STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

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THE INDUSTRIAL METAL HAS A VERY BRIGHT FUTURE

PLUS

OUR TOP SHARE PICKS OF THE YEAR **SIGNIFICANTLY OUTPERFORM** THE MARKET

IS IT RIGHT TO WORRY ABOUT **PROPERTY PRICES** WHEN INVESTING FOR A FIRST HOME?

COMPARING THREE **NICK TRAIN** FUNDS

Will the market's good mood last?

Stocks are enjoying another rally despite lingering political and economic issues

US President Donald Trump's apparently constructive meeting with his Chinese counterpart Xi Jinping is setting a positive tone for the second half of 2019.

As we write the FTSE 100 is back above 7,500 and in the US the S&P 500 hit a new record high and moved close to the 3,000 level.

But just how much store should investors be setting in the ability of the US and China to resolve their differences over trade?

Recent history suggests not too much. After all, the truce agreed in December 2018 collapsed as talks made little progress towards an actual deal, despite Trump tweeting sporadically to suggest an agreement might be in sight.

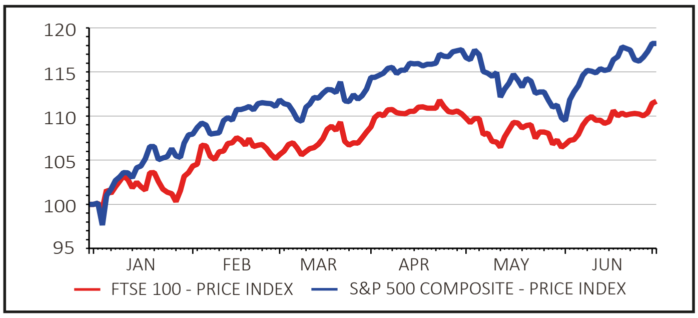
Investors are left to strike a tricky balance. They shouldn't get too caught up in what Trump says but his remarks undoubtedly have a market impact, at least in the short term.

Arguably it would be better to focus on what Trump does. Prospective tariffs have been suspended for now but if existing tariffs were removed or scaled back that would represent a real reason to sit up and take notice.

WHAT TO LOOK OUT FOR IN THE REMAINDER OF THE YEAR

Other key events or themes which could define the markets in the remainder of the year include the actions of the US Federal Reserve (also known as the Fed).

Investors appear to be pricing in at least one rate cut in the remainder of 2019. If Fed chief Jerome



Powell disappoints on this score you would expect stocks to take a hit. The next meeting of the Fed comes at the end of July.

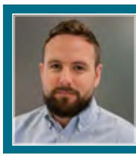
US second quarter earnings will start to filter out in the next few weeks and, along with the half-year reporting season in the UK, this will help reveal if the recent pick-up in sentiment has firmer foundations.

Finally, Brexit looms large on the horizon. The result of the Tory leadership contest on 23 July will reveal if Jeremy Hunt or Boris Johnson has won the race to occupy Number 10.

Johnson has suggested the UK will exit the EU 'deal or no deal' on 31 October. The intervening months are likely to reveal if this is just rhetoric to get Tory party members on side or genuine commitment.

We will be exploring what the current UK political situation means for investors in a forthcoming edition of *Shares*.

The global political situation will have to be monitored closely too, with tensions rising in the Middle East, as US-Iran relations deteriorate, as well as a rising tide of protests in Hong Kong.



By **Tom Sieber** Deputy Editor

Contents

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

INVESTING IN CLEAN ENERGY

AND ENERGY STORAGE

FOR LONG TERM INCOME

GRAVIS
CLEAN
ENERGY

Gravis

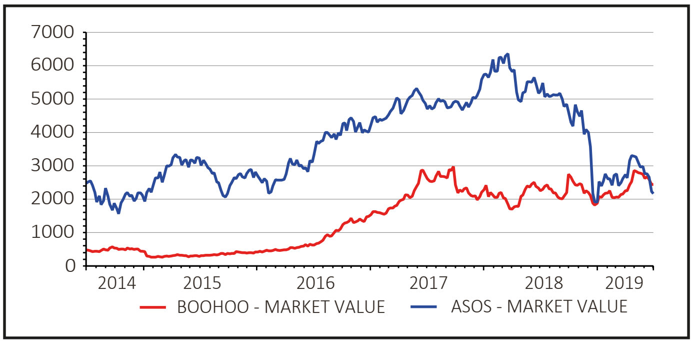
Boohoo is now the largest London-listed online-only fashion retailer

It overtakes ASOS in market value terms as the duo fight it out in global online fashion

Pure-play online fashion retailer **Boohoo (BOO:AIM)** is now worth more than former AIM market superstar **ASOS (ASC:AIM)**, demonstration the duo's contrasting fortunes.

Boohoo is profiting from its multi-brand approach, youth appeal and social media marketing, while ASOS has de-rated on concerns over slowing growth, margin pressure and mistakes in the US.

Having briefly topped the market price tag of its rival on 20 December 2018, Boohoo's market value has now comfortably surpassed that of ASOS as of 19 June and stayed higher in the subsequent trading sessions.



Earnings momentum story Boohoo continues to defy the subdued retail market conditions, disrupting rivals and capturing market share in the UK and internationally.

On 12 June it reported a 39% sales surge to £254.3m for the three months to 31 May, reflecting strong growth across all brands and in the US and Europe, albeit a slight gross margin decline accompanied this strong start to its financial year.

Sales growth from the original *Boohoo* brand was 27%, although it is now the acquired *PrettyLittleThing* and *Nasty Gal* brands that are spearheading growth, up 42% and 153% respectively in the quarter.

Boohoo is expected to deliver group revenue growth of 25% to 30% with an adjusted EBITDA margin of 'around 10%' this year.

The risk for investors is that the stock valuation appears up with events. At 210p, Boohoo trades at almost 40 times the 5.3p of earnings Shore Capital forecasts for the year to February 2020. This premium rating suggests any growth wobble going forwards would be severely punished by the market.

Poor sentiment towards ASOS, the fallen global fashion destination for 20-somethings, reflects concerns over slowing growth and management's ability to rebuild operating margins, not to mention the disruption from a major capital expenditure programme which is nearing its end.

The shares cratered on a major profit warning in December 2018 when ASOS flagged a sales shortfall and a halving of operating margins. That sobering news was followed by another weak update in March when capacity problems in its US business began to emerge.

At the half year results (10 Apr), CEO Nick Beighton said 'we grew sales by 14% despite a more competitive market', and added that ASOS was 'capable of a lot more'. The board left full year sales growth and EBIT margin guidance intact at circa 15% and 2% respectively, metrics which compare unfavourably with the guidance from bitter rival Boohoo.

Major shareholder wants to build larger stake in Aston Martin

A private equity firm could turn from seller to buyer

Italian private equity house Investindustrial is on the verge of taking the unusual step of rebuilding its stake in prestige sports car maker **Aston Martin Lagonda (AML)**.

The specialist buyout firm has launched a bid to buy a 3% stake owned by Kuwaiti-based investors listed as Primewagon, Adeem Automotive and Asmar on the shareholder register.

An offer of £10 per share has been offered and accepted via a partial offer arrangement.

Investindustrial and the Kuwaiti backers were the owners of Aston Martin when it was bought to the stock market in October 2018. Both investors sold substantial stakes in the initial public offering (IPO), priced at £19 per share, but also retained 31% and 36% shareholdings respectively at the time.

This deal, if confirmed, would effectively allow the Kuwaiti backers to further reduce their shareholding – having already been selling since the IPO – to approximately 27%. What is more surprising is that Investindustrial is doing the opposite and rebuilding its investment in the UK marque sports car brand.

People close to Aston Martin have told *Shares* that this is an illustration of the longer-term value the private equity firm sees in the stock after a dismal post-IPO share price performance.

Since listing the shares have slumped dramatically, plunging to an 818.8p low in May as concerns escalated over Brexit and the free flow of car components to and from Europe.

Aston Martin must also juggle massive investment for growth versus weakening profits and threadbare underlying cash flows despite selling more cars than ever.

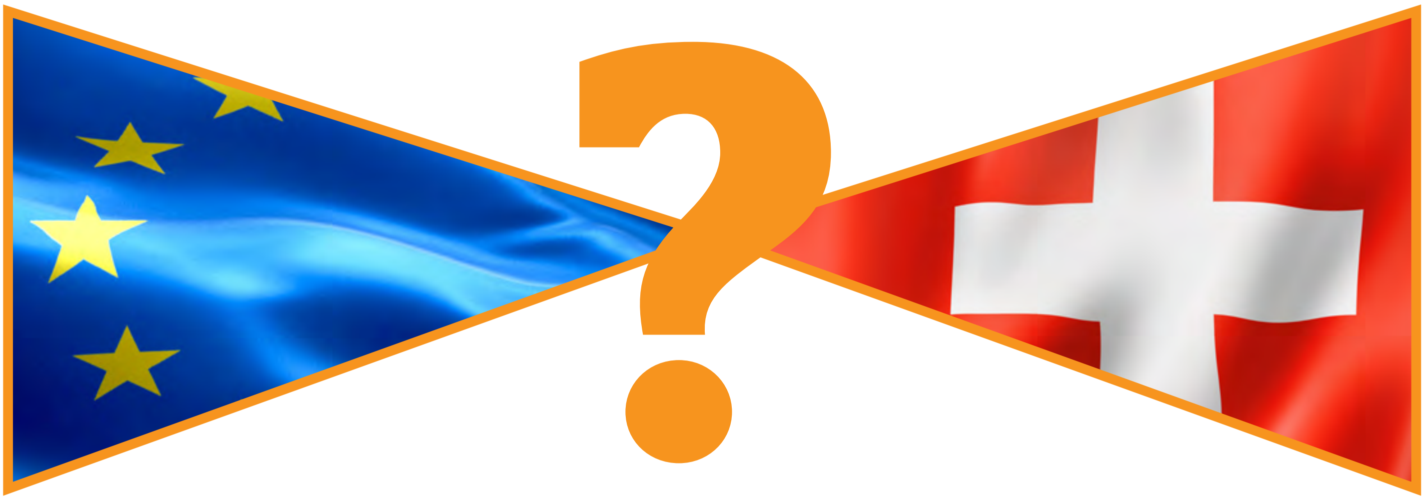
Normally this sort of share deal would trigger an automatic bid for the entire business under UK Takeover Panel rules. That happens when an investor wants to buy more stock that would take them over the 30% stake threshold. However, Investindustrial is operating under a Takeover Panel waiver agreed at the time of the IPO, which explains why it will be allowed to increase its stake from 31% to 34%.

The partial offer is open to all shareholders, including retail investors, and will be arranged on a pro-rata basis if investors beyond the Kuwait backers accept. Aston Martin will produce an offer document in the coming weeks.

Shares has previously been negative on the stock and our stance doesn't change as a result of Investindustrial seeing value at the current price.

Making sense of the EU-Swiss share trading spat

The clash between the two sides could have negative implications for share prices and liquidity



Investment firms in the EU are no longer allowed to deal shares listed on the Swiss stock exchange directly in Switzerland, prompting Switzerland to ban the trading of shares in Swiss-headquartered firms on EU markets.

