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UK BARGAINS THE TRUSTS GEARING UP TO BUY BRITISH

GOLD SHINES BRIGHT STORY BEHIND METAL'S ADVANCE TO SIX-YEAR HIGH

UBER NEEDS A LIFT RIDE-HAILING APP POSTS MULTI-BILLION DOLLAR LOSS

When corporate debt becomes a problem

Borrowing by UK plc hits record highs according to new report

The latest edition of the Link UK Debt Monitor shows corporate debt in the UK is at its highest level on record having expanded for an eighth consecutive year.

To quote the report: 'Net debt has now risen by three quarters since the low point reached in 2010/11, when companies were still adjusting to the disruption caused by the financial crisis and subsequent recession.

'The £24.2bn increase in 2018/19 comes at a time when UK plc profitability is under pressure: operating profits were flat year-on-year after growing strongly over the previous two years.'

Just how concerned should investors be and is borrowing cash inherently a bad thing? First of all, it is important to remember than not all debt is created equal.

Just look at your own life, nobody would describe taking out a mortgage with a sizeable deposit as an inherently reckless act. However, running up substantial bills on credit cards could see you run into trouble sooner rather than later.

Factors like the predictability of your income (for example are you paid a regular salary, or do you work on a freelance basis?) might also have some bearing on how much indebtedness would impact on you.

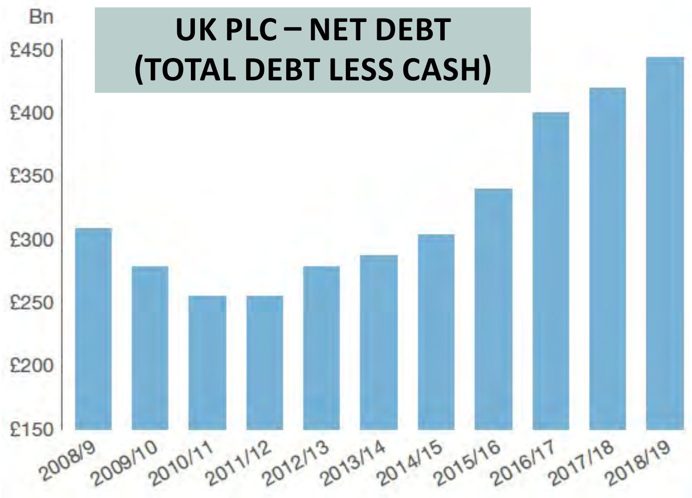
The same applies to companies. There are two main ways of funding a business, debt and equity. The latter is typically seen as being more expensive. However, clearly if a firm borrows money it will have to pay interest and this money will eventually have to be repaid.

Gearing, calculated by dividing net debt by total assets minus liabilities, is one way of measuring how indebted a company is.

A TOXIC MIX

There's no hard and fast rule for an appropriate level of gearing but upwards of 50% is probably on the higher side.

Where high financial gearing becomes a serious issue is when it's combined with elevated operational gearing, where a slight drop in revenues could lead to a huge decline in profits due to a firm's high and mainly fixed costs.



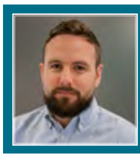
Source: Link Group

And if the company in question operates in an industry which sees demand fluctuate in line with the economy, or even worse is facing some kind of structural decline, then this can add up to a very toxic mix.

This has been brought home in rather brutal fashion to shareholders in travel operator **Thomas Cook (TCG)**.

Spending on holidays is clearly linked to economic conditions, Thomas Cook, which operates its own airline, has plenty of fixed costs and therefore its net debt of a little more than £1bn becomes a really big issue.

Ultimately the company has had to agree a £750m rescue plan with its lenders, supplemented by a further £150m announced on 12 August. This will be achieved by swapping debt for shares in the company, meaning existing shareholders' positions are likely to be worth very little going forward.



By **Tom Sieber** Deputy Editor

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CFA UK Publication of the Year
CFA UK Journalism Awards 2019

Investment trusts gearing up for Brexit bargain stocks

Use of debt shows manager's faith in UK's stock market prospects

UK facing investment trusts are using gearing to take advantage of what many managers perceive as a swathe of Brexit bargains among UK listed stocks.

'Our belief is that there continues to be good, medium term value in UK equities, especially if interest rates stay low and sterling remains at these low levels,' said William Meadon and Callum Abbot, joint managers of the **JPMorgan Claverhouse (JCH)** investment trust.

Gearing is employing debt to bolster the available funds that can be used to invest.

Meadon and Abbot said 'good stock selection and being geared into a rising market' were key to the investment trust delivering a 16.7% total return in the six months to 30 June, outstripping the 12.9% return of the UK Equity Income benchmark.

'This is reflected in the portfolio which remains geared by 8.9%,' a figure which has been pushed out to 17% most recently, according to data from the Association of Investment Companies.

This may appear at odds with the slew of negative official data coming from the Bank of England and Office of National Statistics (ONS) recently. In the second quarter to 30 June the UK economy shrank for the first time in almost seven years, plunging the pound to near-10 year lows.

'Investors are seeing a perfect storm brewing,' said Nigel Green, founder of the financial advisory business the deVere Group.

Investors are increasingly concerned about the UK's 'slowing economy, weak global economic growth, the pound at a 10 year-low, the increasing possibility of an interest rate cut and the risk of a no-deal Brexit pushing the UK into a recession,' said Green.

Yet JPMorgan Claverhouse's managers accept the multiple uncertainties facing the UK and investors right now, but they also see opportunity.

'Relative global valuations strongly favour equities over bonds and within this, the high yielding UK equity market looks particularly good value,' even after dividend horns have been pulled in by several blue-chip companies. FTSE 100 firms to cut payout to shareholders this year include British Gas-owner **Centrica (CNA)**, **Marks & Spencer (MKS)** and **Vodafone (VOD)**.

JPMorgan Claverhouse is not alone in its optimistic medium-term view of UK stocks. It is one of 13 of 42 within the UK Equity Income and UK All Companies AIC sub-sectors to currently be running double-digit levels of gearing.

MOST GEARED UK-FOCUSED INVESTMENT TRUSTS

Chelverton UK Dividend	64%
Value & Income Trust	39%
British & American	30%
Merchants Trust	24%
Shires Income	20%
JPMorgan Claverhouse	17%
Lowland	17%
Perpetual Income & Growth	17%
Law Debenture Corp	14%
Schroder Income Growth Fund	14%
Temple Bar	11%
Aberdeen Standard Equity	11%
City of London	11%

Source: AIC

Neptune Income tops Sanlam's income 'White List'

Geffen-guided Neptune Income Fund outperformed sector peers in the past six months, says latest Sanlam study

According to Sanlam UK's half-yearly Income Study, the Robin Geffen-run **Neptune Income Fund (B8JCR45)** was the best all-rounder within the UK equity income sector over the past six months.

The latest study was dominated by domestic uncertainties related to Brexit and amid much turbulence, more than half of the funds that made the so-called 'White List' last year have been replaced.

A quantitative assessment that reviews the performance of all UK equity income funds over a six month period, Sanlam's UK income Study has been running for more than 30 years.

It categorises funds into a White List, an elite band of collectives that have established their ability over five years to produce superior total returns, as well as a Grey List, either a temporary home for a manager with an out-of-favour style or an early warning signal for a fund in decline. Then there's the dreaded Black List for consistent underperformers.

Neptune Income is at the top of the July 2019 Study having outperformed all its peers during a particularly volatile period for global stock markets. The portfolio returned 5.6% over the year to 30 June 2019, during which most funds struggled to eke out positive results, and moved up 25 places in the list of 62 eligible funds from the whole UK Equity Income sector.

Hot on its heels was the Henry Dixon-managed **Man GLG UK Income (B0117C2)**, which rose from seventh to second spot. Yet again, **LF Miton UK Multi Cap Income (B3SRD71)** appeared in third place, having retained its long run in the top three. 'Run by Gervais Williams and Martin Turner, the fund boasts strong long-term performance and exceptionally low volatility, despite being invested in the small and mid-cap space', said Sanlam UK.

The Black List showed more consistency than the other sections of the study. Although several funds make new appearances, the majority are familiar names including **Unicorn UK Income (B9XQFY6)** and **HSBC Income (B8FJ159)**.

Rio Tinto features in Neptune Income Fund's portfolio

	FUND
1	Neptune Income
2	Man GLG UK Income
3	LF Miton UK Multi Cap Income
4	Santander Equity Income
5	Aviva Investors UK Equity Income
6	Schroder Income Maximiser
7	Santander Enhanced Income
8	Lazard Multicap UK Income
9	AXA Framlington Monthly Income
10	NFU Mutual UK Equity Income
11	BMO Responsible UK Income
12	Troy Trojan Income
13	BNY Mellon Equity Income Booster
14	Rathbone Income

Source: Sanlan

Uber skids on spiraling losses and slowing growth

Warning lights flashing for investors after chief executive calls profit hope 'a meme'

American ride-sharing firm Uber Technologies shocked the market last week by reporting a thumping second-quarter operating loss of $5bn on revenue of just $3.17bn. Losses in the first quarter were 'only' $739m by comparison.

Total costs and expenses ballooned from $3.5bn in the first quarter to over $8.2bn in the second quarter driven by a more than eight-fold increase in research and development costs ($3.1bn vs $365m in the first quarter) and a more than doubling of general and administrative costs ($1.6bn vs $638m).

SPENDING OUTSRIPPING REVENUES

Chief financial officer Nelson Chai insisted that the company will 'continue to invest aggressively in growth' including new programmes like Uber Rewards, which gives customers points and rewards, and Uber Comfort, its equivalent of 'premium economy' with newer, larger vehicles and higher-rated drivers.

However revenue missed analysts' estimates of $3.36bn and the rate of growth slowed again last quarter to 14% compared with 20% in the first quarter.

More worrying, despite positive comments from both Uber and rival Lyft that the price war in the US was easing, turnover at the core ride-hailing business rose just 2% to $2.3bn compared with a 9% rise in the previous quarter.

While growth is slowing, payments to drivers including incentives and referrals continue to climb instead. Spending on trips by passengers increased by 20%, yet the amount Uber kept after paying its drivers rose by just 4%.

GROWTH IN UBER EATS

Most of the growth last quarter came from the food-delivery business Uber Eats, which increased turnover by 72% to $595m following an increase of 89% in the first quarter.

Monthly active platform consumers (MAPCs), or the number of individual customers who ordered an Uber Eats meal at least once in a given month, grew by 140% in the second quarter compared with the previous year.

At the same time new, higher delivery fees helped improve Uber's 'take rate' or the percentage of the gross amount customers paid.

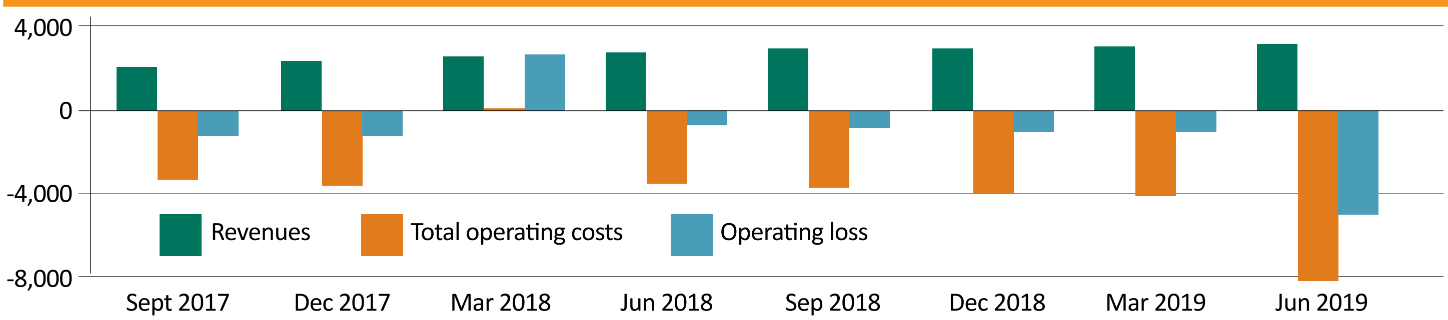
PROFIT JUST 'A MEME'

The big concern for investors is that still, a decade on from starting operations, Uber not only shows no sign of making a profit but there isn't even a timeline to get to profitability.

