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SHARES

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UBER IPO
WILL LOSSES PUT THE BRAKES ON ITS SHARES?

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What a blockbuster US deal can tell us about the oil price

The Chevron/Anadarko transaction implies industry bullishness about the direction of the crude market

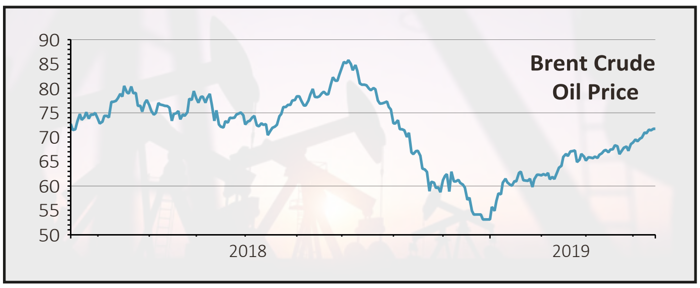
On 12 April US oil company Chevron made a $33bn swoop for Anadarko. As well as heralding a possible wave of mergers and acquisitions in the energy sector, the prospective deal also provides some insight into how the industry (or at least Chevron's board) are currently viewing the oil price.

Chevron is paying a 39% premium for Anadarko based on its closing price before the transaction was announced. This generous offer could reflect the complementary nature of Anadarko's portfolio, which like Chevron's includes material exposure to US shale alongside global deepwater exploration and liquefied natural gas.

However, broker Cantor Fitzgerald says the promised synergies from the deal could 'rapidly disappear' if the oil price was to retreat back to $50 per barrel.

It comments: 'This looks to be a good deal for all parties, albeit at a fairly punchy valuation suggesting that Chevron management are confident that crude prices will hold up – although some may argue Chevron was under pressure to do a deal after losing out on **BHP's (BHP)** shale assets to **BP (BP.)** last year.'

Oil executives are not always the most astute predictors of future movements in oil prices, but Chevron's board are not alone in expecting crude to enjoy an upwards trajectory.



This is despite oil already moving from around $55 per barrel to more than $70 per barrel so far in 2019 amid looser monetary policy in the US and disruptions to supply from the escalating conflict in Libya.

COULD THERE BE A BIG SPIKE IN OIL PRICES?

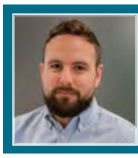
The commodities strategy team at Bank of America Merrill Lynch believe the chances of a big spike in oil prices are not being priced in by the market.

'In short, OPEC+ supply is falling sharply, global oil demand is still healthy and US shale does not have enough time to respond to the rising oil price environment as we head into the summer driving peak,' they observe.

'Importantly, global oil consumption is supported by relatively strong consumer sentiment and expansive services PMIs (purchasing managers' indices) around the globe, and in spite of falling business sentiment and contracting manufacturing PMIs.'

They note that against this backdrop, inventories of the refined products derived from crude oil in developed economies are relatively light and this also coincides with the looming introduction of new emissions regulations for the shipping industry which could overwhelm demand for fuels with a lower sulphur content.

This creates an interesting backdrop to OPEC's next meeting on 25 June in Vienna and whether the Saudi Arabian-dominated oil producers' cartel considers upping output quotas.



By **Tom Sieber** Deputy Editor

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The 'big data' you need to watch on the UK economy

New 'faster indicators' offer the potential for real-time updates

Earlier this week the Office for National Statistics (ONS) published a new set of indicators which it hopes will offer a 'real-time' guide to economic activity in the UK.

As the ONS explains, 'The appetite for faster information on UK economic activity has never been higher. Policymakers and analysts demand faster insight into the state of the UK economy in order to make informed, timely decisions on matters, such as the setting of interest rates, which affect the whole UK.'

Thanks to the growth in 'big data' and the availability of software which can process billions of pieces of information in nano-seconds, the ONS has looked at three sets of data which it hopes will provide 'Faster Indicators' on the economy.

The first is VAT returns, tracking both turnover and spending, which were a good proxy on economic activity during the last recession.

The second is ship tracking data collected from the UK's 10 largest ports, which is unconventional but does offer a 'quick and dirty' indication of the level of port activity, which is related to trade.

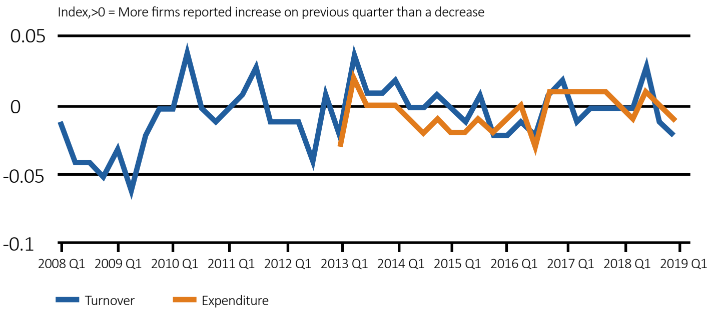
The third is road traffic data, especially heavy truck movements, which is less unusual: the German federal statistics office has been collecting trucking data for years to analyse economic trends.

It's still early days but the first release of the data seems to show that on the basis of VAT returns the economy slowed in the first quarter of this year compared with the final quarter of 2018.

Some of the data excludes March so the picture isn't 100% complete. Also, considering that 29 March was the day the UK was originally due to leave the EU, it's not entirely surprising that economic activity looks like it's dipped since the turn of the year, but more data sources are always useful.

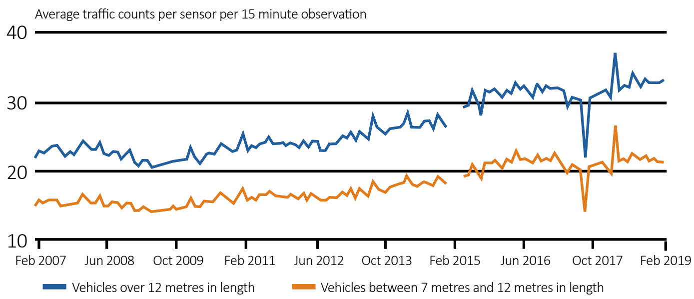
VAT The turnover and expenditure quarter-on-quarter diffusion indices both fell slightly in Q1

Quarter-on-quarter diffusion indices, seasonally adjusted, current prices, all industries, Quarter 1 (Jan to Mar) 2008 to Quarter 1 (Jan to Mar) 2019. UK



Source: HM Revenue and customs- Value Added Tax returns

Traffic counts for larger vehicles were broadly stable in January and February



Source: Highways England- Road traffic sensor data

Why you should NOT hitch a lift with the Uber IPO

Granddaddy of ride-hailing 'Unicorns' sets out stock market float plans

It is one of the most eagerly awaited stock market listings ever but investors are already being warned off investing in the initial public offering (IPO) of ride-hailing colossus Uber.

'This is one public offering investors should stay away from,' says Ben Barringer, equity research analyst at investment manager Quilter Cheviot.

Uber unveiled its IPO prospectus last week including plans to potentially raise up to $10bn. That would imply a $90bn to $100bn price tag on the business making it the eighth biggest US IPO ever.

But sceptics have been quick to dig beneath the IPO fanfare and home in on the company's slowing growth and startling admission that it may never make a profit. Last year saw the previously secretive Uber run up a $3.03bn loss from operations and ate through $2.1bn of cash from revenue of $11.3bn. Revenue was up 42% on 2017 but showed a sharp slowdown on the 106% hike in the previous year.

Uber published its IPO prospectus just two weeks after US ride-sharing rival Lyft became the first online taxi firm to go public on Nasdaq. While global operator Uber is vastly larger than US-only Lyft, the dismal start of Lyft's stock does not augur well. Lyft's shares have slumped 22% from their $72 debut.

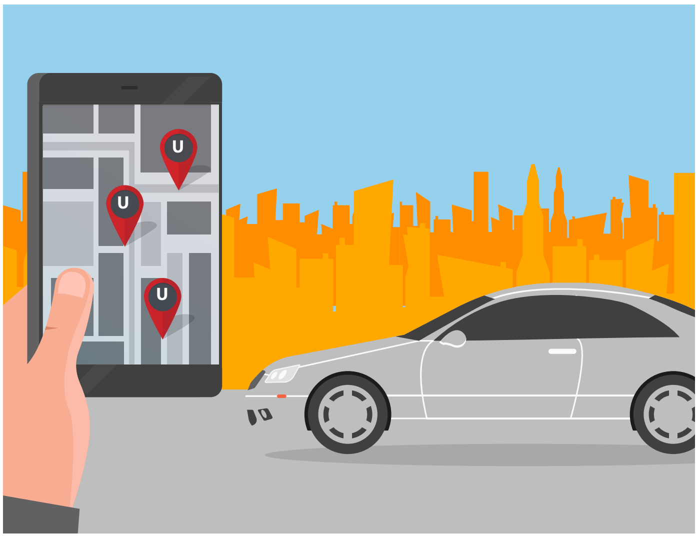
Operators like Uber and Lyft can benefit from the network effect, a virtuous circle where more consumers using these services attract more drivers to serve them, which attracts more ride-sharing users.

But fierce competition limits their ability to raise prices while drivers are putting the pressure on over pay rates, and can just switch to a rival app if they are not satisfied. The gig economy is also coming under increasing scrutiny from regulators, giving Uber and its rivals even less room to manoeuvre.

Expansion into new areas such as food delivery (Uber Eats) and goods shipments (Uber Freight) are also competitive markets.

In Uber's favour are large stakes in several overseas rivals in territories where it has chosen to abandon its own operations, such as Yandex in Russia (38%), Didi Chuxing in China (15.4%) and Grab (23.2%) across parts of south-east Asia.

The future of Uber, and the ride-sharing economy, is increasingly banking on self-driving technology, which would allow operators to phase out their largest costs; drivers. While much of the technology already exists, the legal framework and consumer appetite remains years away because of ongoing safety concerns.



Uber by numbers

- **91m** users
- **$11.3bn** revenue
- **$9.2bn** ride-sharing revenue
- **$3.03bn** losses
- **16.3%** Softbank stake
- **65%** US market share

Why Bunzl's growth shock matters to investors

The FTSE 100 company is a good indicator of wider economic conditions

Shares in FTSE 100 distribution and services group **Bunzl (BNZL)** came under big pressure on on 17 April when it revealed a slowdown in trading.

The company, which provides businesses with items like coffee cups or cleaning products which are not sold to customers but are essential for their day-to-day operations, is often considered to be a bellwether for the economy.

In its first quarter trading update the firm reported that revenues were up just 2.5% adjusting for the number of trading days with underlying growth of just 1.5%.

This marked a significant slowdown from 2018 when Bunzl reported full year revenues up 6% with underlying growth of over 4%.

The main cause is North America where the company makes 50% of its operating profit.

Underlying revenue growth in this territory was just 1% in the first quarter compared with more than 4% last year when it won significant additional grocery business. However, the additional grocery business wasn't fully absorbed until the second quarter last year.

In theory therefore the comparison with last year's first quarter should have been fairly easy and given that the second quarter last year includes the new business wins, North American underlying revenue growth in this year's second quarter could look even weaker than the first quarter.

Rightmove reports property price recovery – but what about its own prospects?

One industry figure believes there is little risk of the property portal being unseated from its dominant position

THE LATEST ASKING price data from property listings site **Rightmove (RMV)** for April indicates signs of recovery in the UK housing market.