The European Commission has decided not to renew an agreement known as 'equivalence' so Swiss and EU investors can no longer freely trade across each others' borders.

The permit was always meant to be temporary while the politicians tried to replace more than 120 bilateral trade agreements covering agriculture, civil aviation and the free movement of people into an over-arching umbrella agreement.

The three most-heavily traded stocks in the Stoxx Europe 600 Index – a benchmark for European shares – are Swiss companies Nestle, Novartis and Roche. In total, the index includes 55 Swiss companies accounting for around 15% of the total value of the index.

According to the European Fund and Asset Management Association, the representative for the European investment industry, about 5,000 EU index funds could face limited liquidity and 'bad' pricing because they will not be allowed to trade Swiss shares on established (EU) venues.

In addition, while trading in the larger names is likely to be accommodated by the Zurich exchange and other non-EU venues, that isn't likely to be the case for dual-listed companies. Two examples are Swiss-Swedish engineer ABB, which is traded in Stockholm, and Paris-listed cement company LafargeHolcim. A lack of liquidity could result in abnormal price swings.

According to analysts at investment bank ING, the Swiss could be deliberately trying to exploit a loophole in the equivalence ruling. It only comes into play when there is 'significant' trading volumes of Swiss shares trading on EU exchanges.

By calling the EU's bluff and removing the need to get the EU's equivalence status, the Swiss would not be required to fall into line with the EU. An added benefit would see all trading for Swiss-based firms conducted on the Swiss stock exchanges or US exchanges.

With transparency and liquidity in the spotlight, heightened tensions between Switzerland and the EU is an unwelcome development for investors that could weigh heavily on the Swiss economy. It may also provide a sneak preview of some of the financial fallout from the UK leaving the EU without a deal.

Funding Circle, Woodford and more of the week's big news

We look at the latest market movers and significant announcements

Crowd funding business **Funding Circle (FCH)** spooked investors after halving revenue growth guidance on 2 July. Its shares tanked 20% to 132p as it warned that demand for small business loans had weakened. Because we still don't know whether the Government will strike a deal with the EU, it is likely that entrepreneurs are nervous about borrowing to grow start-ups.

Stockbroker Numis thinks Funding Circle's prospects will be better after Brexit, as it provides more lending to SMEs than the entire UK banking system.

Elsewhere, it could be a long time before investors in **LF Woodford Equity Income (BLRZQ73)** get their money back. Woodford Investment Management confirmed the widely expected news that the dealing suspension would not be lifted following a 28-day review period.

Investors will now have to wait at least another month before they can get their money back, and realistically it could be a lot longer as manager Neil Woodford tries to rebalance the portfolio to more liquid stocks.

CONTRACT WOES FOR PAYPOINT

It has been an unhappy time for payment technology firm **PayPoint (PAY)**, whose share price was hit after losing a big contract with British Gas to provide payment services for top-up gas and electricity meters.

PayPoint said the direct revenue hit would be £1.4m in the year to March 2020, and £3.5m the following year, but the market was also be concerned by the fact the British Gas contract had been picked up by rivals Payzone and Post Office in a joint venture.

BRIGHTER SPOTS IN THE MARKET

Aberdeen-based oil and gas engineer **John Wood Group (WG.)** surged after the company told the market it had improved its profitability.

In a trading update for the six months to 30 June, John Wood said its revenue was in line with the first half of last year, but its adjusted pre-tax profit would be up 7% on last year and its operating profit 25% higher.

Multinational retailer **Kingfisher (KGF)** finally saw its share price move upwards after it appointed a new chief executive. Thierry Garnier joins from French supermarket Carrefour. He replaces Véronique Laury, who leaves having failed to turn the business around and having overseen a 52.8% drop in pre-tax profit in the past year.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS		
STOCK	**SHARE PRICE RISE**	**REASON**
Merlin Entertainments	14.0%	Receives 455p per share takeover offer from Kirkbi, Blackstone and CPPIB
John Wood Group	13.9%	Bullish trading update
Playtech	11.7%	Two directors buy £51,827 worth of stock

WORST PERFORMERS		
STOCK	**SHARE PRICE FALL**	**REASON**
Funding Circle	-36.9%	Slashes revenue growth guidance in half
Amigo	-12.4%	Ongoing investor concerns about possible regulatory clampdown on guarantor lending
PayPoint	-11.9%	Loses British Gas contract

Source: Shares, SharePad

Regional REIT shows there is still life in UK property

The commercial property investor also offers a 7.7% dividend yield

A £50m fundraise at 106.5p, which is open to retail investors via most investment platforms until 18 July, will enable UK real estate investment trust **Regional REIT (RGL)** to make some headway on a large pipeline of opportunities in the commercial property space.

We think this move could create significant value for shareholders given the company's track record and the REIT looks a good buy for income investors offering a prospective yield of 7.7% and a steadily growing stream of dividends.

Stephen Inglis, chief investment officer at London & Scottish Investments which manages Regional REIT, thinks certainty on Brexit in either direction, whether there is a deal or no deal, should see money come into UK assets.

On this basis there is currently a window of opportunity to pick up real estate at a discount, with the focus very much on the regional offices which already dominate the portfolio alongside some industrial properties.

The £500m pipeline identified by London & Scottish comes from two main sources. The first are situations where private equity firms are selling the last few assets from much larger portfolios.

Most of the time the former will have made the majority of their money already and will want to dispose of the remaining assets as quickly as possible, enabling Regional REIT to pick them up at a discount.

The trust's track record of completing on acquisitions gives it an advantage as vendors are looking for certainty on the sale rather than being driven entirely by price.

The second source comes from open-ended property funds which are being pressured by redemptions to sell assets so they can generate cash to return to investors who want to get out.

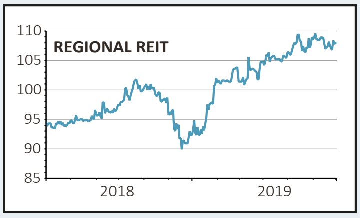
Regional REIT looks to add value by managing acquired assets more actively than they probably have been in the past. This might mean undertaking refurbishments, bringing in new tenants and where possible boosting rental income.

The market for regional offices is seen as enjoying attractive dynamics because there have been very few new developments in this space, outside of London, since the financial crisis.

Regional REIT is also likely to continue its opportunistic strategy of disposals when it has worked its magic on an asset. In the past two financial years, it has managed to conclude deals at a substantial premium, around 20% on average above previous asset valuations.

REGIONAL REIT BUY
(RGL) 107.6p
Stop loss: 86p

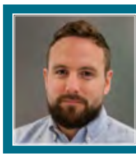
Market value: £402m



Property portfolio

149 properties	835 tenants
£721.2m value of portfolio	£58.2m contracted rent roll

Source: Regional REIT, as of 14 June 2019



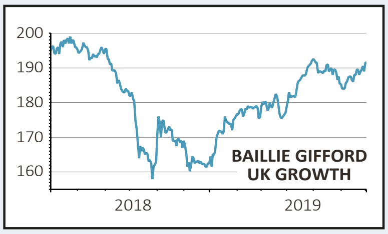
By **Tom Sieber**
Deputy Editor

Baillie Gifford 'best ideas' trust may not stay cheap for long

The high conviction trust hunts for compelling UK growth opportunities

BAILLIE GIFFORD UK GROWTH FUND ↗ BUY
(BGUK) 191.5p
Stop loss: 153.2p

Total assets: £303m



Investors seeking to complement mainstream UK value and income-oriented funds with a concentrated, actively managed best ideas growth trust should snap up **Baillie Gifford UK Growth Fund (BGUK)**.

The only Baillie Gifford-managed investment trust trading at a significant discount to net asset value (NAV), 5% at the time of writing, a continuation of the recent pick-up in performance should trigger a re-rating.

Indeed, Winterflood Investment Trusts' Simon Elliott believes the trust could swing to an NAV premium over the next 12 months, helped by Baillie Gifford's high profile among retail investors.

Baillie Gifford assumed responsibility for running the trust, formerly Schroder UK Growth, at the end of June last year. The change came at the instigation of the board and followed a period of poor performance that had seen the trust languish on a persistent discount.

Although Baillie Gifford UK Growth has underperformed the FTSE All-Share since the change, it has outperformed so far this year, delivering an NAV total return of 15.5% versus 13% for the FTSE All-Share Index.

The investment trust is co-managed by Iain McCombie and Milena Mileva and aims to achieve capital growth and a total return in excess of the FTSE All-Share.

It now has a mid and small cap bias with a relatively concentrated portfolio of 42 'best ideas'. Active share, a measure of how different a fund is to its benchmark index, is high at 86%.

The investment approach has a growth and quality bias, with the team taking a long-term ownership approach. They search for under-appreciated growth stocks, believing in the power of compounding and that superior growth drives long-term outperformance.

Having shifted away from larger income holdings into growth companies that are reinvesting rather than distributing dividends, the yield on the trust's investments is of 'secondary importance'.

The portfolio includes drinks giant **Diageo (DGE)** and online car listings play **Auto Trader (AUTO)**, as well as precision engineering outfit **Renishaw (RSW)** and safety group **Halma (HLMA)**.

The largest holding is **Hargreaves Landsown (HL.)**, but the trust now also has a stake in rival investment platform **AJ Bell (AJB)** and remains invested in out-of-favour fashion retailer **Ted Baker (TED)**.

The position in the latter was reduced following allegations over the behaviour of founder and major shareholder Ray Kelvin, although the trust's managers believe the recent appointment of a new CEO is a positive for the business.

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

DISCLAIMER: AJ Bell is the owner and publisher of *Shares*. The author owns shares in AJ Bell.

RESTAURANT GROUP
(RTN) 135.1p

Gain to date: 19.3%

Original entry point: Buy at 113.2p, 11 April 2019

SHARES IN **Restaurant Group (RTN)** rallied after we said to buy in April. Having eased back slightly in the past month, the stock is now back on an upwards trajectory after investment bank Berenberg found evidence that consumers were warming to one of the group's main brands again.

It compared the latest TripAdvisor ratings for Frankie & Benny's restaurants in 10 UK cities versus scores in March 2018 and found a marked improvement.

'The improvement in Frankie & Benny's reviews could lead to customers visiting more frequently and may help to bring lapsed customers back to the brand,' says the investment bank.

It did the same analysis for Wagamama sites and found that consumers still like the brand even after it was bought by Restaurant Group last year.

And to get a more balanced view Berenberg analysed reviews for rival outlets Nando's and Zizzi and found that neither of those brands' ratings had improved this year.

Berenberg believes the Wagamama acquisition will be earnings-dilutive in the first year of ownership but significantly earnings-accretive by year three.

SHARES SAYS:

The recent bout of rainy weather may have disrupted trading for Restaurant Group but that would only be a short-term issue. We're buying into the recovery story which certainly looks like it has legs. Stay positive.

Our 2019 picks are beating the market hands down

Every one of our stocks enjoys gains so far this year

At the halfway point of the year our key selections for 2019 are doing superbly. Our average gain of 18.3% compares with an 11.2% gain for the FTSE All-Share over the same time period.