When questioned on the analysts' call, chief executive Dara Khosrowshahi reportedly replied that demands to know when the company would make a profit were just 'a meme that's out there'.

As we flagged at the time of the IPO back in April, Uber was quite open about the fact that operating expenses would 'increase significantly in the foreseeable future' and that conceivably it 'may not achieve profitability' at all, which was one reason why we suggested that investors steer clear.

UBER QUARTERLY REVENUES, OPERATING COSTS & LOSSES ($M)



Source: Reuters Eikon, Shares magazine

Thomas Cook, TUI, Tullow and other big news

We look at the top risers and fallers from the past week

Travel operator **TUI (TUI)** allowed investors to breathe a huge sigh of relief after maintaining full year guidance despite plunging third quarter profits.

The all-inclusive holidays firm reported a near-60% fall in pre-tax profit for the three months and an underlying $200m loss for the first nine months of the year. The plunging pound keeping UK holidaymakers at home, ongoing Brexit uncertainty and the grounding of its fleet of Boeing 737 planes have all dragged on the company's performance.

Shares in TUI dipped modestly at 808p.

The contrast with rival **Thomas Cook (TCG)** was stark, with the latter revealing on 12 August that it would need to raise £150m alongside the £750m already agreed with creditors to get through winter trading. The shares dived to fresh lows below 7p as shareholders reacted to the increased dilution.

A much more positive story came in the form of a big oil discovery by partners **Tullow Oil (TLW)** and **Eco Atlantic Oil & Gas (ECO:AIM)** offshore Guyana.

After the successful outcome for Jethro-1, there is building excitement over future drilling on the Orinduik block, with drilling on a second well due to commence imminently.

The news represented a return to form for Tullow which previously reached the FTSE 100 off the back of several big oil and gas finds before falling back on oil price weakness, debt concerns production problems and a lack of drilling success.

On 8 August a mixed set of first half numbers from insurance firm **Aviva (AV.)** provided a measure of insight into new CEO Maurice Tulloch's plans for the business, with the clearest signal yet that the company might consider selling off its Asian business.

Bookmaker **William Hill (WMH)** enjoyed a healthy bounce above 160p as results for the first six months of 2019 demonstrated progress in the key US market.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS		
STOCK	**SHARE PRICE RISE**	**REASON**
Funding Circle	18.5%	Relief rally driven by results no worse than expected
Tullow Oil	18.3%	Exploration success offshore Guyana
Plus 500	11.7%	Boosted by new customer additions and share buyback plan

WORST PERFORMERS		
STOCK	**SHARE PRICE FALL**	**REASON**
TI Fluid Systems	-20.2%	Weak first half results in a 'challenging' automotive market
Sirius Minerals	-13%	Hangover from failed $500m bond issue
Savills	-9.9%	First half numbers reveal impact of falling property transactions

Source: Shares, SharePad

Tate & Lyle has got the right ingredients for growth

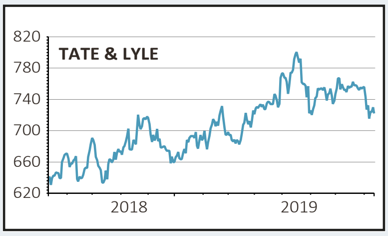
Here's why we think you should acquire a taste for the global sweeteners specialist

Investors should buy food producer **Tate & Lyle (TATE)** at 727.2p. We believe the market is underestimating the scope of its long-term margin potential, which could prove the catalyst for earnings upgrades.

TATE & LYLE ↗ BUY

(TATE) 727.2p
Stop loss: 581.8p

Market value: **£3.4bn**



WHAT DOES TATE & LYLE DO?

Tate & Lyle is a global provider of corn-based sweeteners and starch ingredients as well as sucralose zero-calorie sweetener. Following a testing few years of transformation towards a higher margin and more stable speciality ingredients supplier, Tate & Lyle is in a healthier position operationally.

Admittedly, the current geopolitical trade environment is unhelpful for US exporters into China, yet with the bulk of revenue generated in US dollars and the company reporting in sterling, the plunge in the pound should boost earnings as this dollar denominated revenue carries greater weight.

TASTY POTENTIAL

Encouragingly, full year results (23 May) came in ahead of consensus with pre-tax profit and earnings per share up 4% to £309m and 52p respectively, underpinned by a solid performance in the speciality Food & Beverage Solutions division.

Growth in North America was driven by share gains at larger food and beverage customers, further expansion into new channels like food service and own label and new business wins in targeted higher-growth sub-categories like health and nutrition.

Ingredients companies like Tate & Lyle and closest peer Ingredion are well placed to provide plant-based ingredients and solutions to customers, thereby profiting from growing consumer demand for plant-based proteins.

Elsewhere, Tate & Lyle demonstrated renewed momentum in the Sucralose division, despite moderately weaker pricing, although Primary Products volumes are under increasing pressure from lower sweetener volumes in a declining North American fizzy drinks market.

Shares sees potential for a re-rating as Food & Beverage Solutions profits grow. We also note that CEO Nick Hampton has done a good job in increasing free cash flow generation and lowering net debt. Tate & Lyle recently announced (5 Aug) the issuance of new debt in a refinancing move set to lower its interest bill by circa £7m per annum and provide extra dry powder for acquisitions.

Liberum Capital spies strong share price upside if Tate & Lyle can approach the margin levels of rival Ingredion in speciality ingredients.

And for the year to March 2020, Berenberg forecasts growth in earnings per share from 52p to 53p and a dividend hike from 29.4p to 30.3p, ahead of estimated earnings of 54p and a 31p payout in fiscal 2021.

Based on this year's estimates, a prospective PE of 13.7 times looks undemanding given Tate & Lyle's global growth opportunity and the shares also offer an attractive yield of 4.2%.

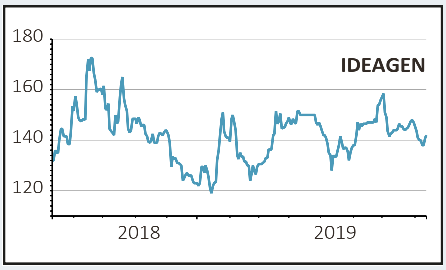
By **James Crux**
Funds and Investment Trusts Editor

Ideagen is a structural growth story with plenty of opportunity

Significant upside potential and that's before new acquisitions add value

IDEAGEN ↗ BUY
(IDEA:AIM) 142p
Stop loss: 114p

Market cap: £312m



If the 10-year run of global economic expansion really is winding down then it makes sense for investors to look for structural growth drivers and companies capable of pulling those levers even in a slowing global economy.

We believe that **Ideagen (IDEA:AIM)** is just the sort of stable growth company able to pep-up high single-digit to low double-digit organic growth with smart and sensibly priced acquisitions; it's been doing just that for several years.

Nottinghamshire-based Ideagen provides a host of governance, risk and compliance information management software tools to what it calls 'high consequence industries.'

The net of regulation red tape and compliance accountability is getting ever tighter around industries and organisations across the world and system and process failures can costs clients millions of dollars in fines, and potentially put lives at risk.

Clients span aviation, healthcare, defence and energy, banking/finance and complex manufacturing.

That's an increasingly compelling sale once an organisation begins to grasp the significant financial and reputational damage potential of not having adequate systems in place. Blue-chip customers include **BAE Systems (BA.)**, Emirates Airlines, **Royal Dutch Shell (RDSB)**, the European Central Bank plus more than 150 hospitals in the UK and US, while Transport for London, **GlaxoSmithKline (GSK)** and **Meggitt (MGGT)** are new banner names.

OPERATING IN A FRAGMENTED MARKET

This is a $7bn a year-plus market yet it remains highly fragmented. Ideagen, which has been around since 1993, is changing that by acting as industry consolidator as well as driving consistent organic growth, currently running at about 8%.

The ongoing plan is to double in size every three years and it is now targeting its next growth push to a £100m revenues run-rate by full year 2022. Most recent full year results showed headline revenue of £46.7m and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) of £14.3m for the year to 30 April 2019 (up about 30% respectively).

Two-thirds of that business comes from recurring contracts so should be a reliable guide on which to base future growth prospects.

The UK and Europe remain important markets but Ideagen has been expanding in the US successfully and rapidly in recent years. It is now eying considerable new opportunities in the Far East, where it has already set-up offices in Kuala Lumpar and in China.

It is worth noting that profits are heavily adjusted for amortisation and depreciation, and that may not sit well with all investors. But *Shares* has found the leadership team to be sensible and largely conservative.

By **Steven Frazer**
News Editor

BURFORD CAPITAL
(BUR:AIM) 745p

Loss to date: -20% (stopped out)
Original entry point:
Buy at £15.62, 25 Oct 2018

SHAREHOLDERS IN LITIGATION finance provider **Burford Capital (BUR:AIM)** have been through the mill in the last week or so thanks to the appropriately-named US short-seller Muddy Waters.

On 6 August, Burford shares were trading around £14 for most of the day before suddenly sliding 19% to just above £11 at the close. The catalyst for the sell-off was a Twitter announcement by Muddy Waters that it would announce a new short position the next day.

The tweet didn't name Burford but several commentators jumped on the stock in anticipation and on 7 August the short-seller confirmed it was targeting the company, sending the stock down a further 46% to just over 600p.

MUD SLINGING

Muddy Waters issued a report accusing Burford of 'egregiously misrepresenting its ROICs and IRRs, as well as the state of its overall business' and described it as 'arguably insolvent', with a 'high risk of having a liquidity crunch'.

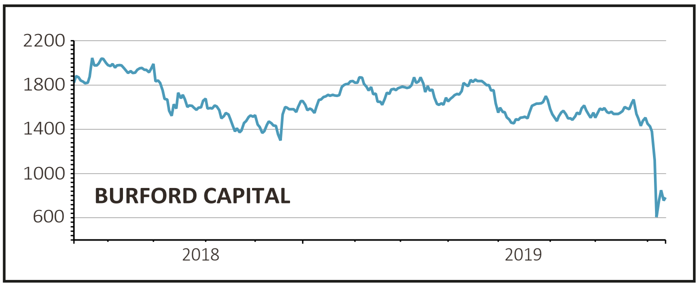
The report also accused its largest shareholder, US-owned asset manager Invesco, of 'unethical behaviour' designed 'purely to perpetuate a mythical ROIC and IRR'.

In its response on 8 August, Burford gave a detailed rebuttal of the report which highlighted its many factual and analytical errors as well as its selective use of information to paint a negative image of the firm.

The contrast between the two sides couldn't have been starker. If Muddy Waters had done its research properly – indeed if it had contacted Burford and raised its concerns, which it never did – there would have been no report and no 'bear raid'.

MARKET MANIPULATION

Some commentators have suggested that Burford's model isn't suited to the public market and that the firm – and its retail shareholders, who have suffered and continue to suffer considerable harm at the hands of the short seller – would be better off if it were in private hands.



Strangely none of these concerns were heard when the shares were trading at £15 and above before the 'bear raid'.

More to the point, Burford believes that it has identified a pattern of trading in its shares leading up to the release of the Muddy Waters report which is consistent with 'market manipulation' in its shares.

Given the high priority which the Financial Conduct Authority (FCA) puts on protecting investors and enforcing market integrity, it is reassuring to learn that the agency is already undertaking 'wide-ranging enquiries' into the short sale and looking for evidence of illegal activity.

SHARES SAYS: ➔
A disappointing outcome, whatever the cause, and shareholders should watch from the sidelines for the time being.

By **Ian Conway** Senior Reporter

Disclaimer: The author owns shares in Burford Capital

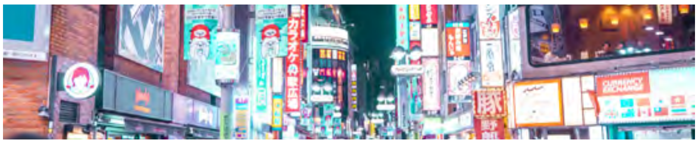
WPP

(WPP) 981.2p

Gain to date: 14.9%

Original entry point:

Buy at 854p, 14 March 2019



FIRST HALF RESULTS (9 Aug) appeared to reward our faith in CEO Mark Read's turnaround programme at advertising giant **WPP (WPP)**.