Rightmove asserted that the 1.1% monthly rise was unusually strong for the start of the spring selling season (versus 0.4% in 2018, 0.9% in 2017 and 1.5% in 2016).

Ian Wilson, chief executive of **The Property Franchise Group (TPFG:AIM)** – one of the UK's largest estate and letting agent franchise businesses – says he believes Rightmove's own position in the property sector is firmly entrenched.

This is despite suggestions its leading status might be threatened by estate-agent backed rival **OnTheMarket (OTMP:AIM)** amid industry disquiet over its rising fees.

Wilson's view informed a decision to agree a long-term deal with Rightmove on behalf of his franchisees in February. He says: 'As much as agents like to complain about Rightmove we don't think they are going anywhere for the next three years.'

He sees Zoopla as being more vulnerable to any threat posed by OnTheMarket. The Property Franchise Group recently reported robust annual results (8 Apr) with revenue up 11% to £11.2m and excluding exceptional items pre-tax profit was up 17% year-on-year to £4.3m.

This followed a similarly strong performance from its close peer **Belvoir Lettings (BLV:AIM)** which reported a 21% rise in revenue and a 40% increase in pre-tax profit for 2018.

JD Sports, IWG, Galliford Try and other news

We run the rule over some of the past week's big share price movers

The Easter holidays have seen plenty of news from retailers for investors to keep tabs on. Chiming with a British Retail Consortium report which suggested March's better weather encouraged higher footfall on the high street, most of the updates from the space have been broadly positive.

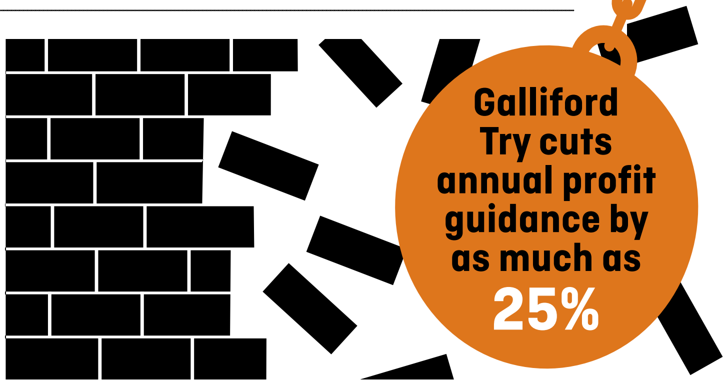
Sector star **JD Sports (JD.)** delivered yet another solid set of full year results on 16 April. Adjusted pre-tax profit surged 15.5% to £355.2m and positive recent trading was flagged, including in its US Finish Line business acquired in 2018. This helped drive the shares to 12-month highs of 560p.

The company appears to really 'get' the people who shop in its stores, tapping into the boom in demand from this youthful demographic for 'athleisure' gear which can be worn for everything from gym trips to socialising.

Another retail outfit which really understands its customers is fantasy miniatures and table-top games seller **Games Workshop (GAW)**. The firm behind the Warhammer brand said on 12 April that trading had been good since an update in January, triggering a new rally in the share price.

Newsagent **WH Smith (SMWH)** also delivered the goods as a strong performance from its Travel division supported a journey to the vicinity of record share price levels above £22 last seen in December 2017.

Travel saw like-for-like sales jump 3% over the period as WH Smith benefited from a captive



audience at train stations, airports and motorway service stations.

In other news flexible office space provider **IWG (IWG)** agreed to sell its Japanese operations to TKP Corporation for £320m with a franchise agreement, sending its shares up by nearly 15%.

Investment bank Berenberg comments: 'We view this as a very positive step for IWG. While a transaction to this end had been flagged by the company, we were sceptical of IWG's ability to sell one of its businesses for such a high multiple (15 times earnings compared to a group valuation of seven times) at the same time as shifting to a franchising business model.

'From here, the question is clearly whether this is a one-off sale of one of the company's higher quality assets, or indicative of what IWG will be able to achieve across its portfolio.'

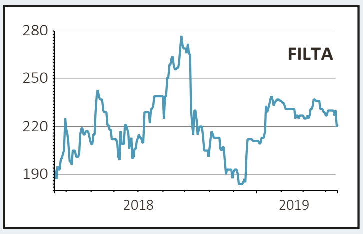
On 16 April **Galliford Try (GFRD)** saw its shares slump 20% as it issued a profit warning, saying annual profit would be £30m to £40m lower than the forecast £156m as it downsizes its construction arm amid spiralling costs on some projects.

This small cap is profiting from McDonald's waste

Filta is growing fast with cooking oil filters and other products

FILTA BUY
(FLTA:AIM) 222p
Stop loss: 155p

Market value: £64.6m



The phrase 'where there's muck there's brass' refers to the opportunity to make money from dirty jobs. **Filta (FLTA:AIM)** is embracing this concept with rapid earnings growth from cleaning and recycling work across North America and parts of Europe.

Rather than emptying bins or sweeping streets as per traditional waste management, Filta uses special machines to filter cooking oil from deep fat fryers, removing food particles and contaminants and returning the oil for re-use. This filtration can double the life of the oil, so reducing waste and cutting costs for the fryer owners.

Having established this business in the US and UK via a franchise model, Filta is now rolling it out across Europe and Canada. It signed up eight European franchise operators in 2018 versus a target of six and they are now servicing a variety of stadiums in Germany as well as recent moves into Austria and Spain.

In total Filta now has 12 franchise owners in mainland Europe, 43 in the UK and 144 in North America. Customers include restaurants, hotels, banks, sports arenas, supermarkets and hospitals.

Admittedly the US is becoming more mature for Filta and high employment levels mean fewer people want to become franchisees. However, chief executive Jason Sayers tells *Shares* the territory should still grow as existing franchisees add more machines and the overall frying market grows.

'Some schools have got rid of fryers for health reasons but we're seeing more university campuses expand the use as it is a cheap and simple way of cooking food,' he comments.

GREEN CREDENTIALS

Interestingly several environmental funds have recently invested in Filta as they like its oil recycling and work to reduce fat clogging up drains.

Last December it bought of Watbio, a high margin repeat revenue business in the UK with the scope to be run more efficiently. It provides a variety of grease and drainage services to commercial kitchens and expands the existing FiltaGMG business which targets the same market.

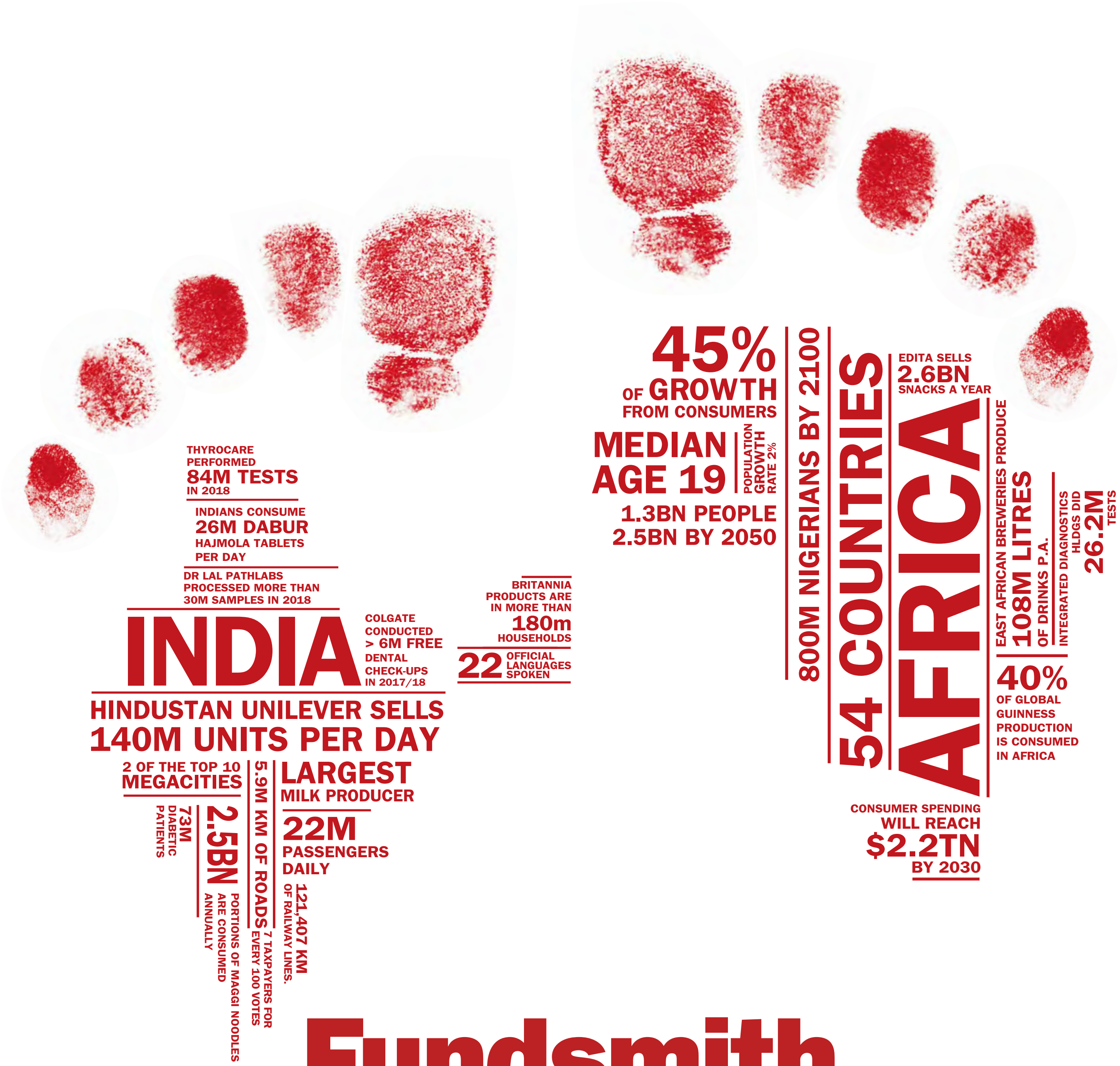
The acquisition brings new customers such as Costa and expands the work it already does for McDonald's, **Greene King (GNK)**, **Mitchells & Butlers (MAB)** and others.

'We now have the right platform to handle anything in the UK,' says Sayers, adding that Filta is seeking two or three more acquisitions.

Broker Cenkos forecasts in 2019 pre-tax profit will grow by 34% to £3.9m and the dividend will double to 3.2p.

A 2019 price-to-earnings ratio of 21.1-times isn't excessive for a fast growth company with so much repeat revenue and increasingly strong customer relationships.

By **Daniel Coatsworth**
Editor



Fundsmith

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a guide to future performance.

% Total Return

	2018	2017	2016	2015	2014	Since inception to 31.12.18
FEET Net Asset Value	–3.0	+21.2	+12.0	–7.0	+0.1	+22.7
MSCI Emerging & Frontier Index (£ net)	–9.3	+25.3	+32.4	–10.0	+0.5	+36.1

Source: Financial Express Analytics, MSCI.com, Inception 25.6.14.

www.feetplc.co.uk **Available for your ISA through your stockbroker.**

Potential for 7% dividend yield from Gulf Keystone

Balance sheet strong enough to fund increases in production and dividends

It may have something of a chequered past but the future for Kurdistan oil producer **Gulf Keystone Petroleum (GKP)** looks bright in the near-term.