Pleasingly not a single selection is in negative territory and four names are up by more than a quarter on our starting point. More than half the portfolio has enjoyed double-digit gains.

WHICH IS THE BEST PERFORMER?

Top of the pile is **Keystone Law (KEYS:AIM)**. The 'challenger' law firm upped guidance in January and full year results in May were comfortably ahead of expectations with revenue up 35% to £42.7m and pre-tax profit up 57% to £5.1m.

This suggests the company's business model, allowing lawyers to plug in to its platform in return for taking a slice of their billings, is continuing to work nicely.

So far 2019 has been mixed for the retail sector with Debenhams shareholders wiped out and Topshop owner Arcadia teetering on the brink but high street stalwart **Next (NXT)** continues to rise above the crowd.

First quarter results (1 May) beat forecasts thanks to a sunnier and warm Easter but, as usual, management have done a good job of ensuring investors' expectations don't run ahead of themselves.

BUCKING NEGATIVE INDUSTRY TRENDS

If Next is proving the right retail strategy can continue to thrive despite a difficult backdrop, the same could be said for online beach holidays specialist **On The Beach (OTB)** which has outperformed a battered travel market so far in 2019, even if Brexit continues to cloud the outlook.

In the remainder of the year investors may start to see how its attempt to break into the offline holidays market, largely through its £20m acquisition of Classic Collection in August 2018, is progressing.

Identity data intelligence outfit **GB Group (GBG:AIM)** posted a bumper set of full year

SHARES' 2019 PORTFOLIO

Company	Entry price (p)	Price now (p)	% gain / loss
Keystone Law	370	526.5	42.3
On The Beach	362	481.5	33.0
Next	4191	5434	29.7
GB Group	422.5	547	29.5
Renishaw	3804	4314	13.4
Euromoney	1172	1318	12.5
Rolls-Royce	801.8	852.8	6.4
Fevertree Drinks	2210	2350	6.3
Coats	77.3	81.9	6.0
Hollywood Bowl	219.5	228.2	4.0
AVERAGE			**18.3**
FTSE All-Share	**3686.07**	**4097.9**	**11.2**

Entry prices taken 18 Dec 2018. Latest prices taken 1 July 2019 results on 5 June. Revenue up 20% to £144m encompassed an impressive 12% organic growth, and an improvement in margins to 22.3% helped operating profit advance 21.7% to £32m.

The experience of precision measurement kit manufacturer **Renishaw (RSW)** in 2019 could have Chumbawumba as its soundtrack. 'I get knocked down, but I get up again, you ain't ever going to keep me down.'

Despite twice warning on profit thanks to weak Asian demand, the shares have bounced back strongly on each occasion, suggesting there remains significant investor appetite for the business. Full year results on 1 August will be closely scrutinised for forward guidance.

First half adjusted earnings from media group **Euromoney (ERM)**, posted on 16 May, beat expectations. Significantly there were signs the company had managed to stem the bleeding for its struggling asset management business. This added to previous positive developments including **Daily Mail & General Trust (DMGT)** offloading its 49% stake.

FEVERTREE LOSES SOME FIZZ

Previously one of our star performers, premium mixers maker **Fevertree Drinks**

(FEVR:AIM) has recently lost some of its fizz as fears about slowing sales were eventually confirmed by industry data from Nielsen in June.

Management have kept their counsel for now but will be expected to address the market's concerns when they report first half results on 23 July.

Global thread manufacturer **Coats (COA)** has a reputation as a solid citizen and it has done little to undermine that so far in 2019.

A steady return, although somewhat short of the broader stock market, was underpinned by a reassuring trading update on 23 May which flagged results in line with expectations despite economic uncertainty, with the company encountering some currency headwinds thanks to volatility in the Indian rupee, Turkish lira and Brazilian real.

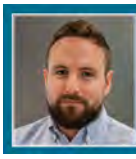
REMAINING GROUNDED

Shares in aircraft engine specialist **Rolls-Royce (RR.)** have stalled a bit despite the recovery story continuing under chief executive Warren East with the company revealing on 2 May that its trading to date was in line with expectations.

Engine troubles, particularly with the company's Trent 1000 series, have helped keep the shares grounded. First half results are scheduled for 6 August.

Tenpin bowling franchise **Hollywood Bowl (BOWL)** is quietly getting on with the job.

The second half, running to the end of September, is traditionally less strong as warmer weather means people focus more on outdoor activities but a soggy start to the UK summer might have helped trading.



By **Tom Sieber**
Deputy Editor

Does earnings guidance help investors?

Companies could focus instead on explaining their businesses better

Every quarter, investors and analysts wait with bated breath to hear what companies expect in terms of sales and profits for the next six to 12 months. Often it is this guidance which drives a stock way higher or way lower during earnings season, not necessarily beating or missing estimates.

The ritual of giving quarterly guidance has come in for sustained criticism from public figures like investing legend Warren Buffett, Jamie Dimon, chief executive of JPMorgan Chase, one of Wall Street's largest banks, and Larry Fink, the founder and chief executive of the world's largest asset management firm, BlackRock.

Also, work by consulting firm McKinsey has shown that giving guidance makes no difference to corporate returns. So why do companies continue to do it and why is the trend growing rather than shrinking?

The reason seems to be that companies worry that *not* giving the market some kind of guidance can lead to increased share price volatility when earnings are released and result in a worse share price performance overall.

TO GUIDE OR NOT TO GUIDE

Buffett, Dimon and Fink argue that the habit of giving quarterly guidance encourages an unhealthy focus on short-term profit at the expense of long-term strategy, growth and sustainability.

Worse, they claim, if management are remunerated on short-term earnings or share-price targets then they will attempt to engineer earnings to beat their quarterly guidance and lose sight of their long-term goals.

Indra Nooyi, the outgoing chief executive of Pepsi, lamented that the treadmill of quarterly reporting made her 'pay undue attention to short-term results'.

Yet the number of companies providing quarterly updates is actually rising and last year in the US hit the highest level in a decade, according to S&P Global Market Intelligence.

PERFORMANCE DICTATES RETURNS NOT GUIDANCE

Companies seem to have been convinced by investors and analysts that issuing quarterly guidance means greater credibility, which results in lower share price volatility, higher liquidity and possibly a higher valuation.

Yet a study by McKinsey found no evidence that it did any of these things except spark a temporary increase trading volumes when a company which had previously kept quiet starts issuing guidance.

As part of its study McKinsey looked at whether companies which discontinued guidance saw a worse return than the market. They found that on balance there was no evidence of a stock underperforming because the company gave up guidance.

Where stocks did lag the market it was due to poor underlying performance in the business, for example a decline in return on invested capital, and not giving up guidance. Poor performance led to lowered expectations for future returns, which sent the shares down.

THE COSTS OF A SHORT-TERM APPROACH

The difficult job of predicting earnings and the painful result of missing expectations can be a powerful incentive for management to focus on the short term and in some cases to manage earnings from quarter to quarter to give the impression of stability.

Companies may hold back on technology spending, hiring, or research and development (R&D) to meet quarterly earnings forecasts which can be affected by factors outside the company's control, such as commodity-price fluctuations, stock-market volatility and even the weather.

At its most extreme it can encourage fraud. Fund manager Bernie Madoff – who ran the largest Ponzi scheme in history – gave his clients monthly updates, so the frequency or quantity of reporting is irrelevant if the quality is questionable.

UK GOING THE WAY OF THE US

Most UK companies release half-year and full-year updates, but a growing number release detailed quarterly results.

Then there are trading statements: as well as a statement on current trading to accompany the annual general meeting, many companies release 'pre-close' trading statements at the half-year and full year.

In the box we have picked three examples of companies which play the game well and as well as delivering guidance give a detailed explanation of how their businesses work and what investors should expect going forward.

A BETTER WAY OF COMMUNICATING WITH INVESTORS

If giving quarterly guidance is irrelevant when it comes to managing a company's long-term growth then there needs to be a better way of helping the market to understand the businesses, its strategy and what drives its underlying value.

For example retailers could break down the elements driving their revenue growth such as same-store growth, prices, volumes and product mix. Industrial companies could explain what drives their margins and how capital-intensive their businesses are.

Rather than giving explicit financial targets, which make life easy for analysts and investors, companies could discuss how various drivers have affected their current performance and how they expect them to change going forward.

Analysts and investors would then have to build their own models to factor in the influence of various inputs not just on earnings but also on value, rather than clustering around the forced guidance of a management team too scared to give up their quarterly habit.

Compass Group (CPG) is the archetypal 'defensive growth' stock and is priced accordingly at 25 times earnings. However its communication with the market is exemplary and its focus on organic revenue growth and operating margins is crystal-clear.

Next (NXT) is less defensive but is just as clear with investors as what to which metrics drive the business and what to expect. Its May trading statement explained why sales were better than forecast and why investors shouldn't get carried away with the performance.

Speedy Hire (SDY) was historically a highly cyclical business but chief executive Russell Down has done a fine job of reducing the cyclicality and communicating clearly with investors. The performance measure Down puts above all others is return on capital employed (ROCE).

By **Ian Conway**
Senior Reporter

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TIME TO BUY COPPER

THE INDUSTRIAL METAL HAS A VERY BRIGHT FUTURE

If you're an investor in copper, you would have had a tough time in the past decade. The price of the metal has almost halved compared to a decade ago, and some people think the price won't pick up soon thanks to a dodgy global environment.

