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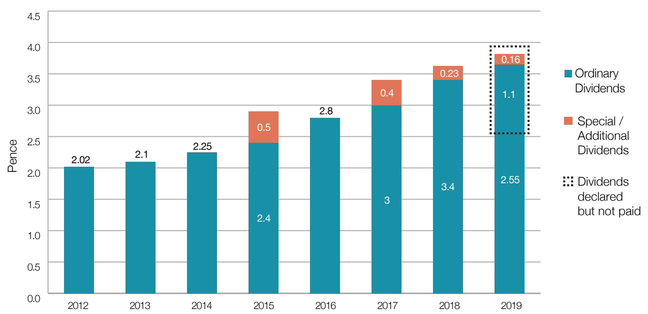

*The fourth interim dividend and the special dividend have not yet been paid but have been declared by the Trust and are subject to a shareholder vote at the Company's AGM on 9 October 2019.

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Don't let your money get caught in stranded assets

Structural changes to various sectors could spell heartache for some investors

Weighing up the impact of being invested in stranded assets could be on the agenda for many investors in the coming years, particularly those with money in the energy and property spaces.

Action to address climate change will see a large number of companies having to write down the value of assets (potentially to zero), thus having a negative impact on the valuation of their own shares.

Someone invested in a big oil and gas producer is likely to have been attracted to its dividends and may share the view that there is still strong demand for its commodities.

They may think that selling the shares now could be a mistake as there are still decent returns to be made from such an investment.

However, it does seem inevitable that oil and gas companies' traditional assets could soon be worth a lot less as the world switches away from fossil fuels to renewable energy.

Craig MacKenzie, Aberdeen Standard Investments' (ASI) head of strategic asset allocation, says he has shifted £500m in the past few months into the European renewables sector, taking money out of various sectors.

He indicates that ASI will start to forecast lower returns from companies involved in fossil fuels in a year's time, saying he can't do the changes until he has climate scenarios to support his financial modelling.

ONE STEP AHEAD

Some companies are already getting ahead of the game in terms of responding to climate change and the need to alter their business structure. For example, a number of the big oil companies are investing in electric car infrastructure and renewable energy.

Rio Tinto (RIO) last year pulled out of the coal industry, marking a significant development for the mining industry in terms of addressing climate change concerns. Utility provider **SSE (SSE)** is to close its last UK coal-fired power station next year.


The world is switching away from fossil fuels

Many investors are also showing forward-thinking. A giant UK pension scheme called Nest is to sell all of its tobacco investments over the next two years – not because of health concerns but rather that it views the industry as being a stranded asset. Nest says 'tobacco is a struggling industry which is being regulated out of existence'.

You might be surprised to discover that property is also on the list of sectors where investors need to be careful. Governments in several parts of the world are making it harder for landlords to let buildings with poor energy certificates, which could lead to an increasing number of stranded property assets.

FUTURE CASH FLOW CONCERNS

Investors must understand that the stock market is always focused on the future. The market is already starting to price in a discount for companies that have an image problem thanks to being involved in sectors with a questionable future, as illustrated by share price weakness among tobacco and coal producers.

Next will be concerns about long-term cash flows from certain sectors which means it is time for you to take a good look at your portfolio and think about which companies may exist in a different form in 10 years' time, or even exist at all.

By **Daniel Coatsworth** Editor

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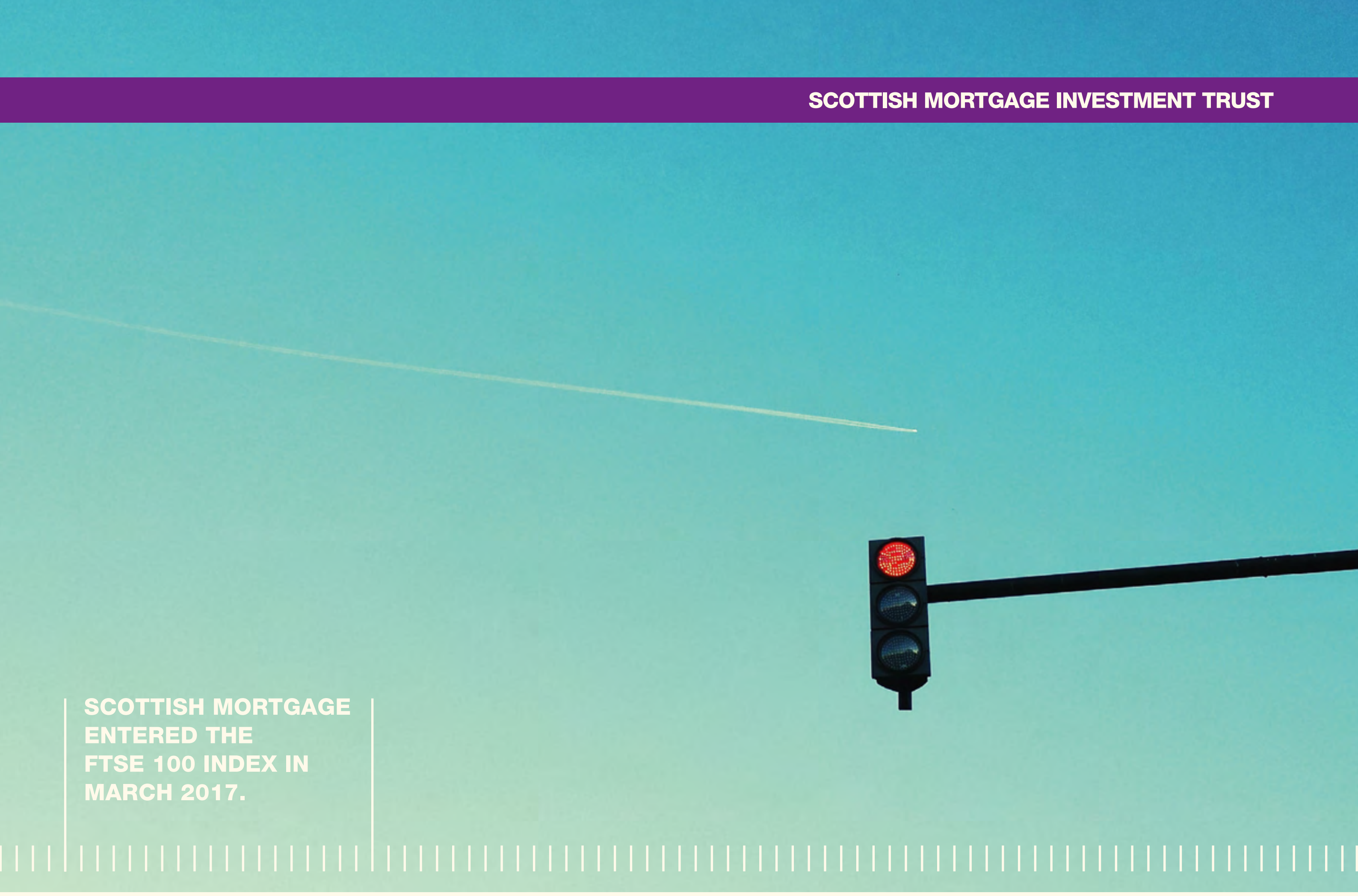