This is not an investment for the faint-hearted, given the company operates in semi-autonomous region of Northern Iraq which has been affected by geopolitical turmoil.

However, Gulf Keystone has a very strong balance sheet, the Kurdistan Regional Government (KRG) has a good recent track record of paying on time for its oil, and the company has come up with a clear plan to increase production from its flagship Shaikan field threefold in the coming years.

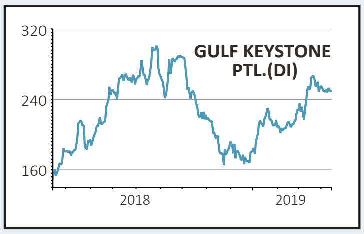
Strong cash generation underpins a pledge to pay $50m in ordinary and special dividends in 2019 and, if approved at a meeting in June, this generous shareholder reward implies a dividend yield of nearly 7%.

The company first made a discovery at Shaikan in August 2009 and bid talk and further bullish drilling reports helped lift the shares to such dizzying heights that is was on course to qualify for the FTSE 100 when it made a proposed move from AIM to the Main Market.

Some of the heat had already come out of the share price by the time it did change listing category in March 2014. Slow

GULF KEYSTONE PETROLEUM BUY
(GKP) 247p
Stop loss: 197.6p

Market value: £575.9m



Gulf Keystone cash flows at $75 per barrel Brent from 2019

Source: Company reports, Canaccord Genuity estimates. Includes projected $50m dividends from 2019, repayment of $100m loan in 2023

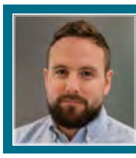
progress in securing export payments from the KRG and a subsequent collapse in oil prices put the balance sheet under strain until a debt-for-equity swap in September 2016.

The company finished 2018 with a $196m net cash position. Its plan is to increase output from Shaikan in phases, the first phase running until the first quarter of 2020 will aim for an increase from the current base level of around 30,000 barrels of oil per day (bopd) to 55,000 bopd and the eventual target is for a full field development to get to 110,000 bopd.

Canaccord Genuity believes that if it were to reach this point by 2024, then in 2025 the company could have net cash of $1bn at a $75 per barrel oil price.

By summer 2019, all Shaikan production is expected to be transported to Fishkabour for transfer to a pipeline and ultimately to the Ceyhan oil terminal on the Mediterranean.

As well as political risks, which could disrupt that supply route, investors need to consider exposure to a volatile oil price. Canaccord estimates that if oil were to dip below $55 per barrel for the long-term (it currently stands at around $70), Gulf Keystone might need to slow its spending or take on more debt.



By **Tom Sieber**
Deputy Editor

LIVE LONG AND PROSPER!

Have you thought about the type of lifestyle you would like in retirement? For many of those currently in work, retirement feels a long way off – but to be comfortable in our golden years, it's important to start saving early.

A longer life

Long-term demographic trends are favourable. We are in general living longer and, as long as we remain healthy, later life can be enjoyed to the full. However, finances are a factor. Whether we spend our later years in comfort is largely dependent on us and our actions in advance.

We should all think about preparing for a longer retirement. Although we are inevitably working later in life, current UK 'pension freedoms' mean that some pensions can be accessed from the age of 55, whether one continues working or not. Pension income could supplement a wage or be a major source of income in retirement. Whichever, its importance in later life is likely to be considerable.

A longer income

The downside of living longer is that the money, which we save up from our working career, needs to last longer. Gone are the days of gold-plated, defined benefit schemes and annuity rates of over 10%. With interest rates so low, bond yields and, in turn, annuity rates are also low. In this environment, your pension fund in retirement needs to be bigger than ever.

The logical imperative is to save more. Most of us would like to maintain the standard of living that we have grown accustomed to. But still, some are sleepwalking into a lower standard of living by not putting enough aside. Those who come to realise this often do so too late to do much about it. The key is to start to save at a young age and to put sufficient sums away. Easier said than done, of course, when there are so many competing claims on our money.

Invest long-term and prosper slowly

The good news for the young is that the longer one is invested, the greater chance one has to build up a substantial sum of money to fund retirement. The upward bias of markets over the long-term, the benefit of reinvested dividends and the magic of compounding – are key factors required to drive returns. Historically, equities have been one of the best assets for maximising returns over the long run, although they can be more volatile than bonds. Investing over the long-term can smooth out the corrections in equity prices that will occur during the period you are building up funds for retirement.

Contrariwise

A fund with a contrarian approach could be a useful component of a diversified pension portfolio. This style does not chase the investment fads of the moment or become swayed by current themes but aims to provide investors with above-average returns over the longer term. It demands patience, recognising that some stocks, while representing good value, can stay 'unloved' or shunned by the market for some time. Good companies can go out of fashion, but they often remain good companies with the potential for share prices to recover.

> “A fund with a contrarian approach could be a useful component of a diversified pension portfolio.”

Being an independent, closed-ended fund allows the investment managers at The Scottish to select companies where they have a high conviction and a view to long-term payback – appropriate for long-term investors. The Scottish has one of the lowest ongoing charges figures within the AIC Global sector which is important as seemingly small differences can have a surprising impact on investors' returns over the long-term.

Similarly, dividends have historically accounted for a significant portion of total returns. According to the Association of Investment Companies (AIC) figures, The Scottish has one of the highest dividend yields in its peer group. The AIC have also named the trust a 'Dividend Hero' as it has grown the regular dividend for the past 35 years. However, it should be remembered that dividends are not guaranteed and can fall as well as rise.

By consistently investing from a young age – and taking a long-term approach – you are more likely to build your pension fund to a substantial level, helping to ensure a happy and fulfilling retirement. ■

As at 18 March 2019

THE SCOTTISH
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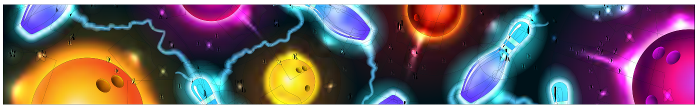
HOLLYWOOD BOWL
(BOWL) 235.5p

FANTASTIC STOCKS FOR 2019

Gain to date: 7.2%

Original entry point:

Buy at 219.5p, 20 December 2018



HOLLYWOOD BOWL (BOWL) continues to deliver strong trading as its strategy of sprucing up existing sites and improving the customer experience is paying off.

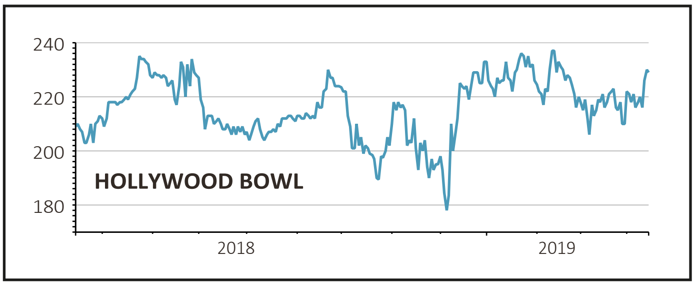
The company wants to bring in more visitors and encourage them to return by offering cheaper prices at off-peak times, as well as promoting its VIP lanes and digital scoring system.

In the half year to 31 March, the UK's largest ten-pin bowling operator revealed like-for-like sales rose 4.4% thanks to revenue growth across the business, including food and drink.

Hollywood Bowl recently refurbished sites in High Wycombe and Wigan, and remains confident of reaching its target of between seven and nine refurbishments by 30 September.

It has also opened bowling sites in Watford and the Lakeside shopping complex in Essex. The latter is particularly significant as it is the largest bowling centre to open in the UK over the last 10 years at 34,000 square feet.

Berenberg analyst Owen Shirley says his forecast 5% like-for-like sales growth over the year to 30 September may be too conservative, flagging a softer comparison in the second half of last year.



SHARES SAYS:

We are confident Hollywood Bowl's simple yet effective strategy will continue to reap rewards. Keep buying.

WPP
(WPP) 879.8p

Gain to date: 3%

Original entry point:

Buy at 854p, 14 March 2019

GLOBAL ADVERTISING play **WPP (WPP)** has started to creep in the right direction since we added it to our *Great Ideas* portfolio in March.

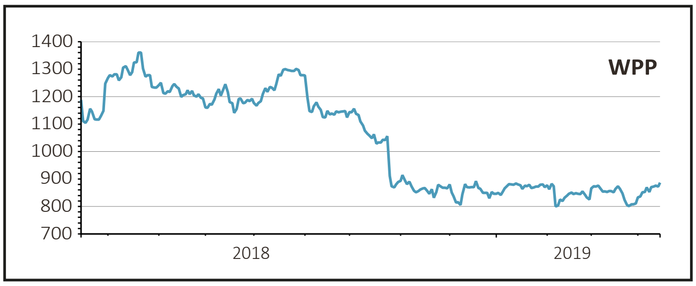
Reports suggest there are as many as five private equity suitors for the company's Kantar market research business.

As we discussed in our original piece, selling this business should help to reduce borrowing and could facilitate a one-off return of capital to shareholders.

The company has also marked 12 months since the acrimonious departure of its founder Martin Sorrell. Last month chief executive Mark Read described 2019 as the 'foundational year' in the company's turnaround.

Read will need to be mindful of the competitive threat posed by French rival Publics which has bolstered its digital marketing credentials with the $4.4bn purchase of Alliance Data Systems' Epsilon unit.

Another potential concern for WPP shareholders is that Epsilon's price tag was ower-than-expected with a possible negative read-across for its similarly data-driven Kantar division.



SHARES SAYS:

The Kantar sale should be a positive development if WPP gets a good sales price. Look out for a first quarter trading update on 26 April for the media group.

ALPHA FINANCIAL MARKETS CONSULTING (AFM:AIM) 242P

Gain to date: 2.5%

Original entry point:
Buy at 236p, 7 February 2019

ALPHA FMC (AFM:AIM) may not be a household name but it is a leading global provider of specialist consultancy services to the wealth and asset management industry and counts three quarters of the world's top 20 firms measured by assets under management as its clients.

In its latest trading update the company confirmed that both revenues and earnings before interest, tax, depreciation and amortisation (EBITDA) for the year to 31 March would be well ahead of last year and comfortably in line with current forecasts.

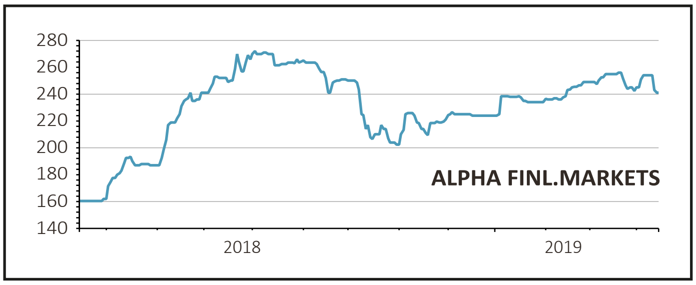
As the wealth management industry grows and regulation increases, its customers are asking Alpha for more advice and services.

To this end it continues to expand its product range and has recently launched its twelfth practice, Exchange Traded Product (ETF) & Indexing.

It has also recently opened its tenth office, located in Zurich, as demand grows for its services outside its UK market.

At the half year stage last September turnover was up 35% to £39m while EBITDA was up 45% to £8.5m and net profits were up 57% to £6.3m.