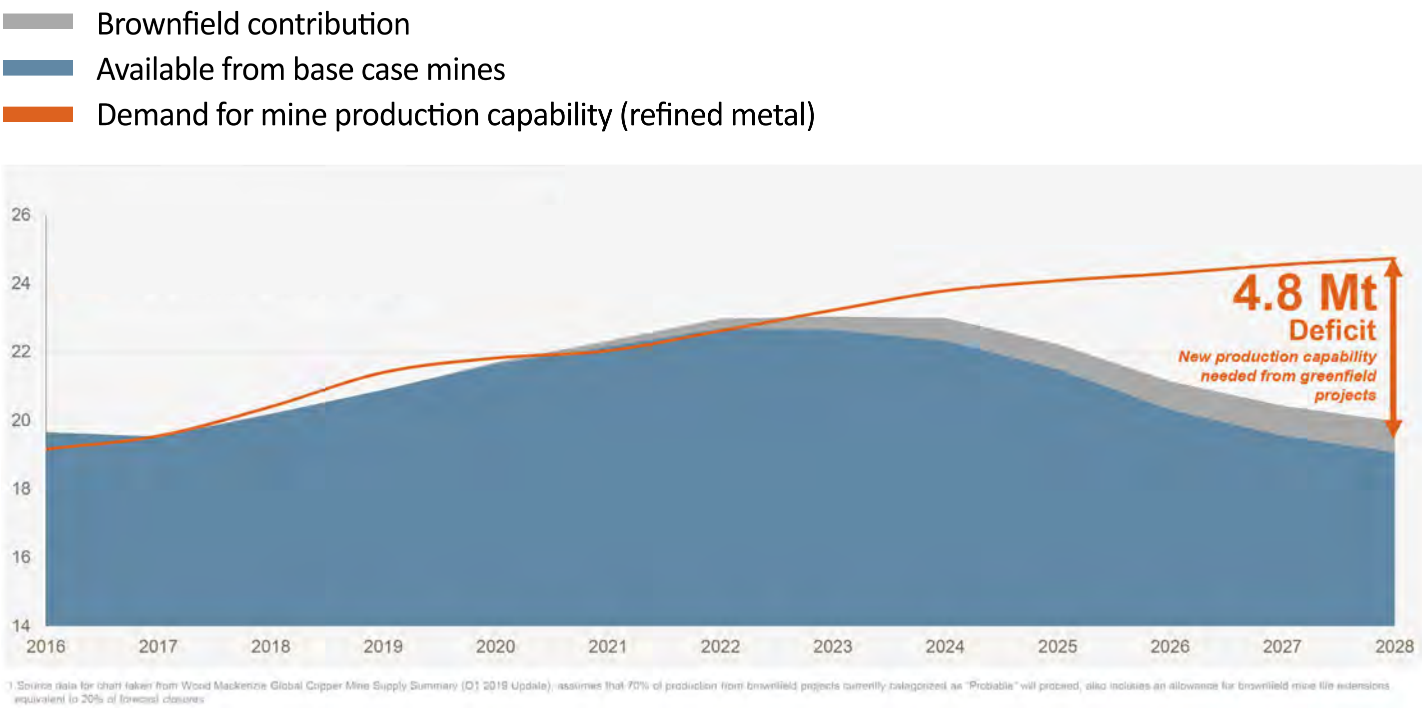
It begs the question why you would bother investing in it. Read on and we'll explain why.

Copper is used in practically everything – wiring, transport, construction, the power grid, etc. It is seen as a bellwether for the global economy.

That's why the price is currently down, as investors are nervous about the world given the US is picking fights with China and Iran, and many economies across the globe aren't developing as well or as quickly as people thought.

It's also why gold has rocketed to a six-year high, with worried investors – central banks among them – looking to stockpile the precious metal in case things take a turn for the worse.

FORECAST COPPER SUPPLY DEFICIT



Source: MOD Resources

In this article we will explore why copper has brighter prospects than many believe and discuss some of the ways you can get exposure.

FORGET THE GLOOM

A growing number of experts who track the metals space say you should forget the gloom, because the fundamentals underpinning copper are strong and its price is set for a big increase over the long-term, regardless of what happens in the latest ding dong between various international heavyweights.

One of these experts is Olivia Markham, co-portfolio manager at **BlackRock World Mining Trust (BRWM)**, which invests in several copper-producing miners and has a 20% allocation to pure-play copper stocks in its portfolio.

Markham believes there is a big 'disconnect' between the current price of copper and its underlying value, which is driven by the fact that copper is at its largest net short position in 13 years.

That means more investors (mostly hedge funds) are betting that the price of copper will fall than it will go up.

In the copper futures market, where buyers and sellers agree on a price to buy copper at a set time

PLAYING COPPER THROUGH EXCHANGE-TRADED FUNDS

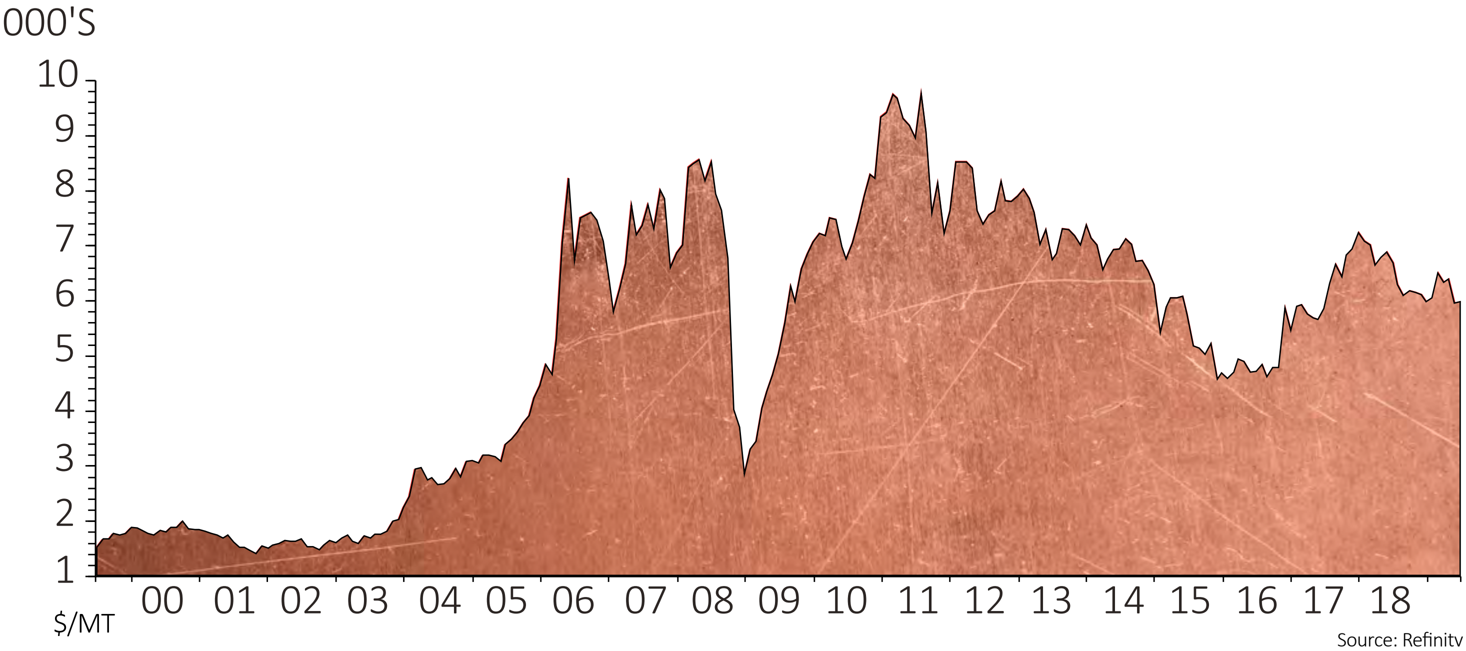
Most exchange-traded funds tracking copper are very risky, as they are leveraged products.

When the price of copper goes up, a leveraged ETF's value will go up two or three times more than the copper value. But likewise it will fall by two or three times more when the copper price drops.

The only ETF available to UK investors to play copper without that level of risk is WisdomTree's **ETFS Copper (COPA)**. WisdomTree says it has seen a lot of people buy into the ETF in recent months as people are confident on the long-term prospects for the base metal.

This ETF tracks the Bloomberg Copper Subindex Total Return Index, which is comprised of longer-dated copper futures contracts.

COPPER PRICE OVER THE PAST 20 YEARS



in the future, there has been a net short position of 46,000 contracts

'It's a reflection of people's negative view on global growth, global demand, the US China trade tensions, etc,' she explains.

'Of all the commodities, copper tracks much closer to global growth and investor sentiment, unlike iron ore for example which tracks closer to its true supply and demand fundamentals.'

BIG DEFICIT

When it comes to copper supply and demand, while there is a small surplus in supply at the moment, this is expected to fall into a deficit later this year, with the deficit expected to continue getting wider as demand grows.

Sandfire Resources, an Australian mining firm which recently agreed to buy UK-listed copper miner **MOD Resources (MOD)**, forecasts the copper deficit to hit 4.8m tonnes by 2028.

Around 23.6m tonnes of copper was used worldwide last year, and in 10 years' time demand is forecast to increase to 29.8m tonnes.

Sandfire's figure is based on the copper available from current mines and contributions from old ones which are brought back into operation.

To meet demand new mines are needed from greenfield sites, i.e. sites which haven't been mined before. These are a lot more risky for miners to develop and can be very expensive.

Part of the reason for the probable lack of adequate supply going forward is down to the fact it's simply not economical for most miners to develop new projects.

Markham says: 'It's become harder to find new copper deposits. The ones that are there are lower grade, and in difficult jurisdictions.

'Expect the copper supply longer term to be in

> **"The grid infrastructure in all (these) developed countries needs upgrading"**

deficit. And demand continues to grow at a rate of around 1% to 2% of GDP. It comes down to the whole story around electrification – demand for electric vehicles, electronics and upgrading the grid infrastructure.'

KEY MARKET DRIVES

Nitesh Shah, a research director at exchange-traded fund (ETF) provider WisdomTree, believes the latter point – upgrading the grid infrastructure – is the key factor that will drive copper demand.

'Wiring is a very big thing,' he says. 'The grid infrastructure in all these developed countries needs upgrading, and then you've got all the developing countries, and cities becoming major cities for the first time, which all need to build and improve their grid infrastructure.

'All of that requires copper wiring, so that demand is not going away any time soon.'

In addition, electric vehicles are expected to be a big boon for copper, with anywhere between 40 kilogrammes (kg) to 90 kg required for electric cars, and a whopping 370 kg needed for an electric bus according to the Copper Alliance.

There were 5m electric vehicles on the road last year. The International Energy Agency has forecast this number to reach 130m by 2030.

'That's an exponential increase in 12 years,' says Shah, who adds that for all such expansion in electric vehicles on the road to take place, 1.8m tonnes of copper will be needed. Right now, there's around 200,000 tonnes going into such vehicles.

While copper investors will be rubbing their hands with glee, it won't be good news for Tesla.

When the electric carmaker moaned in May about how it foresees a shortage in key materials for its cars – copper being one of them – the share price of copper-producing miners jumped, including **Anglo American (AAL)** and **Antofagasta (ANTO)**.

More comments from car manufacturers about such shortages could also help the copper price, and that of shares in copper miners, to keep rising.

CHINA IS KEY

Key to the rise in copper demand will be China, which will be at the forefront of world demand because as it gets wealthier people will, naturally, want more of everything. And practically so many things feature copper.

According to analysts at BCS Global Markets, last year China accounted for 50% of the world's entire copper usage. A decade earlier the figure was 29%.

'Everything depends on China,' says BCS analyst Oleg Petropavlovskiy. 'If the Chinese economy is doing well, the copper price will go up. But if there's weak economic data from China, then we'll see

another decline in copper prices.'

While the growth of China's middle class is a story expected to continue for decades, and which some say is ultimately the key to copper's long-term price growth, Petropavlovskiy suggests not getting too carried away with copper prices and shortages, and foresees supply to keep growing, albeit at a low rate.

'We've been told copper deposits are getting smaller and copper grades are falling. I've heard this for 11 years. But in my experience, it has not been happening,' he says.

'[Copper] supply will be growing by 2% to 3% in the next few years, but if consumption in China falls, then the price of copper will go down.'

NOT FOR THE FIRST TIME

As Petropavlovskiy intimates it's important to note that this isn't the first time people have got excited by copper.

The metal was meant to do well under Trump, especially after he vowed as a presidential candidate to spend $1trn on infrastructure.

As is the case with any election anywhere in the world, beware of candidates' promises.

