuations which have the potential to sustain and grow their dividends in the years ahead.

This process supported another total dividend increase ahead of UK inflation for the year to 31 August 2018 where the payout grew from 20.8p to 21.6p. The fund's capital performance fell short of the previous year as Asian share prices were hurt by worries over President Trump's trade war with China and the strengthening of the US dollar.

Top 10 positions include Industrial & Commercial Bank of China, Taiwan Semiconductor Manufacturing, Taiwan's E.Sun Financial, Australian properties play Scentre and China Mobile.

TWENTYFOUR INCOME (TFIF)
YIELD: 6.2%

ANNUALISED TOTAL RETURN

3 YEARS	6.6%
5 YEARS	5.6%
10 YEARS	N/A

Source: Morningstar, Trustnet

From its launch in March 2013 this investment trust has delivered returns at the upper end of the guidance which was given at the outset. Twentyfour is a fixed-income specialist and is highly regarded among investors.

Stockbroker Numis says the investment trust has delivered net asset value total returns of 62% since inception five years ago.

The team behind the fund invest in a mix of European and UK asset-backed securities. This includes collateralised debt obligations, residential and mortgage-backed securities as well as car loans and credit cards. These assets would typically be too illiquid to be held within an open-ended fund like a unit trust or Oeic.

It targets a yield of 6% (and a total return of 6% to 9% a year) and pays dividends quarterly.

The product focuses on floating rate bonds. The rate attached to the bonds will vary and can rise in line with interest rates. They typically perform better than traditional bonds when central bank rates are rising.

The investment trust recently offered shares to institutions at a premium as it looked to raise cash to invest in opportunities created by distressed bond markets. The last time shares were issued was in February 2017.

Investors are offered an exit opportunity through a continuation vote held every three years with the next one scheduled for September 2019.

ARTEMIS HIGH INCOME (B2PLJN7)
YIELD: 5.9%

ANNUALISED TOTAL RETURN	
3 YEARS	4.5%
5 YEARS	5.0%
10 YEARS	10.5%

Source: Morningstar, Trustnet

Offering the option of quarterly or monthly income, this fund is tilted towards bonds although it also invests in some equities in order to provide some extra growth potential.

Launched in March 2008, the typical split is around 80% fixed income and 20% equities. The team makes use of their own research rather than relying on credit ratings agencies. They look at free cash flow and a company's ability to service its debt and, if necessary, refinance, while with equities the same focus is applied to the capacity to sustain and grow the dividend.

By investing in both equities and fixed income the fund can decide if a company's shares or bonds are likely to deliver the best returns.

Lead manager Alex Ralph is a bond specialist. She has the flexibility to invest anywhere in the world and across a range of different fixed income assets from government bonds to more esoteric areas of the market as she looks to deliver a higher level of income than an average, run-of-the-mill bond fund.

Part of Ralph's approach is to look for bonds which have been mispriced thanks to minimal coverage from stockbrokers or limited liquidity. The aim is to tap into the resulting attractive yields.

LF WOODFORD INCOME FOCUS (BD9X6V3)
YIELD: 5.8%

ANNUALISED TOTAL RETURN	
3 YEARS	N/A
5 YEARS	N/A
10 YEARS	N/A

Source: Morningstar, Trustnet

Fund manager Neil Woodford may not be in everyone's good books at present due to a patchy performance in recent years. However, one must not forget that he gained a reputation as a star fund manager through having an excellent investment process that has delivered strong returns in the past.

'The dividend has always been important to me as an investor and it always will be,' says Woodford. 'The dividend isn't ordinary – if anything it is extraordinary. And by selecting the most attractive and most sustainable dividends, I aim to deliver extraordinary long-term returns to investors.'

His Income Focus fund, launched in March 2017, is aimed at individuals with a minimum three to five-year time horizon. The team can invest in companies around the world although the portfolio is currently 97% invested in UK-quoted stocks.

Top holdings include big exposure to tobacco and housebuilding, so you need to have faith in those sectors in order to hold the fund.

KAMES PROPERTY INCOME (BK6MJC4)
YIELD: 5.2%

ANNUALISED TOTAL RETURN

3 YEARS	4.9%
5 YEARS	N/A
10 YEARS	N/A

Source: Morningstar, Trustnet

Launched in March 2014, this property fund tends to focus on smaller commercial properties in the regions rather than big office blocks in central London. The aim is to achieve a distribution income of 5.5% a year.

Its recent £39.9m acquisition of nine multi-let trading estates and three individual warehouses across locations which include Aberdeen, Birmingham, Brighton, Bristol and Norwich reflects this regional bias, though the purchase was above the top end of the typical £3m to £20m asset size managers Richard Peacock and David Wise focus on.

According to the fund its average lot size of £7m compares with a peer group average of £25m, and it says analysis of historic property data shows smaller assets generate higher income returns than larger assets. They are also potentially easier to sell.

Liquidity is an important consideration when looking at property-themed income funds, after trading in many of them was suspended following the Brexit referendum vote in 2016. Kames was one of only two in the peer group which remained open to trade through this volatile period.

Though exposure to certain types of retail property assets like shopping centres and department stores is avoided, the company prefers to consider the individual merits of an asset rather than being led by exposure to specific sectors.

UNICORN UK ETHICAL INCOME (BYP2Y51)
YIELD: 5.0%

ANNUALISED TOTAL RETURN

3 YEARS	N/A
5 YEARS	N/A
10 YEARS	N/A

Source: Morningstar, Trustnet

Co-managed by Fraser Mackersie and Simon Moon, Unicorn UK Ethical Income Fund is all about achieving a historic yield in excess of 110% of the FTSE All-Share yield, over a three-year period, through investments in UK companies which meet Unicorn Asset Management's ethical guidelines.

Mackersie and Moon scour the market for dividend-paying companies with potential to grow and the strategy is run as a diversified portfolio of up to 50 investments with a small to mid-cap bias and adherence to Unicorn's investment style, which can be categorised as 'defensive growth'.

Selection of such ethical equities for the fund is undertaken on the basis of thorough company analysis, with ethical and socially responsible criteria reviewed at the point of investment and quarterly thereafter.

Portfolio holdings include cinema operator **Cineworld (CINE)**, promotional products play **4imprint (FOUR)**, paving expert **Marshalls (MSLH)**, food producer **Dairy Crest (DCG)** and the independent energy supplier **Telecom Plus (TEP)**.

By **Daniel Coatsworth,** Editor
plus **Tom Sieber** and **James Crux**

Does your fund manager need a PhD?

We look at the question of how experienced they need to be

It almost goes without saying that if you entrust your money to a fund manager, it's because you believe that he or she knows what they are doing.

We let fund managers invest on our behalf because we believe that they can do better job than we would be able to do ourselves. And that's particularly true of fund managers investing in specialist or niche areas.

A fund manager investing in biotech, one might presume, has particular expertise in that field and that is why they have ended up running a fund which focuses on that area.

DO YOU HAVE TO BE AN EXPERT?

But does a fund manager really need specific qualifications to invest in such an area? For example, should your industrial fund manager be an ex-engineer, your special situations investor a trained management consultant, and your Japan fund manager fluent in the language – or is investing a case of being able to spot a good business, regardless of the industry or region it is focused on?

Tom Becket, chief investment officer at Psigma Asset Management, says: 'I think you can be a successful investor as a generalist except in a few specific areas. We invest in thematic funds, in energy, mining, biotech and pharma for example, and typically prefer those run by an experts.'