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First glimpse at how stocks could react to Brexit agreement

UK-focused stocks last week soared on a 'pathway to a possible deal'

Investors were offered a window last Friday (11 Oct) into how an actual Brexit agreement might be received by the markets.

Many UK-focused companies saw double-digit share price gains including **Royal Bank of Scotland (RBS)** and **Lloyds (LLOY)**, helping to fuel the biggest two-day rally for sterling in more than a decade and the best day on the FTSE 250 since 2016, all thanks to increased hopes of a Brexit deal.

The UK political situation remains febrile ahead of the 31 October date when the Government has pledged to complete Brexit – deal or no deal.

The big twist in recent days was the unexpectedly positive summit between prime minister Boris Johnson and his Irish counterpart Leo Varadkar (10 Oct) which paved the way for more intensive negotiations to start between the UK and EU ahead of the summit which starts today (17 Oct).

HOW DID THE POUND RESPOND TO BREXIT PROGRESS?

Having traded with sight of its recent lows after an apparently acrimonious phone call between Johnson and German chancellor Angela Merkel, sterling surged when a joint statement from Johnson and Varadkar identified a 'pathway to a possible deal'.

The pound got another leg up when the EU gave the green light for Brexit talks to move to the crunch 'tunnel' phase. Between the morning of 10 October and the night of 11 October the currency moved 4% higher against the dollar – a huge move in the context of the foreign exchange markets. The pound was also substantially higher against the euro.

HOW DID STOCKS RESPOND TO BREXIT PROGRESS?

Companies with a domestic focus were the big winners in the wake of the 'pathway' statement. This meant the FTSE 250 index significantly outperformed the FTSE 100.

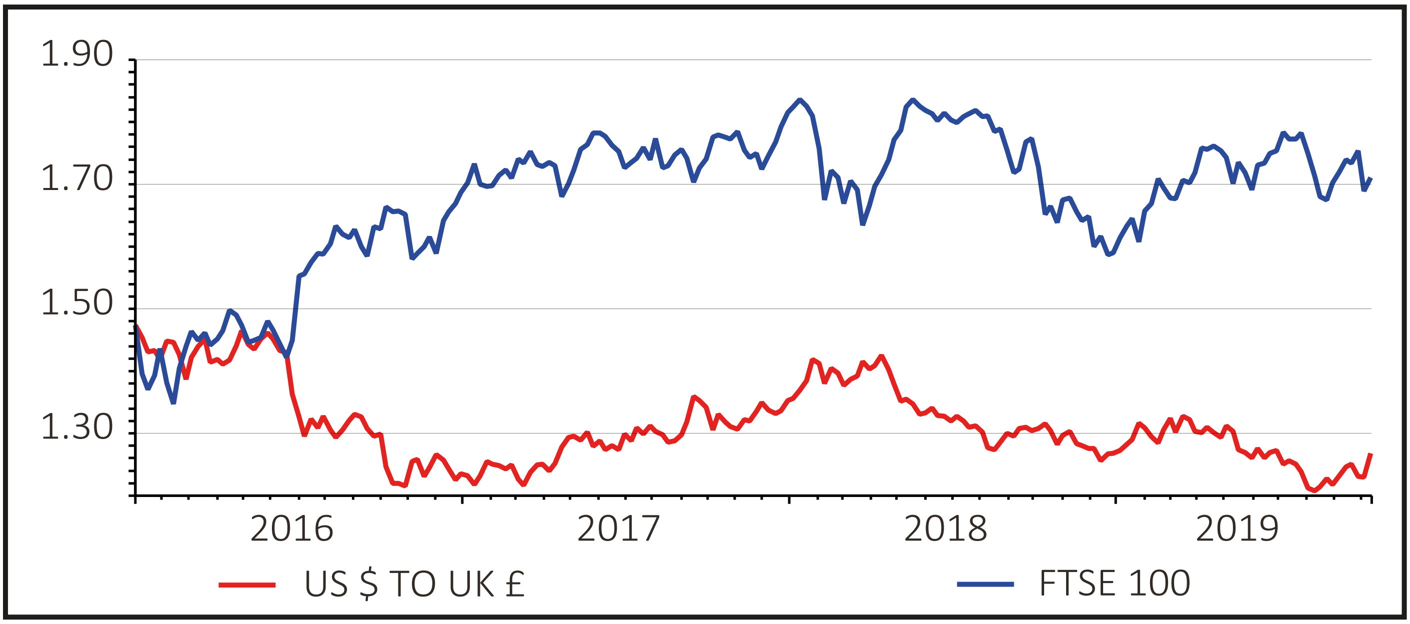
The strong pound undermined the relative value of the overseas earnings which account for around 70% of those generated by FTSE 100 constituents.