That was in 2016, and now two and a half years into his presidency, the US Congress is still debating whether or not to authorise such a plan, let alone start building.

Many in the copper industry waited eagerly for the metal's price to rise after Trump got elected. Roughly 900 days later, and the price is now lower.

But this current wave of excitement among some investors is different given economic trends are pointing to a long-term upswing in copper's price, and those who watch this commodity all agree the fundamentals are sound.

If you buy this argument, then how can you invest in the theme? There aren't many copper-related investment fund or trust options out there, and the ones that are available either have poor performance or only have a small exposure to copper in their portfolios.

A better option could be to invest in copper miners. These businesses can benefit from an increase in copper prices with the added bonus of further gains if they make operational progress. However, you are also exposed to geopolitical, financial and operational risks.

We now discuss three London-listed mining companies offering exposure to copper.

ANTOFAGASTA (ANTO) 923.4P

A constituent of the FTSE 100, Antofagasta is the biggest pure-play copper miner on the London Stock Exchange, and operates in what is considered a low-risk jurisdiction with all of its mines in Chile.

The business itself is considered by analysts at Jefferies as the lowest risk play on the copper price, as it has a strong balance sheet with low net debt, and a conservative management team and board of directors who aren't minded to take big risks.

It also has a good track record of paying both ordinary and special dividends to shareholders throughout the market cycle.

The company's shares fell by nearly 20% in a two-month spell between the middle of April to June, as the copper price went down to 'near-recessionary levels', according to Jefferies.

The share price has since recovered around 10%. Even a small increase in demand for copper should help push the shares higher.

It has a number of low-risk growth opportunities available with extensions to its existing mines, and its pre-tax profit is forecast to increase steadily over the next five years. Antofagasta is our top large cap copper pick.

KAZ MINERALS (KAZ) 600.8P

Focused on large scale, low cost open pit mining in Kazakhstan, KAZ Minerals is another big, pure-play copper company.

KAZ has historically been focused on large scale, low cost, open pit mining. It operates the Bozshakol and Aktogay open pit copper mines in the Pavlodar and East Region of Kazakhstan, three underground mines and associated concentrators in the East Region of Kazakhstan and the Bozymchak copper-gold mine in Kyrgyzstan.

The shares were hit last summer when it unveiled a $900m deal to buy a copper project in a remote part of eastern Russia.

BSC Global Markets analyst Oleg Petropavlovskiy says the main issue for KAZ is that the port near the mine in Russia is both small and already operating at full capacity.

There are other miners in the area – big ones such as Kinross and **Polymetal (POLY)** – but they're all in gold, which means they can get their product out through helicopters. KAZ on the other hand is the only copper miner, and so itself has to build an extension to the port.

CENTRAL ASIA METALS (CAML:AIM) 213.5P

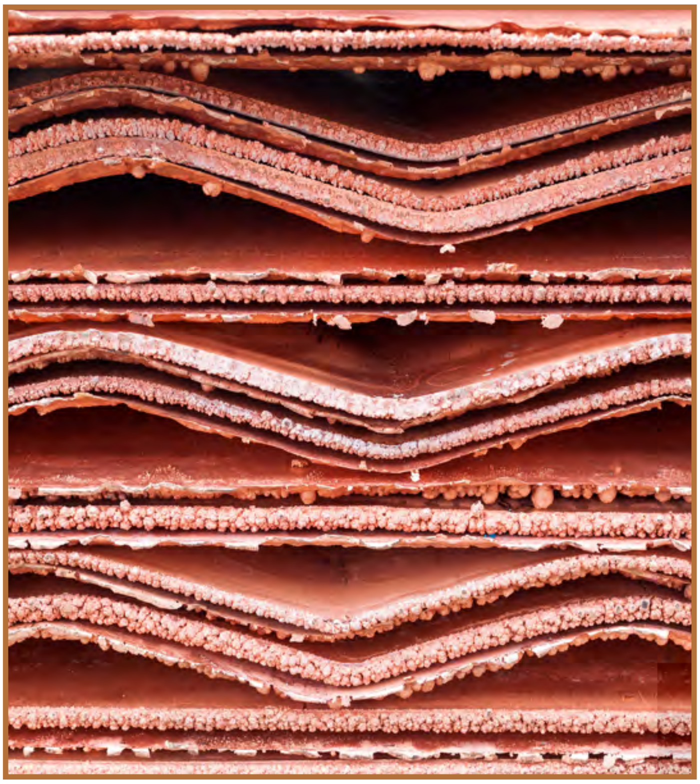
Central Asia Metals is a favourite with investors thanks to its historically generous dividend.

While its share price has dropped from a high of 266p in April, a lot of that is to do with the market recently being disappointed in a 12% cut to the dividend to 14.5p.

The company changed its dividend policy to make it more sustainable, reflecting the fact it has become a larger company with higher capital requirements since acquiring a lead/zinc mine in 2017. Nonetheless, its dividend yield still stands at a generous 5.5%.

While the company is ambitious to keep growing, its management have a track record for being incredibly conservative with their growth plans to ensure they're creating value for shareholders and not being reckless in the pursuit of growth.

It has mines in Kazakhstan and North Macedonia, with a licence to run the former until 2034, and a mine-life of 20 years on the latter.



By **Yoosof Farah** Reporter

Discover the hottest UK income funds

We look at the biggest and most popular products

Dividends have always been important to investors. While there are many retail enthusiasts both willing and able to conduct the necessary research on individual income stocks, deciding for themselves what's right for their own needs and portfolios, there are plenty of others with neither the time to spare or inclination to do so.

That makes UK income funds a popular choice for mainstream retail investors, tapping into the pools of experience and expertise of a management team that is able to do the legwork for them while still earning a decent return on their capital.

These dividends can be taken out as income for those, say in retirement, on bi-annual, quarterly or even monthly basis, depending on the fund, or reinvested to boost longer-term returns for those still working and saving for the future.

The UK equity income funds space is large and diverse yet some funds seem to attract investors like moths to a flame. Here we will look at some of the UK's biggest and most popular open-ended UK income funds, measured by asset under management (AuM), sometimes called assets under administration (AuA).

UK DIVIDENDS HEALTH CHECK

When it comes to income yield the UK stock market certainly packs a punch. The benchmark FTSE 100 index currently yields 4.5%, making it look pretty attractive in both absolute terms and when compared with other mature global stock markets, and even bonds.

For example, the S&P 500 in the US yields 2.4%, according to Refinitiv data. Even European and Japanese equities struggle to match the payouts on offer in the UK.

For example, the Euronext 100, a collection of leading corporates across Europe, like Airbus, LMVH, Heineken, Renault and Ubisoft, yields 3.2%, while Japan's Nikkei 225 will net investors only 2% a year.

The yield on 10-year Gilts stands at a measly 0.8%, or just shy of 0.6% for the three-year Gilt.

UK dividends also look reasonably secure, by and large, backed as they are by huge payouts from some of the world's biggest companies, such as **Royal Dutch Shell (RDSB)**, **HSBC (HSBA)**, **Unilever (ULVR)** and **AstraZeneca (AZN)**.

Though on the flip-side this does mean income is dependent on just a small collection of stocks.

Partly this is because dividends have been strengthening for many large cap UK listed companies in recent years, particularly in sectors like mining, oil and gas and among the once embattled banks.

RECORD PAYOUT 2019

The latest Divided Dashboard report from investment platform AJ Bell Youinvest shows that FTSE 100 companies are expected to pay £91.2bn in dividends to shareholders in 2019. That would be a record even after estimates were trimmed from £93.7bn at the start of the year following some big ticket payout cuts - **Vodafone (VOD)** and **Marks & Spencer (MKS)** spring to mind.

'The dividend yield on offer may be one reason why the FTSE 100 has risen by around 10% this year, despite all of the prevailing political and economic uncertainty', says Russ Mould, investment director at AJ Bell Youinvest.

So there are definitely attractions in the UK income space and there may also be logic to following the herd into the most popular funds.

HUNTING WITH THE PACK

In his 2005 book *The Wisdom of Crowds* James Surowiecki illustrated the notion that a group's judgement can be surprisingly on the money. Surowiecki's work can be traced back to observations made by Francis Galton, the cousin of Charles Darwin.

Galton noted the impressive accuracy of the average of all entries in a 'guess the weight of the ox' competition at a country fair in 1907, which not only beat most of the individual guesses but also those of alleged cattle experts. This is the essence of the wisdom of crowds – the average judgement converges towards the correct solution.

> THE DIVIDEND YIELD ON OFFER MAY BE ONE REASON WHY THE FTSE 100 HAS RISEN BY AROUND 10% THIS YEAR
>
> RUSS MOULD

UK'S BIGGEST EQUITY INCOME FUNDS*

	Fund size (£bn)	Yield %
Artemis Income	5.60	4.4
Threadneedle UK Equity Income	3.99	4.3
JOHCM UK Equity Income	3.47	4.3
Trojan Income	2.79	4.0
Schroder Income	2.30	4.2
Royal London UK Equity Income	1.91	4.5
Jupiter Income Trust	1.79	4.3
Marlborough Multi Cap Income	1.55	4.6
Standard Life UK Equity Income Unconstrained	1.37	4.9
LF Miton UK Multi Cap Income	1.25	4.4

*In IA Equity Income Sector. Source: FE Trustnet

By this measure picking a UK income fund that is very popular with other investors might make sense.

Different fund managers will take different approaches to income investing. Some focus on larger companies that are seen to be more stable and have paid regular dividends for many years. Others invest in higher-risk small and medium-sized companies. These might pay a lower income to start with, but have more growth potential.

FUNDS IN FOCUS

Let's take a whistle-stop look at the biggest funds in the UK income space. Standing head and shoulders ahead of the pack is **Artemis Income (B0MTK82)** with some £5.6bn of AuM.

This fund targets income stocks likely to increase payouts over time so that the fund can do likewise. That necessarily implies a certain amount of capital growth to support rising dividends drawn from mainly UK investments but not just ordinary shares. It also gets creative by assessing preference shares, convertibles and fixed interest bonds.

Top holdings include oil majors **BP (BP.)** and Royal Dutch Shell, drugs developer **GlaxoSmithKline (GSK)** and several financial services organisations.

Run by Richard Colwell for almost a decade **Threadneedle UK Equity Income (B8169Q1)**

LARGEST OVERSEAS EQUITY INCOME FUNDS		
	Fund size (£bn)	Yield %
BNY Mellon Global Income	5.34	3.0
Artemis Global Income	3.18	3.3
Fidelity Global Dividend	1.16	2.8
Janus Henderson Global Equity Income	0.76	3.5
UBS Global Enhanced Equity Income	0.74	8.9

LARGEST BOND FUNDS		
	Fund size (£bn)	Yield %
Schroder ISF EURO Corporate Bond	7.76	2.0
iShares Corporate Bond Index	4.96	2.3
Dimensional Global Short Dated Bond	4.93	1.2
Invesco Corporate Bond	3.97	3.1
Jupiter Strategic Bond	3.89	3.6

Source: FE Trustnet

is also a firm believer in the pharmaceutical industry's ability to keep cranking the cash machine to feed a steady stream of dividends. AstraZeneca and GlaxoSmithKline are its two biggest single stakes at 8% and 5.9% of the fund respectively.