For the full year analysts have pencilled in revenues of £75m and EBITDA of £16m. Alpha reports full year earnings on 5 June.



SHARES SAYS: ↗
We remain positive.

NATIONAL GRID (NG.) 819.1p

Loss to date: 4.4%

Original entry point:
Buy at 856.5p, 15 November 2018

FOR A SUPPOSEDLY dull but reliable inflation-proofed income stock **National Grid (NG.)** has been surprisingly erratic since we flagged the opportunity in November, taking in share price peaks and troughs of 889p and 749p respectively.

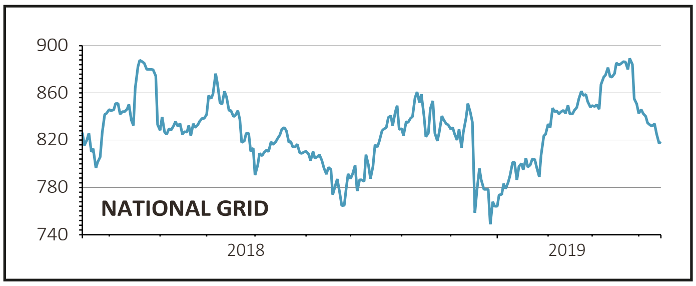
Two sizeable elephants remain in the room; dividend sustainability in light of more hawkish regulator demands and longer-term, the threat of nationalisation in any future Labour government.

The BBC most recently ran with that particular baton in late March, which presumably explains the more recent stock price weakness.

This latter point has been played down by many City analysts, not least because of the 'financial and legal complexities that would have to be surmounted,' in the view of investment bank Berenberg.

More urgent is the implied threat to dividends as Ofgem tightens the screw on cost of equity returns to 4%, hoping to save British consumers what it estimates to be around £6.5bn.

The immediate payout looks safe enough, with 47.3p expected to be announced when the group reports full year results to 31 March 2019 in May. Consensus estimates see that expanding to 48.7p in 2020 and 50.2p for 2021.



SHARES SAYS: ↗
At this stage a cut to dividends looks unlikely, and that implies an attractive 5.7% 2020 yield on our original entry price.

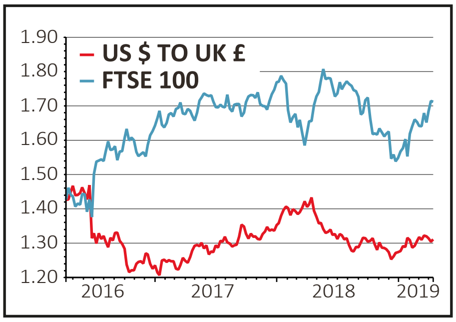
Higher or lower: how to play the volatile pound

Sterling may feel like game of Play Your Cards Right, but Liberum has spotted stocks which could perfom well if the currency heads in either direction

'It's tough to make predictions, especially about the future,' as they say. Variations of this quotation has previously been attributed to physicist Nils Bohr, writer Mark Twain, movie mogul Sam Goldwyn and baseball player Yogi Berra, yet the identity of the originator is less important that its implication, which feels very relevant for today's financial markets.

The swings in the pound neatly encapsulate these volatile times. Since the initial collapse in sterling in response to the outcome of the Brexit referendum in June 2016 it has been a roller-coaster ride.

'Cable', the market nickname for the pound/dollar exchange rate, has plumbed depths of close to par value ($1.08, in August 2017), the lowest since as far back as Reuters Eikon data goes (1989).



The most recent rally in sterling through March has now been curtailed by the latest 'Brextension', which again kicks the decision can down the road, probably until October.

UK businesses and investors are left wondering what to do and how to plan amid this prolonged uncertainty.

STERLING CONUNDRUM

The obvious, if simplistic way to square this circle is through tracker funds, using FTSE 100 or FTSE 250 indices as hedges against weaker or stronger sterling swings ahead.

Many investors grasp the idea of the FTSE 100 as a sort of instant UK diversifier. That thinking is based on upwards of 70% of earnings imported from overseas. The

LOW PE GROWTH STOCKS

	Revenue £ exposure	12-month PE
Arrow Global	100%	4.8
Bakkavor	90%	9.0
Capita	92%	9.0
Clipper Logistics	88%	13.7
Costain	99%	8.9
Countryside Properties	100%	7.6
Drax	100%	12.6
EnQuest	90%	3.0
Greencore	66%	11.9
Gym Group	100%	17.6
IP Group	100%	9.5
Mears	100%	7.5
Mitie	95%	7.6
Speedy Hire	90%	9.9
Tesco	73%	13.8
Volution	53%	10.2

Source: Liberum, Bloomberg

FTSE 250 is also not quite the domestically-facing index it is often cracked up to be, with about half of its earnings coming from abroad.

Concentrating on earnings and where they come from is an alternative hedging idea posited by Liberum analysts Andrew Coury and Mark James.

'UK stocks remain cheap versus historical levels,' they say, having run the price to earnings (PE) numbers. According to their calculations, based on Datastream data, the FTSE 100 sits on a PE multiple of 13.5, a modest discount to the FTSE 250's 13.7, both below medium range averages of between 15 and 16-times.

Dividend yields back up the view that UK stock markets remain inexpensive, the FTSE 100's close to 10 year highs at 4.7%.

A BETTER WAY

Coury and James ran the numbers across the FTSE 350 universe on the basis of two different scenarios. First, they looked for domestically focused businesses most likely to perform well if there is a rally in sterling. They then screened for stocks with large international earnings that could be bolstered by further plunges in the pound.

The searches were refined further by demanding that stocks featured would be inexpensive, financially robust and expected to grow.

To ensure this that set criteria that demanded a minimum of 3% expected earnings growth, a net debt to EBITDA (earnings before interest, tax, depreciations and amortisation) multiple no higher than two-times, plus a current 12-month forward PE discount of at least 10% versus their five-year average.

Some of the qualifying stocks remain firm buys in the eyes of Liberum. Recruiter **SThree (STHR)**, diamond miner **Gem Diamonds (GEMD)** and power plant supplier **Ashtead (AHT)** are among the international earners favoured.

From the UK domestics list, supermarket leader **Tesco (TSCO)** has been performing well lately, while Liberum sees further share price upside at low-cost gyms operator **Gym Group (GYM)** and **Volution (FAN)**, the ventilation equipment manufacturer.

LOW PE INTERNATIONAL EARNERS

	Revenue € or $ exposure	12-month PE
888 Holdings	60%	12.8
Ashtead	84%	10.2
Balfour Beatty	54%	11.3
BCA Marketplace	55%	15.1
Consort Medical	80%	13.1
CRH	100%	13.1
Devro	67%	11.2
Dialight	84%	12.3
Gem Diamonds	100%	7.5
Glencore	51%	11.6
Huntsworth	64%	9.7
Keller Group	82%	6.9
NCC	57%	14.8
Pagegroup	61%	13.0
Photo-Me	53%	7.8
Sophos	52%	26.7
SThree	65%	8.4
Synthomer	66%	11.0
TUI	67%	8.0
Tyman	64%	8.3
UDG Healthcare	57%	16.0

Source: Liberum, Bloomberg

By **Steven Frazer**
News Editor

MONKS – GLOBAL GROWTH FROM DIFFERENT PERSPECTIVES

Co-managers Charles Plowden, Malcolm MacColl and Spencer Adair have been managing the £1.7 billion Monks Investment Trust since March 2015[1]. But this triumvirate have been working together since 2005 on Global Alpha, one of Baillie Gifford's largest institutional strategies.

The value of your investment and any income from it can go down as well as up and as a result your capital may be at risk.

Monks sets out to be a core global growth investment and acts as a cornerstone to a private investor's portfolio. The managers seek to create a differentiated, actively managed portfolio containing a diversified range of growth stocks. Recognising that growth comes in many shapes and sizes, they have identified four sub-categories of growth that they believe will generate sustainable growth and lead to the trust's outperformance over the long term.

When analysing businesses, the managers focus on their underlying growth attributes and do not allow themselves to be distracted by the traditional habit of labelling companies by sector or domicile. For them, it makes no sense to think that the location of a company's headquarters matters in this globalised world, or that all financial or technology stocks share common business characteristics.

Monks categorises its investments into four growth categories: Growth Stalwarts, Rapid Growth, Cyclical Growth and Latent Growth. The team has a clear view of the inefficiencies they are exploiting within each growth category and the reasons why they expect investments to outperform. The use of these four designations also encourages diversity across the portfolio and provides a means of monitoring the operational performance of the investments.

1. Growth Stalwarts
These companies have durable franchises. We expect stalwarts to deliver robust profitability in most macroeconomic environments. Within this area, the managers are often drawn to businesses where the competitive advantages include dominant local scale, customer loyalty and strong brands. Stalwarts are expected to produce earnings and cash flow per share growth of around 10 per cent per annum over the long run. These are the types of long-duration businesses where the market fails to appreciate the benefits of compounding, as they may appear unexciting relative to more rapid or cyclical growth companies.

2. Rapid Growth
Most frequently, these are earlier stage businesses where the market opportunity is vast. We expect investments in this area to deliver high levels of revenue growth (at double digit per annum rates), and profit growth of 15 to 25 per cent per annum on a five-year view. Commonly, these are companies which are innovative, some attacking existing industry profit pools and some creating new markets for themselves.

3. Cyclical Growth
Companies in this category will have material secular growth prospects, but will also be subject to the influence of macroeconomic or capital cycles, and sometimes both. Here the managers look for businesses which are adaptable, with management teams trusted to allocate capital skilfully. Typically, we expect the earnings of these businesses are expected

[1]Excluding net borrowings. At February 2019.

to increase 10 to 15 per cent per annum over the course of a complete cycle.

4. Latent Growth
These are firms with often unspectacular recent operational records. The market expects them to either shrink or produce very low growth. However, analysis has identified a company-specific catalyst or series of catalysts, which will allow above average earnings and cash flow growth to re-emerge. The Monks managers expect to make money in these stocks as the market's expectations for earnings growth are upgraded and higher valuation multiples are attached to the profit stream.

By way of illustration three current holdings are listed below.

Schibsted (rapid growth), owns a series of marketplace business around the world, though its heritage is in Scandinavia. Originally a print media business, this ambitious company has undergone a remarkable transformation with the cash flows from its newspaper business being reinvested into new growth areas. One of the company's most important assets is now online classifieds platforms with leading market shares in more than 20 countries across the world. Backed by the Schibsted family trust, management's long-sighted, committed and entrepreneurial approach to investment has allowed the company to scale successfully in these areas. We think the market underappreciates the value of these new growth assets and that a planned spin-out of the classifieds operations will shine a light on their value.

Chegg (rapid growth) is another company which has successfully pivoted to an online model. Previously a low-growth university textbook provider, the company has transformed itself into the leading online education platform in the US. Chegg aims to offer its services at a low cost, with its most popular services including online textbooks and bespoke tutoring services. The company is currently entrenching its position and it serves more than 40 million students every year. Most recently, revenues have been growing at nearly 40 per cent per annum, and we see significant growth potential from the company's core offering alone. However, we also believe that Chegg could use this strong foundation as a platform to greatly broaden its services and act as a real long-term disruptor within a largely inert global education system.