The table shows the best performers on the FTSE

BEST PERFORMING FTSE 350 STOCKS ON LATEST BREXIT HOPE

COMPANY	PERFORMANCE BETWEEN CLOSE ON 9 OCTOBER AND CLOSE ON 11 OCTOBER
CYBG	21.6%
Travis Perkins	16.9%
Galliford Try	16.6%
Lloyds Banking	16.6%
Rathbone	16.5%
Grafton	16.1%
OneSavings Bank	16.1%
Countryside Properties	15.4%
Persimmon	14.8%
Royal Bank of Scotland	14.8%
Crest Nicholson	14.5%
Polypipe	14.0%
Taylor Wimpey	13.7%
Bakkavor	13.4%
Marks & Spencer	13.4%

Source: Shares, Sharepad



350 between the market close on 9 October and 48 hours later on 11 October. It is not surprising to see several domestic-focused banks on the list as well as housebuilders and businesses with exposure to the UK construction sector.

Marks & Spencer (MKS) seems to have acted as a bit of a proxy for the UK high street and the benefits for the retail sector if a deal on Brexit is secured, bolstering consumer sentiment in time for the crucial festive period.

WHAT WOULD BE THE IMPACT OF A DEAL?

As we write some of the optimism over the chances of a deal has been punctured as talks appear to continue to founder on the issue of the Irish border. This after reports on 15 October the UK and EU were on the brink of a deal.

However, if an orderly exit from the EU is secured, some of the moves in UK assets we have seen in recent days could be made to look relatively modest.

UBS economist Dean Turner predicts sterling could hit $1.35 against the dollar if an agreement is secured, levels not seen since spring 2018. At the time of writing it was trading at $1.27.

WHAT WOULD BE THE IMPACT OF A DELAY?

Depending on how seriously investors are taking the threat of no deal there may be a small relief rally in domestic-facing stocks – such as housebuilders, construction stocks and banks – if a delay is forthcoming. The response may depend on whether the extension to Article 50 is to facilitate a general election or a second referendum.

The former seems more likely but the latter might be received more positively by the market as polling suggests a 'remain' outcome might prevail if put to a people's vote.

Which comes first, an election or referendum, could be determined at a special 'Super Saturday' sitting of Parliament on 19 October, which is also the deadline for Boris Johnson to request an extension under the Benn act.

WHAT WOULD BE THE IMPACT OF NO DEAL?

Barclays has forecast that the euro could reach virtual parity with the pound in the event of a no deal Brexit with sterling predicted to hit a low of $1.10.

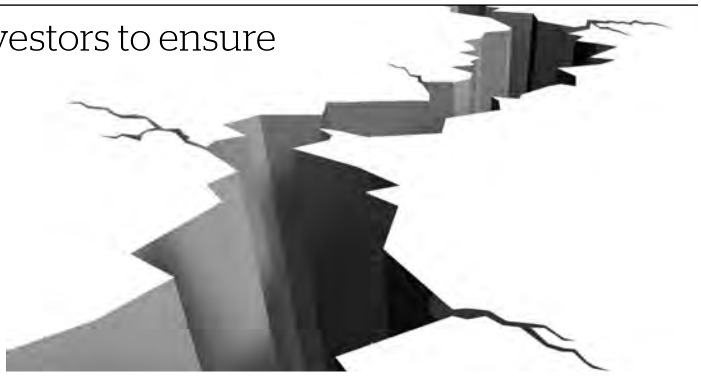
After the initial market shock, and the resulting knock to investor sentiment, this could see the FTSE 100 enjoy a similar rally to the one it enjoyed in the wake of the 2016 referendum as overseas earnings get a relative boost.

Head of multi-asset for Janus Henderson Paul O'Connor says: 'UK assets will almost certainly rally further if Boris Johnson can get his deal approved this week, but, even in this unlikely scenario, celebrations have to be tempered by the recognition that this is a course to a fairly hard Brexit.

'If the deal doesn't pass, and the Brexit deadline is extended, then the outlook remains very hard to call. A large part of parliament wants a deal close to this one, and another part is campaigning for a second referendum, however there is no evidence of a majority for either.'

Woodford Equity Income wind-up shakes fund industry to its core

Culmination of saga is a wake-up call for investors to ensure they know what they're investing in

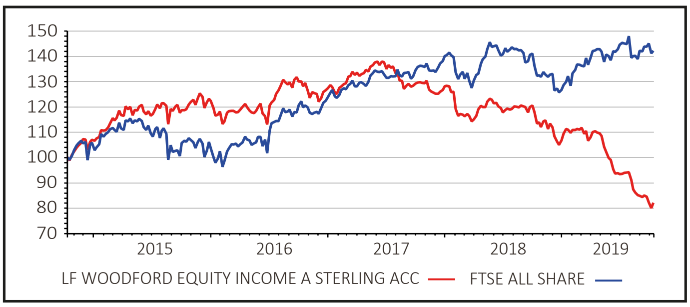


In a bitter blow to the savings industry, **LF Woodford Equity Income Fund** is to be wound up and monies returned to investors starting in January 2020.