He thinks niche industries and early stage companies require expertise and investors with a greater understanding of these sectors will be better able to spot both opportunities and risks.

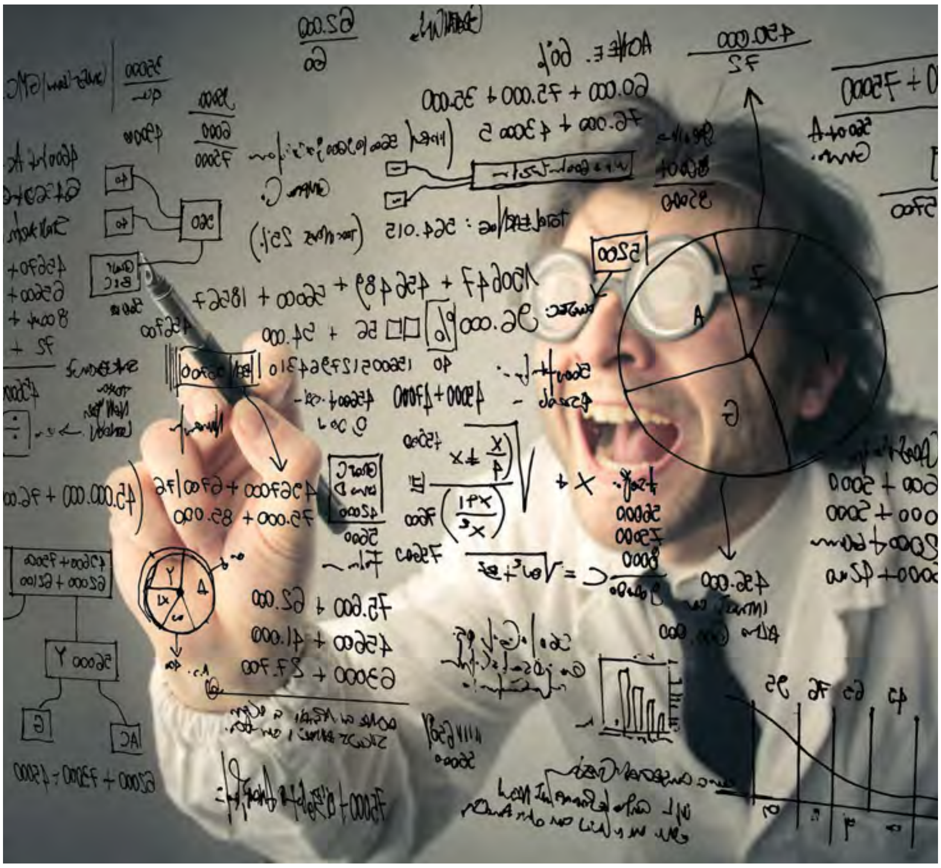
Calum Bruce, manager of the **Ediston Property (EPIC)** investment company, has a degree in Estate Management, is a member of the Royal Institute of Chartered Surveyors (Rics) and has previously worked as an agent for property consultants King Sturge.

He believes having team members with experience and local knowledge of the areas in which the fund invests is vital. Getting the right tenants into the right buildings or understand how best to repurpose a building so it can benefit from changing market conditions are areas where having experience pays off.

He says: 'The requirements of tenants changes and so do conditions in the local and national property market. Our experience allows us to keep ahead of these changes and gives us a considerable competitive edge.'

Daniel Mahony, manager of **Polar Capital Biotechnology (B42P0H7)**, has a degree in biochemistry and a PhD and worked as a research scientist for seven years.

It's perhaps no surprise that he ended up running a biotech fund. He says specialist knowledge and experience is 'essential' to invest in the healthcare sector. 'If you have never looked at abiotechnology or medical technology company before, there are all sorts of risks that are unique to this sector that may not be obvious to a generalist investor,' he adds.



UNDERSTANDING WHAT CAN GO WRONG

Mahony cites having an insight into all of the things which can go wrong in the clinical trial process, knowing what the regulator is looking for when deciding whether to approve a drug, and the ability to understand technical jargon as some examples of how having expertise can help an investor in the industry.

He says: 'We don't have all of the answers but we have the experience to ask the right questions and we know who to ask.' The fund has a returned 186.8% over five years, compared to an average return of 26.9% in the Specialist sector.

QUALIFICATIONS DON'T ALWAYS EQUAL POSITIVE RETURNS

But not all investors are convinced that a background in a particular field will make you the right person to manage a fund. Steve Bates, chief investment officer at GuardCap Asset Management, says qualifications aren't everything: 'I have seen very highly qualified people trip over their own cleverness. Technically they might have been right about something but the price [of an asset] has not behaved as they expected.'

While technical expertise can help in binary situations – whether a drug or a piece of software will or won't work, for example – he says life experience is crucial; it can help an investor judge a fashion trend, or the quality and ambition of a management team.

INVESTING SUCCESSFULLY WITHOUT A DOCTORATE

Andy Ho, chief investment officer at **VinaCapital Vietnam Opportunity (VOF)** fund, adds: 'I believe history has shown that there are many successful investors who do not have a PhD.' However, he also agrees there are exceptions where having specialist expertise may be particularly useful, such as in biotech and technology.

Bates at GuardCap adds: 'We find that a diverse team of different ages, genders, nationalities and education brings insights which increase the likelihood of successful decision-making.

'The old way of just recruiting a bunch of like-minded men from Oxbridge is going to give you very little depth of understanding of the complexity that is embedded in markets.'

By **Holly Black**

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SHARES

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How inheritance tax could be made easier for 250,000 people

A new report looks at ways to simplify the system

Up to 250,000 people each year could avoid the stressful process of dealing with inheritance tax under new plans from the Government.

The Office of Tax Simplification has released the first of its reports into how to overhaul the inheritance tax system in order to make it simpler and easier for people to navigate the process.

The first report focuses on the processes involved in determining whether you need to pay inheritance tax and actually paying it. A second report, due out next year, will look at the allowances, reliefs and gifting rules available under the current inheritance tax regime, and whether they need to change.

WHAT IS IT SUGGESTING?

In this first missive the Office of Tax Simplification has suggested that people should be able to use an online calculator to find out instantly whether they need to complete the longer form for inheritance tax. This is because currently inheritance tax forms are filled in for 275,000 estates but fewer than 10% of these people actually need to pay the tax.

Gary Heynes, head of private client at accountancy firm RSM, says: 'The Office of Tax Simplification has highlighted the sheer absurdity of the levels of red tape involved in the administration of the inheritance tax system. This results in 275,000 estates having to fill in IHT forms when only 25,000 are liable to the tax.'