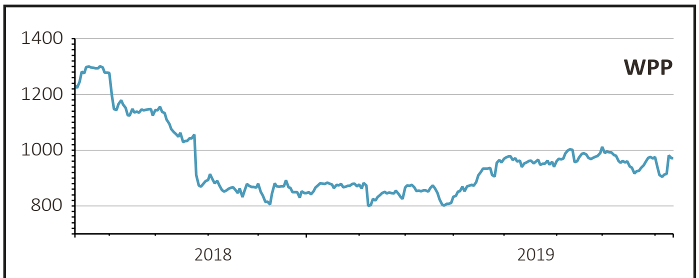
Sensibly Read is keeping market expectations in check, however second quarter trading was slightly ahead of internal projections and external estimates which helped boost sentiment towards the stock.

WPP held its interim dividend per share steady at 2.7p and reiterated full year guidance for a 1.5% to 2% fall in like-for-like revenue less pass through costs. In the first half, revenue on that measure fell 2%, but in the second quarter by 1.4%.

The company was also able to point to client wins including L'Oreal, eBay and Instagram.

Shore Capital analyst Roddy Davidson says: 'We are encouraged by the progress summarised in today's results release which adds support to our view that the group's strategy is gaining traction.

'Specifically, we like its focus on simplifying operations; engendering greater internal cooperation; pursuing efficiencies; reducing debt; realising value from non-core operations and; generally enacting a more disciplined capital allocation policy.'



SHARES SAYS:

An effective resetting of the bar by Read means even incremental improvements are likely to be rewarded by the market. Keep buying.

TI FLUID SYSTEMS

(TIFS) 157p

Loss to date: -24.1%

Original entry point:

Buy at 207p, 9 May 2019

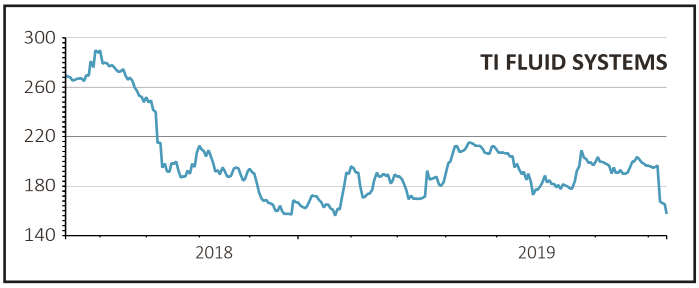
SOMETIMES IT DOESN'T matter how good a company is if the market it operates in is struggling and this was evident in first half results from specialist automotive firm **TI Fluid Systems (TIFS)** on 8 August.

Domestic and international data points for the car industry have been universally negative and the company pointed to a 'challenging' environment as it posted a drop in both earnings and revenue. The subsequent collapse in the share price has left the stock teetering on the edge of our 150p stop loss.

Revenue fell to €1.7bn in the six months to 30 June 2019, from €1.8bn a year earlier while adjusted earnings slumped 4.1% to €245.9m.

The company said it would maintain its 2019 interim dividend at its 2018 level, or 3.02 euro cents per share.

And while the company said it expected revenue to continue to outperform global light vehicle production volume levels, excluding the impact of currency movements, it anticipated this revenue outperformance for the year to be lower than the prior year. Numis cut its 2019 earnings forecast by 12%.



SHARES SAYS:

The shares continue to look cheap, even on the reduced forecasts they trade on a forward price to earnings ratio of 6.4 times. Hold tight for now.

ON THE BEACH
(OTB) 368p

Gain to date: 1.7%
Original entry point:
Buy at 362p, 20 December 2018

A RECENT PROFIT warning from **On The Beach (OTB)** has virtually wiped out our gain, with shares in the online holiday retailer trading just 1.7% in the black.

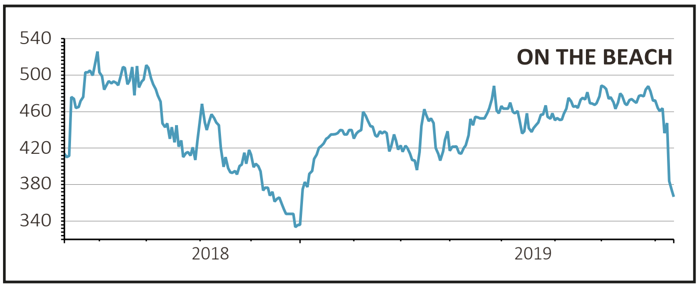
While from a demand perspective the company is better insulated than its competitors when it comes to Brexit, one thing the firm has been caught out by is sterling, with the likelihood of a no-deal Brexit making the pound weaker.

In a trading update, On The Beach explained that, unlike its competitors, it constantly adjusts its prices to account for currency fluctuations rather than hedging against big foreign exchange movements.

Because sterling has significantly devalued against the euro from the start of May, with a sharp decline at the end of July and start of August, this has resulted in a marked increase in On The Beach's prices compared to its rivals.

That has meant, despite growth in demand, the firm has struggled to gain market share while maintaining margins.

All of which has led the firm to tell investors that full year performance will be below expectations. The market has responded accordingly by effectively chopping off 80p from the company's share price.



SHARES SAYS: ↗
On The Beach is still well-positioned in the industry for growth, but we'll keep a close eye on trading.

ROLLS-ROYCE
(RR.) 733p

Loss to date: 8.6%
Original entry point:
Buy at 801.8p, 20 December 2018

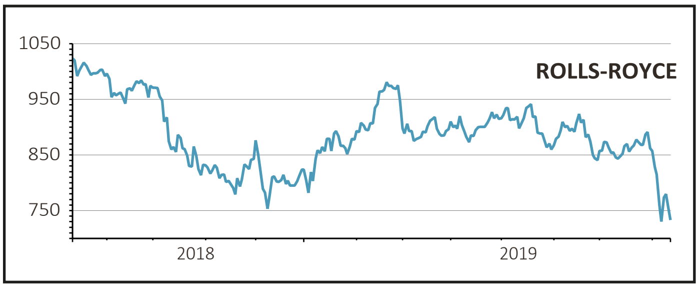
IT'S BEEN A testing summer so far for **Rolls-Royce (RR.)**. Engine problems have dogged the aero-engineer after faults were found on its legion of Trent 1000 engines, which grounded planes at several airlines. Sorting that problem out will take a while and leave the group with a £1.6bn bill over the next few years, with the estimate increased another £100m confirmed at interim results (6 August).

This week has seen another calamity beset the FTSE 100 company as Italian investigators probe an incident in which a Norwegian Boeing 787-8 appears to have shed engine parts shortly after take-off from Rome. Analysts speculate that this relates back to durability problems of the compressor blades and turbines, but we'll have to wait and see.

Clearly any in-flight failure is very serious and could signal a more significant financial impact of the Trent 1000 problems if, for example, they lead to further groundings.

Investors are in the mood to anticipate the worst and so the share price has fallen from end of July 891p levels.

The group remains on track to meet full year guidance for underlying operating profit and free cash flow of £700m and £100m, give or take, plus medium-term guidance to exceed £1.00 of free cash flow per share.



SHARES SAYS: ↗
We remain confident that short-term challenges can and will be overcome.

What happens next with China's currency devaluation?

Why investors might need to keep an eye on forex markets in the coming months

WHAT HAS HAPPENED?

The state-directed Chinese yuan currency moved through the seven per dollar threshold on 5 August for the first time since the global financial crisis in 2008. This provoked the US Treasury department into accusing Beijing of currency manipulation as the trade war continues to rage between the two countries.

WHY DOES IT MATTER?

A weaker currency typically makes a country's exports more attractive and the Trump administration has consistently complained that a cheaper yuan, or renminbi as it is also known, will give China an unfair advantage on trade.

Markets reacted badly to the development and although the situation has calmed somewhat, the People's Bank of China (PBOC) set its official reference point for yuan weaker than seven for the third consecutive session on 12 August.

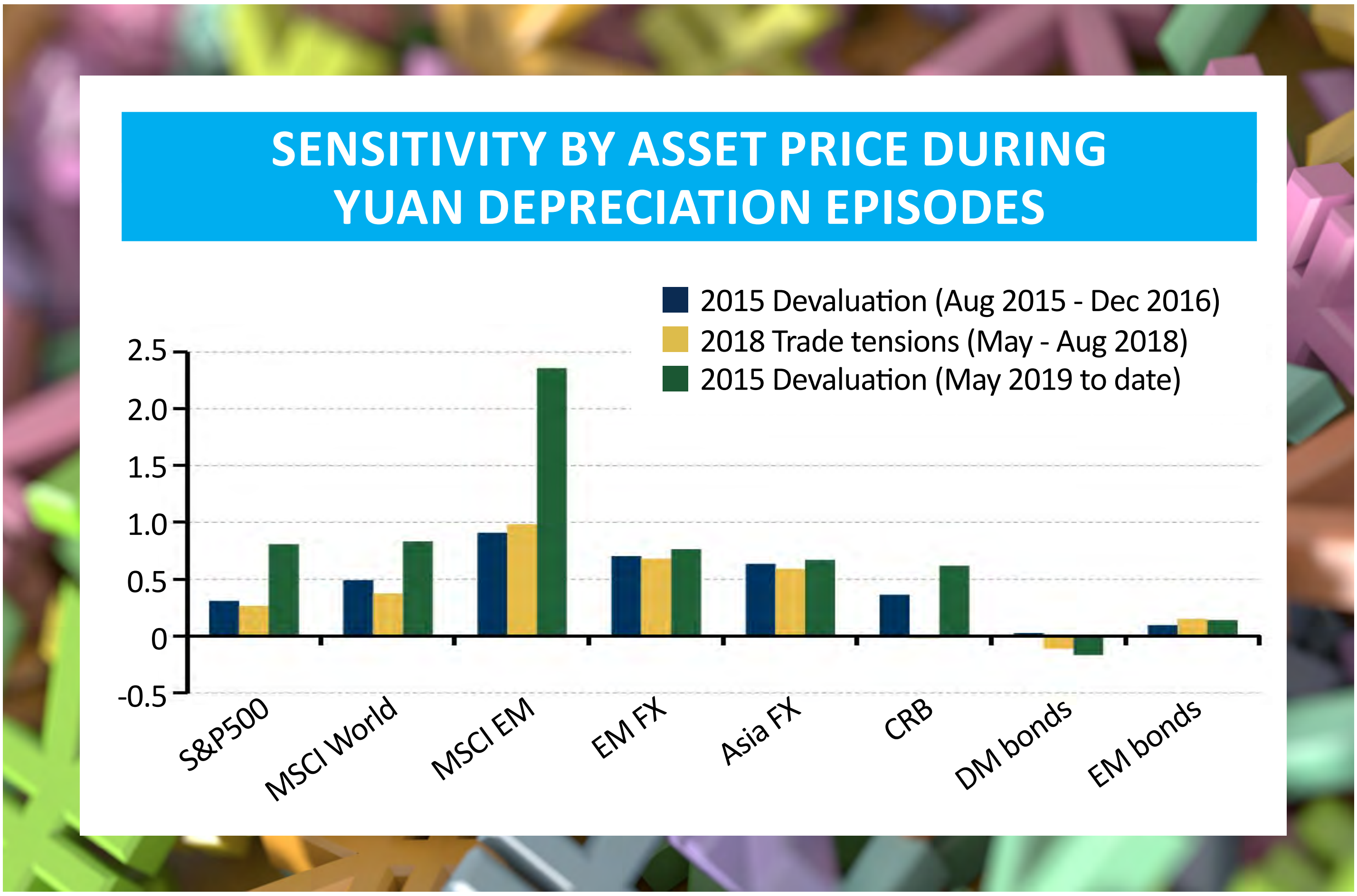
> "GOLD PRICES MAY BENEFIT FROM GLOBAL ATTEMPTS TO DEBASE CURRENCIES AS THE PRECIOUS METAL'S STATUS AS A TRADITIONAL STORE OF VALUE BECOMES MORE HIGHLY PRIZED"

Meanwhile in the background bubbling tensions in Hong Kong are raising fears of a crackdown from mainland China on a global centre of commerce.

A devalued currency could also exacerbate the debt situation in China as it would make it more expensive for the country to pay back its foreign-denominated borrowings.

WHAT HAPPENED IN 2015?

The previous period of pronounced devaluation for the yuan came almost exactly four years ago. In 2015 this episode contributed to a major sell-off in global equity markets. In the preceding decade the yuan had appreciated by a third against the dollar before the PBOC surprised with three consecutive devaluations.



HOW MIGHT THE US RESPOND?