Neil Woodford's eponymous Woodford Investment Management is no longer running the fund, whose authorised corporate director Link Fund Solutions decided to wind-up the portfolio in defiance of Woodford himself: 'This was Link's decision and one I cannot accept, nor believe is in the long-term interests of LF Woodford Equity Income Fund investors', he commented.

Woodford Investment Management is shutting down and resigning from all investment management arrangements, including the sister **Woodford Income Focus Fund (BD9X6D5)** and the **Woodford Patient Capital Trust (WPCT)**. Dealing in Woodford income Focus has subsequently been suspended with immediate effect, meaning investors are now blocked from withdrawing their money. Link says during the suspension it will look at a range of options including appointing a new investment manager, folding it into a different fund or winding it up.

June's gating of 'WEIF' followed material underperformance of the broader market and an escalation of redemptions from the strategy and was designed to give Woodford time to reposition the portfolio into more liquid investments.



However Link clearly lost faith the fallen Woodford could reopen the fund before the end of the year as planned.

WHEN WILL INVESTORS GET THEIR MONEY BACK?

On the hook for significant losses, investors were previously expecting to get their money back in December, but Link says it will now take a bit longer in order to avoid a fire-sale of less liquid assets. BlackRock has been appointed to sell the listed assets, while broker Park Hill will deal with the disposal of the illiquid assets.

Investors will get their first return of cash at the end of January 2020 when the more liquid assets have been sold. But the amount available for distribution to investors is unknown at the stage as it will depend on how quickly the assets can be sold at a fair price and it will be a while before investors get back all the money due to them.

ANOTHER TAXING QUESTION

Significantly, investors' proceeds from the wind-up will be classified as a disposal of shares for capital gains tax purposes. Link has said this may give rise to a capital gains tax liability **(link to investor letter)** which has implications for those who hold the fund outside of a tax-efficient wrapper such as an ISA or a SIPP. 'If you are in any doubt as to the taxation consequences of this action you should seek professional advice', writes Link.

TUI and Jet2-owner Dart capitalise on Thomas Cook 'game-changer'

The fall of Thomas Cook, with its 22m customers and £10bn revenue, creates opportunities for rivals

The demise of British travel giant Thomas Cook could provide a significant boost to other tour operators, according to analysts covering the sector who have had time to weigh up the potential gains for various London-listed stocks.

Shore Capital analyst Greg Johnson says Thomas Cook's collapse 'could be a game changer for incumbent operators' given it had 22m customers and £10bn in revenue.

He adds: 'At the very least, tighter market conditions, coupled with the unwinding of 737-Max costs, supports a recovery in profitability going forward.' The 737-Max element refers to the worldwide grounding of certain Boeing plans amid safety concerns.

Two of the biggest potential beneficiaries from Thomas Cook's demise are tour operator **TUI (TUI)** and Jet2-owner **Dart Group (DTG:AIM)**. Shares in the two companies jumped 9% and 15% respectively on 11 October after TUI spelled out its plans and Dart revealed how it had benefited from the collapse of its former rival.

TUI will add an extra 2m airline seats to take advantage of the gap in the market left by Thomas Cook's demise. It will offer more departures from UK regional airports and boost the number of flights to locations such as Turkey and Greece.

Johnson at Shore Capital says TUI generates around €40 profit per passenger, and so adding another 2m seats could provide an extra €80 to €90m to TUI's group profit, while the firm's hotel division could also benefit.

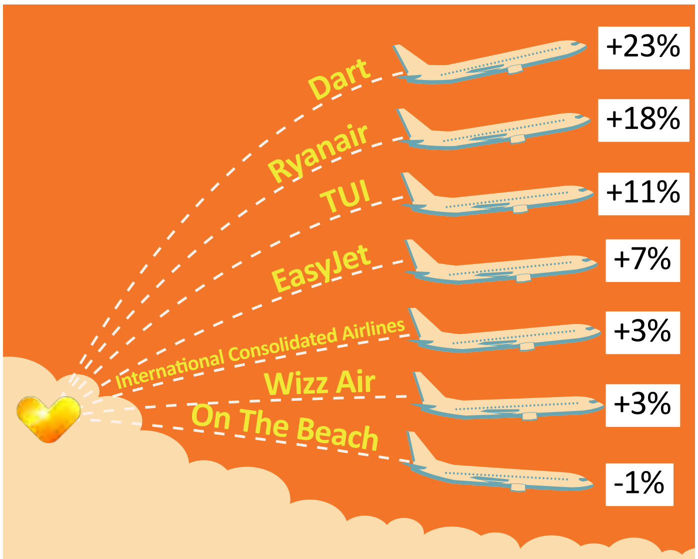
TUI's shares jumped almost 9% to £10 last Friday, though Johnson believes the 'opportunity' from Thomas Cook's fall is not reflected in the company's current valuation, with its 'higher quality cruise and hotels worth £11.50 per share alone'.

Analysts at investment Morgan Stanley are a little more cautious. They believe the extra capacity will boost TUI's profits, but add: 'Modelling the impact is difficult, particularly given TUI will need to take out additional aircraft leases at a time when its MAX grounding timetable is unclear.'

Dart soared 15% last week to around £10.82 after it said it was experiencing increased levels of customer demand since the liquidation of Thomas Cook. It raised full year profit expectations though management stressed they were 'very cautious' in their outlook.