The amount of time people spend on completing the inheritance tax process without an adviser is alarming. The Government found that currently 13% of people spend more than 100 hours on the administrative rigmarole associated with inheritance tax, while 90% of

RESPONDENTS' MAIN AREAS OF CONCERN

As part of its review the Office of Tax Simplification called for opinions from the public. Here are their main concerns, which will be covered in the next report:

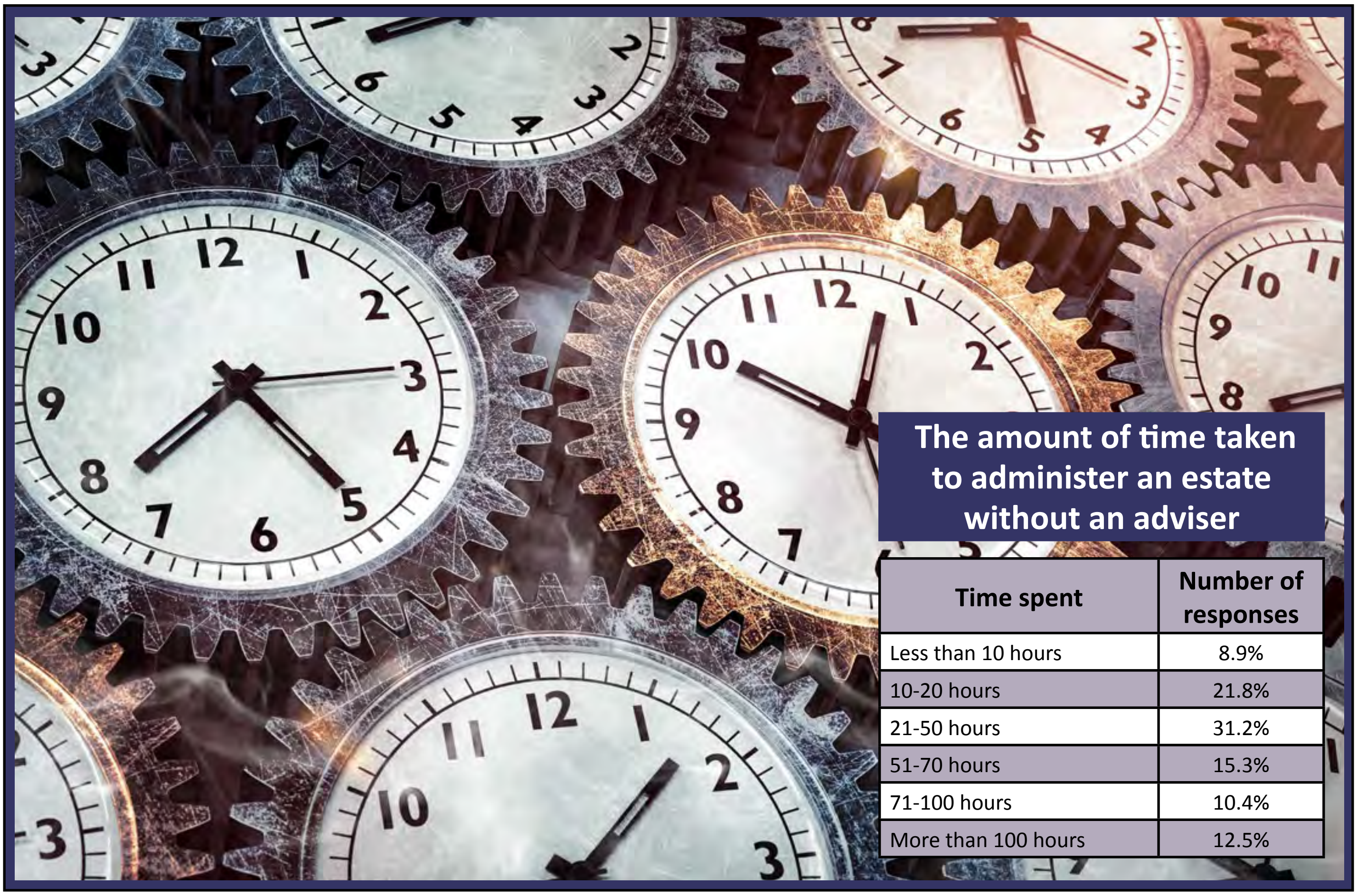
1. The nil rate band is understood by most but the residence nil rate band, which was introduced last year and gives an additional inheritance-tax-free allowance for family homes, was branded as complex and having flaws.

2. The rules around the amount you can gift to people each year and over your lifetime without inheritance tax being due are 'complex and confusing' and the level of gifting allowed should be increased. In particular, people said that the seven-year rule on gifting, where the inheritance tax due in the event of the donor's death reduces each year since the gift was made, is complex and not easily understood.

3. The rule around agricultural property relief and business property relief are not always consistent, and don't account for

businesses structured in different ways – such as joint ventures and limited liability partnerships.

4. More broadly, people questioned why inheritance tax is so difficult to navigate, and what the thinking is behind some of the reliefs and the system as a whole.



The amount of time taken to administer an estate without an adviser

Time spent	Number of responses
Less than 10 hours	8.9%
10-20 hours	21.8%
21-50 hours	31.2%
51-70 hours	15.3%
71-100 hours	10.4%
More than 100 hours	12.5%

Source: Office of Tax Simplification. Notes: Numbers add up to more than 100% due to rounding

people spent 10 hours or more.

The Office of Tax Simplification has suggested an online portal for inheritance tax, similar to the current system for self-assessment of tax. It suggests a list of tick-box questions that help to complete the form and an online system that allows payment and generates reminders and receipts.

However, the Office acknowledges this will be time-consuming and expensive to create, so we're not likely to see the system in place soon.

In the meantime it calls for a simple online system to determine whether you need to file the inheritance tax return, and very short forms to make it easier for those with small estates. It has also called on HMRC to have more guidance available to help take people through the process, including a step-by-step guide.

HOW MUCH EACH ESTATE PAYS

While the rate of inheritance tax is 40% on anything above the nil rate band, of £325,000, figures in the Office of Tax Simplification report show that the average rate paid by estates is actually 20%. But this average figure masks vast differences, based on the size of the estate.

The report highlights that the wealthiest families are paying less tax than the middle class, with estates worth £10m or more paying an effective 10% tax rate, compared to a 20% tax for those with smaller estates of £2m to £3m.

This is partly down to the fact that the wealthiest families get professional advice to set up trusts and make full use of the allowances, while those with smaller estates do not.

However, it is also because a greater portion of larger estates are covered by a relief. While smaller estates are largely made up of cash and residential property, larger estates have a greater proportion of business assets that qualify for reliefs. For example, holdings in shares listed on London's AIM market or unlisted business holdings that qualify for business property relief, or assets that qualify for agricultural property relief.

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

FEATURE

Silver is looking incredibly cheap compared to gold

But that doesn't necessarily mean it is worth an investment

Precious metals have been widely out of favour with investors for some time, but a recent bout of stock market volatility could see them come back into fashion, particularly if the US dollar starts to weaken.

The most talked about metal is gold. It typically does well at times of great uncertainty or fear, because it is seen as a physical store of value and an alternative form of currency for anyone worried about the value of paper currencies.

For that reason, the gold price tends to surge when confidence is at its lowest. Silver, too, typically follows the same course. By far the cheaper option, its price tends to fluctuate more aggressively making the potential for both gains and losses greater.

Gold and silver often move in the opposite direction to the US dollar. They've not done well this year because the dollar has been strong. Some experts believe the US dollar could weaken in 2019 which theoretically makes gold and silver worth exploring again.

UNDERSTANDING THE GOLD/SILVER RATIO

One of the measures which many precious metal investors watch is the gold/silver ratio. This is the price of an ounce of gold divided by the price of an ounce of silver.

The metric has recently reached a long-term high of 86:1, which means that for every single ounce of gold you could purchase, you could get 86 ounces of silver. Perhaps, unsurprisingly, investors have started to wonder whether this is not a clear sign to buy.