Trump has said the US could respond by devaluing its own currency but arguably this is not a credible threat, particularly as the dollar is often seen as a safe haven asset and therefore a beneficiary of market turmoil.

In addition, while the US Federal Reserve looks likely to cut interest rates further, typically something which would drive down a currency, this has already been factored in by the markets.

HOW DOES IT IMPACT GLOBAL MARKETS?

Any further devaluation of the yuan is likely to be bad news for most asset classes. As BoA Merrill Lynch forex strategist Adarsh Sinha comments: 'Only developed market bonds depict negative sensitivity to [the yuan] - in other words the only asset class that benefits during [yuan] depreciation episodes.'

Gold prices may benefit from global attempts to debase currencies as the precious metal's status as a traditional store of value becomes more highly prized. Gold recently hit a six-year high.

One risk is that attempts to manipulate currencies lower through lower interest rates will leave central banks with less room for manoeuvre if they need to act in the face of a more pronounced economic slowdown.

By **Tom Sieber**
Deputy Editor

THE DNA OF THE FTSE 350

WHAT IT IS, HOW IT WORKS AND WHY IT MATTERS FOR INVESTORS

If you are new to stock market investing you may still have heard of the FTSE 100. It frequently appears on TV news bulletins and in the papers, its relative direction up or down giving viewers/readers a steer as to how the UK economy is going and how optimistic, or not, investors feel about the nation's prospects.

By contrast, the FTSE 350 the has a very low profile and seldom gets a mention at all.

WHAT IS THE FTSE 350?

You may already know that the FTSE 100 is a representation of the UK's 100 largest companies by market value. It is an index designed to help the financial services industry create funds and other investment tools that track the index, and as a performance benchmark against which various investments can be measured.

The FTSE 350 is also an index benchmark but as well as including the UK's 100 largest companies, it also includes the stock markets next 250 biggest firms, otherwise called the FTSE 250 index.

So the FTSE 350 is an amalgam of the tier one FTSE 100, and the second tier FTSE 250.

Companies in the FTSE 350 that you would certainly have heard of include **BT (BT.A)**, **Barclays (BARC)**, **Royal Dutch Shell (RDSB)** and **Vodafone (VOD)**.

There's also sports cars firm **Aston Martin Lagonda (AML)**, Johnnie Walker whiskey maker **Diageo (DGE), Housebuilder Bellway (BWY)** and **Cineworld (CINE)**.

But there are loads more that are little

known outside of industry and investment circles, many of them world class businesses.

This is the first of a multi-part series on the FTSE 350. next week we take a closer look at the consumer facing names on the index.

STRINGENT RULES

On the UK stock market there is a third tier below this, the FTSE Small Cap index. It is all other companies that pass the London Stock Exchange's (LSE) stringent listing requirements, and is the third and final piece forming the FTSE All-Share index.

These rules include having a full listing on the LSE with sterling or euro denominated shares that can be traded on the exchange's Electronic Trading Service. They must also meet strict tests on nationality, free float (stock owned by independent institutions or private investors), plus liquidity, which is a measure of how freely stock can change hands.

FTSE 350 FIVE YEAR RETURN

38.7%

Source: FTSE Russell, to 31 July

Unlike the FTSE 100 and 250, the FTSE Small Cap index does not have a fixed number of constituents, the number of small cap companies is fluid as companies merge or are taken over, delist or simply go to the wall, there are also initial public offerings (IPOs), which are new entrants to the market.

The FTSE Small Cap index counts 283 companies as members, according to recent FTSE Russell data (31 July).

MOVEMENT BETWEEN THE INDICIES

Qualification for entry into the FTSE 100, 250 and Small Cap depends on the value of a company, or its market capitalisation. The constituents are reviewed each quarter, on the Wednesday after the first Friday of the month in March, June, September and December, with a maximum of 10 companies potentially up for relegation from each list or promoted to it.

Companies qualify for the FTSE 100 if they rank among the top 90 UK-listed firms by market cap and conversely drop down to the FTSE 250 if they fall to position 111 or below

on the night before the review takes place. Any companies that drop out of the FTSE 250 fall into the Small Cap index.

The most recent shake up in June 2019 saw seven companies promoted to the FTSE 350, another seven drop out and into the Small Cap index. Those moving up in the world included local utility bills payment service **PayPoint (PAY)**, pubs group **Marston's (MARS)** and Belfast-based digital services supplier and advisor **Kainos (KNOS)**.

Falling out were troubled building contractor **Kier (KIE)**, retirement services supplier **Saga (SAGA)**, Southend airport-owner **Stobart (STOB)** plus four others.

BOTTOM LINE ON BENCHMARKING

As we have said previously, indicies like the FTSE 100 and FTSE 350 help provide a yardstick for investors to measure the relative performance of stocks and funds against.

For example, you might hear a fund say it has beaten the index during the past year. To understand this, if a fund delivers a 10% annual return, and the FTSE 100 (the benchmark in this example) increases 8% over the same time frame, the fund can say it has beaten the index by 25%.

It provides a guide to how well, or poorly, an investment has done over the fixed period. For example, mobile network giant **Vodafone (VOD)** is widely owned by investors because of its hefty dividends.

But its shares have done miserably this year, not least because it cut the payout back to 2009 levels. Vodafone shares have declined by about 3% in 2019 whereas the

FTSE 100, of which Vodafone is a member, has risen by about 8%.

So in effect, Vodafone stock has underperformed the FTSE 100 by about 11% year to date.

IS FTSE 350 AN INDEX FLOP?

If we consider that providing a benchmark is one of the two core purposes of an index then it could be argued that the FTSE 350 is not terribly successful. Most UK-aimed funds will benchmark either against the FTSE 100 or, more often, versus the FTSE All-Share, with a smallish number of specialist mid-cap funds using the FTSE 250.

Very few bother to benchmark against the FTSE 350 and the reason is largely because of the fact that all FTSE indexes, or indices as they are sometimes called, are weighted by market capitalisation. This means that larger companies make more of a difference to each index than smaller companies in terms of performance.

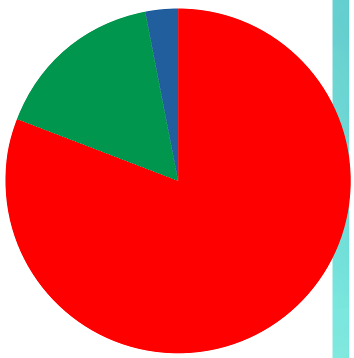
For example, banking group **HSBC (HSBA)** is currently the largest company on the UK stock market with a market value of around £132.9bn, compared to the £2,267bn value of the FTSE 350 in total (based on FTSE Russell's 31 July data). That gives it a FTSE 350 weighting of 5.86%.

By contrast, the smallest FTSE 350 firm, crowd funding business **Funding Circle (FCH)** has a market value of £368m, piddling in comparison to the wider FTSE 350, which makes its share price moves virtually irrelevant at an index level.

That weighting issue means that the entire Small Cap index is so small by comparison to the FTSE 350 that there is virtually nothing between the performance of the FTSE 350 and the FTSE All-Share. Hence funds benchmark against the FTSE All-Share.

INDEX WEIGHTS

FTSE 100	81%
FTSE 250	16%
FTSE Small Cap	3%



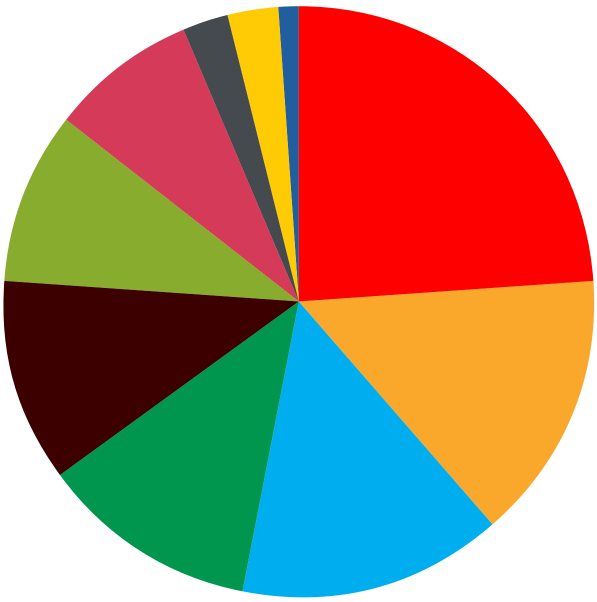
Source: FTSE Russell

SECTORS WITH THE HEFTIEST PUNCH

While many of us tend to think of Britain as a larger service-based economy with a huge financial services industry, the UK stock market is no slouch in manufacturing, construction, engineering and, particularly, oil and mining.

FTSE indexes use Industrial Classification Benchmark (ICB) standards to breakdown industries into investment sectors, which is

INDUSTRIES THAT DRIVE THE FTSE 350



Financials	24.2%
Oil & Gas	14.6%
Consumer Goods	14.6%
Consumer Services	11.7%
Industrials	11.4%
Health Care	9.28%
Basic Materials	8.06%
Telecommunications	2.67%
Utilities	2.61%
Technology	1.03%

Source: FTSE Russell, 31 July 2019

arguably more complex than it needs to be, from a private investor point of view.

The ICB uses a system of 10 industries partitioned into 19 super-sectors, which are further divided into 41 sectors, which then contain 114 subsectors.

Perhaps the most useful way to think of it is to take a big picture view, natural resources, business production, consumer products and services, with financial services probably straightforward enough.

That might suit retail investor but it would probably not be detailed enough for City institutions, but we can simplify the message.

FINANCIALS – 132 COMPANIES (24.2% FTSE 350 WEIGHTING)

Think the high street banks that we all know – **Lloyds (LLOY)**, **Barclays (BARC)** and HSBC, big insurance companies like **Aviva (AV.)** and **Legal & General (LGEN)** personal loans and fund-raising firms like **Amigo Loans (AMGO)** and **Funding Circle (FCH)**.

OIL & GAS – 10 (14.6%)

Says what it does on the tin, includes **BP (BP.)** and Shell plus eight other smaller companies.

CONSUMER GOODS – 31 (14.6%)

Unilever (ULVR), which makes much of the stuff on supermarket shelves, such as Domestos bleach, Persil washing power and Wall's ice cream, finds its home here as do drinks manufacturers. But you might not realise that car makers (and parts suppliers), housebuilders and tobacco stocks are also included.

CONSUMER SERVICES – 61 (11.7%)

Includes big supermarkets like **Tesco (TSCO)** and **Sainsbury (SBRY)**, while most high street and online retailers sit in this sector. Travel firms such as **TUI (TUI)** feature here,

as do leisure enterprise, like Cineworld. Also includes media businesses such as broadcaster **ITV (ITV)** and advertising agency **WPP (WPP)**.

INDUSTRIALS – 62 (11.4%)

Think aero-engine maker **Rolls-Royce (RR.)** or engineering firms like **Renishaw (RSW)** and steam and heating systems designer **Spirax-Sarco (SPX)**. This sector also includes bus and train operators plus business services suppliers.

HEALTHCARE – 11 (9.3%)

Big pharmaceutical companies like **AstraZeneca (AZN)** and **GlaxoSmithKline (GSK)** dominate here. But there are also a handful of healthcare equipment manufacturers, such as **Smith & Nephew (SN.)**, which makes prosthetic limbs and joints, plus private hospital operators like **NMC Health (NMC)**.

BASIC MATERIALS – 20 (8.1%)

Natural resources that are not oil related, this is mainly made up of multi-billion pound gold, iron, copper and other material miners like **Anglo American (AAL)**, **BHP (BHP)** and **Rio Tinto (RIO)**. Also include paper-based packaging firms like **DS Smith (SMDS)**, which makes those corrugated cardboard coverings that Amazon deliveries tend to arrive in.

TELECOMMUNICATIONS – 5 (2.7%)

Pretty self-explanatory, suppliers of services around phones, the internet and streaming TV sit here. Vodafone and BT are the real heavyweights, with **TalkTalk (TALK)** and Utility Warehouse operator **Telecom Plus (TEP)** other constituents.

UTILITIES – 8 (2.6%)

Utility energy suppliers like British Gas-owner **Centrica (CNA)** or **SSE (SSE)** are joined by a handful of water network suppliers, like **United Utilities (UU.)**, the UK's largest by market value.