Three weeks ago Dart added more than 170,000 seats to its Jet2 airline schedule between October and March and reported 'unprecedented' demand. Morgan Stanley analysts say they were told by TUI that it has seen 'busy trading' since Thomas Cook's collapse, including its busiest day ever on the day Thomas Cook confirmed it would go into liquidation.

SHARE PRICE MOVEMENTS SINCE THOMAS COOK'S COLLAPSE ON 23 SEPTEMBER 2019



Source: Shares, SharePad, as of 14 Oct 2019

UK dividend growth under threat

Payouts are only growing thanks to currency movements and special dividends

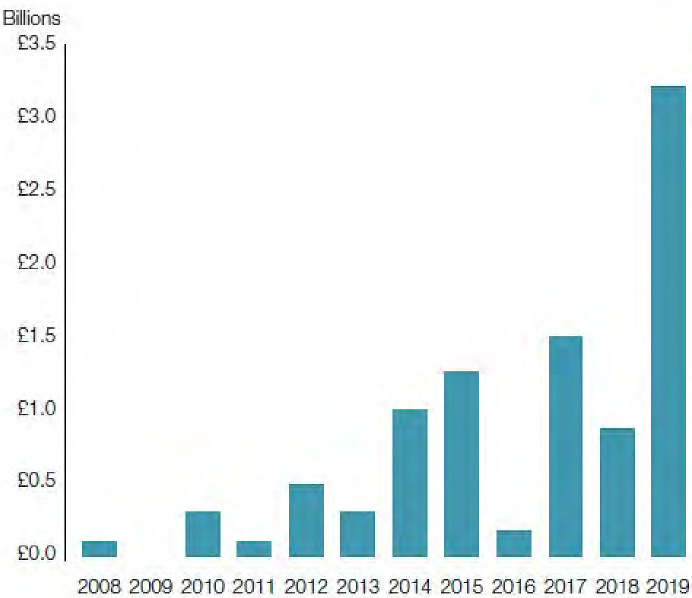
Dividends from UK stocks may not be as reliable as investors have come to believe. The latest Dividend Monitor report from Link Asset Services shows that while dividends rose 6.9% on a headline basis to £35.5bn in the third quarter, growth was entirely driven by one-off factors and currency movements rather than healthy gains in corporate cash generation.

The growth came from some 'exceptionally large' special dividends and gains from a fall in the value of the pound as dollar and euro-denominated dividends enjoyed a higher relative value.

On an underlying basis the picture is far less healthy. Dividends were down 0.2% excluding special dividends and, once you strip out currency gains, dividends were almost 3% lower. This represents the worst quarterly performance in three years.

And while the full year is expected to show headline growth of more than 10%, this again reflects a combination of bumper special dividends and sterling weakness.

Q3 SPECIAL DIVIDENDS



Source: Link Group UK Dividend Monitor

FTSE 350 STOCKS WITH LOW DIVIDEND COVER

Company	Dividend cover*
Inmarsat	0.8
Paypoint	0.8
St James's Place	0.9
Standard Life Aberdeen	0.9
IG	0.9
Centamin	0.9
Vodafone	0.9
Sabre Insurance	1.0
Admiral	1.0

Source: SharePad, 11 October 2019 (excludes REITs).
*Based on forecast dividends and earnings per share.

While the media and airline sectors delivered strong year-on-year growth in the quarter, the retail sector and telecoms space both saw big slumps with high profile dividend cuts at the likes of **Vodafone (VOD)**, **Marks & Spencer (MKS)** and **Dixons Carphone (DC.)**.

One compensation for investors is the high yield offered by UK stocks; Link puts this at 4.4% which is close to historic highs. Just as with an individual company, an unusually high dividend yield from the broader market can be a warning signal that payouts are unsustainable at their current level.

Link Asset Services also notes the level of dividend cover – the extent dividends are covered by earnings – for UK stocks is among the lowest globally at just 1.6-times. As a rule of thumb any ratio below 1.5-times is typically seen as a sign the dividend could be under threat.

The table displaying the FTSE 350 stocks with the lowest dividend cover suggests the dividends paid by asset managers **Standard Life Aberdeen (SLA)** and **St James's Place (STJ)** could be vulnerable to a cut. Despite the company already reducing its dividend, Vodafone's payout also remains in the danger zone.

Could debt concerns at rival help Domino's Pizza?

As Pizza Express debt weighs on the business, shares in Domino's perk-up

According to press reports popular casual dining company Pizza Express is under pressure over its financial position and any resulting retrenchment by the chain could relieve some of the competitive pressure on listed pizza takeaway firm **Domino's Pizza (DOM)**.

Pizza Express has hired adviser Loulihan Lokey ahead of talks with creditors who hold £465m of debt due for repayment in 2021 and a further £200m in the following year. In total the company has £607.7m of net debt.

The chain has denied that it has any plans to close any branches and insists that most are profitable.

Founded in 1965, Pizza Express operates from 620 restaurants in the UK and Asia and was purchased by Chinese firm Hony Capital in 2014, for a reported £900m.

The 2022 bonds were trading around 23p which suggests extreme stress. Bonds mature at par

value, or 100, so the face value of 23p implies that £100m worth of bonds can be purchased for just £23m.

The huge debt burden is squeezing the company as it costs around £93m a year in interest payments, wiping out earnings before interest, tax, depreciation and amortisation (EBITDA).

Add to that increasing wage pressure on the UK high street combined with overcapacity in the casual dining trade and it is easy to see why there might be widespread concerns.