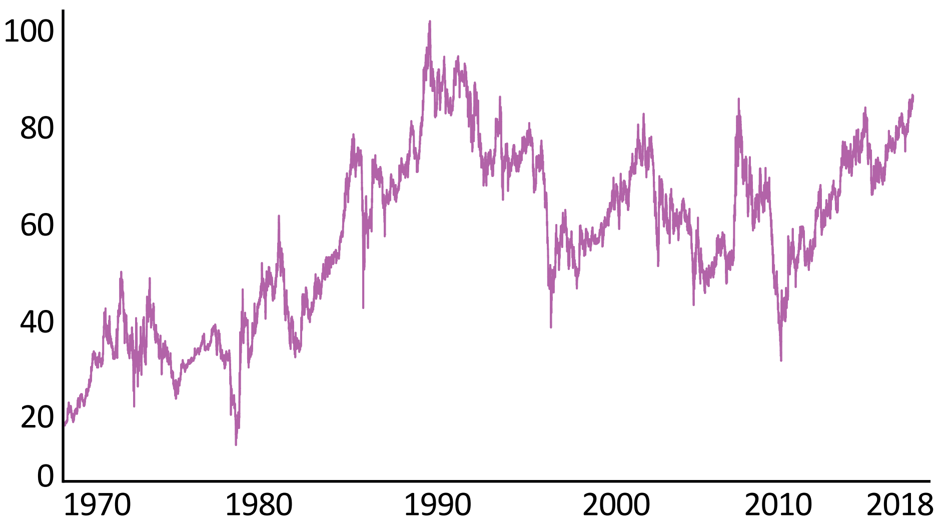
The long-term average, looking at data back to 1970, is 57:1. The ratio has exceeded 70 since April 2017.

Ned Naylor-Leyland, manager of the **Merian Gold & Silver (BYVJRB3)** fund, says: 'Like gold, silver is usually seen as a hedge against any loss of purchasing power in paper money. The current gold to silver ratio infers that silver is a value opportunity compared to gold. It is certainly a more volatile version of the yellow metal, which is being accumulated by the world's central bankers as an apolitical reserve asset.'

UNDERSTANDING PRICE MOVEMENTS

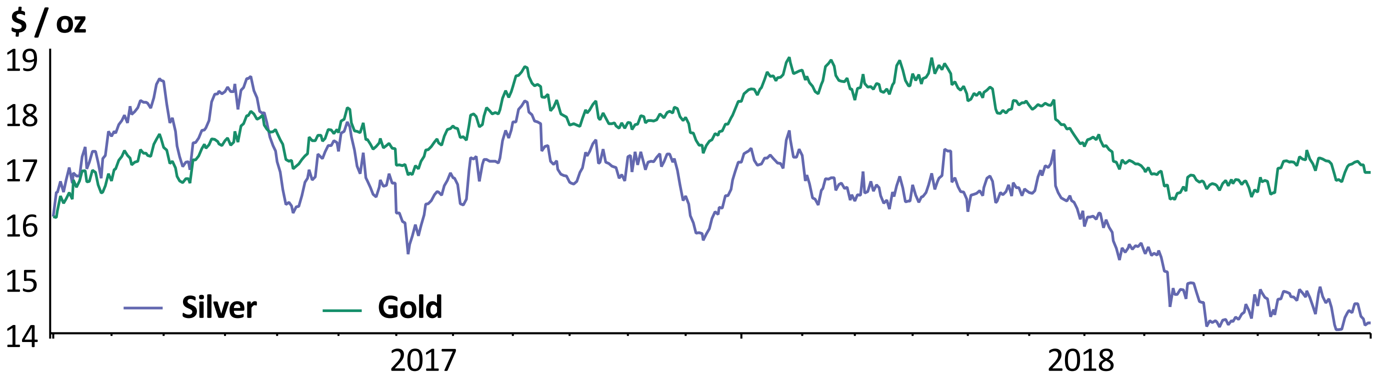
Investing in silver may not be as simple as looking at a mathematical formula. Often,

GOLD/SILVER RATIO SINCE 1970



Source: Refinitiv

SILVER VS GOLD



when the ratio has widened to these levels it is because the gold price has surged and then fallen back, rather than because of any specific movements in the silver price.

In the late 1980s, for example, gold surged amid fears of a recession after Black Monday on the stock market and then retreated.

After the financial crisis, precious metals initially lost value as investors sold assets indiscriminately, but they later started to climb as their safe haven status started to shine. For example, between 2009 and mid-2011, silver moved from $10 an ounce to a high of $48 per ounce.

Investors have traditionally increased their purchase of precious metals amid stock market turmoil or when there is political, fiscal or economic fear. But even despite recent trade war rhetoric and the ongoing uncertainties around Brexit, gold has stayed largely steady.

Certainly, in the most recent bout of volatility, fewer investors seem to have been flocking to the yellow metal. Rather than an expected pick-up with so much uncertainty in the air, the gold price has actually fallen over the past year. So too has silver; the metal is currently trading around $14 an ounce, which is 70% lower than levels seen in 2011.

Naylor-Leyland says: 'Gold and silver have both been out of favour with mainstream investors for some time, but with currency nerves frayed by Brexit, it could be that this is an asset class worth looking at.'

Certainly, investors in precious metals must be prepared to sit tight for the long-term. Investment fund Merian Gold & Silver is down 15.8% over the past year, for example. It invests through mining companies and other funds, with top holdings including Fortuna Silver Mines, which has mines in Peru and Mexico; and Silvercorp Metals, which is focused on China.

Few funds explicitly focus on silver. **BlackRock Gold and General (B5ZNJ89)** has exposure to the metal through holdings such as Wheaton Precious Metals, but the fund's primary focus is on gold. It has returned 53.7% over three years and is down 16% over the past year.

Investors can also access the asset through exchange-traded funds such as **ETFS Physical Silver ETF (PHAG)** which tracks the silver spot price. Its performance highlights the volatility of the metal – it has returned 20.3% over three years but is down 12.7% over the past 12 months.

US-listed iShares MSCI Global Silver Miners ETF tracks an index of silver mining businesses and has returned 61.3% over three years, although it is down 24.8% over the past 12 months.

Examples of London-listed mining companies which produce silver include **Fresnillo (FRES)** and **Hochschild Mining (HOC)**.

Investors must appreciate that gold and other defensive-like assets aren't a guaranteed way of making money. Alex Barry, head of UK distribution at asset manager Legg Mason, says: 'It is understandable that after such a prolonged bull market in equities, investors have once again looked to safe havens such as gold and cash.

'We understand the need for investors to protect themselves but they must consider the return profile of such assets. Taking gold as a case in point, it has failed to deliver for investors this year and it remains hard to see a catalyst for it to do so.'

By **Holly Black**

Why the UK stock market is currently on the defensive

What could happen to stocks if there is a no-deal vote on 11 December?

All of the headlines regarding to the UK stock market may well be dominated, in the short-term at least, by the result of the 11 December vote in parliament on Prime Minister Theresa May's proposed Brexit deal.

It seems clear from price action in the UK's stock, bond and currency markets that no-one seems to fancy 'no deal' as the outcome of the negotiations with the EU and the upcoming Parliamentary debate.

Whether a deal of some kind or no deal of any kind becomes the outcome is still unclear, as are the implications for the UK's economy and its financial markets.

Throw in wider concerns over trade and tariffs and a global trend toward tighter monetary policy, in the form of higher interest rates and less quantitative easing (or even its withdrawal), and investors seem to be responding in a tried-and-tested way when it comes to their UK equity exposure – they are taking a defensive posture in a bid to weather any political (or other) storms.

CHANGE IN TONE

They are doing so in two ways. This can be seen very clearly by looking at which of the 39 industrial groupings have done best – and worst – on a quarterly basis since the start of 2018.