TECHNOLOGY – 11 (1.0%)

This is really software companies led by accounting and payroll platform provider **Sage (SGE)**. IT infrastructure developer **Micro Focus (MCRO)** and engineering software provider **AVEVA (AVV)** are also prominent.

By **Steven Frazer** News Editor

FTSE 350 ETF OPTIONS

There are exchange-traded funds (ETFs) which track both the FTSE 100 and FTSE 250 benchmarks, so buying both would be one way of getting exposure to the FTSE 350 as a whole.

Most products are further distilled into a distribution version and an accumulation version.

Given that the FTSE 100 and FTSE 250 are *not* total return indices – that is, all dividends paid by index members are paid out in cash (distributed) rather than re-invested in the index (accumulated) – the truer comparison with the index is the distribution version.

FTSE 100 ETFs			
Product	**Assets**	**Launched**	**OCF**
iShares Core FTSE 100	£6.5bn	Apr-00	0.07%
Vanguard FTSE 100	£2.7bn	May-12	0.09%

There are 11 UCITS ETFs tracking the FSTE 100 which are ISA-friendly but for reasons of liquidity we are only interested in the two largest: the BlackRock's **iShares Core FTSE 100 (ISF)** and the **Vanguard FTSE 100 (VUKE)**.

Both are 'full replication' funds therefore they own the same stocks as the index and in the same proportions, and their performance over one year, three years and five years is virtually identical to that of the index and each other.

Their ongoing charge figures (OCF), which cover administration, audit, depositary, legal, registration and regulatory costs, are also virtually identical. Lastly, they both yield 4.44%, the same as the index as at the end of June.

There are even fewer FTSE 250 ETFs so again for simplicity and liquidity reasons we have narrowed it down to the two largest distribution versions, one by iShares and one by Vanguard.

FTSE 250 ETFs			
Product	**Assets**	**Launched**	**OCF**
iShares FTSE 250	£846m	Mar-04	0.4%
Vanguard FTSE 250	£1.3bn	Sep-14	0.10%

Both invest in all 250 index constituents in the same proportion as the index therefore their performance and yield are virtually identical to the index. The only distinguishing feature between them is the lower charges at Vanguard.

By **Ian Conway** Senior Reporter

HOW FTSE INDEXES EMERGED

THE FTSE ALL-SHARE Index was originally called the FT Actuaries All-Share Index at its inception in 1962. The index was first enhanced in 1984 with the creation of the FTSE 100, the best-known and most closely followed of UK stock market indexes. More refinement followed in 1992 when the FTSE 250 was set-up to give investors an increasing number of options.

FUNDS AND THE FTSE 350

FTSE 100 and FTSE 250 'tracker' funds and ETFs are a good place to start if you're new to investing and looking to build a low-cost portfolio as a first step. However trackers can never beat the market as they are designed to track it minus a tiny amount for fees.

Another way to add risk is to pick a fund with a high 'active share' which means that it owns relatively few big index stocks, giving it the potential to outperform. Active share is shown as a percentage between 0 and 100: the less the fund looks like the index, the higher the percentage.

Most funds explain on their factsheet that due to the different composition of the fund versus the market, the fund's performance is likely to be very different to the market. If you're comfortable for your fund to zig when the market zags, then all well and good.

However there are no guarantees that funds with a high active share will outperform. Performance is largely a factor of the quality of investment decisions a fund manager makes not just how far they deviate from the index.

As Ryan Hughes, head of active portfolios at AJ Bell, points out, **Woodford Equity Income Fund (BLRZQ62)** had a very high active share at 98% but poor stock selection and lack of liquidity led to the fund under-performing and subsequently being suspended.

In contrast, the **JPMorgan UK Equity Plus Fund (BW4Q9B1)** only has an active share of 45% but it has comfortably beaten the FTSE All-Share over the last three years.

Statistically, an active share above 80% is considered as a good measure of 'activeness' although this depends on the structure of the underlying index. For example the average in the UK All Companies sector is 67%.

When looking at active share in the UK, a high active share nearly always points to a fund having more invested in medium and smaller companies which brings other risks advises Hughes.

HIS TOP PICKS, IN DESCENDING ORDER OF ACTIVE SHARE, ARE:

Montanaro UK Income (BYSRYZ3): a high-conviction portfolio typically made up of 40 to 50 stocks, with an active share of 97%, invested mostly in small and mid-cap companies that offer an attractive dividend yield or potential for dividend growth.

Liontrust Special Situations (B57H4F1): a 'sparkling performer' according to Hughes, with an active share of 73% and a more equally-weighted approach than other funds (its top ten holdings are all 4% each of the fund).

Investec UK Alpha (B7LM4J0): has the lowest active share at 53% but over five years has beaten both the FTSE All-Share index and the sector by a comfortable margin.

By **Ian Conway** Senior Reporter

FUNDS WITH LARGEST ACTIVE SHARE

FUND	SEDOL	ACTIVE SHARE %
Slater Recovery P Acc	B90KTC7	99.7
VT Sorbus Vector A	BD3B7P4	98.8
Slater Growth P Acc	B7T0G90	97.5
Montanaro UK Income STG Unhedged	BYSRYZ3	97.1
Old Mutual UK Dynamic Eq R GBP Inc	BLP5976	97.0

Source: Investment Association, March 2019

AJBell FIT Awards2019

VOTE FOR THE BEST COLLECTIVES

After a successful first two years the third iteration of AJ Bell's Fund and Investment Trust (FIT) awards opens up to voting this month.

A table of last year's winners and their performance is shown below.

How you can vote

To have your say on the funds which could follow them this year head to **fitawards.ajbell.co.uk,** you have until 31 August to make your voice heard. By voting you are entered into a prize draw for a meal for two at Michelin starred chef, Tom Kerridge's restaurant, Kerridge's Bar and Grill.

The FIT awards, sponsored by First State Investments and TwentyFour Asset Management, cover a wide range of categories. To make the voting process accessible to investors an expert panel puts forwards their nominations in each category.

The panel can nominate any investment fund (including OEICs, unit trusts, investment trusts and exchange-traded funds). The panel is asked to look beyond simply investment performance, but also consider how well the fund/trust delivers what it sets out to achieve and how well positioned it is for the future.

CATEGORIES	WINNERS	Year-to-date performance	3 year annualised performance
UK Equity - Active	Liontrust Special Situations	11.90%	9%
European Equity - Active	Jupiter European	22.70%	16%
North America Equity - Active	JPMorgan US Smaller Companies Investment Trust	25%	11.80%
Asian Equity - Active	Invesco Perpetual Asian	4.50%	9.80%
Japan Equity - Active	Baillie Gifford Shin Nippon Investment Trust	11%	16.80%
Emerging Markets Equity - Active	BlackRock Frontiers Investment Trust	0.70%	7.70%
Global Equity - Active	Fundsmith Equity	26.70%	17.40%
UK Smaller Companies - Active	Standard Life UK Smaller Companies Investment Trust	12.10%	13.50%
Commodities/Resources - Active	Pictet Water	24.50%	10.60%
Technology/Biotech - Active	Polar Capital Global Technology	27.80%	25.80%
Property - Active	Standard Life Investments Property Income Trust	10.20%	10%
Bonds - Active	Artemis Strategic Bond	7.50%	4.30%
Income - Active	City of London Investment Trust	6.60%	8%
Ethical/Sustainable - Active	Stewart Investors Worldwide Sustainability	3.10%	15.50%
Specialist - Active	First State Greater China	19%	14.40%
UK Equity - Passive	HSBC FTSE All Share Index	10.50%	6.20%
European Equity - Passive	Invesco EURO STOXX 50 ETF	18.50%	10.40%
North American Equity - Passive	Vanguard S&P 500 ETF	23.40%	14.70%
Asian Equity - Passive	iShares Core MSCI Pacific ex-Japan ETF	14.50%	8.90%
Japan Equity - Passive	Vanguard FTSE Japan ETF	11%	8%
Emerging Markets Equity - Passive	Vanguard FTSE Emerging Markets ETF	9.80%	7.90%
Global Equity - Passive	Vanguard FTSE All-World ETF	18.60%	11.70%
Commodities/Resources - Passive	ETFS Physical Gold	22.20%	6%
Technology/Biotech - Passive	Invesco Technology S&P US Select Sector ETF	34%	23.10%
Property - Passive	Legal & General Global Real Estate Dividend Index	21%	6%
Bonds - Passive	Vanguard USD Emerging Markets Government Bond ETF	17.20%	n/a
Income - Passive	iShares UK Dividend ETF	1.80%	-1.60%
Ethical/Sustainable - Passive	UBS ETF MSCI World Socially Responsible ETF	21%	12.70%
Specialist - Passive	iShares Global Infrastructure ETF	23.40%	11%

Source: AJ Bell, Morningstar 9 August 2019

Introducing the investment trusts on the FTSE 350

How these collectives contribute to the rich diversity of the index

Investors who prefer to entrust capital allocation decisions to a professional money manager as opposed to buying individual stocks are exceptionally well served by the FTSE 350. Within its ranks, you'll find a highly-diverse batch of investment trusts spanning all the key asset classes.

Shares' number-crunching reveals a grand total of 57 investment trusts within the FTSE 350 – that is with some very sizeable real estate investment trusts stripped out - with a total market cap of £81.1bn as at 8 August 2019.

Through these collectives, investors can access a variety of strategies spanning equity income, growth and value funds to portfolios specialising in everything from infrastructure to property, private equity and healthcare as well as global equities and emerging markets.

TEN LARGEST FTSE 350 INVESTMENT TRUSTS BY MARKET CAP

Trust	Market Cap (m)
Scottish Mortgage	£7.8bn
F&C Investment Trust	£3.8bn
RIT Capital Partners	£3.2bn
Pershing Square	£3.1bn
HICL Infrastructure	£2.9bn
Alliance Trust	£2.6bn
International Public Partnership	£2.4bn
Greencoat UK Wind	£2.1bn
Monks	£2bn
Templeton Emerging Markets	£1.9bn

Source: SharePad, 8 August 2019

FTSE 350 BIG BEASTS

Among the London market's largest 350 companies are some of the big beasts of the fund management industry, whose market valuations have often soared on account of superb performances and voracious appetites for their particular strategies, often satisfied by new share issuance to manage outsized premiums to net asset value (NAV).

The standout name in market cap terms is **Scottish Mortgage (SMT)**, the Baillie Gifford-managed trust whose £7.8bn tag places it within the elevated ranks of the FTSE 100.

One of *Shares'* running Great Ideas, Scottish Mortgage is a technology-focused investment trust with an excellent long-run value creation track record, its success built on buying some of the global market's winning, albeit highly rated, tech growth stocks.

Investors remain keen to access the stock picking acumen of managers James Anderson and Tom Slater, although the trust now trades on an unusual 0.8% discount following the recent equities rout.

Shares admires the trust's long-term approach, with money put patiently to work with disruptive firms with durable competitive advantages run by excellent management teams.

However, it should be noted this a highly concentrated portfolio with the largest 30 of 84 holdings, among them Amazon, Tencent and Tesla, accounting for 76.4% of total assets as at 30 June.

Owning a portfolio primarily of go-go-growth names, many highly rated on conventional valuation measures, has served Scottish Mortgage well, although during periods when investors rotate away from growth and tech companies towards value, parts of the portfolio could come under selling pressure.

With a market cap approaching £3.8bn is **F&C Investment Trust (FCIT)**, formerly Foreign & Colonial and famous for being the world's first ever investment trust launched way back in 1868.

2018 marked the 150-year anniversary of a trust with demonstrable durability, having flourished in the face of two world wars, the great depression and the 2008 global financial crisis.

Unsurprisingly with interest rates mired at historically low levels and cash on deposit earning next to nothing, investors have bid up shares in diversified global funds such as the Paul Niven-managed F&C.

The trust a 'big daddy' in terms of diversification as it is invested in over 500 companies in 35 countries. Also proving popular of late is multi-manager global equity fund **Alliance Trust (ATST)**. Alliance Trust is into its third year under a new strategy born out of pressure from activist investors.

Syncona features in Witan Investment Trust's portfolio

Also popular are fellow long-run progressive dividend payers such as the Andrew Bell-guided **Witan Investment Trust (WTAN)** and **Bankers (BNKR)**, the Janus Henderson Investors-steered trust with a bumper 186 holdings at last count.