Pernod Ricard (stalwart) offers a rare opportunity to invest in a branded consumer goods business delivering accelerating organic growth. The ambition and drive of Alexandre Ricard, grandson of founder Paul, looks set to leverage Pernod's attractive portfolio of brands in some exciting and high-growth Asian markets. The company enjoys over 40 per cent of the international spirits market in China and over 45 per cent of the premium spirits market in India. Asia currently accounts for around 40 per cent of the company's revenues, and we expect demographics and the emergence of middle class consumers to drive this materially higher in the future. When we couple the Asia growth opportunity with a commitment to deliver increased operating leverage, we see the potential for enduring value creation.

In summary, Monks offers a diverse and measured take on global growth. The managers like a flat portfolio with around 100 stocks sized according to enthusiasm. They invest with an eye to valuation levels. It is a trust that can sit comfortably at the centre of anyone's portfolio and also offers value for money with an ongoing charge of 0.52 per cent.

STANDARDISED PAST PERFORMANCES

	2014	2015	2016	2017	2018
The Monks Investment Trust PLC	3.2	8.9	33.8	35.0	-4.8
AIC Global Sector Average	8.8	10.9	22.6	24.1	-4.9

Source: Morningstar, total return

Past performance is not a guide to future returns. Investments with exposure to overseas securities can be affected by changing stock market conditions and exchange rates.

Author Biography

James Budden, Director of Marketing and Distribution, Baillie Gifford

James graduated with an MA in Classics from the University of Cambridge in 1987. He joined Baillie Gifford in 2008 having worked at Witan Investment Trust and Henderson Global Investors. James is a Director of Marketing and Distribution in the Clients Department.

THE SHORT CUT TO DIVERSIFICATION

Create a portfolio at the click of a button with ETFs

Low cost, instant to trade and easy to understand – it's no wonder that exchange-traded funds are becoming increasingly popular with investors.

Also known as ETFs or trackers, these low-cost investments are designed to mimic the performance of a given stock market or sector. But as ETFs have grown in popularity and assets under management have swelled, so too has the array of different things you can do with them.

They can be an ideal solution as building blocks of a diversified portfolio, allowing you to gain exposure to hundreds of underlying investments at the click of a button.

Once known almost entirely as being a simple way to track a popular index such as the FTSE 100 or the S&P 500, investors can now use ETFs to tap into specific industries, niche themes or particular trends such as value or momentum. But, just as with any other investment, it is important to do your homework first.

BROAD AND BASIC

ETFs CAN BE USED TO TRACK WIDELY-FOLLOWED INDICIES LIKE THE FTSE 100 AND S&P 500

ETFs have a number of appealing characteristics for investors. First and foremost, they are cheap and prices have fallen further in recent years as competition in the market has increased and technology has enabled fund groups to create new products more easily.

It is now possible to invest in an ETF for less than

0.05% - or under 50p on a £1,000 investment. That compares with a typical fee of around 0.75% for an actively managed fund.

ETFs are listed on an exchange and bought and sold like company shares; that means investors don't have to wait until dealing at the end of the day to buy or sell their investment, it happens at any point throughout the day.

ETFs are perhaps best known for their ability to track particular stock markets. Investors can choose funds that mirror the performance of the FTSE 100, S&P 500 or MSCI Emerging Markets index and enjoy exposure to the entire stock market or region through one product.

Among the cheapest ETFs tracking the UK market is **Lyxor Core Morningstar UK (LCUK)** which charges just 0.04%. It is designed to track a basket of large and mid-cap London-listed firms representing 97% of the total value of the UK market.

> "IT IS OFTEN BETTER TO BE AS BROAD AS YOU CAN"

ETFs track an index either by buying shares in all of the companies on that market or by investing in a representative sample of them if the universe is particularly big. Investors don't have to just track a country or region either; ETFs can track entire sectors such as technology or consumer staples.

Using ETFs to access these markets has been a popular strategy with investors in recent years because they are broad and contain hundreds of stocks. The alternative of cherry-picking individual stocks within these markets can be both risky and expensive, and outperforming the index can be difficult to achieve even for professional investors, particularly at a time when stock markets are generally rising.

James Norton, senior investment planner at Vanguard, says: 'Investing should be about the market at a broad level and not trying to single out the best funds or stocks because the chances are you won't be able to. Outperforming in a particular market is difficult so it is often better to be as broad as you can, for example investing in the entire Emerging Markets index rather than just China or India.'

THEMATIC

YOU CAN USE ETFs TO TRACK CERTAIN THEMES BUT WATCH OUT FOR THE FEE

ETFs that tap into specific themes can look very exciting; they allow investors to narrow down trends they believe will do well over the long term and hone in on businesses in potentially very niche industries or those which look best placed to benefit from a structural change in the world.

But there is a danger here that investors can end up putting their money in a tracker whose focus is so niche that it becomes risky.

Rob Powell, lead strategist at iShares Thematic Investing, says: 'A thematic approach allows investors to take a different view of the world, drawing together companies based upon trends that we can see around us and the impact they're likely to have in the future.'

Some of the themes that iShares has identified include technological breakthroughs, rapid urbanisation and the rise of electric cars.

The number of thematic ETFs has grown rapidly in recent years and investors can now choose to back specific trends from timber to water and robotics to renewable energy. There are funds which only invest in firms with good gender equality standards and even ones which focus solely on pet care businesses.

Electric cars is a theme iShares has identified

The issue is that some of these themes have a limited number of investable listed businesses within them, meaning that these funds can end up being concentrated into just a handful of stocks, which can make performance volatile.

ETFs tracking smaller markets or specific themes can also be more expensive. The **Ossiam ESG Low Carbon Shiller ETF (5HED)**, for example, has an ongoing charge of 0.85%. It tracks companies with a lower carbon footprint and good economic, social and governance (ESG) practices.

Adam Laird, head of ETF Strategy at Lyxor, says: 'There are some areas which have the potential for outperformance but you need to be careful. In technology, for example, many of the ETFs will be dominated by the same tech giants and a lot of the most exciting companies are unlisted so can't be bought by a fund.'

As a result, with specific themes it may be better to gain access through a specialist fund where the manager has proven expertise in finding investment opportunities within the industry and may have the ability to invest in unquoted businesses.

Norton says: 'We don't particularly believe in ETFs which focus on these micro-sectors. It comes back to diversification; doing well in a specific sector is hard and it is usually better to be as broad as possible in your exposure when investing.'

He adds: 'That said, I think as long as the core of your portfolio is well-allocated then having exposure to specific areas around the edges doesn't matter as long as you do your research and know what you are investing in. Flavour of the month products can be expensive and prone to large fall when they fall out of favour.'

ASSET CLASSES

USING ETFs TO TARGET DIFFERENT ASSET CLASSES

ETFs can be used for tracking more than just equities. A number of these funds allow investors to focus on specific asset classes such as bonds or property.

It is also possible to track commodities using exchange-traded funds – one example being **iShares Diversified Commodity Swap (ICOM)** which offers exposure to a portfolio of commodity contracts from seven different sectors for an ongoing charge of 0.19%.

Products which track individual commodities are not strictly speaking ETFs as they do not meet diversification requirements and instead are exchange-traded products (sometimes called exchange-traded commodities).

Among the most popular assets for investors to track are gold and oil, because getting direct exposure to the price of these commodities is otherwise difficult. The downside of tracking the spot price of assets such as these is that they can be volatile. Some funds will also use derivatives to track the asset, because they can't physically hold oil, for example, which can be complicated and add to the cost.

Another nuance to watch out for is which currency the index is being tracked in as often these commodities are priced in dollars rather than sterling, which means your returns can

As funds cannot physically hold oil, derivatives are used that can add to the cost


As the name suggests, the iShares Italy Government Bond ETF has a single-country focus

be influenced by the exchange rate between currencies.

With asset-based ETFs it is important to understand what the fund is actually buying. With bonds, for example, a fund will likely invest in a sample rather than all of the bonds in a given index simply because there are so many to choose from. In this case, paying close attention to the credit-quality and durations of the bonds being chosen will be an important indicator of the yield you can expect to receive.

The bond market is so vast that investors can either take a very broad approach with, for example, the **Xtrackers II Global Government Bond ETF (XG7S)**, which holds bonds across the US, France and Japan among other countries, or be very specific through funds such as the **iShares Italy Government Bond ETF (IITB)**, which focuses on just one country and one type of debt.

Property ETFs, meanwhile, are unlikely to invest in actual bricks and mortar but may instead give access to either housebuilders and construction companies or to real estate investment trusts. The **iShares UK Property ETF (IUKP)** holds the shares of British property groups **Segro (SGRO)**, **British Land (BLND)** and **Land Securities (LAND)** while the **SPDR Dow Jones Global Real Estate ETF (GBRE)** invests in the likes of US mall operator Simon Property Group and warehouse and logistics property group Prologis.

The benefit to investing in real estate investment trusts in this way is that you can get low cost exposure to a number of different vehicles, but the downside is that they can be quite closely correlated and performance can be volatile, such as after the EU referendum in 2016 when the share prices of property trusts fell as much as 70% in some cases.

RULE-BASED ETFS

ETFs ARE BECOMING MORE SOPHISTICATED AND CAN TRACK STOCKS BASED ON SPECIFIC CRITERIA

As the technology underpinning them becomes more sophisticated, ETFs have been able to offer more complicated strategies to investors.

> **"ONCE UPON A TIME, IF YOU WANTED INCOME SHARES OR TO FOCUS ON VALUE COMPANIES YOU HAD TO CHOOSE AN ACTIVE MANAGER, BUT NOW ETFS CAN DO THE SAME JOB AND OFTEN AT A FRACTION OF THE COST"**

While these funds have typically been known for passively following a particular index or stock market, rule-based or smart beta ETFs have more specific criteria.

Laird explains: 'Once upon a time, if you wanted income shares or to focus on value companies you had to choose an active manager, but now ETFs can do the same job and often at a fraction of the cost.'

Rules-based ETFs offer options to invest in high-yielding companies, momentum stocks or value investments. When choosing these it is important to look at how exactly the fund selects its holdings and how these are monitored – momentum stocks, for example, change frequently so need to be closely tracked – as well as assessing the track record of the fund and its parent company's experience in the sector.

The **SPDR UK Dividend Aristocrats ETF (UKDV)**, for example, focuses on the 40 highest-yielding UK companies within a broader index, including **BT (BT.A)**, **Greene King (GNK)** and **Tate & Lyle (TATE)**. It yields around 4.1%. Meanwhile, the **iShares MSCI World Quality Dividend ETF (WQDV)** holds quality income-paying firms across the globe including Exxon Mobil and Nestle in Europe and Verizon and Cisco Systems in the US. It yields 3%.

Other ETFs use leverage – meaning they borrow money – with the aim of maximising gains, but the risk here is that the leverage will also magnify any losses. Meanwhile, inverse ETFs use derivatives to take short positions, betting against the market, which may appeal to those who believe the stock market is due a correction but returns will suffer in a rising market.

> SMART ETFS ARE A REALLY INTERESTING AREA BUT SOME OF THESE FUNDS, WHICH USE LEVERAGE OR SWAPS, MAY BE POTENTIALLY DANGEROUS AND ARE MORE AKIN TO GAMBLING THAN INVESTING

Greene King features in the SPDR UK Dividend Aristocrats ETF portfolio

Costs can be higher in these areas too because the investments are more complicated to create and may require more oversight than other ETFs.