BEST AND WORST PERFORMING SECTORS WITHIN THE FTSE ALL-SHARE, 2018 Q1 AND Q2

Q1

TOP SECTORS	PERFORMANCE
Automobiles & Parts	42.7%
Technology Hardware & Equipment	31.2%
Industrial Metals & Mining	8.8%
Industrial Transportation	3.1%
Chemicals	2.8%
FTSE All Share	**(7.3%)**
BOTTOM SECTORS	**PERFORMANCE**
Food Producers	(15.1%)
Fixed Line Telecommunications	(16.5%)
Mobile Telecommunications	(17.3%)
Tobacco	(17.8%)
Software & Computer Services	(29.6%)

Q2

TOP SECTORS	PERFORMANCE
Food & Drug Retailers	29.3%
Oil & Gas Producers	17.7%
Oil Equipment, Services & Distribution	14.8%
Support Services	14.2%
Software & Computer Services	13.7%
FTSE All Share	**6.7%**
BOTTOM SECTORS	**PERFORMANCE**
Industrial Transportation	(2.1%)
Life Insurance	(2.7%)
Tobacco	(2.8%)
Mobile Telecommunications	(4.2%)
Fixed Line Telecommunications	(4.8%)

Q3

TOP SECTORS	PERFORMANCE
Leisure Goods	24.1%
Oil Equipment, Services & Distribution	20.1%
Industrial Metals & Mining	16.6%
Technology Hardware & Equipment	14.7%
Pharmaceuticals & Biotechnology	7.3%

FTSE All Share	**(7.3%)**

BOTTTOM SECTORS	PERFORMANCE
General Retailers	(8.0%)
Food Producers	(8.2%)
Mobile Telecommunications	(12.4%)
Electricity	(12.7%)
Industrial Transportation	(14.3%)

Q4

TOP SECTORS	PERFORMANCE
Fixed Line Telecommunications	15.6%
Food Producers	15.2%
Mobile Telecommunications	4.0%
Gas, Water & Multiutilities	2.1%
Beverages	2.1%

FTSE All Share	**6.7%**

BOTTOM SECTORS	PERFORMANCE
Tobacco	(18.9%)
General Industrials	(19.3%)
Oil Equipment, Services & Distribution	(20.7%)
Leisure Goods	(20.8%)
Automobiles & Parts	(25.1%)

Source: Refintiv data. * Fourth quarter covers period up to 30 November.

1. The first is a switch away from cyclical sectors like autos and parts (which also received a boost from **Melrose's (MRO)** bid for GKN), industrials, forestry, media and chemicals towards more traditionally stodgy areas such as telecoms, food stocks, utilities and pharmaceuticals.
2. The second is a switch toward value. Technology hardware has dropped out of the quarterly list of top 10 performers.

Previously downtrodden laggards have stepped up, notably fixed-line telecoms (a sector where many a value manager has been talking up BT's potential); utilities, which analysts argue look cheap relative to the asset bases; and even the banks, where low multiples of book value hint that a lot of bad news may be in the price (even if some would argue deservedly so).

SHIFT IN STANCE

Whether this apparent dash for safety, either in the form of defensives or stocks where lowly valuations may provide some downside protection, is the result of global fears over US Federal Reserve policy, trade wars or more domestic matters such as Brexit is hard to say.

But the fourth quarter's stock market action differs quite markedly from what we have seen since the EU referendum on 23 June 2016.

Since then, trading has generally been dominated by weakness in the pound and therefore strength in overseas earners and exporters, and especially those stocks who fit these descriptions and have exposure to the US economy and do little business here at home.

Global fears over US Federal Reserve policy may be a reason for the apparent dash for safety

BEST AND WORST PERFORMING SECTORS WITHIN THE FTSE ALL-SHARE SINCE 2016'S EU REFERENDUM.

TOP SECTORS	PERFORMANCE
Automobiles & Parts	42.7%
Technology Hardware & Equipment	31.2%
Industrial Metals & Mining	8.8%
Industrial Transportation	3.1%
Chemicals	2.8%

FTSE All Share	**(7.3%)**

BOTTOM SECTORS	PERFORMANCE
Food Producers	(15.1%)
Fixed Line Telecommunications	(16.5%)
Mobile Telecommunications	(17.3%)
Tobacco	(17.8%)
Software & Computer Services	(29.6%)

Source: Refinitiv data. Covers period from 23 June 2016 to 30 November 2018.

By contrast, sectors with substantial exposure to the UK, such as retailers, construction and the utilities have lagged – with utilities particularly poor thanks to the threat, perceived or real, posed by the prospect of a Labour government under Jeremy Corbyn should the Tory government tear itself to bits.

The possibility of some sort of Brexit deal between the UK and EU means this trade of 'pound down, exporters up' has lost some of its lustre – but if the May deal is rejected and her government falls then it would be logical to expect sterling to slip and fund managers to investigate this strategy once more.

The mathematics of MP votes suggest this could well happen. But if the Brexit deal is approved, and 'no deal' avoided, perhaps sterling and those long-neglected domestic sectors could return to favour.

Given their underperformance and notable unpopularity that may be where the value lies in a UK market that itself looks cheap relative to its global peers, on just 11.6 times earnings and with a 4.8% dividend yield for 2019.

Why could this be interesting? As if often does, this column will let master investor Warren Buffett have the last word.

'The most common cause of low prices is pessimism – sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices that it produces. It's optimism that is the enemy of the rational buyer,' he said.

By **Russ Mould**
AJ Bell Investment Director

‘Can I take a lump sum from pension tax-free and keep paying into my pot?’

AJ Bell expert Tom Selby has the answer

Lindsay, no address given
I am approaching retirement (age 62) but still working as a freelance IT contractor. I am thinking of taking my tax-free 25% lump sum from my SIPP early next year, to go towards the purchase of a home for retirement in France.

However I may continue working for a year or two beyond that point, so I’d like to continue putting as much as possible into my SIPP as an efficient withdrawal of funds from my limited company. After retirement I will go into flexible drawdown from the remaining SIPP funds.

On what basis can I take my 25% out of the SIPP without a large tax deduction? And how much can I contribute in the subsequent or remaining tax year(s) if I keep working?

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

The tax-free lump sum is one of the main features of pensions – alongside the upfront bonus of tax relief – that makes them stand out from other tax-incentivised financial products.

Because you are saving in a SIPP and over age 55, there should be no restrictions or tax

charges should you choose to take your 25% lump sum.

Furthermore, provided you don’t take any taxable income from your fund (i.e. make any withdrawals over and above your 25% tax-free chunk) you will be able to continue contributing up to £40,000 a year into your SIPP (inclusive of basic-rate tax relief).

If you haven’t used all of your annual allowance in any of the previous three tax years you can also boost your current tax year’s allowance via ‘carry forward’. Used to its maximum, ‘carry forward’ could increase your annual allowance for the current tax year by £120,000 to £160,000.

However, if you did take even just £1 of taxable income from your SIPP your ability to continue saving in a tax-incentivised environment would be severely restricted by the Money Purchase Annual Allowance, or MPAA.

This was introduced in 2015 to prevent people ‘recycling’ their pensions to get extra tax-free cash and means that, if you take taxable income flexibly from your pension, your annual allowance will be slashed from £40,000 to just £4,000.

To put that into perspective, that means a maximum total monthly contribution – including tax relief – of just over £330.

You will also lose the ability to carry forward any unused allowances from previous tax years into your SIPP.

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.

The benefits of self-managed investment trusts

Not all trusts are run by very large investment companies, as we explain in this article


Self-managed trusts can have cost advantages

Investment trusts can often be tricky vehicles to understand because they have extra features over open-ended funds such as unit trusts and Oeics.