Domino's is much more conservatively financed with net debt to EBITDA of 2.2 times, compared with the 7.6 times at Pizza Express.

Shareholder dissent remains muted

Rebellions at AGMs few and far between

GIVEN SOME HIGH profile corporate disasters of late, including the likes of Carillion, Patisserie Valerie and Thomas Cook, you might have expected shareholders to be champing at the bit to hold companies to account.

However, data from Minerva Analytics 2019 UK Voting Review shows shareholder dissent or the proportion voting against resolutions at FTSE 350 firms' AGMs remains pretty modest and below where it was a decade ago at 2.95%.

Beneath this headline number there are signs that investors are 'picking their battles', showing significant dissent in some high profile examples.

Still the number of resolutions which received dissent of 20% or more according to Minerva only totalled 126 during this most recent AGM season compared with 148 in 2018. The appointment of directors and executive pay remained the hottest issues. Board resolutions accounted for 41.3% of all high dissent resolutions and remuneration for 32.5%.

Minerva includes abstentions when recording dissent on the basis that this represents showing a 'yellow card' to management.

Interestingly the report shows that nearly 50% of the companies which have received dissent of 20% or more are repeat offenders having also received high levels of dissent in 2018.

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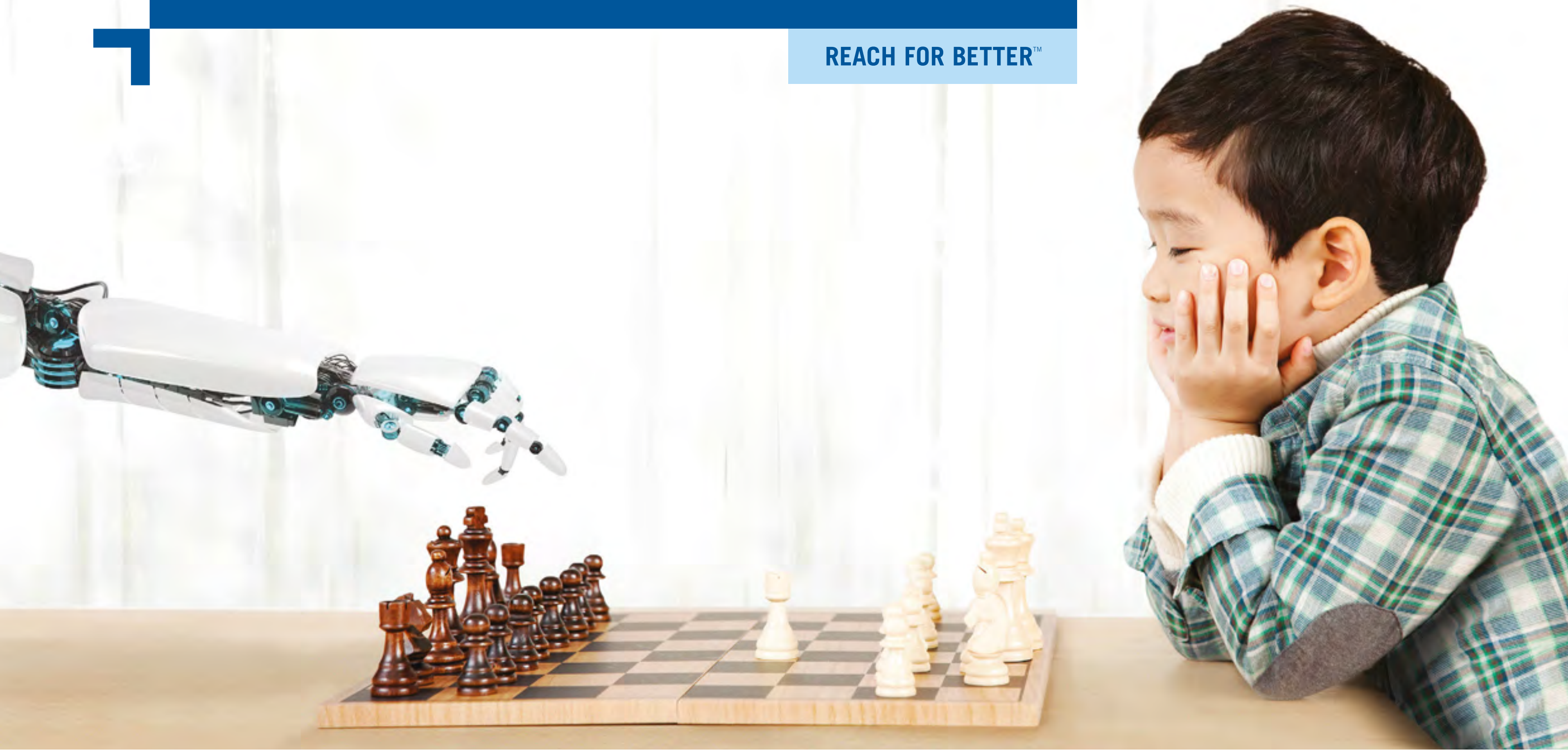

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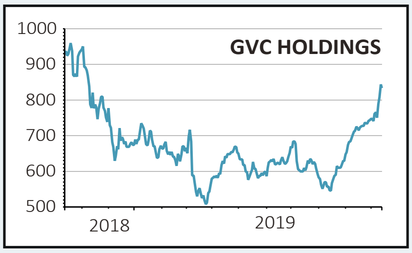
Ladbrokes owner GVC is on the charge and you should take advantage

The shares are underpinned by a slew of analyst upgrades

GVC BUY
(GVC) 833p
Stop loss: 667p

Market value: £4.8bn



Buy into the momentum at gambling group **GVC (GVC)** after recent upgrades for the group.