A key measure to watch out for is the spread – this is the difference between the price you buy at and sell at, and if there is a wide gap between the two could signal that the investment could be more difficult to sell when you want to. Larger funds, with more assets under management, may be more liquid and therefore have tighter spreads.

Norton adds: 'Smart ETFs are a really interesting area but some of these funds, which use leverage or swaps, may be potentially dangerous and are more akin to gambling than investing.'

By **Holly Black**

AEW UK Long Lease hit by tenant collapse

COMMERCIAL INVESTMENT property owner **AEW UK Long Lease REIT (AEWL)** has served notice on its manager and may put the company up for sale after its biggest tenant, Meridian Metal Trading, fell into administration.

The board is considering 'all options' from issuing shares to selling the company or winding it up.

Less than two months ago the £67m company posted higher net assets and announced an increased dividend thanks to higher income and revaluation gains.

HIPGNOSIS IS STRIKING A CHORD

MUSICAL RIGHTS investment firm **Hipgnosis Songs (SONG)** is issuing £100m in fresh equity for further acquisitions and 'to satisfy demand for new shares from existing shareholders'.

Since its IPO in 2018 the fund has acquired catalogues with a total value of £234m. Earlier this month it picked up a music catalogue from the songwriter behind six global hit songs for Canadian artist Shawn Mendes which have had more than 5bn streams on Spotify and Apple Music.

BlackRock Latin American eyes spicier strategy

NEW MANAGERS at **BlackRock Latin American Investment Trust (BRLA)** are rethinking strategy to widen geographic reach and be less conservative on stock selection.

Will Landers left the trust after 13 years in December having beaten its MSCI Latin American benchmark in net asset terms in eight of the past 10 years.

New managers Sam Vecht and Ed Kuczma want to tone down the trust's dominant exposure to Brazil (76% of funds) to include more Mexico and Argentina exposure. They also want to embrace higher risk companies with more exciting returns potential.

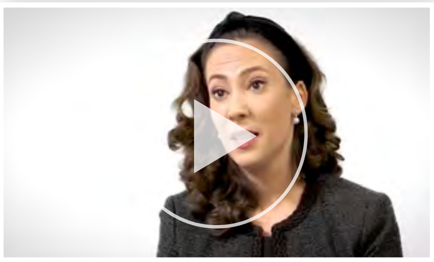
Baillie Gifford UK Growth brushes off portfolio disappointments

Trust is top performer despite problems for key holdings Renishaw and Ted Baker

Since Baillie Gifford took over the running of the trust from Schroders in 2018 **Baillie Gifford UK Growth (BGUK)** has enjoyed a strong performance.

In share price terms, the trust is the UK's best performer across the entire Association of Investment Companies UK All Companies grouping, over the last 12 months (see table).

Steered by Milena Mileva and Iain McCombie the trust's showing is somewhat surprising given the problems encountered by two of the stocks the pair have added to the portfolio.



Milena Mileva, Fund Manager- Baillie Gifford UK Growth

Best performing UK All Companies investment trusts

Trust	12 month share price total return (%)
Baillie Gifford UK Growth	9.8
Fidelity Special Values	5.7
Schroder UK Mid Cap	4.8
Invesco Perpetual Select UK Equity	4.1
Aurora	2.3

Source: AIC, 12 April 2019

As at 28 February precision equipment manufacturer **Renishaw (RSW)** represented 3.6% of the fund and fashion brand **Ted Baker (TED)** 2.9%, with both among the top 10 holdings.

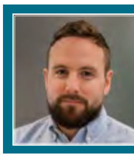
Yet Renishaw, which is also one of *Shares'* key selections for 2019, saw a strong start to the year in share price terms wiped out after a profit warning linked to faltering Asian demand (21 Mar).

And Ted Baker's problems have been well publicised as founder and CEO Ray Kelvin departed in March amid a storm of harassment allegations.

It is worth noting that these selections and the entire strategy of the fund are not focused on the short-term, indeed Mileva told an audience of journalists at an investment trust event late last year that she would be happy to hold Renishaw for the next decade or more.

Other constituents of the portfolio have helped compensate, with second hand car platform **Auto Trader (AUTO)** and safety equipment maker **Halma (HLMA)** to the fore.

Second on the UK All Companies list is **Fidelity Special Values (FSV)**. The contrarian trust is managed by Alex Wright who focuses on unloved UK PLCs. The latest commentary from the trust noted: that the 'deeply unloved status of the UK market has created an exceptionally fertile period for contrarian stock picking'. Its top position is in Irish building products firm **CRH (CRH)**.



By **Tom Sieber**
Deputy Editor

The benefits of an ethical approach

Why being good doesn't necessarily mean sacrificing returns

Some investors believe that choosing an ethical fund means compromising your returns, but many have held up incredibly well during recent volatility compared to their non-ethical counterparts.

Analysis by AJ Bell reveals a number of ethical and sustainable funds have beaten their sector averages significantly over recent months. Proponents argue that investing ethically could be a good defensive strategy at times of uncertainty.

SELECTED ETHICAL FUNDS HOLD UP IN SELL OFF

Justine Fearns, research manager at Chase de Vere, says: 'In the challenging environment of the final quarter of 2018, most equity funds headed south, including those with an ethical bias. Some ethical funds fell further than their benchmark but others, with a strong quality bias or dividend focus, held up better.

Since January, equity funds have recovered, and ethical funds have been no exception; their quality growth bias has led to many of them performing well.

WE ARE LOOKING FOR SUSTAINABLE COMPANIES WITH A LONG-TERM GROWTH TRAJECTORY

Relx features in Trojan Ethical Income's portfolio

Ethical funds, some argue, may hold up particularly well during periods of volatility because of the way they choose their investments. Funds with an emphasis on sustainability are likely to have less exposure to certain cyclical sectors, such as mining, which may suffer more during a downturn.

Instead, sustainable funds tend to have a focus on long-term structural trends, which should continue to play out regardless of the economic environment. They may, for example, look for companies set to benefit from an ageing population or a growing use of renewable energy. Certainly, the figures appear to suggest that investors have been no worse off for holding an ethical fund during recent volatility.

The **Stewart Investors Asia Pacific Sustainability (B0TY6V5)** fund, for example, produced a return of 1.3% in the three months to 31 December. Meanwhile, the average Asia Pacific ex-Japan fund fell 6.7%. In the period from 1 October 2018 to 14 March 2019 the fund gained 2% while the average rival was down 1.1%.

The **Trojan Ethical Income (BYMLFK3)** fund dropped 5.3% in the final quarter of 2018, compared to an average loss of 10.9% among UK Equity Income funds. Between 1 October and 14 March it returned 2.1%, while the average fund in the sector was down 3.3%.

SUSTAINABLE LONG-TERM GROWTH

Hugh Ure, manager of the fund, says: 'We are looking for sustainable companies with a long-term growth trajectory. Our screen excludes those typical "sin stock" areas such as tobacco, alcohol and gambling as well as fossil fuels.'

While many of those sectors are ones where investors have typically looked for reliable earnings and dividends – tobacco, in particular – Ure says regulators are starting to bite across these industries, which has hurt performance.

He adds: 'In mining, for example, you see huge environmental costs, and incidents and disasters seem to plague the sector. These businesses are often highly cyclical and capital intensive too and it's hard to have confidence over the long-term when those features are present.'

Top holdings in the fund include confectionary group Nestle, consumer goods firm Colgate Palmolive, and energy giant **National Grid (NG.)**.

The **Liontrust Sustainable Future Global Growth (3003006)** fund has also produced a positive return since October 1, up 0.3% while the average Global fund is down 4.4%. In the final quarter of the year it fell 10.2% - significant, but still less than the sector average fall of 11.5%.

Simon Clements, co-manager of the fund, says: 'We concentrate on areas we find attractive and think that if we pick good quality companies, managing ESG factors well, that are on the right side of big structural trends then it's not surprising they will do well.'

He is particularly interested in themes such as innovation in healthcare, improving quality of life and the improving efficiency of resources and energy. Top holdings include Ecolab, which is involved in water, hygiene and energy technologies, healthcare giant Roche, and software company Autodesk.

Clements believes these sectors are, by their nature, quite defensive and he avoids more cyclical areas such as oil and mining

"IN MINING, FOR EXAMPLE, YOU SEE HUGE ENVIRONMENTAL COSTS, AND INCIDENTS AND DISASTERS SEEM TO PLAGUE THE SECTOR"

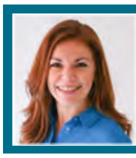
NOT ALL ETHICAL FUNDS PERFORM

For balance it is worth pointing out not all ethical funds have performed so strongly. The **Standard Life UK Ethical (B6Y80X4)** fund dropped 17.8% in the final quarter of the year compared to an average loss of 12.5% in the UK All Companies sector. **Kames Global Sustainable Equity (0727451)** dropped 16.1% in the final quarter compared to an average loss of 11.5% among other Global sector funds.

In the 266-strong UK All Companies sector none of the top five performing funds in the final quarter of 2018 were ethical. However, three of the top ten were, including **Schroder Responsible Value UK Equity (BF783V3)**, **Family Charities Ethical (0578262)**, and **Royal London Sustainable Leader (B8HTH59)**. These were down 7.3%, 7.4% and 8.2% respectively over the period.

These three funds beat the sector average loss of 12.5% by some way as well as the FTSE All Share, which was down 10.25% over the period. Interestingly, just one of the worst 10 performing funds was an ethical fund. Fearns says: 'Ethical funds have proved their investment worth and, if they meet an investor's needs by avoiding certain sectors then all the better.'

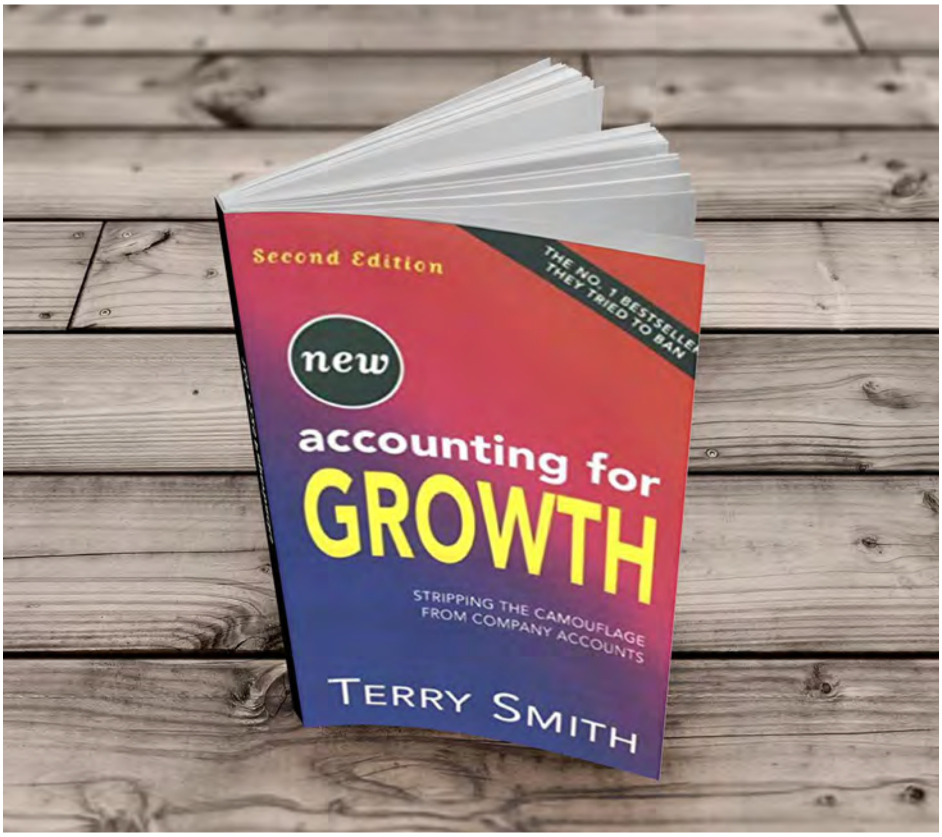
Clements adds: 'If you look at the performance of funds investing in this way over the past 10 years, it's hard to come to the conclusion that you will be compromising your returns.'