Being listed on the stock market means investors buy shares rather than units and these shares may fall to a discount to net asset value when they are out of favour or move to a premium when they are popular. That means investors sometimes pay more or less more than their intrinsic value. Trusts also have the ability to take on debt, known as gearing, which can add an extra layer of risk.

Another important feature to check when investing in a trust is how it is managed. This doesn't just mean simply finding out which fund manager is at the helm and what his or her track record is, but also the set-up of the vehicle. An investment trust may be run by an investment giant such as Baillie Gifford or M&G or it may be what is known as self-managed.

Annabel Brodie-Smith, communications director at the Association of Investment Companies, explains: 'We define self-managed as an investment company whose assets are managed by its own team of managers or by the directors of the company, rather than by external fund managers.'

EXAMPLES OF SELF-MANAGED TRUSTS

Well-known examples of self-managed trusts include the £8bn infrastructure investment trust **3i (III)**, the £2.1bn multi-manager trust **Witan (WTAN)**, and the £800m **Scottish Investment Trust (SCIN)**, which invests in global equities. Clearly, self-managed trusts are just as varied in size and strategy as any other type of fund.

There are also a number of ways in which they operate. **Personal Assets Trust (PNL)**, a £900m investment company which invests in a mix of government bonds and global equities, has its board take all major investment decisions collectively while the day-to-day portfolio management is carried about by an investment adviser, Sebastian Lyon of Troy Asset Management.

At Witan, meanwhile, the board runs the investment company and Witan Investment Services – whose chief executive Andrew Bell is also on the board – takes responsibility for the portfolio and risk management. Brodie-Smith adds: 'Witan Investment Services delegates the majority of the management to external fund managers in a multi-manager structure.'

Caledonia Investments (CLDN), a £1.9bn global investment trust, has an in-house management team who look for investments with long-term growth characteristics and those which can increase their income.

It says being self-managed means it can focus on the long-

OTHER EXAMPLES OF SELF-MANAGED TRUSTS

INDEPENDENT INVESTMENT TRUST

This invests in UK equities across a range of sectors and with a bias towards mid to small cap stocks, although there are some large stocks as well.

Holdings, as of 31 August, included technology group **Blue Prism (PRSM:AIM)** and holiday seller **On The Beach (OTB)**.

PICTON PROPERTY INCOME

The investment trust invests in commercial property across the UK. Its assets include industrial, office and retail/leisure sites.

Independent Investment Trust has a stake in holiday seller On The Beach

term. A spokesman comments: 'In particular, [we can focus on] dividends for our shareholders without the inherent conflict of trying to manage more capital to increase fees.'

The trust is classified by the AIC as a dividend hero, namely a product where the dividend has been increased every year for more than 20 years. In Caledonia's case, it has raised its payout for 51 consecutive years.

WHAT ARE THE BENEFITS TO FUND MANAGERS?

Alasdair McKinnon, manager of the Scottish Investment Trust, says being self-managed may make it easier for him to be a contrarian investor.

This style of investing naturally falls in and out of favour and being self-managed may mean there is less pressure to change style in leaner years.

McKinnon says: '[Being self-managed] allows us to take a long-term approach. We get everyone on the board into that mentality from the outset and are clear about what we are going to do and that it is different to other funds.'

Brodie-Smith says other benefits of the self-managed approach is that these trusts have their own employees dedicated to the running of the vehicle, rather than being spread across a number of different funds. Not only does that mean they are fully focused on a single vehicle but it means they are highly motivated to make it a success.

Thomas McMahon, senior analyst at research group Kepler, says: 'When a management company runs different open or closed-end funds it may have to balance the interests of different portfolios or may not be able to allocate a proportion of an investment to each fund. A self-managed trust has no such issue as it only has one client.'

WHAT DOES IT MEAN FOR INVESTORS?

McMahon believes the interests of a manager and the shareholder are better aligned at self-managed trusts because 'there is no question of an investment decision being influenced by what is better for a management company which may be investing in the same or similar assets elsewhere'.

There may also be cost advantages, he points out, as self-managed trusts will have relatively fixed fees because the manager's compensation is determined by a remuneration committee rather than linked to assets or performance.

But there are downsides to these trusts, too. Trusts run by investment giants have access to huge resources – research, analysts and teams of experts, where a self-managed trust may be more limited.

Large asset management firms also have greater resource for marketing, which may mean fewer people are aware of self-managed trusts and therefore they have fewer assets or may be more likely to trade at a discount.

By **Holly Black**

Janus Henderson INVESTORS

Alternative times call for alternative solutions

With so much uncertainty shrouding 2019 already, now might be a good time to diversify your portfolio and seek alternative returns away from mainstream markets, say James de Bunsen and Peter Webster, Co-Fund Managers of Henderson Alternative Strategies Trust.

It's been a fantastic decade for equity markets, but now there is a growing consensus among money managers and economists that we are entering the latter stages of the business cycle. That could mean recession, volatility and ultimately a downturn for equity markets is likely in the next 18-24 months.

What's more, investors are confronted by some unusual geopolitical and socioeconomic factors that are shaping markets and business prosperity. For UK investors, Brexit is at the top of the list; while Trump's tenure as President of the USA has indelibly shaped global economics with (at least) two years to go. Digital disruptors and Europe's political turbulence are also forces at play as we enter 2019.

The complexity and inherent uncertainty of these factors makes it difficult to say with any real conviction how markets are likely to develop over the next 18 months or so. At Henderson Alternative Strategies Trust (HAST), we have been gradually reducing the portfolio's riskier positions in anticipation of a downturn and October's sell-off was a comforting nod to the team's efforts.

ENCOURAGING SIGNS

October may have been a sign of things to come with increased volatility typical of the latter stages of the business cycle. The FTSE World Index, which HAST aims to outperform over the long-term, returned -5.5% during the month. The Trust returned -2.2%, which means it outperformed the benchmark by 3.3% (source: Bloomberg) during a tough month for global investment markets. The Trust's NAV was also less sensitive to the late January/early February sell-off in global equity markets.

This is encouraging in the sense that we have built the portfolio to be less correlated with mainstream equity and bond markets over recent years; and we have proactively reduced the portfolio's exposure to riskier assets (risk-off). It gives us some confidence that we are moving in the right direction and – if tough times are indeed ahead – we can whether the storm and keep our shareholders happy.

Reorienting the portfolio to a 'risk-off' position has been a gradual process, but now we are close to where we want to be. We have divided the portfolio into six distinct categories: hedge funds (23.7% as at 21st November), private equity(29.6%), listed equity(15.4%), property(12.2%), commodities(4.0%) and credit(11.1%); and this helps us navigate away from the mainstream markets and aim to deliver uncorrelated returns for our shareholders, which we believe will be resilient during challenging periods.

PETE WEBSTER

JAMES DE BUNSEN

HEDGE FUNDS

We took the opportunity during October's sell-off to top up a few of our hedge fund positions with the sector taking a heavy beating during the month. Our largest hedge fund holding is in Blackrock European Hedge Fund. The fund takes both long and short positions to invest in the public equity markets of Europe. It invests in stocks of companies operating across diversified sectors and invests across all market capitalisations, with the primary aim of maximising total returns.

We like the fund's flexibility and the management team is very skilled, hence our confidence in the fund's ability to deliver attractive returns. After a stellar 2017, European equities are once more out of favour with global investors, but we think the fundamentals for growth in Europe remain intact. There are some political concerns across the region, but value has returned to the continent and we believe it's a strong diversifier to the US' long-running bull market.