The quest for income also explains the popularity of the Job Curtis-managed **City of London (CTY)**, as well as the specialist infrastructure portfolios **HICL Infrastructure (HICL)** and **International Public Partnership (INPP)**, a pair offering diversified exposure to international infrastructure assets and delivering growing shareholder rewards backed by predictable cash flows with strong inflation correlation.

Also meriting mention given its chunky £3.2bn valuation is **RIT Capital Partners (RCP)**, prized by investors for its prowess in preserving investors' capital.

RIT Capital Partners has long been synonymous with its founder, Lord Rothschild, who steps down as chairman on 30 September to take up the role of president of RIT, but this hasn't rattled investors as the trust continues to trade at a premium to net asset value (NAV).

One of *Shares*' current Great Ideas, this unique vehicle is invested in a widely diversified and international portfolio across a range of asset classes, both quoted and unquoted. Net assets topped £3bn for the first time as of 30 June 2019 and £10,000 invested in RIT at inception back in 1988 would be worth around £360,000 today with dividends reinvested. The same amount put to work in the MSCI All Country World Index would have grown to circa £85,000.

POPULAR PORTFOLIOS

Another popular trust is AIC UK Equity Income favourite **Finsbury Growth & Income Trust (FGT)**, whose star manager Nick Train is sometimes known as the king of buy-and-hold investing. Train's approach involves building a concentrated portfolio of quality companies with strong brands and/or powerful market franchises.

Finsbury Growth & Income is invested 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, among them FTSE 100 publishing powerhouse **RELX (REL)**, consumer goods colossus **Unilever (ULVR)**, alcoholic drinks giant **Diageo (DGE)** and beverages-to-biscuits maker Mondelez International.

With technology continuing to rapidly expand its addressable market, portfolios offering exposure to its secular growth themes remain popular and inhabit the ranks of the FTSE 350. Run by Ben Rogoff is another running Great Idea, namely **Polar Capital Technology Trust (PCT)**, a benchmark-beating fund flush with most of the world's best-known companies, among them Google parent Alphabet, Microsoft and Apple.

Currently trading at a 6.9% discount, the trust also offers exposure to big Chinese technology growth names Tencent and Alibaba, as well as less widely known software stocks including Twilio, New Relic and Alteryx.

Sitting on an even wider 17.2% discount is **Herald Investment Trust (HRI)**, a backer of smaller quoted companies in the areas of communications, multi-media and technology that has dramatically outperformed the Numis Smaller Companies plus AIM ex. Investment trusts and Russell 2000 Tech Index since inception.

Other denizens of the FTSE 350 include **Law Debenture (LWDB)**, yet another of our Great Ideas selections. Half year results (24 Jul) revealed a good start to 2019 for the investment trust which looks for quality companies with the potential for long-term growth and which have been mispriced by the market.

FIVE TRUSTS TO BUY

FIDELITY SPECIAL VALUES (FSV) 244P

Discount – 3.1%
AIC Sector – UK All Companies

Fidelity Special Values (FSV) is an all-cap fund with a value-contrarian philosophy managed by well-followed Alex Wright, who remains very positive on the opportunities available to contrarian investors in a deeply unloved UK market. The £676.9m cap trust buys beaten up companies in out-of-favour sectors and holds them until their potential value is recognised by the wider market. Wright's day job entails researching and meeting the management teams of companies, looking for those that offer some degree of downside protection but also 'potential for a positive change to show them in a new light'. Increased clarity on the UK's exit from the EU could trigger a material re-rating of UK-listed companies and a boost for the portfolio, which is invested in the likes of **Royal Dutch Shell (RDSA)** and **Royal Bank of Scotland (RBS)** as well as tobacco stock **Imperial Brands (IMB)** and the educational publisher **Pearson (PSON)**.

BLACKROCK SMALLER COMPANIES (BRSC) £13.08

Discount – 10.5%
AIC Sector – UK Smaller Companies

Popular with investors for its stellar long-run track record yet trading on a 10.5% discount nonetheless, **BlackRock Smaller Companies (BRSC)** is now managed by Roland Arnold, who became lead manager on the retirement of Mike Prentis this summer. The transition should prove seamless as Arnold had worked with Prentis since 2004 and will stick with Prentis' tried-and-tested quality growth bias approach. BlackRock Smaller Companies is a diversified portfolio of high-quality companies that have the potential to become much bigger. The focus is on companies with proven, trustworthy management, strong market positions, a clear record of earnings growth, good conversion of earnings into cash and a sound balance sheet. Currently passing muster with Arnold are the likes of polling outfit **YouGov (YOU:AIM)**, high-flying media group **Future (FUTR)**, **4imprint (FOUR)** and patent translation expert **RWS Holdings (RWS:AIM)**.

WITAN INVESTMENT TRUST (WTAN) 215.5P
Discount – 3.5%
AIC Sector – Global

A 3.5% discount to NAV presents a good opportunity to secure access to **Witan Investment Trust (WTAN)**, a reassuringly diversified closed-ended fund with 44 years of consecutive dividend growth under its belt. The dividend for 2018 was increased 11.9% to 23.5p, well ahead of the rate of UK inflation and more than double that paid in 2008. A long-established multi-manager fund with a strong track record, this AIC Dividend Hero uses 10 different third party fund managers who are experts in different fields and together they invest in global equities and speak for the bulk of the portfolio; the aim is to also generate less volatile returns than a portfolio managed by a single manager by tapping into the expertise of Lansdowne Partners, Veritas, Lindsell Train, Artemis, Crux and others. Roughly 10% of the portfolio is managed in-house by Witan's executive team including CEO Andrew Bell, who has been responsible for the overall running of the fund since 2010.

JPMORGAN EMERGING MARKETS (JMG) £10.18
Discount – 7.4%
AIC Sector – Global Emerging Markets

Risk-tolerant growth investors seeking to put money to work in developing economies might look to **JPMorgan Emerging Markets (JMG)**, where the discount has started to narrow in yet remains fairly attractive at 7.4%. Austin Forey has managed the trust since its 1994 inception with a bottom up, long term philosophy which seems the right approach for generating good returns from far-flung economies over time. Stifel recently noted that trust has been 'by some margin, the best performing generalist emerging markets trust over the last one, three and five years and is the only trust which has not experienced a change in its management team over the last few years'. Forey is blessed with the ability to forage for opportunities in all emerging markets – as at 30 June, the fund was 29.3% invested in China with allocations to India (21.3%), South Africa (9.8%), Taiwan (8.3%), Brazil (7.6%) and Indonesia (4.6%) - and currently has positions in the likes of Tencent, Taiwan Semiconductor Manufacturing and Tata Consultancy Services as well as financials including AIA, Housing Development Finance and Ping An Insurance.

HICL INFRASTRUCTURE (HICL) 163.4P
Premium – 5.1%
AIC Sector – Infrastructure

Shares believes it is worth paying up for FTSE 250 constituent **HICL Infrastructure (HICL)**, currently trading on a 5.1% premium to NAV. The fund provides enviable diversification by asset risk and a growing dividend backed by predictable cash flows and strong inflation correlation. A long term equity investor in infrastructure, HICL has defensive attributes, since the projects and assets it backs support communities and facilitate the delivery of essential public services. Managed by infrastructure specialist InfraRed Capital Partners, the fund's portfolio of 118 investments located in the UK, France, Ireland, the Netherlands, Canada and the USA are positioned at the lower end of the risk spectrum, spanning PPP, regulated assets and also demand-based assets such as student accommodation for example. Based on HICL's year to March 2020 target dividend guidance of 8.25p, there's a tasty 5% yield on the table for investors at the current share price.

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

How to play emerging markets through ETFs

Not all emerging markets, and the funds that invest in them, are created equal

Some people believe emerging markets have the potential for significant returns.

As development in these markets emerges, the opportunity for growth should in theory be better than a market that is already developed. However, this can also come with significant volatility attached.

And EM, as it's also known, is a big, broad area covering a lot of different countries in the world. Picking a fund that covers the lot can protect you from the downside risks, but also mean missing out on opportunities in certain areas.

A low-cost and straightforward way to get diversified emerging markets exposure is through exchange-traded funds (ETFs), which track a broad index of companies in a wide range of EM countries.

For those just wanting to gain exposure to EM as a whole, this could be a useful option. While EM ETFs are more expensive than FTSE 100 trackers for example, they are still significantly cheaper than active funds.

AJ Bell's head of passive portfolios, Matt Brennan, highlights the **iShares Core MSCI EM IMI ETF (EMIM)**, and **X MSCI Emerging Markets ETF 1C (XMMS)**, which are the cheapest options with both having a total expense ratio of 0.18%.

Typically emerging market ETFs cost more than FTSE 100 or S&P 500 ones for example, averaging out at a total expense ratio of around 0.5% a year.

Brennan explains, 'The cost of holding EM companies is higher, custody costs are around 0.2 to 0.3% a year, that's why EM ETFs are more expensive. Also, the tax regime is much more complex in these countries.

'But on the flip side, from an underlying perspective growth is expected to be much higher compared to developed markets.'

Growth is not created equally however, and certain sectors and countries will do better than others.

Using financial markets as an example, Brennan adds, 'EM financials make up 8% of the global sector, but financials makes up 23% of the global economy, so you can expect that gap to close. As those markets develop, the costs (of buying into those stocks) will go up, but that would be outstripped by performance.'

It is important to note this area of the market wasn't good to investors last year with lacklustre returns across the board the stronger dollar is helping the US to outperform in comparison.

Brennan suggests now is 'perhaps not a bad entry point' to invest in emerging markets. So with that in mind, here are a number of ways to invest in emerging markets through ETFs.

THEME-BASED OPTIONS

EMQQ Emerging Markets Internet & Ecommerce ETF (EMQQ)

The most focused way to play emerging markets that's currently available to investors in the UK would be through the EMQQ Emerging Markets Internet & Ecommerce ETF.

The fund tracks an index of internet and ecommerce companies that serve emerging markets, such as online retailers, social networks and e-payment systems. The aim is to provide exposure to the growth of online consumption in the developing world.

To be included, companies have to derive more than half of their profits from ecommerce or internet activities. The ETF holds companies such as Tencent and Alibaba.

In a white paper, the ETF's founder Kevin T. Carter says that any investor looking at EM knows 'the key growth story in the developing world is the emergence of the middle class consumer'.

He cites a report from McKinsey & Co which concluded, 'By 2025, annual consumption in emerging markets will reach $30tn – the biggest growth opportunity in the history of capitalism.'

iShares MSCI EM Consumer Growth ETF (IEMG)

Another way to play to that growth of the middle class consumer in emerging markets, this iShares ETF tracks companies which derive high or growing revenues from emerging markets countries. Like the EMQQ fund, its top holdings are Tencent and Alibaba, but it also contains companies such as Netflix and Nike.

Demand for legit Nike trainers in countries like China – which has a big basketball culture – for example is rapidly growing as people earn more money, while Netflix has identified the likes of Brazil and India as big growth areas.

NON-EQUITY OPTIONS

Vanguard USD EM Govt Bond ETF (VEMT)

Most emerging market ETFs are focused on shares in companies, but a potentially less volatile – though still broad – way to play the region could be through government bonds.

Called emerging market sovereigns, the asset class had a bad 2018, but those losses were wiped out by the end of January and returns have continued to rise. So far this year, the Vanguard ETF has returned 15.67%, compared to a total return last year of 2.78%.

The cheapest way to do this is via Vanguard's ETF, which costs 0.25% and has a lower volatility than the benchmark index that it tracks.

COUNTRY-BASED ALTERNATIVES

Pictet-India Index (B96TPQ4)

When it comes to emerging markets, not all countries are created equal. After all, what happens in the likes of Brazil and Argentina is very different to what happens in places like Thailand and South Korea.

On the latter, which is included in the MSCI EM index and therefore in a lot of ETFs, there's big debate about whether it should be considered an emerging market at all given how developed it is.

According to research firm Oxford Economics, India, the Philippines and Indonesia are the top three countries in emerging markets with the best growth potential. All three have individual ETFs which track their performance.

Out of all of them, India is ranked as the country with the best growth prospects, and also has the highest number of ETFs available.

The cheapest option is Pictet-India Index, which has an ongoing charge of 0.46%. Though not an ETF, like ETFs it simply tracks an index, and it follows the same index as other India equity ETFs which charge almost double the price.