By **Holly Black**

The bestseller from Fundsmith's boss still packs a punch

Popular fund manager Terry Smith explains how to spot financial red flags in 'Accounting for Growth'



Back in the early 1990s, stockbroking firm UBS Phillips & Drew published a controversial research report titled 'Accounting for Growth'.

The report's co-authors were Richard Hannah, the shipping and transport analyst, and Terry Smith – who at the time was head of UK company research but is now better known as the founder of Fundsmith, one of the most successful UK fund management firms.

The report examined the rapid rise in profits at several UK companies and asked whether the increases were real or were generated by sleight of hand.

Over 200 companies were analysed and ranked by the number of 'creative accounting' techniques they used to enhance profits (known as the 'blob guide').

STRIKING A CHORD WITH INVESTORS

The report was voted the best piece of research by institutional investors in 1991, although the companies which scored poorly in it were understandably less than pleased.

The proof is in the pudding however and with just one or two exceptions the companies which ranked the worst duly performed the worst that year.

In 1992 the report was expanded and made into a book so that both institutional and retail investors could see for themselves where to find the relevant information in company accounts to spot these creative accounting techniques.

IF IN DOUBT DON'T OWN THE SHARES

The aim of the book is to prevent investors from losing money, and the advice is simple: if there are any doubts about the accounts, don't buy the shares.

The examples may be ancient history for today's investors but that doesn't mean the lessons are any less valuable.

One of the most striking examples is Polly Peck, a FTSE 100 company with a £1.5bn market value which announced record results on 3 September 1990, had its shares suspended on 20 September 1990 and by 25 October 1990 was in


The late Robert Maxwell's M/Y *Lady Ghislaine*

administration.

It turned out that for all its fancy footwork the company was deeply in debt and a large part of its cash was offshore in Northern Cyprus and Turkey, beyond the reach of creditors and shareholders.

With a £1.8bn market value, British & Commonwealth was the 46th largest stock in the FTSE 100 and the second biggest financial behind **Prudential (PRU)** which meant it 'fell from an even greater height' when it went into administration after contingent liabilities sunk its balance sheet.

ROBERT MAXWELL

Probably the most famous – or infamous – case study is the group of companies run by Robert Maxwell.

After Maxwell's mysterious demise off the Canary Islands in 1991, it was discovered that Mirror Group Newspapers' bank account had been emptied and £350m was missing from its pension funds.

Also various assets which had been pledged as security against bank loans had actually been sold and the share price had been manipulated in order to avoid margin calls on other bank loans.

Sister company Maxwell Communications Corp filed for Chapter 11 bankruptcy protection in the US after it was discovered that it had net debts of £1.5bn against net assets of just £1bn.

GREEDY IS AS GREEDY DOES

In most cases, companies which use aggressive or 'creative' accounting methods will have been using them for years and there may already be an odour of mistrust around them.

Managements which allow or encourage the flattering of earnings, be it through acquisition accounting, capitalising costs, currency mismatching or off balance sheet techniques to name a few examples, are not likely to change their behaviour.

Because profits can be 'manufactured', investors should focus instead on cash: as the book says, profits are just a matter of opinion – in fact they are no more than a 'true and fair view' by the firm's auditors – but hard cash is fact.


By **Ian Conway**
Senior Reporter

LAST YEAR FORMER fund manager Tim Steer brought out an updated guide on how to avoid companies heading for a fall, which he called 'The Signs Were There'.

Steer began his City career in 1987 as an analyst at James Capel Ltd (now part of HSBC) before heading up the European small- and mid-cap research team at Merrill Lynch.

In 2001 he helped set up New Star Asset Management before moving to Artemis in 2009 where five years later he was AAA-rated by Citywire as manager of a £4bn long-short UK fund.

Steer says if you spot the slightest accounting shenanigan it is likely to be the tip of the iceberg and the rest of the accounts will be riddled with issues.

One of his major bugbears is capitalising costs, which is an attempt to turn expenses into assets, in turn flattering earnings. This was a strategy routinely used by bust companies like Connaught and is currently utilised by **Aston Martin Lagonda (AML)**, as we have flagged previously.

Other bugbears include adjustments to the value of inventories (for example Patisserie) or acquisitions (Conviviality) and the treatment of receivables and accrued income as assets (Amey, Carillion).

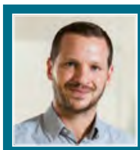
'What tax charge will I face at 75 in relation to the lifetime allowance?'

AJ Bell's pensions expert Tom Selby helps with a pensions query

I am 64 years old and understand that on attaining 75 there is a compulsory tax charge (triggered by what I understand is called a 'benefit crystallisation event') in relation to the lifetime allowance.

But what type of tax is liable? Is it income tax or a 55% penalty? I also have 75% of my fund crystallised and 25% uncrystallised – will that make any difference?

Rory



Tom Selby
AJ Bell
Senior Analyst says:

First of all there are a few bits of jargon in there that it's worth unpicking.

The lifetime allowance is the amount you can save tax-free over your lifetime in a pension. This limit is currently set at £1,055,000 and rises annually in line with Consumer Prices Index (CPI) inflation.

A 'benefit crystallisation event' is simply the point at which HM Revenue & Customs 'tests' how much lifetime allowance you have used.

If your fund is 'crystallised' it means you have picked a retirement income route (e.g. annuity or drawdown) and most likely taken 25% of the pot as tax-free cash. If your fund is 'uncrystallised' you haven't yet done this.

It is possible to crystallise part of your pot if you don't want to take all your tax-free cash at once. You can also take ad-hoc lump sums (known as UFPLS), with 25% of each withdrawal tax-free.

UNDERSTANDING THE LEVEL OF LIFETIME ALLOWANCE

Once you pick a retirement income path for some or all of your pension pot, the amount of lifetime allowance available will be reduced by the value of the pot you 'crystallise'.

For example, if someone age 64 with a £1m fund decides to crystallise everything and enter drawdown, they might take 25% as tax-free cash (£250,000) and use the remaining £750,000 to provide a retirement income.

Because the lifetime allowance is linked to inflation and therefore changes over time, the amount someone

uses is expressed as a percentage to two decimal places – 94.78% in this case.

As you suggest in your question, a benefit crystallisation event also occurs when you reach age 75, regardless of whether or not you've decided how you want to use your remaining fund.

So if in the above example the individual takes no more withdrawals but their remaining pot grows to £1.3m by their 75th birthday, £550,000 of this would be tested against the lifetime allowance (£1.3m minus the £750,000 that was put into drawdown).

Assuming CPI inflation has increased at 2.5% per year, the lifetime allowance could be £1,385,000 by the time our saver reaches age 75. However, because they have already used some of their lifetime allowance, the remaining allowance is worth £72,297 (5.22% of £1,385,000).

The level of the lifetime allowance charge depends on what you choose to do with the excess. If you take the excess as a lump sum before age 75 it will be taxed at 55%. If you leave it in the scheme or wait until age 75 it will be taxed at 25% with subsequent withdrawals subject to income tax.

So in the above example the excess at 75 is £477,703 (£550,000 minus £72,297) and the tax charge is a whopping £119,426.

NO NEAT TRICKS

Sadly there aren't any neat tax tricks you can use to avoid this charge. However, it is worth seeing if you can apply for fixed

or individual protection, which could allow you to lock in to a lifetime allowance of up to £1.25m at the moment.

You can read more about the terms and conditions of these protections **here**.

It is also worth thinking about how you want to withdraw the money and the impact this could have on your tax position.

For example, making some withdrawals in retirement could mean that there is less in your fund to be tested against the lifetime allowance at 75.

However, if your priority is leaving money to loved ones after you die pensions provide an extremely tax efficient environment in this regard.

If you were to die before aged 75 your fund can be passed on free of tax, while if you die after 75 it will be taxed in the same way as income – but only when your beneficiary chooses to make a withdrawal.

Navigating the lifetime allowance is one of the more complicated areas of pensions, so if you're at all unsure it's worth considering paying a financial adviser who can provide personal recommendations based on your individual circumstances.

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.

Profit by giving your investments a spring clean

We offer some top tips to ensure you are getting the best possible returns on your money

For many the new tax year was a rush of contributing to ISAs and sorting taxes before the year-end deadline of 5 April. But for those who want to get ahead for next year, with a bit more breathing space now the deadline has passed, it's a great time to organise your portfolio.

Here are our top tips for getting your investments in order for the year ahead.

SELL THE LOSERS

It can be hard to admit that an investment hasn't paid off, and that as much as you wish it it's just not likely to rebound any time soon. It's a classic behavioural trait that investors keep hold of their losing investments, as they can't bear to lock in the loss.

But you have to think about it another way, what could that money have been earning if you'd sold it a year ago and invested in something else. You definitely don't want to sell something too soon, but you need to ask yourself why the investment hasn't gone as you'd hoped, what it will take for it to rebound and whether that's realistic.

CHECK YOUR INVESTING STYLE?

If you look back at your investment account over the past year have you bought investments thoughtfully and regularly, or does your account look as methodical as a butterfly? If you're not very good at keeping on top of investments and funding your ISA maybe it's a good idea to set up regular investing.

This starts from around £25 a month with many providers and allows you to drip-feed money into the market. It also means that you avoid attempting to time the market (which even the professionals struggle to do consistently) and that you don't pile money in at the end of the tax year.

HAS YOUR PORTFOLIO GONE OFF BALANCE?

Once a year it's always good to look at whether your investment account still has a good spread across different assets and markets. As certain parts of your portfolio have done better than others it could mean you've built up a disproportionately large sum in one asset or country's stock market.

The result of this is that your portfolio will be more heavily reliant on a few investments,

which in turn increases the risk in your investment pot. It can feel counterintuitive to sell the stocks that have risen and buy more of the ones that have fallen, but that's the theory you should be sticking to, so long as you still have belief in the under-performing assets.

WHAT'S IN YOUR PIGGY BANK?

Investors are nervous at the moment, and we've seen big outflows from a number of funds, particularly from UK and Europe assets amid the Brexit uncertainty. This means that you might have more money in cash than usual. There's nothing wrong with this, so long as it's a considered decision not driven by panic. Inflation is currently higher than the measly amount paid by most cash savings accounts, meaning any money sitting in easy-access accounts will be losing spending power – so it's not a free option.