Not exclusively UK-based, the rough £4bn fund invests at least two-thirds of its assets in shares of UK companies but will also consider buying non-ordinary equities and bonds. Industrial and consumer goods names are also heavily represented in the top holdings, such as parts distributor **Electrocomponents (ECM)** and Marmite-maker **Unilever (ULVR)**.

Banks feature strongly in the portfolio of **JOHCM UK Equity**

Income (B95FCK6), which aims to generate long-term capital and income growth through active management of a portfolio of UK equities.

High street names **Lloyds Banking (LLOY)**, HSBC and **Barclays (BARC)** are all in the fund's top 10 largest stakes, while sizeable holdings in **Standard Life Aberdeen (SLA)** and **Aviva (AV.)** really cement its big call on financial services.

But JOHCM is also a very firm believer in the oil industry's payout prospects, where BP and Shell account for almost 16% of the portfolio between them.

Vodafone is another stake that really stands out with the fund's management clearly retaining faith in the mobile phone network's longer-term capital and dividend growth hopes despite it recently slashing its annual payout.

BEYOND THE BACKYARD

Yet there are enough political and economic questions swirling around UK investment markets to make it worthwhile for investors to glance beyond their UK equities backyard, especially given the relative growth potential of, say, the US stock market.

The S&P 500 is clearly a favourite income and growth hunting ground for **BNY Mellon Global Income (B7S9KM9)**, where nearly half the portfolio is pitched (44%).

Top names include networking technology giant Cisco Systems and Qualcomm, the Snapdragon microchip designer that powers many of the world's billions of smartphones.

For the real belt and braces investor there are also some very popular fixed-income bond funds to consider, the largest five we have listed in the table.

By **Steven Frazer**
News Editor

Which Nick Train fund should you buy?

The fund manager has a great record and is involved in different products

NICK TRAIN FUNDS: SPOT THE DIFFERENCE				
Fund	10-year annualised return (%)	Yield (%)	Ongoing charges (%)	Discount/ premium to NAV (%)
Lindsell Train	32.0	1.6	2.36 (incl perf fees)	80
Finsbury Growth & Income	19.7	1.7	0.67	1
LF Lindsell Train UK Equity	18.2	1.7	0.68	0

Source: AIC, Morningstar June 2019

It is not that unusual for fund managers to run more than one portfolio – and when that applies to someone with a stellar track record like Nick Train it raises the question of which fund investors should buy to gain exposure to their expertise.

Sometimes known as the king of buy-and-hold investing, Train is a near 40-year veteran of the markets. Having risen to become head of equities at M&G he departed to set up asset management firm Lindsell Train Limited (LTL) with Michael Lindsell in 2000 and his funds have been highly popular and strong performers in the intervening 19 years.

A MASSIVE PREMIUM

The sheer popularity of Train's approach is reflected in the current 80% premium to net asset value enjoyed by the flagship investment trust he steers, **Lindsell Train (LTI)**. This premium is also heavily influenced by the perceived undervaluation of the holding the trust has in the asset manager LTL, which accounts for 46% of the fund.

Recent commentary from Michael Lindsell (20 June) noted the premium implied a valuation of £1.1bn for LTL.

Lindsell came close to telling people not to invest in the trust: 'We continue to caution that the shares in the trust represent a risky investment if bought at a premium, and certainly at today's approximate 90% premium.'

CONSIDER THE ALTERNATIVE

An alternative could be to consider **Finsbury Growth & Income (FGT)** which trades at a much more manageable premium to NAV of 1% and offers exposure to a rough like-for-like portfolio albeit without the holding in LTL.

This similarity is despite Lindsell Train sitting in the Global sector and Finsbury Growth & Income in the UK Equity Income space.

In fact, neither stock offers a particularly generous income with Lindsell Train yielding 1.6% and Finsbury Growth & Income at 1.7%.

On a 10-year share price total return basis Lindsell Train comes out on top with a return of 1,578% against Finsbury's 506%, according to industry body the Association of Investment Companies (AIC).

The approach involves building a concentrated portfolio of quality UK companies that have strong brands and/or powerful market franchises.

This is a consideration with all the funds managed by Train. He is a conviction manager with a highly concentrated portfolio (of around 20 companies) and his buy-and-hold credentials are well earned, famously making relatively few new investments.

The holdings are not just concentrated in terms of the number of companies but also in terms of sector with heavy exposure to consumer goods companies and, despite Lindsell Train having a global mandate, UK stocks.

FOCUS ON QUALITY

The aim is to purchase shares in high-quality businesses with strong cash generation to underpin growing dividends and with the ability to adjust and thrive in different market and economic conditions.

In terms of cost, Finsbury Growth & Income also compares well with the Lindsell Train product. AIC figures show the Finsbury trust has an ongoing charge of 0.67% with no performance fee while Lindsell Train charges 2.36% when you factor in performance fees.

There are plans to cut charges for Lindsell Train.

A third option for Train devotees is the open-ended fund **LF Lindsell Train UK Equity (B18B9X7)**. Again, this has many of the same holdings as the other two funds.

COSTS AND CHARGES

The ongoing charge is broadly similar to Finsbury Growth & Income at 0.68% and its 10-year annualised return also looks substantially the same at 18.2%.

TOP 10 HOLDINGS

Lindsell Train	Finsbury Growth & Income	LF Lindsell Train UK Equity
Lindsell Train Limited 46.7%	RELX 10.3%	RELX 10.1%
Diageo 7%	Unilever 10.2%	Unilever 10%
London Stock Exchange 6.5%	Diageo 10.1%	Diageo 10%
AG Barr 6%	Hargreaves Lansdown 8.6%	Mondelez 9%
Nintendo 5.8%	Mondelez 8.5%	Hargreaves Lansdown 8.6%
Unilever 5.4%	London Stock Exchange 8.2%	London Stock Exchange 8%
Paypal 4.4%	Schroders 7.3%	Schroders 6.6%
Heineken 3.5%	Burberry 6.5%	Sage 6.5%
RELX 3.4%	Sage 6.4%	Burberry 6.4%
Mondelez 3.3%	Heineken 5.6%	Heineken 5.9%

Source: Lindsell Train, as at 31 May 2019

The structure of the fund means that, unlike with the trusts, investors do not need to consider the complication of premiums or discounts to NAV.

The premium enjoyed by Lindsell Train looks unsustainable so Finsbury Growth & Income or LF Lindsell Train UK Equity are better options if you want to invest with Nick Train. Remember, this means being comfortable with his conviction-based and patient approach to the markets.

As Michael Lindsell points out, you also need to consider the succession issue. He recently said: 'Faced with the unlikely scenario that Nick or I will not be around for whatever reason, it's clear that we have some way to go to engineer a smooth and seamless transfer of responsibilities.'

By **Tom Sieber**
Deputy Editor

Is it right to worry about property prices when investing for a first home?

We look at how to put a Lifetime ISA to best use

I've got a Lifetime ISA, which I'm using to save for a house, paying in the maximum £4,000 a year. I'm 23 and I want to buy a house by the time I'm 30. I think house prices are likely to fall, and as markets and house prices are linked I think that means I should invest in defensive funds and bonds. But house prices could rise, and stock markets could also rise, meaning I'd miss out on growth if I invest defensively?
MJ, via email

Almost 300,000 people have opened a Lifetime ISA since it launched more than two years ago, and many of these will be first-time investors. Investing can seem daunting when you first come to it, particularly if your hopes of getting your first foot on the property ladder are riding on how well your portfolio performs.

If you are not looking to buy a home for several years than you have time to ride out market highs and lows but it might be wise to keep some of the Lifetime ISA in cash. How you decide the split between cash and investments depends on your attitude to risk.

RUNNING ON A TREADMILL

Many first-time buyers worry that while they are saving for a deposit property prices will rise so much that when they've reached their deposit-saving goal, they will already be priced out of the market. They will then need to save for another couple of years, when they might find the same has happened – it's like running on a treadmill and going nowhere.

MJ is wise to consider house prices and factor that into the deposit needed. However, it is notoriously tricky to accurately predict the direction of markets, whether property or stock markets. Instead MJ can use a couple of tricks to try to limit the volatility he experiences in his portfolio, which should help to protect him if markets do fall.

Regular investing involves putting a set amount into investments at regular intervals, regardless of market movements, and should help to smooth out returns.

This is what makes it a great route for first time investors who are nervous about dipping their toe into markets, as they won't experience as wild swings and falls as lump sum investors. So if MJ were to split up the £4,000 annual contribution into £333 a month he could help to smooth things out.

DIVERSIFICATION CAN HELP

Another good option would be for MJ to ensure his assets are well diversified. This means spreading money across different asset classes and stock markets around the world, which should react differently in times of crisis or market stress. The idea is that if one area of the market experiences a fall, investors shouldn't see all of their assets drop by the same amount.

As MJ is investing in a Lifetime ISA he will get a 25% Government bonus on any money he pays in each year – so by putting the £4,000 limit into his Lifetime ISA he'll get £1,000 of free money from the Government.

One approach is to split the portfolio and effectively treat the Government contribution as bonus money. Investors could consider putting the maximum £4,000 into safer, more secure assets that will reduce volatility but might also underperform more racy assets, and then invest the £1,000 Government bonus in the stock market or slightly riskier assets.

One thing's for sure, by saving £4,000 a year plus the £1,000 Government bonus over the next seven years MJ is going to have a very healthy starting pot for his house deposit.

We've also consulted some investment experts for their views:

***Ryan Hughes**, head of active portfolios at AJ Bell, comments:*

'Investors should avoid trying to predict the direction markets will move, even professional fund managers struggle to consistently time markets correctly. Instead investors should think about the risk they're willing to take and how comfortable they are if they're investments fell in value, even in the short term. You can find "attitude to risk" questionnaires online to help you think this through.

'A good starting option for any first-time investor is to defer the asset allocation decisions to a professional. It is possible to buy so-called 'all in one' funds that spread your money between different country's stock markets

and across various asset classes.

'A number of low-cost versions of these exist, including Vanguard LifeStrategy, costing 0.22% a year, or AJ Bell's own similar range, costing 0.35% a year. Both of these have an option of having more or less in stock markets vs bonds, gold and cash, depending on risk appetite.

'Starting with this broad base, which provides an allocation to investment markets across the world, it is then possible to start to allocating money to specific markets or strategies after a decent pot has been accumulated. Experts call this a "core and satellite" approach.'

***Ben Yearsley,** director of Shore Financial Planning, said:*

'The most important consideration is how long a person is going to invest, as that will determine the level of risk it is prudent to take. The longer the investment time-frame, the greater the level of risk can be taken.

'In theory house prices should be correlated to rates, but they are more closely correlated with the availability of credit and that isn't something it is possible to really hedge against.