Management boosted its earnings guidance on 15 August 2019 citing strong operational performance driven by online revenue growth of 17% amid market share gains across all major territories.

It raised earnings before interest, tax, depreciation and amortisation (EBITDA) guidance by an extra £10m or 3%. Then at the third quarter results on 9 October the company raised guidance by another 2%, demonstrating confidence that the improvements were sustainable.

> GVC was founded in 2004 as an e-gaming operator and has since grown rapidly through acquisitions

This prompted some brokers to lift their estimates and call a trough in the company's fortunes. This is significant because analysts were expecting a full period (implemented on 1 April 2019) of trading impact from the fixed odds betting terminals limit falling to £2 and the tough comparisons from last year's football World Cup.

Then there is the US opportunity where a number of states are opening-up their markets to online gambling which the company has described as the largest opportunity to emerge over the last 20 years.

GVC was founded in 2004 as an e-gaming operator and has since grown rapidly through acquisitions. In 2016 it bought the Austrian gaming company Bwin.party for €1.5bn and in 2018 it purchased Ladbrokes for £3.1bn.

It owns a number of leading brands including Ladbrokes, Coral, Eurobet, Sportingbet, Foxy Bingo, and Gala. It also has a 50:50 joint-venture with MGM resorts in the US.

It is important to note that 92% of revenue comes from regulated or regulating markets which impose taxes.

THE SHAPE OF THE BUSINESS TODAY

Online

GVC is currently the world's largest online gambling company. It generates £1.9bn of sales globally through 19 established consumer brands or roughly 52% of its £3.6bn total revenues.

It is very diversified by product type with 56% coming from gaming and 44% coming from

sports betting. Again, this is spread across a number of sports and perhaps surprisingly football only represents a fifth of the pie.

UK

Having consolidated the UK market through acquisition GVC is the leading operator in the UK where it generates £1.3bn of revenues and holds around 14% of the online market versus 6% for its nearest rival.

Profitability of the retail stores has been severely impacted by stricter regulation which the company is tackling through the selected closure of loss making stores and investment in new self-service betting terminals (SSBTs) which are designed to bring the app experience into the shops.

The performance of the UK shops has so far been better than initially expected because the company is seeing higher levels of substitution of fixed odds betting to over the counter bets while SSBTs have seen like-for-like growth in wagers 40% above last year.

At the interim stage over the counter bets were 2% higher compared with last year and up 4% on a like-for-like basis. This is being driven by offering new products and higher staff interaction with customers. The net effect is that the company now sees a lower drag from the closure of 900 shops leading to a £25m improvement in EBITDA from 2020 onwards.

Once the estate is considered to be the right size management see it as a core asset in the drive to increase online traffic.

Europe and Rest of the World

Through its takeover of Bwin the company is the leading online betting company in Austria, Germany, Belgium, France, Italy and Spain. Recent trading showed revenues 7% ahead of last year with over the counter wagers 11% ahead.

The regulatory position in Germany has been in flux and it now looks like re-regulation might not happen before mid-2021, although this will not prevent the company from operating its business as usual, subject to the constraints in place.

The market has been subject to the same regulatory pressures as the UK has seen in recent years. There are mixed views from analysts, but the worst case is that the market will become uneconomic for the major players and at best will migrate to a fully compliant online market.

GVC also operates in Brazil, which is expected to regulate in 2020/21.

SOCIALLY RESPONSIBLE GAMING

This area has become a bigger burden for all gambling companies and GVC has tried to take the higher ground by launching the GVC global foundation which is tasked with making a positive impact on societies and communities.

The company has announced that it is actively looking for a successor to the current chairman to comply with the UK corporate governance code.

ANALYSTS PLAY CATCH-UP

This year started with a lot of potential headwinds as analysts were expecting a tough year of transition from the Ladbrokes integration and as the company digested the new fixed-odds betting restrictions.

It seems that the strength of the company's brands and good cost control has given the business sustainable momentum as we approach 2020.

We see sentiment towards the sector improving and the recent proposed tie-up between **Flutter Entertainment (FLTR)** and the Stars group as a positive catalyst for increased investor interest.

By **Martin Gamble**
Senior Reporter

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Please quote 2141

Why this solar fund is a great portfolio addition

Shining a light on new opportunities for FTSE 250 investment trust

An investment that has a good track record of paying generous dividends, is genuinely diversified and has the potential to grow your money in the meantime is always going to be a popular thing.

An increasing favourite with institutional investors, FTSE 250 investment trust **Foresight Solar (FSFL)** would appear to fit the bill.

One of the main reasons infrastructure investment trusts in general have been popular, both for those accumulating wealth and those in retirement, is the good yields on offer.

Foresight Solar offers a 5.7% dividend yield. Anything between 4% and 6% is considered a good and crucially a sustainable yield.

New opportunities could be just around the corner as the first unsubsidised solar projects come online.

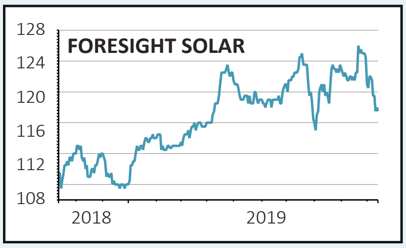
Thanks to increasing momentum behind renewable energy, building and running a solar farm in the UK is now becoming an economically viable thing to do without needing to rely on government handouts, something which could transform the industry and its growth potential going forward.

The fund has paid out all target dividends since its initial public offering in October 2013, during which time it has tripled in size.