PRIVATE EQUITY

Private equity has traditionally formed a key part of the Trust's strategy and we have been pleased with the segment's performance this year. One pick from the private equity sleeve of the portfolio is Mantra Investment Partners' Mantra Special Opportunities Fund, also one of the Trust's largest holdings. The fund invests in a broad range of private equity businesses and we like it because it buys these businesses at significant discounts to net asset value. Mantra is able to do this because it acts as a liquidity provider for investors in private investments that are seeking an exit of what is usually a small holding for them. Mantra is small in size and is nimble as a result, picking up small positions at large discounts and then seeking an exit. It has executed the strategy very successfully to date.

LISTED EQUITY

Burford Capital was one of two new positions added during October and it is one we are very keen on. We have undertaken significant work looking into litigation finance as an emerging asset class. The market sell-off in early October provided a good entry point for us to open a position in Burford, which suffered as did many small and medium-sized high growth businesses during the month. However, we see litigation finance as an uncorrelated asset class generating high returns, a very underpenetrated market with significant barriers to entry. Burford is undoubtedly the leading litigation financier and we were able to open a position at an attractive level as the stock fell 23.5%, peak to trough in October.

CREDIT

In pursuit of a diversified and uncorrelated portfolio, we are always active in global credit markets. It's not been an easy year for traditional fixed income investors, but HAST's mandate to source alternative investment opportunities often takes us well off the beaten track and can lead us towards good performers like Asmore Sicav Emerging Markets Short Duration Fund.

The fund invests in short duration emerging market bonds, typically issued by governments or companies, which are denominated in USD. The average length of the portfolio's assets are typically between one and three years. Since its inception in 2014, the fund has delivered a three-year annualised return of 16.86%.

PROPERTY

Perhaps one of the most straight-forward sleeves of the Trust's portfolio is property. Within property, one stock we are excited about is Urban Logistics REIT (Real Estate Investment Trust). Urban logistics is a fast-growing segment within the real estate sector and includes warehouses and facilities used for the storage and delivery of consumer goods. The growth of online shopping, the death of the high street and increasing demand for home delivery has led to increasing demand for urban logistic centers and it's a trend we think will continue in the long term.

COMMODITIES

Commodities are another great diversifier to some of the mainstream equity markets and a natural protection against inflation. We hold Bank of America Merrill Lynch Global Commodities fund because we believe that a truly diversified multi-asset fund should have an allocation to commodities. We do not have a strong belief that commodity markets will rise over the coming years and like the Bank of America Merrill Lynch strategy because it is market neutral in nature. The fund aims to generate attractive returns no matter what the outlook f or commodity markets is by taking positions both long and short.

SPREAD YOUR BETS

These examples should provide a sense of the diversity within the Trust's portfolio and how the team is working towards a resilient portfolio that can outperform during times of market stress.

We see a number of reasons to be cautious on markets going forward, including Brexit, rising interest rates, the onset of quantitative tightening, high valuations, trade wars, high levels of corporate debt in the US and mistimed US fiscal policy.

We believe that investors will have to adjust to greater volatility going forward. At this stage of the market cycle, missteps by policy makers are likely to be more keenly felt. Global growth seems to be gently rolling over, mainly led by China, although the US remains solid for now and this should support risk assets. However, we are becoming increasingly cautious and so remain vigilant and will look to react accordingly.

GLOSSARY

Volatility: The rate and extent at which the price of a portfolio, security or index, moves up and down. If the price swings up and down with large movements, it has high volatility. If the price moves more slowly and to a lesser extent, it has lower volatility. It is used as a measure of the riskiness of an investment.

Quantitative tightening: A contractionary monetary policy applied by a central bank to decrease amount of liquidity within the economy. The policy is the reverse of quantitative easing aimed to increase money supply in order to stimulate the economy.

Bull Market: A financial market in which the prices of securities are rising, especially over a long time. The opposite of a bear market. Litigation Finance

Liquidity: The ability to buy or sell a particular security or asset in the market. Assets that can be easily traded in the market (without causing a major price move) are referred to as 'liquid'.

Grainger boosts private rented exposure after breakthrough acquisition

We explain the importance of the deal to the landlord's longer-term strategy

The £396m acquisition by professional residential landlord **Grainger (GRI)** of a portfolio of homes in London and the South East will accelerate its transition from an historic focus on regulated tenancies to the private rented sector.

It also brings forward the company's likely conversion to real estate investment trust (REIT) status.

WHAT IS IT BUYING?

Funded by a £346.7m rights issue at 178p, Grainger is taking full ownership of a portfolio of 1,700 homes, which it had previously been managing for its joint venture partner APG. Before this deal APG owned 75% with Grainger having 25%. The assets are expected to generate annual rental income of £32.5m.

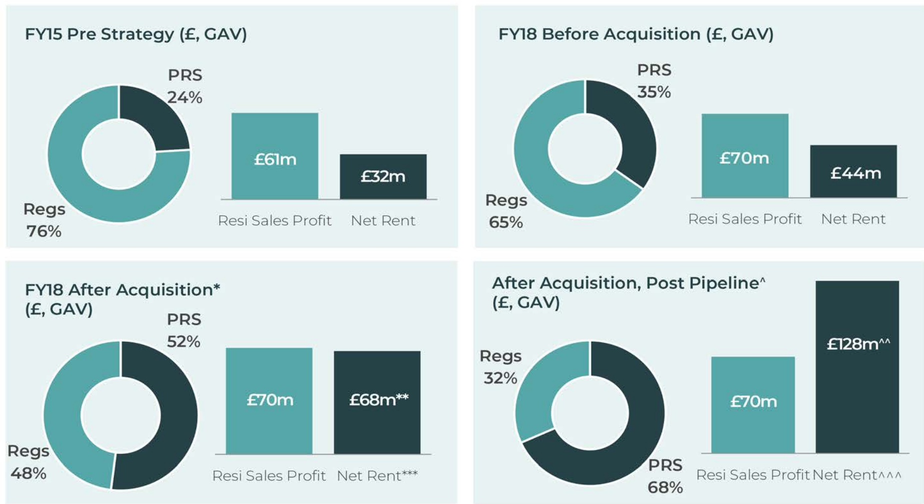
The acquisition grows the value of Grainger's private rented sector pipeline to £1.37bn from a previous target of £850m by 2020.

The private rented sector retains strong fundamentals as property expert Savills commented in its 2018 outlook. 'Despite extra funding for Help to Buy, demand for private rented properties will continue to increase,' it said. 'Together with the ongoing undersupply of affordable housing, this should underpin rental demand across a range of income groups.'

Put simply, demand for housing is outstripping supply and fewer people are able to get on the property ladder.

The number of households in this sector is expected to increase from 4.7m to 7.2m by 2025 according to Grainger, citing a number of sources. This is also a highly fragmented market with 98% of all landlords in the UK owning less than 10 properties.

Average weekly rent in the acquired portfolio (known as GRIP) is 8% lower in London and 24% lower in the South East than the market average, supporting an occupancy rate of 95% and rental growth of 3% for the year to 30 June 2018.



*Based on valuation of Grainger and GRIP as at 30.9.18.
**Grainger FY18 NRI plus forecast GRIP FY19 NRI assuming £32.5m gross rent less targeted 26% gross to net.
***Estimated NRI is a target only and not a profit forecast.

^Pipeline includes both secured and planning / legals schemes..
^^Estimated net rent post pipeline completed and stabilised, as per NRI bridge.
^^^Estimated NRI is a target only and not a profit forecast.