'Over a timeframe of more than five years investing in the UK stock market seem a sensible decision – potentially with some funds with banks and housebuilding companies in there as they are linked to prices. If it's less than five years then the risk has to be dialled down really, and cash used predominantly. A fund such as **Investec UK Special Situations (3107566)** could be considered.'

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

DISCLAIMER: Please note, we do not provide financial advice and we are unable to comment on the suitability of readers' investments. Individuals who are unsure about the suitability of investments should consult a suitably qualified financial adviser. With a Lifetime ISA, if you withdraw money other than to purchase your first home, or for retirement, you will pay a government withdrawal charge of 25%. This may mean you get back less from your Lifetime ISA than you paid in.

'How can I arrange my pensions to fund a country living dream?'

Our pensions expert discusses the benefits of consolidating your retirement funds

I'm 53 and semi-retired, currently working part-time shifts as a paramedic. I'd like to retire to the country in 10 years' time with my wife but need to work out what to do with my pensions first.

I have £150,000 in a policy which I took out in 1991 and which matures in 2021, when I'm 55. I also have a separate SIPP worth about £130,000. Our flat has been valued at £280,000 but I'd like to use at least some of my pension to buy somewhere bigger in the country so our children and grandchildren can visit.

The pension rules are so complicated I'm not really sure where to start, so any help you can provide would be greatly appreciated.

Phil

Tom Selby
AJ Bell
Senior Analyst says:

Your first pension plan sounds like a with-profits policy which might be boosted by a 'terminal bonus' when it matures. These bonuses can be substantial, so once you've received it you'll have a better idea of the value of your existing pensions.

Assuming there are no penalties involved, consolidating your pensions into one place can make them easier to manage. You can then start to think about things like investment strategy in retirement, how much risk you want to take and how you want to take an income in retirement.

Combining your pensions on a modern investment platform would enable you to manage your pension online and check its progress via a mobile app. Investment platforms also give you access to a wide range of investments and you might be able to lower your charges too.

Your 10-year time horizon means you could consider investing in shares because you have time to ride out any short term volatility. If you don't want to select individual shares or funds yourself, platforms often have ready-made portfolios to get you started or fully-packaged investment funds that make all the investment decisions for you.

There will also be a host of information and tools to help you decide which investments are best for you based on your risk appetite.

You should think carefully before accessing your pension to pay for your future house move. If you take any taxable income from your fund you will trigger the 'money purchase annual allowance' (MPAA), meaning the amount you can save each year tax-free will drop from £40,000 to just £4,000.

The MPAA only kicks in when you take taxable income from your fund from age 55, so if you don't want to dent your annual allowance one solution could be to use your 25% tax-free cash for any immediate spending.

It would also be worth figuring out a rough budget for your retirement, starting with essentials (e.g. utility bills, food) and working towards luxuries such as holidays and home improvements. You can then start considering how much pension you'll need to pay for your lifestyle and whether you need to pay more in to reach your goals.

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.

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US stocks need to deliver strong second quarter earnings

Investors are also likely to be focused on the outlook for the remainder of 2019

As America celebrates Independence Day, investors with exposure to US equities will be looking for fireworks of a different kind from the imminent second-quarter reporting season.

The latest round of financial updates and – perhaps more importantly – outlook statements will begin in earnest on Monday 11 July when megabank Citigroup will unveil its results for the April to June period.

A trickle of data will then become a deluge as 57 S&P 500 index constituents report during the week that begins 11 July and 167 more in the following working week and it may be that forward guidance for the remainder of the year matters more than the Q2 numbers themselves.

This is because so many companies and analysts are talking about a 'second-half recovery' to justify estimates. Earnings growth is expected to be no better than low single-digit, in percentage terms, through to September before a 26% year-on-year surge in the final quarter of the year.

ANALYSTS CONTINUE TO FORECAST A SECOND-HALF RECOVERY IN US EARNINGS GROWTH

Source: S&P Dow Jones, analysts' consensus forecasts

For the moment it is hard to quite see where that could come from, without a marked surge in global economic activity, and the danger is that

disappointment starts to creep in and erode the healthy gains made in US equities by investors, just as happened in 2018.

DON'T LOOK BACK IN ANGER

The first quarter reporting season exceeded expectations. According to data from S&P Dow Jones, 371 of the S&P 500 index's constituents beat earnings forecasts while just 95 undershot them and the rest lived up to their billing.

That meant that overall earnings for the S&P 500 benchmark rose by 4% year-on-year. That might not sound like much (and frankly it isn't much) but it did at least mean that the 'worst case' of an actual drop in profits was avoided.

This upside surprise, coupled with hopes for some kind of trade agreement between China and America and the US Federal Reserve's apparent new-found enthusiasm for interest rate cuts, is one reason why the S&P 500 is now bearing down on a new-all time high and the 3,000 threshold.

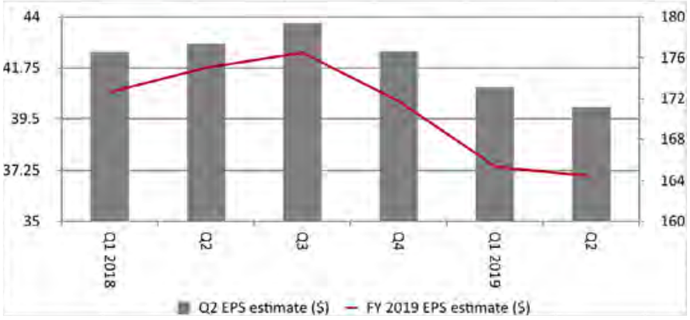
The question now is whether earnings momentum can remain strong enough to keep

US stocks at these lofty levels or indeed take them higher.

LOW BASE

Helpfully, expectations are at least low – and keep getting lower.

ANALYSTS' FORECASTS FOR Q2 AND 2019 AS A WHOLE ARE DRIBBLING LOWER (EVEN AS THE STOCK MARKET RISES)



Source: S&P Dow Jones, analysts' consensus forecasts

The good news is this sets a low bar for expectations and sets the scene for the 'earnings beat' which can juice share prices, at least in the short term.

However, it does create a challenge for the longer term.

Since 1 January 2018 the S&P 500 has risen by 10%, even though 2019 estimates have sagged by 5%. What that means, therefore, is the S&P 500 has gone up because of multiple expansion (the 'P' in the price/earnings ratio) and not earnings (the 'E').

Consensus earnings forecasts now put the US stock market on 17.9 times forward earnings per share estimates for 2019 and 15.9 times for 2020, based on the premise that earnings will rise by 9% this year and 12% next.

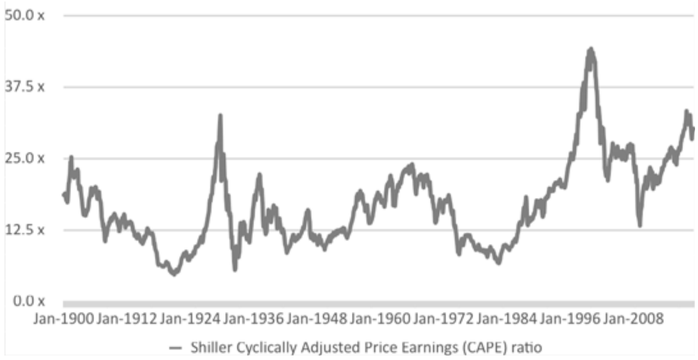
Bulls will argue that those earnings forecasts are perfectly achievable, especially if he US economy can meet President Trump's target of 3% GDP growth a year, a trade deal is hammered out with China, the Fed cuts rates (reducing interest bills on debt) and US corporations add in a little financial alchemy in the form of yet more share buybacks. From such a perspective, US stocks do not look unduly expensive relative to their history, especially if earnings estimates start to creep higher, not lower.

Bears will challenge that 9% growth estimate by pointing out that the forecast 2019 earnings per share figure for the S&P 500 of $165 already represents a record high. With corporate profit margins also near record highs, there has to be a risk that those margins come under pressure, with unemployment low, wages ticking higher, the dollar still strong and tariffs on imports potentially placing further costs on supply chains and consumers.

MARGIN OF SAFETY

A different valuation methodology also suggests the risks may be greater than they seem. Professor Robert Shiller's cyclically-adjusted price/earnings ratio (CAPE) calculation, which is based on inflation-adjusted historic earnings on a ten-year rolling basis, still argues that US stocks may be overvalued, at 30 times forward earnings.

SHILLER PE ANALYSIS STILL SUGGESTS US EQUITIES ARE EXPENSIVE



Source: http://www.econ.yale.edu/~shiller/data.htm

The S&P 500 reached a CAPE rating of around 30 times on two prior occasions, in 1929 and 1998-2000, and neither of those episodes ended well for owners of US stocks.

Others will argue the CAPE indicator has been calling out US stocks as dangerously expensive for several years, to no great effect. This looks like a perfectly fair comment, given how US equities continue to not just go up but outperform on the global stage, but American stocks are riding positive earnings momentum. The situation would look a lot less rosy were earnings estimates to keep falling and profits to stop growing or start shrinking.

This is why the July reporting season is so important, as the outlook statements will shape estimates for the second half and beyond.

By **Russ Mould**
AJ Bell Investment Director

Why new float Loungers can buck the high street gloom

Casual dining proposition looks like a winner

In our view there are two key things which stand-out about newly-listed casual dining outfit **Loungers (LGRS:AIM)** which make it an interesting investment proposition.

First, because each Lounge is a hybrid format, it doesn't compete directly with restaurants, coffee shops and bars in a local area, so it has no direct competitor.

This means that Loungers is uniquely positioned to benefit from ever changing consumer trends. For example, if breakfast venues suddenly become fashionable at the expense of late-night bars, the company is positioned to capture the upside, unlike single-concept operators.

Second, once established, Loungers aims to become part of the local fabric of a town where people can meet, support local charities or organise events. This could potentially create an

economic 'moat' or protection around the business which helps fight off competitors.

Loungers has only closed four sites in the last 17 years, which is testament to the 'stickiness' and longevity of the hybrid format.

WHAT IS A LOUNGE?

Founded in 2002 by industry veterans Alex Reilley, David Reid and Jake Bishop and floated at 200p in April 2019 (and raising a little over £80m), Loungers operates from 125 Loungers sites and 25 Cosy Clubs.

A Loungers site is equal part restaurant, pub and coffee shop and can be found across the UK in small towns and communities. Each has its own individual name which connects to the history of the town.

For example, *Shares* visited the Pato Lounge in Orpington, which is named after a breed of domestic duck, originally created by William Cook of Orpington. Pato is Spanish for Duck.

A Loungers site is open all day, serving coffee and breakfast in the morning, through to lunch, then meals and drinks in the evening.