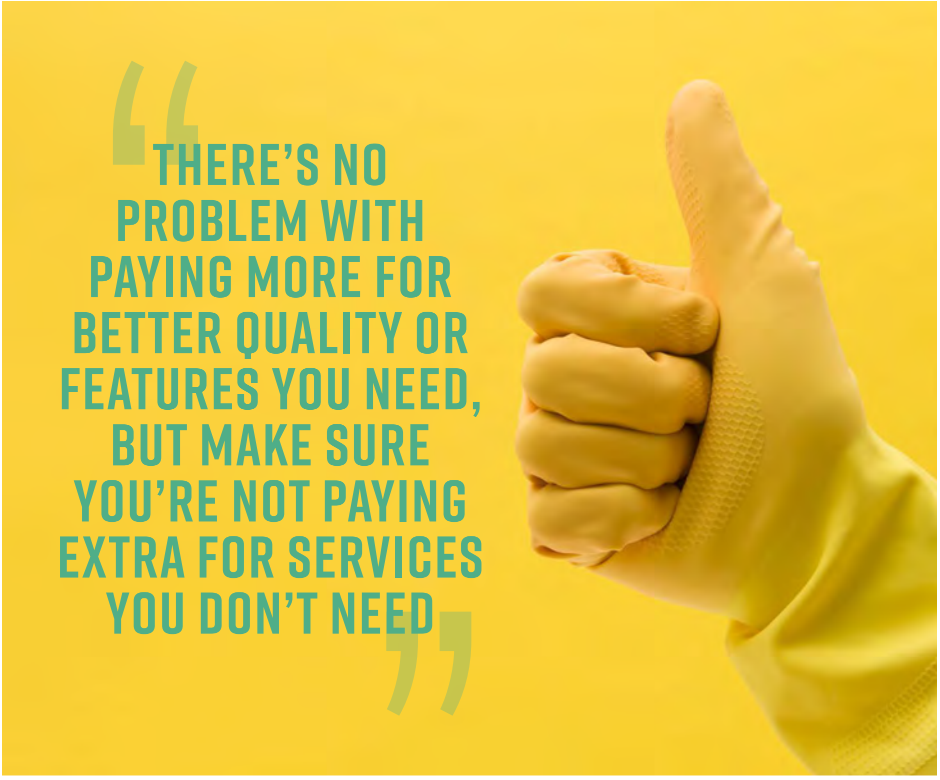
Instead you need to work out how much cash you're happy with (there's a handy guide here) and then look to invest the rest.

DO YOU STILL BELIEVE IN YOUR FUND MANAGERS?

There's nothing wrong with a fund manager underperforming over a short period of time, so long as it's in line with their investment strategy and you understand why.

But you need to check in with your funds once a year or so to check they're still performing as you'd want them to.

It's very difficult as an investor to work out when a fund manager is having a short-term bad run, where their style is out of favour for example, or when they have made bad decisions that will affect your investment returns.



> "THERE'S NO PROBLEM WITH PAYING MORE FOR BETTER QUALITY OR FEATURES YOU NEED, BUT MAKE SURE YOU'RE NOT PAYING EXTRA FOR SERVICES YOU DON'T NEED"

You need to put in the research to check they are still investing to their guidelines, see why they went wrong in the past year and what their views are. Many investors won't feel they can contact the fund houses themselves, but you should if you have any questions or can't find the vital information you need.

CAN I GET IT CHEAPER?

This is a good test for all areas of your finances, but particularly investments. You should check if you can get the same thing, at the same quality for a lower cost. This is probably simplest in the ETF or index tracker space, where it's much easier to compare one FTSE 100 tracker to another, for example, and then see which is cheaper.

The effect of charges can really eat away at your investment pot over the long term. For example, a £10,000 investment growing at 5% a year with annual charges of 0.5% would be worth £15,530 after 10 years, but if your annual charges were 1% a year that amount would be £14,802 – £728 lower. There's no problem with paying more for better quality or features you need, but make sure you're not paying extra for services you don't need.

It's trickier with fund managers, but if you're paying a lot for a particular fund you should first see if there's a cheaper share class you can buy. If not you should see if you can find another manager with a similar pedigree and style who could do the job for less.

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

Behind the screen with Ocean Outdoor

We explain how this digital billboard play makes its money

Sci-fi fans may remember the early noughties release *Minority Report*. One of the elements of the imagined world of the film was personalised advertising with digital billboards responding to the individuals passing them at that moment.

This scenario no longer belongs to the world of science fiction. Digital outdoor advertising specialist **Ocean Outdoor (OOUT)** has developed vehicle detection technology which will trigger a relevant message to be deployed when a specific audience is in front of the screen.

MORE THAN JUST A BILLBOARD

A BMW driver, for example, might expect to see a marketing message linked to that brand as they drove past, while the company's facial detection technology can serve advertisements to consumers based on gender, age, even down to markers such as eye wear and mood.

The £325m market cap, and the wider outdoor or out-of-home (OOH) advertising industry, have clearly moved a long way from a guy with a ladder pasting a poster to a wall.

More than 90% of Ocean Outdoor's business is digital. Having formed in 2004, two years later the company secured

a screen at the IMAX cinema in London's Waterloo and now has a contract for the two Westfield shopping centres in the capital as well as other iconic locations across the UK. Many of us will probably have glanced at one of its screens.

The firm was acquired by listed investment fund Ocelot Partners in March 2018, which subsequently renamed itself as Ocean Outdoor. The shares emerged from a long suspension in January 2019 to resume their listing on the London Stock Exchange's Main Market.

Ocelot ostensibly bought the business as a vehicle to make acquisitions in the sector. In June 2018 the company bought Scotland's leading OOH play Forrest Media and Netherlands OOH outfits Ngage Media and Interbest were snapped up in March 2019.

It is currently number four in the UK market behind JCDecaux,

OCEAN OUTDOOR EARNINGS FORECASTS

Year	EPS (p)
2019	33.4
2020	38.75
2021	40.3

Source: Eikon

Global and Clear Channel but is a leading player in digital OOH.

THE MODEL

So how exactly does the company make its money? Ocean Outdoor's chief operating officer and chief financial officer Stephen Joseph explains the model is 'one half property development and operations with the other half selling and marketing the advertising space'.

In effect, the property side locate and secure sites in attractive locations. Sometimes Ocean Outdoor will own the screen and on other occasions, notably at Westfield, the screen is built by Ocean's effective landlord as part of a development or redevelopment of a site.

Ocean then pays rent or a share of profit to the owner of the relevant site, which could be a corporate entity or a local council.

Retaining the contracts for these sites is crucial to the business and losing a location such as Westfield could be highly damaging.

While the company does not disclose specific renewal dates chief executive Tim Bleakley points out to *Shares* that contracts typically have a duration of between seven and 10 years and that its key locations have more than five years left to run. Renewal rates have also historically been robust.

With the locations secured, the sales and marketing side then sells the inventory. This could be an arrangement covering a couple of weeks, a day, an hour or can even be sold by impression.

A PROFITABLE BUSINESS

Full year results for 2018 announced last month showed how this model feeds into the company's numbers. Billings, i.e. the money it is paid by advertisers, were up 13.7% year-on-year to £87.8m. Revenue, or how much of this Ocean gets to keep, was up 15.2% to £62.2m.

Earnings before interest, tax, depreciation and amortisation (EBITDA) ticked up 4.7% to £20m with the EBITDA margin coming in at 32.2%. Operating cash flow totalled £17.9m and the company announced a $25m share buyback.

Most of Ocean Outdoor's inventory is bought on behalf of clients by big media agencies in the same way as TV advertising space, for example. Around 10% is sold directly, typically to smaller, regional advertisers.

The digital nature of its outdoor assets means its inventory is compatible with programmatic or automated buying of ads, as is the case with online advertising.

And Bleakley notes that one of the advantages outdoor advertising has over web-based adverts is that the risk of a company's brands being presented alongside extreme content is mitigated.

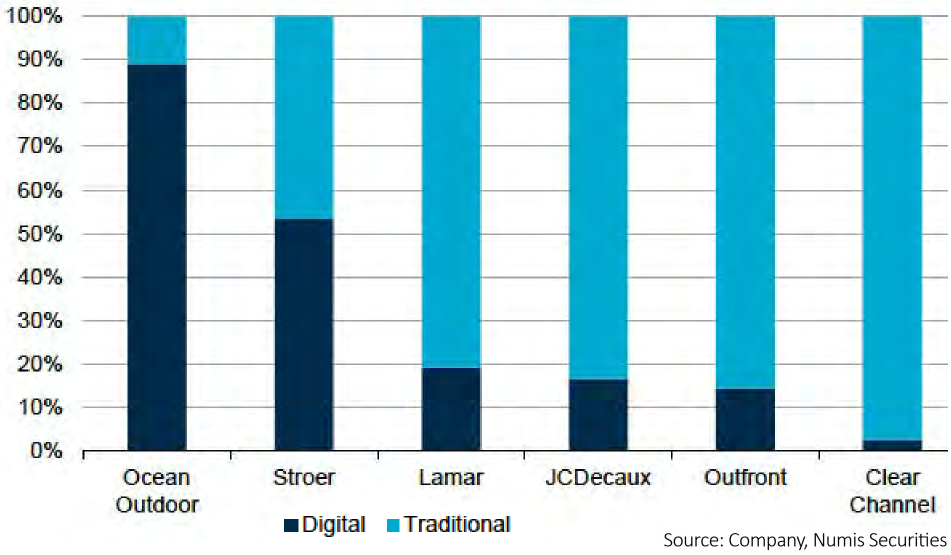
WHAT ARE THE MAIN RISKS?

Like any advertising business, the company is sensitive to what is happening in the economy. However, the group could continue to do well if digital OOH takes a greater share of the overall advertising dollar.

Bleakley says the strategy remains centred on three tenets, namely organic growth, continued investment in technology and acquisitions – with £160.5m on the balance sheet still to deploy as at the end of 2018.

The focus on M&A is another risk for prospective investors to weigh as the company could buy the wrong businesses, and whatever it acquires, the digital focus is likely to be diluted in the short-term with most operators in this market having a heavier bias to traditional OOH.

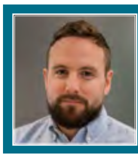
OCEAN OUTDOOR 2017 REVENUE EXPOSURE TO DIGITAL VERSUS PEERS



Source: Company, Numis Securities

SHARES SAYS:

We think this is an interesting story and trading at $7.80 the shares do not look overly expensive, particularly when you factor in the cash on the balance sheet. Based on Numis' forecasts the shares trade on an EV (enterprise value)/EBITDA ratio of 6.9-times against an average according to SharePad of 10.6 times for the wider media sector.



By **Tom Sieber**
Deputy Editor

SHARES INVESTOR EVENINGS

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Speaker: Stuart Gall, CEO

Intelligent Ultrasound's vision is to harness the power of the new generation of AI algorithms to make ultrasound simpler to use and easier to learn by providing guidance and support to medical professionals while they are scanning.

PHOENIX GLOBAL MINING (PGM)

Speaker: Dennis Thomas, CEO

This North American-focused base and precious metals exploration and development company's flagship project is a brownfield, past producing, copper, gold, silver, zinc and tungsten underground mine in Idaho.

+ MORE TO BE ANNOUNCED

Event details

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Presentations to start at 18:30
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KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

24 April: Boohoo.com, MaxCyte, PureTech Health, WANdisco.

Half year results

24 April: Associated British Foods, AB Dynamics.
25 April: Acacia Mining, RDI REIT.

Trading statements

25 April: Anglo American, Barclays, Meggitt, RELX, Kaz Minerals, Tullow Oil, Taylor Wimpey.

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