PRS = Private rented sector   Regs = Regulated tenancies   GAV = Gross asset value

AN 'EXCEPTIONAL' OPPORTUNITY

Chief executive Helen Gordon tells *Shares*: 'It is rare or even exceptional you get to buy something you have been managing for more than five years and where you know all the wrinkles.

'We have been working on this deal for over a year, having previously done all the heavy lifting of growing the portfolio and watching APG get 75% of the benefits.'

This may explain the willingness to acquire the assets at a 4.9% gross yield which is lower than the yield on the existing portfolio which stockbroker Peel Hunt puts at between 5% and 6%.

Gordon adds that the

transaction 'completely reverses the shape and nature of the business' which is a key target for the management team who took the helm in early 2016. Exposure to the private rented sector will increase to almost 60% from under 50% according to Peel Hunt.

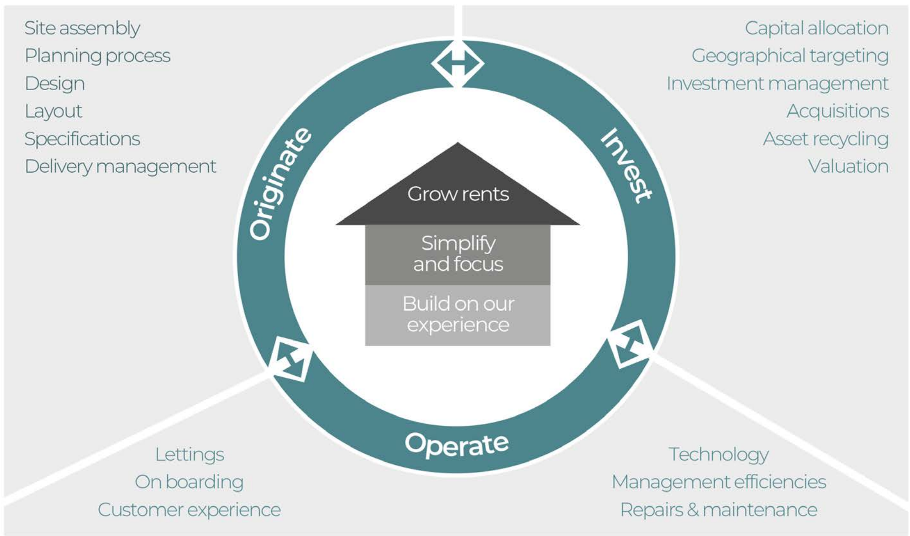
Grainger hopes to realise cost efficiencies from its expanded portfolio with a target of reducing the 'gross to net rental leakage', or how much of its rental income is lost to costs, from 32% to 26% across the group as a whole.

Its previous weighting towards regulated tenancies prevented the group from becoming a REIT – a move Mike Prew, real estate expert at investment bank Jefferies, says could now be brought forward from 2025 or 2026, to 2022 or 2023.

REIT status comes with tax advantages and would see a greater proportion of rental income paid out as dividends to shareholders.

GRAINGER'S BUSINESS MODEL IN A NUTSHELL

- Designing and developing homes for the rental market
- Investing capital in the 'right assets in the best locations' to deliver returns for shareholders
- Direct management of all its properties



Source: Grainger

WHAT IS THE COMPANY'S BACKGROUND?

Grainger was established in Newcastle in 1912 to manage assets in the regulated tenant market. Lettings which began before January 1989 typically fall into this category, so these are historic assets with ageing tenants for the most part.

Ultimately this is a sector where companies would buy a residential property at a discount and then receive below-market levels of rent (linked to inflation) from the tenant, who then lived in the property for the rest of their life.

Once a property is returned to the company it is sold at market prices, thereby unlocking the capital value. Grainger calls this a reversionary surplus and it uses these funds to reinvest into higher yielding new private rented sector homes. This surplus equated to 66p per share in the September 2018 financial year.

The resilient income from regulated tenancies was beneficial to the company through the 2007/8 downturn and Arden analyst Kunal Walia comments: '(It) provides an interesting proposition for investors looking to maintain a defensive play while capturing the strong fundamental growth prospects within the UK private rented sector market.'

Grainger's results for the 12 months to 30 September 2018 showed group revenue rising from £264.7m to £270.7m while the firm's operating profit increased by 30% to £123m. This increase in profit was supported by several asset disposals and Gordon says the company takes a 'disciplined' approach to asset recycling.

SHARES SAYS:
Grainger looks an interesting way of gaining exposure to the fast-growing private rental sector. However, we await new forecasts post the rights issue to make a judgement on valuation and thus whether the shares are worth buying or not.

By **Tom Sieber**
Deputy Editor

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Interims

10 Dec: Eco Animal Health, Photo-Me International. **11 Dec:** Ashtead. **12 Dec:** Dixons Carphone, Fulham Shore, Superdry.

Trading updates:

12 Dec: British American Tobacco. **13 Dec:** Ocado.

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Thank you to everyone who voted in the 2018 *Shares Awards*. We are now pleased to reveal the winners of the event in this special report.

The awards were voted by readers of *Shares* and by the general public, making the event truly representative of the people who invest and trade the markets.

The awards cover a broad range of products and services including investment platforms, investor education, trading services and products such as investment trusts. Furthermore, three categories celebrate achievements among London's Main Market and AIM market companies including corporate success and important transactions.

In this short report, we look at a few of the winning categories.

Daniel Coatsworth,
Editor

CLICK HERE FOR A FULL LIST OF WINNERS

BEST FUND GROUP

BAILLIE GIFFORD

THE ASSET management industry is very competitive and success comes down to a mixture of things.

Fund managers need to have a clear investment process, strong resources to support market research, and talent in picking the right assets for the prevailing market conditions.

Investors are drawn to certain asset managers because they have successful funds, communicate their strategy very well, and have differentiated propositions. **Baillie Gifford** is considered best-in-class on all these points, hence why it is crowned *Best Fund Group* in this year's *Shares Awards*.

ALSO NOMINATED

- BlackRock
- Invesco
- J.P.Morgan
- Orbis
- Schroders

THE SCOTTISH INVESTMENT TRUST

BEST INVESTMENT TRUST

THE SCOTTISH INVESTMENT TRUST is a global equity portfolio which aims for capital growth and above-inflation dividend growth.

The portfolio was given something of a revamp in 2016, with a view to attracting more retail investors. The investment strategy has moved to a higher conviction approach with fewer holdings, and a new quarterly dividend introduced.

The management team led by Alasdair McKinnon pursue a 'contrarian' investment strategy – buying stocks which the market doesn't like – using behavioural finance techniques to create a view on where the 'herd mentality' is getting it wrong.

ALSO NOMINATED

- F&C Investment Trust
- HICL Infrastructure Company
- Scottish Mortgage Investment Trust
- The City of London Investment Trust
- Witan Investment Trust

BEST EXCHANGE-TRADED PRODUCT PROVIDER

WISDOMTREE

PASSIVE INVESTMENTS continue to grow in popularity and investors are looking for innovative solutions beyond the vanilla FTSE 100 and S&P equity indices products.

WisdomTree's acquisition of the European arm of ETF Securities in late 2017 gave it a stronger position in the ETF market and also helped to raise its profile, particularly in the UK. The business, which offers products covering equities, fixed income, currencies, commodities and alternative strategies, was crowned *Best Exchange-Traded Product Provider* at the 2018 *Shares Awards*.

ALSO NOMINATED

- HSBC
- Invesco
- iShares by BlackRock
- UBS
- Vanguard