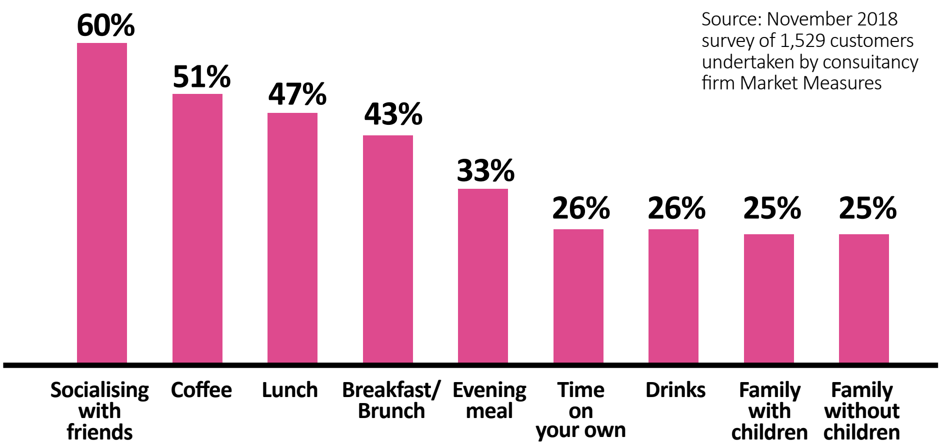
Just over half of revenue is generated from sales of food, with just over a third from drinks (excluding coffee) and roughly 10% from hot drinks. It is clear from data collected by the company that its customers use the venue across the whole day and make repeat visits, with 27% visiting weekly and 67% visiting monthly.

A Loungers site is positioned at the value-for-money end of the price spectrum, with 90% of menu items costing less than £10.

WHAT IS A COSY CLUB?

Targeting more urban areas, underserved by an all-day-offer, a

OCCASIONS FOR WHICH CUSTOMERS VISIT LOUNGERS



Source: November 2018 survey of 1,529 customers undertaken by consultancy firm Market Measures

Cosy Club is more formal than a Loungers site, and is an occasion-led venue. It therefore caters to more planned experiences, with customers making reservations and receiving a table service. They are more in keeping with a traditional restaurant or wine bar.

The spaces are larger and whereas for Loungers, customer visits are spread throughout the week, for the Cosy Club, Friday to Sunday is the busiest part of the week, representing almost two-thirds of visits. More men visit a Cosy Club in contrast to Loungers, where women represent 61% of all visits.

HOW LOUNGERS MAKES MONEY

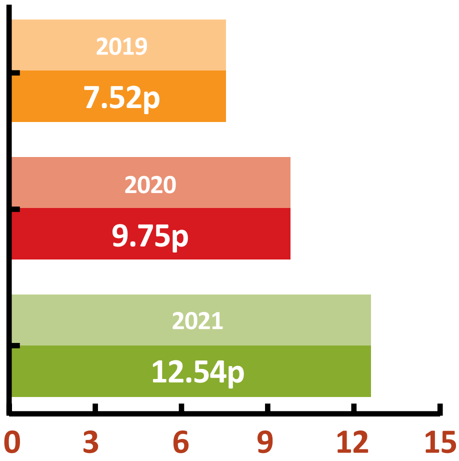
The company makes healthy gross margins on the drinks and meals that it sells, getting 76%, and 72%, respectively, which averages out at an overall gross margin of 74%.

It receives cash from its customers before it has to pay its own suppliers, which means that it runs a negative working capital position of £3m to £4m a year.

As might be expected given the people intensive nature of the business, labour costs are the largest expense, coming in at close to 40% of revenue. Including energy maintenance, total site costs represent 48% of revenue.

Loungers leases all of its properties, typically on 15-year terms, and pays lower than sector average rents. This creates a sustainable economic advantage compared with its competitors. Rental costs are around 6% of revenue while the industry average is around 11%. Investors need to consider whether this will be sustainable in the longer term.

LOUNGERS' EXPECTED EARNINGS PER SHARE GROWTH



April year-end. Source: Refinitiv

The company generates earnings before interest, depreciation and amortisation (EBITDA) of circa 20% per site. Joint brokers Liberum and Peel Hunt think there is scope to improve margins as the business builds more scale and central costs shrink as a proportion of revenues.

HIGH RETURNS ON CAPITAL

According to Liberum, the business produces far more revenue relative to capital expenditures than the industry average, roughly 1.6 times for a Loungers site and 1.5 times for Cosy Club, compared with an industry average of 1.1 times. This results in an attractive return on investment of 36% for a Loungers site and 30% for a Cosy Club.

Management believes that the market will support over 500 sites nationwide based upon the work of independent property consultants CACI.

Loungers employs its own in-house property and build teams to select properties and fit them out. They, in turn are supported by nine directors, four managers and five logistics staff.

Loungers has a visible pipeline of new sites and plans to open 20 Loungers and five Cosy Clubs each year over the next few years.

HOW WILL THE GROWTH BE FINANCED?

Upon admission the company had a net debt position of £25.5m, a five-year bank loan of £32.5m and a £10m revolving credit facility. Opening 20 Loungers and five Cosy's per year will cost around £19m per year, which means that the company might need to 'dip into' some of its credit facilities to facilitate growth and increase debts over the next year or two.

However, analysts expect the business to become self-financing from internally generated cash flow from 2022.

SHARES SAYS:

At 218p Loungers is an interesting growth story with a truly differentiated format which caters to consumers evolving spending habits although is not cheap at 22.5 times earnings.

As a newly-listed company some investors may want to wait for signs it can deliver on its ambitions before taking the plunge. Full year results are out on 28 August 2019.

By **Martin Gamble**
Senior Reporter

What are preference shares and should you buy them?

We explain this often poorly understood high-yielding investment option

A little understood part of the market, preference shares could be worth a look for some investors. A hybrid financial instrument with characteristics of both equities and bonds, they might appeal to older investors looking for a steady and reliable yield.

WHAT ARE PREFERENCE SHARES?

There are two types of shares you can own in a company: preference shares (also called preferred stock) and ordinary shares (also called common stock). While they both give you a stake in a business, preference shares give you the extra rights of a preferred shareholder.

This means you are at the front of the queue for dividend payments: companies can't pay their ordinary dividends until they have paid dividends to their preferred shareholders. Preference share dividends are fixed at a certain level, and usually paid twice a year but, because they are fixed, you can't get a share of excess profits above that pre-determined rate.

You'll also be first in line for a claim on assets in the event a company goes bust. However, preference shares don't give you voting rights, so you won't have a say in how the company is run. But you can choose to hold convertible preference shares, which convert into ordinary shares. The other option is redeemable preference shares, where the initial investment is repaid.

Preference shares can be cumulative or non-cumulative. If the latter, and the issuer misses a dividend payment, you can't claim the dividend in the future. This makes cumulative preference shares worth more than non-cumulative versions.

You pay income tax on any dividends you earn from preference shares outside of the dividend allowance.

'In the capital structure a preference share is the next down from equity, it is more akin to equity than a bond as it pays dividends not interest,' says Chris Burgoyne, director of fixed interest at Canaccord Genuity. 'As such, dividends that fall within the £2,000 dividend allowance are tax free and any dividends in excess of this figure are taxed according to the income tax band you fall into.'

Preference shares are issued primarily by banks and other financial institutions, and were originally intended as a way to raise capital without diluting value for their ordinary shareholders. But they were an expensive way for companies to raise money given their high coupons and the fact they were not-tax deductible.

They are being phased out as a form of tier one (core) capital by 2026, so this may reduce the size of the market in future. 'Given they will no longer serve the purpose for which issuers originally intended, the preference share market has been shrinking over time,' adds Burgoyne.

WHY BUY PREFERENCE SHARES?

Although they are technically equities, preference shares offer a yield similar to that of a high yield bond, but with typically lower credit risk and volatility.

Preference shares yields are decent, on average about 6% in the current environment, and this makes them attractive to retirees and those looking to generate stable income from their portfolios over the long term without taking on too much risk.

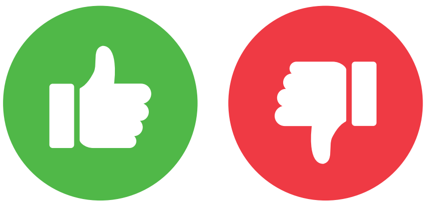
WHAT ARE THE DOWNSIDES?

While the capital value of preference shares can go up and down depending on how well a company is doing, the fixed dividend means you don't benefit from as much share price upside as if you held ordinary shares. Burgoyne explains: 'Dividends on the equity can grow as the profitability of the company grows, so your capital growth is uncapped on the equity whereas, if you buy the preference shares, the price goes up, the yield goes down and they become less appealing because the upside is capped. For example, **Lloyds (LLOY)** preference shares yield more than their corresponding equity at the moment but you won't enjoy as much capital growth.'

There's also a small risk the issuer could cancel its preference shares to reduce its debt pile – in 2018 **Aviva (AV.)** threatened to do just that before backtracking in the face of shareholder ire, but not before causing a big sell-off in preference shares market-wide. Aviva argued that technically it would have been within its rights to cancel the shares, which holders had thought irredeemable, so investors should beware of

15 SELECTED PREFERENCE SHARES	
WITAN INVESTMENT TRUST	3.4% CUM PRF
MERCHANTS TRUST	3.65% CUM PRF
MARSTON'S	6% CUM PRF [PTG] STK
TATE & LYLE	6.5% CUM PRF
RSA INSURANCE	7 3/8% CUM IRRD PRF
CHEMRING	7% CUM PRF
AVIVA	8 3/4% CUM IRRD PRF
FULLER, SMITH & TURNER	8% 2ND CUM PRF
BP	8% CUM 1ST PRF
LATHAM (JAMES)	8% CUM PRF
NORTHERN ELECTRIC	8.061P [NET] CUM PRF SHS
LLOYDS BANKING	6.475% NON-CUM PRF SHS
ROTORK	9 1/2% CUM PRF
BP	9% CUM 2ND PRF
BALFOUR BEATTY	10.75P CUM CNV RED PRF

As at 31 May 2019. Source: London Stock Exchange



other issuers taking the same stance in future.

HOW TO BUY PREFERENCE SHARES

Individual preference shares are issued by UK companies such as **Tate & Lyle (TATE)**, **Marston's (MARS)**, **BP (BP.)** and **Aviva (AV.)**, and investment trusts such as **Witan (WTAN)**, **Brunner (BUT)** and **Merchants Trust (MRCH)**. You can buy these shares the same way you would buy any others, through a stockbroker or share dealing platform.

There are exchange-traded funds (ETFs) which hold preference shares, such as the **Invesco Preferred Shares UCITS ETF (PFRD)**.

Some funds and investment trusts also hold them – **Shires Income Trust (SHRS)**, for example, aims to generate a high income through a mix of UK equities and fixed income (around 30% of the portfolio) including preference shares and convertible bonds.

There's also the £770m **Janus Henderson Preference & Bond (0765172)** fund which holds preference shares, government bonds and corporate bonds, although preference shares only accounted for around 2% of the portfolio as of 31 May.

By **Hannah Smith**

INDEX

KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

8 July: Abbey, Trakm8. **9 July:** Knights Group, Photo-Me International. **10 July:** Yourgene Health. **11 July:** Dart Group, ReNeuron.

Half year results

9 July: Amino Technologies, Micro Focus International, Ocado, RM.

Trading statements

5 July: SIG. **10 July:** Barratt Developments, Dunelm, JD Wetherspoon, PageGroup, Ten Entertainment. **11 July:** Kier, Workspace.

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