By **Yoosof Farah**
Reporter

Gold shines as US stocks stumble

Why the precious metal has been to the fore in 2019

America's headline S&P 500 stock index continues to swing around as bulls and bears grapple for supremacy – and while they are slugging it out gold is quietly doing the business for investors.

The S&P 500 is up by barely 2% over the past year, while gold is up by a nearly a quarter and a leading index of 15 gold miners is showing gains of nearly 40%.

Those figures are in dollars, so the capital gains for UK-based investors who will be looking at their returns in sterling are even better, thanks to the weakness of the pound. (See table below).

Gold's latest gains are also particularly notable, because they are coming when the dollar is gaining too. The trade-weighted DXY (or 'Dixie') dollar index is trading near 98, despite a US Federal Reserve interest rate cut and the attempts of an irate president to talk (or tweet) down the buck.

Normally a rising dollar signals weakness in gold, as it makes the metal more expensive to buy. But they are gaining in tandem, which suggests that investors are nervous and may be looking for potential bolt-holes in preparation for more difficult times.

GOLD AND THE DOLLAR ARE (UNUSUALLY) ADVANCING TOGETHER

Source: Refinitiv data

TUG OF LOVE

The S&P 500 may be trading near its all-time highs, set just above 3,000 mark in late July, but it is making heavy weather of forging decisive gains, as the benchmark is no higher than it was in mid-January 2018.

This due to a tug-of-war between supporters and sceptics of US stocks. Buyers believe that the US Federal Reserve's move to cut interest rates will stoke further economic and corporate earnings growth. Sellers are countering that a downturn

GOLD HAS BEATEN US EQUITIES HANDS DOWN IN THE PAST YEAR

	S&P 500	Gold	HUI Gold Bugs Index	FTSE 100
Change over past 12 months in $	**2.8%**	**23.6%**	**38.3%**	**(11.8%)**
Change over past 12 months in £	9.2%	31.3%	46.8%	(6.3%)

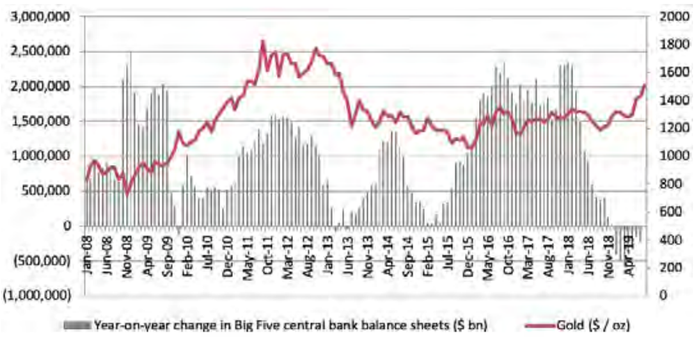
Source: Refinitiv data

is coming, irrespective of Fed policy, with the result that American equities will be left looking expensive and overextended.

US equities are thus torn between these two schools of thought, especially as a 10-year upswing means the consensus view is that American stocks are still good place to be, thanks to the superior economic backdrop in the US, faith in corporate earnings prospects and the Fed's switch from raising to cutting interest rates.

But the better price momentum is coming from gold, which was out in the cold at the start of the year after another dismal showing in 2018. The precious metal has finally cracked through the $1,350 to $1,360 an ounce range that had capped several advances over the past five years and smartly progressed to a six-year high above $1,500.

CENTRAL BANKS' BALANCE SHEETS AGAINST GOLD PRICE



Source: Refinitiv data

LOSS OF NERVE

Investors' enthusiasm for gold seems to be gathering for three reasons. Fresh interest rate cuts around the world mean there is less opportunity cost in owning the metal, which itself generates no yield, as returns on cash (and bonds) go lower once more

This year's policy U-turn by central banks suggests that they are not quite as in control of the global economic situation as investors would like to think and fears of a downturn or recession mean investors are seeking out haven assets

With interest rates already so low, central banks may not have that much monetary ammunition left, meaning they may return to quantitative easing and more money creation, in the event of a recession.

Such policies could tempt investors to look for hard assets, such as precious metals, to protect their wealth, as happened during the early rounds of easing between 2009 and 2011.

As a result of the metal's resurgence, gold miners are also enjoying a return to favour. The HUI Gold Bugs (Basket of Unhedged Gold Stocks) index contains 15 gold miners and rising gold prices are great news for them, especially if they are increasing production and managing their costs carefully.

The world's biggest gold miner, by market capitalisation, is Colorado-headquartered Newmont Goldcorp, with its $32bn price tag (a fraction above Toronto-based Barrick Gold). Newmont Goldcorp's all-in sustaining cost (AISC) figure, for example, was $1,016 an ounce in Q2 2019, so every $1 on the gold price above that mark will drop quickly through to the bottom line.

If gold keeps rising then the miners' gearing into those price gains mean their profits should rise faster still, assuming costs are well managed.

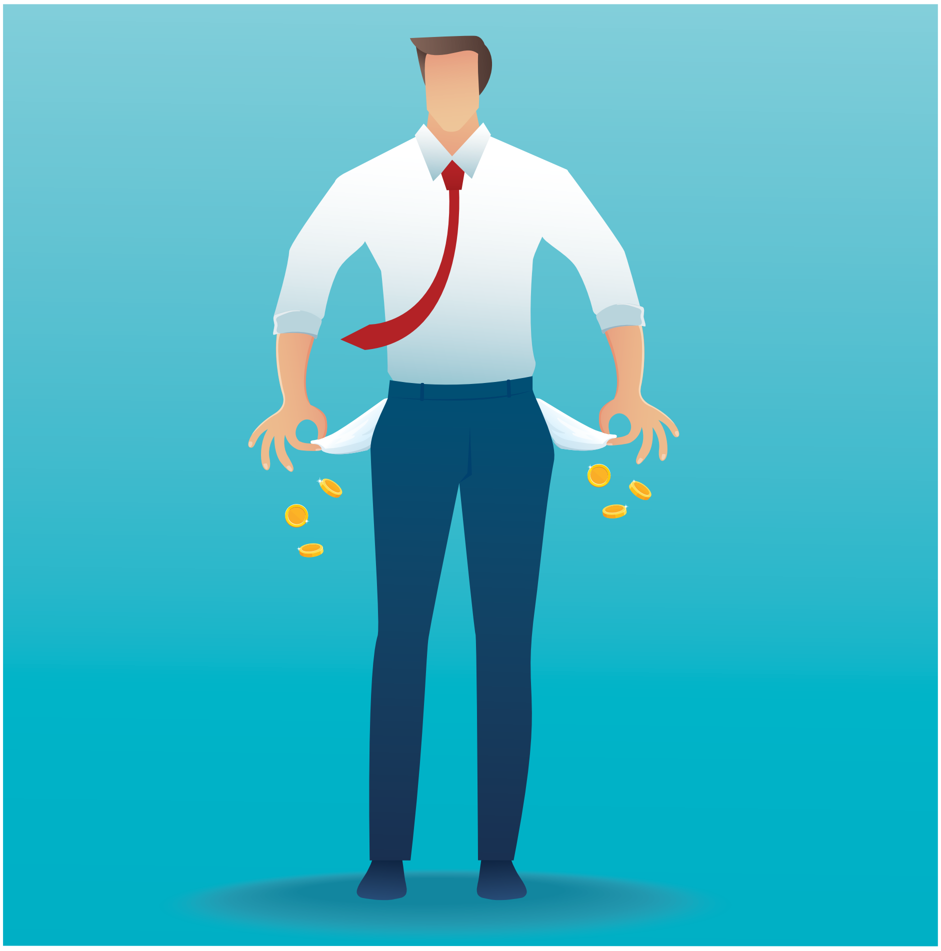
Equally, the opposite also holds true – were gold prices to back, as investors regained confidence in central banks' policies and the global economic outlook, then that could again pressure the miners' profits and cash flows, to the detriment of their share prices.

By **Russ Mould**
AJ Bell Investment Director

How do you pay investment fees if you have no cash on hand?

Answering questions about how to manage money in your dealing account

We've previously covered how much cash you should have in your portfolio, but how to do you manage the cash in your investment account? What happens if you owe fees and have no money, or if you want to buy and sell investments? We'll answer some of the common questions asked.



WHAT HAPPENS IF I OWE MONEY AND HAVE NO CASH IN MY ACCOUNT?

There's no minimum cash balance on your account, so you don't have to have any money in cash. That said, each quarter you'll be charged custody charges, which are the fees for having a platform. This money will come out of the available cash in your account. If you don't have any cash, or don't have enough cash in your account then some of your investments will be sold to pay these fees.

If the platform has to sell your investments it will sell some units of your largest holding, and you might face a higher than usual dealing fee for that transaction. This means that it's best make sure you have enough cash in the account to meet these costs. As they are collected quarterly you should check before the end of the quarter whether you have a pot of cash available.

If you typically have more money in your Dealing Account than your ISA or SIPP you can elect for your charges to be taken from the dealing account instead, you'll just need to contact your platform. This only applies to the custody charges and not the fees for buying and selling investments, which will need to come from the relevant account.

While it's good to have some money in cash (and you aren't charged a custody fee on this money) the cash won't earn much interest, so you need to make sure you're not just leaving money in cash for long periods of time unless that's a strategic move you've planned for.

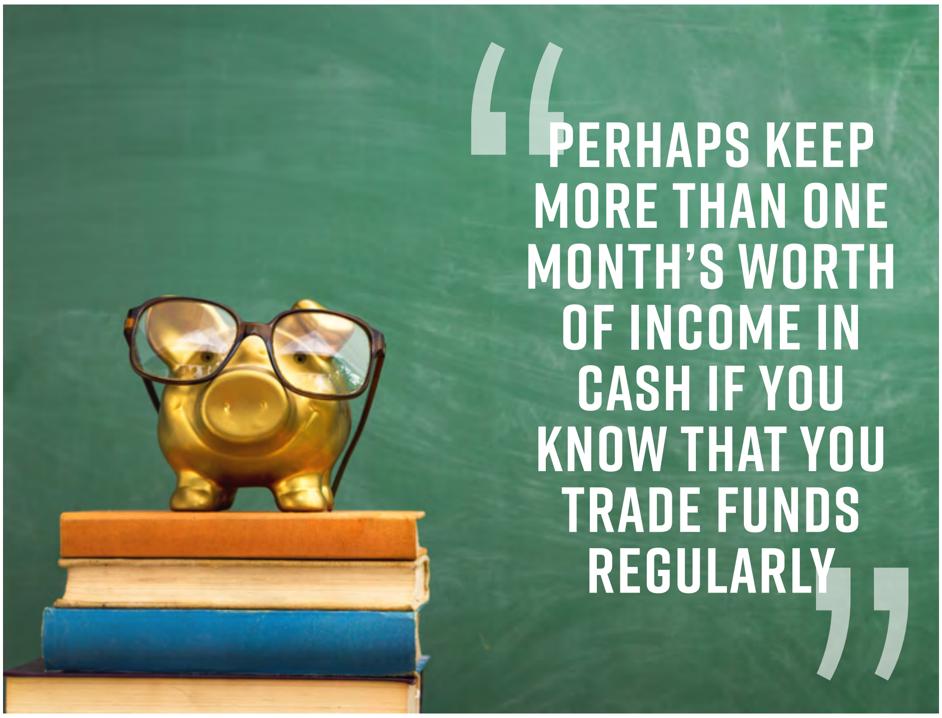
IF I SELL ONE FUND AND BUY ANOTHER, WHY DOES MONEY COME OUT OF MY CASH ACCOUNT?

If you sell and buy an investment at the same time you will need sufficient cash in your account to fund the purchase, as there will be a time-lag before you receive the money from the sale.

Depending on the time of day you trade it can take two to three days to trade a fund, although selling ETFs, shares or investment trusts would be much quicker. You need to be conscious of this if you're relying on the cash in your account to pay you an income or to pay for fees.

People who are in pension drawdown need to be particularly aware of this. They will need to have sufficient cash in their account to pay out their monthly withdrawal if they trade just before the date when this income is due to be paid out they could find some of their cash is used to buy the investment and they won't have enough cash in their account to pay out their income.

A such, it would be wise to ensure you have enough cash in your account ahead of your drawdown payment date, and perhaps keep more than one month's worth of income in cash if you know that you trade funds regularly.



WHY HAVE I GOT CASH IN MY ACCOUNT THAT I CAN'T WITHDRAW?

The amount marked as 'available cash' in your account is not always the amount you can withdraw. This figure will include transactions that have not yet cleared, whether that's money that you've paid in or money that will be used for pending share or fund purchases.

When you pay money into an account it depends what method you use as to how quickly it will clear. If you use your debit card the money will be available immediately, but if you send a cheque it will take five working days to clear usually. So consider this when you're thinking about how quickly you want to be able to use and invest that money.

If you want to withdraw money from your account it will take five working days to clear. If you need to access the money sooner than that you can get the payment sent by something called CHAPS – but this will cost extra, for AJ Bell YouInvest it's £25 plus VAT.

CAN I MOVE CASH BETWEEN MY DIFFERENT ACCOUNTS?

You can move cash from your dealing account into you ISA, SIPP or Lifetime ISA, although you need to make sure you don't exceed the account allowances on these accounts (£20,000 a year for your ISA, £4,000 a year for the LISA and £40,000 a year for most people in their pension).

You will only be able to move 'cleared' cash (see above) and will need to wait for any money in the dealing account to be cleared before you can move it.

It's a bit trickier to do the reverse transfer, from your other accounts into your SIPP, ISA or LISA. Bear in mind that once the money is in your SIPP you won't be able to access it until age 55 usually.

And with your Lifetime ISA you will pay an exit charge if you transfer the money out to one of your other accounts – the charge is 25% of your withdrawal.

You can more easily move the money from your ISA into your dealing account, but bear in mind that you won't be able to transfer it back into the ISA in the same tax year if you've already met your £20,000 annual ISA limit.

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

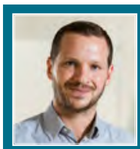
'What happens with my crystallised funds?'

Our expert helps unpick a query on managing pensions cash

I am 64 and in full-time employment. I have £28,700 in 'crystallised' funds from which I need to pay for some house repairs.

If I invest the remaining funds into shares/funds which I will manage, and the overall amount grows by means of increases in share price or dividends, is the increase then considered tax-free by HMRC in line with the Government annual allowance?

If so, how do I ensure that these funds are recorded and, if I wish, withdrawn as a tax-free amount?
D Caulfield



Tom Selby
AJ Bell
Senior Analyst says:

For the uninitiated, when talking about pensions, 'crystallised' simply means you have decided which retirement income route you are going to take with your funds. For example, you can crystallise funds by buying an annuity or keeping your pot invested through drawdown.

When you crystallise your pension (or part of your pension) at some point after reaching age 55, you will usually be able to take a quarter of it tax-free. The rest is taxed in the same way as income. So if you crystallised £40,000, £10,000 could be taken tax-free with the other £30,000 going into drawdown.

When you crystallised your fund it will have been 'tested' against the lifetime allowance. For the 2019/20 tax year this stands at £1,055,000.

A lifetime allowance test will be carried out on any uncrystallised funds when you reach age 75, as well as any growth in value in your pot since it was moved into drawdown. Given the size of your pot, unless you have significant pensions elsewhere, breaching the lifetime allowance and paying tax charges isn't likely to be a problem.

The annual allowance restricts the amount you can save each year in a pension, rather than any growth your fund might enjoy. Your investments should therefore continue to grow without any tax consequences provided you keep them within the pension.

If you take taxable income from your pension you will trigger the Money Purchase Annual Allowance (MPAA). This means you will only be able to save £4,000 a year tax-free rather than the usual £40,000. You will also lose the ability to 'carry forward' unused allowances from the previous three tax years.

If you haven't taken any taxable income from your fund – for example you just access your tax-free cash – you won't trigger the MPAA. If you're planning to pay more into your pension in future, this is an important point to consider before taking any taxable income.

If you have remaining uncrystallised funds – i.e. money invested in a pension like a SIPP which you haven't committed to a particular retirement income route – then 25% of this money will also be available tax-free once it is crystallised.

You should note that when entering drawdown, you can only take tax-free cash at the point you crystallise your funds.

This is one reason many people choose to crystallise their pension in phases (often referred to as 'phased drawdown'), allowing them to access the tax-free cash they need right now while allowing the remaining entitlement to potentially grow within the pension.

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.

Southend Airport the key to unlocking Stobart's growth potential

The infrastructure firm is well placed for growth in the world's biggest airport market

Having featured more drama than a soap opera in the last few years, infrastructure and support services firm **Stobart Group (STOB)** is out to simplify itself.

Formerly of Eddie Stobart trucking fame, those iconic trucks with female names like Tammy, Dolly and Suzie now belong to another company entirely, **Eddie Stobart Logistics (ESL:AIM)**.

Stobart Group on the other hand is now an infrastructure business which wants to become known for two things, London Southend Airport and turning wood into energy.

It sounds a simple enough business, albeit in two very different sectors. But it's a sign of the company's narrowing focus, the outcome after a long-running saga in which the firm's founder Andrew Tinkler was eventually

chucked out of the business.

A boardroom bust-up featuring accusations of bullying, lies, 'flagrant' breaches of contracts, and 'malicious falsehoods' – with Britain's best known fund manager and shareholder Neil Woodford thrown in for good measure – resulted in Stobart winning a court case in February to remove Tinkler from his job.

Tinkler has since tried to hijack Stobart's annual general meeting (AGM) with a 'Save Stobart Group' campaign which aims to remove chief executive Warwick Brady from his post, arguing that Brady is too focused on the firm's aviation business 'to the neglect of the rest of the business'.

While Stobart would undoubtedly argue that is not the case, the company has positioned itself for growth predominantly to come through its aviation division.

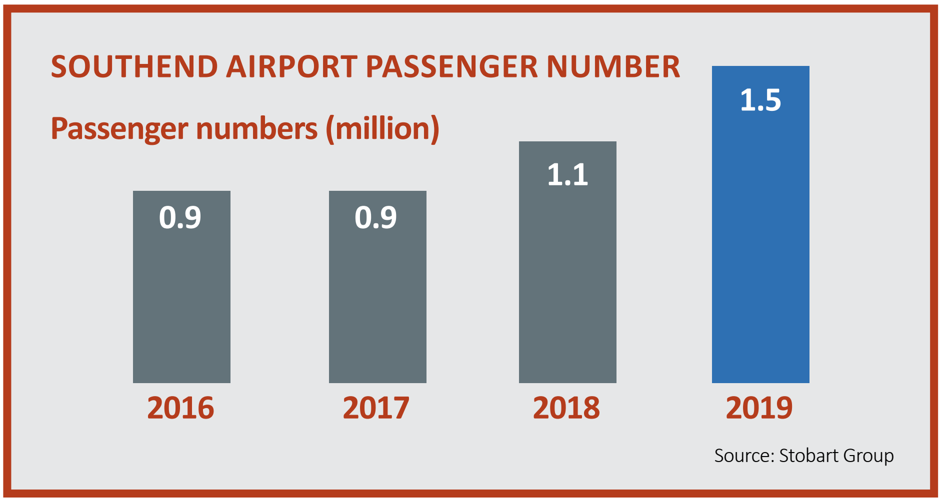
SOUTHEND AIRPORT THE MAIN OPPORTUNITY

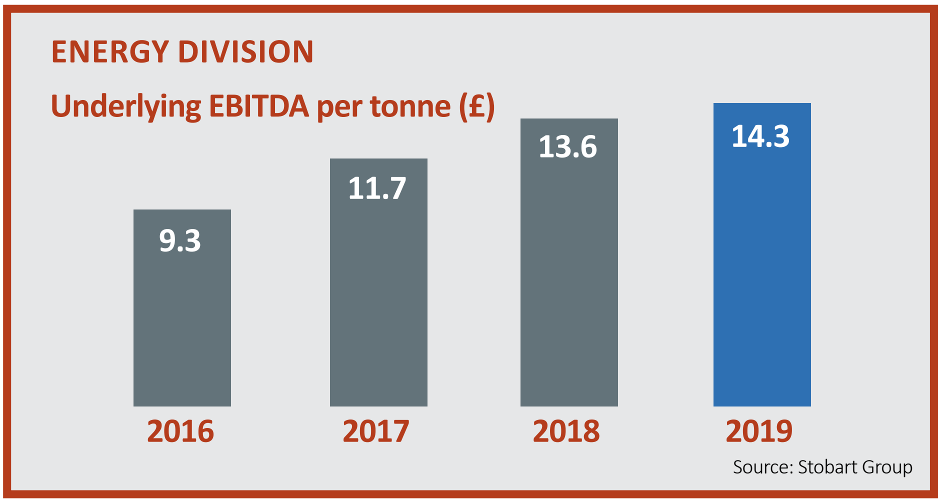
Stobart believes its best growth opportunity is London Southend Airport, described by broker Jefferies as a 'scarce asset'.

In the city with the world's largest airport market by passenger numbers, London Southend is the only of the capital's six airports which has spare capacity at peak times during the day.

That means Stobart has a great chance to hit its target of 5m passengers travelling through the airport by 2023. The airport currently has around 1.5m passengers last year, which will grow to around 2.2-2.5m this year as Ryanair and Loganair begin flights.

And the reason Stobart wants to get as many passengers in as possible is because that's where the money is – with the aim of generating £10 in profit per passenger.





That £10 figure comes from a number of things, mainly train income, car parking charges, food and beverages, and airlines paying to use the airport.

Every time a passenger arrives at Southend Airport from London Liverpool Street, Stobart splits the money with train operator Greater Anglia, but receives a majority of the ticket value (the company declined to reveal how much, but said it gets the 'lion's share' of the proceeds). Around one third of passengers at the moment arrive by train.

As passenger numbers grow, Stobart is also looking to increase its number of car parking spaces, up from the current number of 220,000, with the land already available to do so.

It plans to reconfigure and expand its airport to better capitalise on food and beverage opportunities, with the current arrivals section – which makes up one third of the airport space – set to be moved.

A Stobart spokesperson said: 'You don't make any money out of arrivals, so one of the options is to build a new arrivals terminals and use that space [where the arrivals section currently is] to significantly

increase capacity of the airport.'

Stobart also has a 30% stake in the Connect Airways venture on which it is partnered with Virgin Atlantic and investment firm Cyrus Capital and which encompasses its own Stobart Air business and the assets of regional airline Flybe.

ENERGY BUSINESS

The other main area of Stobart's business is its energy division. In effect, when businesses want to get rid of their wood, it costs £100 per tonne to put it in landfill, but Stobart will take if off their hands for £30 a tonne. Then they'll store it, and give it out to renewable energy companies when needed.

A cash generative business, the division has made Stobart the leading supplier of waste wood biomass to UK renewable energy plants, and has around 12 to 15 contracts as a key partner with suppliers according to Jeffries.

In the last financial year to 28 February, it reported earnings before interest, tax, depreciation and amortization (EBITDA) of £19.2m, and has plans to get this up to £25m.

Stobart says it plans to grow the business, which currently generates more revenue and profit than its aviation business, but the main aim is to kick off cash to fund development at Southend Airport, where ultimately the main growth opportunity lies.

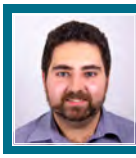
FORGOTTEN RAIL DIVISION

While aviation and energy are its two key areas, the business also has legacy divisions which are still kicking about. Civil engineering division Stobart Rail & Civils is one area which could be sold.

Having focused too much on internal work from other Stobart divisions, the business has been reconfigured to win a lot more contracts from third parties, and has a new management team in place to help it achieve that aim.

Stobart's focus is to move the business to profitability in the near term. As for the medium to long term, the spokesperson said it's 'not a core part of the business', and refused to rule out selling the business if an acceptable offer came in.

The spokesperson added, 'We want to be a simple business that people can get their heads around, and having loads of divisions isn't a way to do that.'



By **Yoosof Farah**
Reporter

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KEY

- Main Market
- AIM
- Investment Trust
- Fund
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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

19 August: BHP, Omega Diagnostics. **20 August:** Scancell. **22 August:** Rank.

Half year results

19 August: BATM. **20 August:** Jyske Bank, Empiric Student Property, Finablr, Kenmare Resources, Persimmon, TCS, John Wood. **21 August:** Charter Court Financial Services, Costain, Empresaria, Hansteen. **22 August:** Antofagasta, Foresight Solar Fund, John Laing, Macfarlane, NMC Health, Premier Oil, Playtech, Sportech.

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