The fund has returned on average 8.4% a year over the past five years.

FORESIGHT SOLAR ↗ BUY
(FSFL) 117p
Stop loss: 93p

Market value: £646m



It's worth highlighting that Foresight Solar does trade at an 8% premium to net asset value, but that's still lower than many other infrastructure and renewable energy investment trusts.

GENUINE DIVERSIFICATION

The fund also offers genuine diversification for investors.

It currently has 54 solar projects in its portfolio, 50 in the UK and four in Australia.

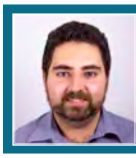
Of course when and how brightly the sun shines doesn't depend on what happens on the stock market and, more importantly, neither do wholesale power prices.

The fund makes money, and therefore returns, by selling power from its solar farms to electricity suppliers. Although demand for energy is impacted by what is happening in the economy, other factors will play a part.

To pay down debt so it can invest in more such solar projects, Foresight Solar did recently raise £65m in an oversubscribed share issue.

Investor demand exceeding the number of shares on offer does illustrate the fund's popularity, but also the continued risk of dilution for existing shareholders as it looks for new opportunities.

The fund does have an ongoing charges figure of 1.18% a year, but for the attractive dividend on offer, reasonable returns and genuine diversification – which could be important with the issues affecting stock markets – it is a figure worth paying.



By **Yoosof Farah**
Reporter

A DISRUPTION BUBBLE?

by Alasdair McKinnon

When I look back, the final phases of the dotcom bubble of 1999/2000 and, separately, the financial bubble which peaked in 2007/8 were, unquestionably, the most educational periods of my career.

Both periods had very different characteristics from which specific lessons could be drawn. For example, the dotcom era taught that while investors can get very excited about a concept, a good story is not enough when confidence evaporates. Meanwhile the financial crisis demonstrated how superficial 'sustainable' profits could be. In the run up to that crisis, banks were involved in a virtuous circle of highly profitable lending, based on rising asset prices which formed the collateral for further lending, higher asset prices and, in turn, produced more 'sustainable' profit. This process lasted until the cycle turned vicious.

But the wider lessons I drew from these bubbles were not so much the specifics, for these will always be different the next time. Instead, the most interesting lessons were derived from how people behaved and the conclusions they drew as the bubble neared bursting point. It would appear that human nature doesn't change which is perhaps why financial markets have always been plagued by booms and busts.

Almost 20 years ago, the market had an insatiable demand for stocks that would give investors exposure to the internet. Indeed, companies that merely added '.com' to their name would see a positive price reaction. Noticing this, entrepreneurs and stock promoters began to rush new companies for 'beauty parades' with the intention to raise enough cash to justify a flotation.

As the callow junior analyst (this was before my time at The Scottish), I was frequently despatched to meet some of these potential newcomers. In my keenness, I went armed with questions, but it quickly became obvious that questions were neither wanted nor required. These 'internet incubators' did not really have credible plans, the founders became indignant when quizzed and there wasn't really anything of value other than the prospective cash that would be raised. The main selling point was instead the dangled prospect of a substantial return to someone who backed the flotation as the share price was expected to spike higher (or 'pop') on the first day of dealings and would trade on a 'multiple of cash' (a valuation metric a bit like someone offering to value your bank balance at a multiple of what it actually is).

Now, if this sounds crazy, it's because it was. But, shares in these companies sold like hot cakes. No doubt, some investors did believe in the long-term merits of these companies but the majority were merely confident that there was somebody behind them willing to pay more. Investors were able to successfully 'flip' several of these new businesses but, when the music stopped, the loss from a single flop more than offset the gains on the winners for many.

The reason I have dredged this anecdote from the depths of my memory is because conditions today make me draw parallels with that time. Today the buzzword is 'disruption', with an enthusiasm for privately held start-up companies valued at more than $1bn – known as 'unicorns' – that will achieve 'profitability at scale.' Perhaps some will, but many unicorns seem to have business models that rely on constant injections of cash which have been facilitated by an easy money environment and a high level of confidence in their long-term story.

Recently, there has been a rush to bring some of these companies to market, perhaps because the backers wish to exit while the going is still good. Watching one of the well-known business channels, I was surprised to see the guests discussing not the prospects of a grossly unprofitable business but instead the 'pop' in the share price that the investment bank would engineer on the first day of trading (ominously, the share price instead flopped).

All-in-all, it is hard not to see these unicorn flotations as the apex of a renewed case of unbridled enthusiasm for all things technology. While we have nothing invested directly in this area, the fact that this mentality exists and covers a large part of the market is a cause for concern.

> "Investors were able to successfully 'flip' several of these new businesses but, when the music stopped, the loss from a single flop more than offset the gains on the winners for many…"

In recent months, President Trump seems to have interpreted market levels as a real-time opinion poll on the competence of his administration. It's easy to see where he is coming from – after all the mantra of President Clinton's original campaign was 'it's the economy, stupid.'

The trouble is that overall market levels generally do not reflect the current fortunes of the economy. Market levels, in fact, better reflect the degree of confidence in the aforementioned 'disruption' bubble. As we expect this bubble to deflate, we think it is highly likely that President Trump's vociferous campaign for the US Federal Reserve to cut interest rates and print more money will ultimately prove successful.

We expect our gold miners to be one of the principal beneficiaries of this shift in monetary policy. Whereas the value of paper currency is eroded by the unrestrained printing of new money, gold has historically maintained its purchasing power over long periods of time. We also see opportunities for long term investors in many areas overlooked in the current environment. ■

20 August 2019

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OCADO
(OCDO) £13.00

Gain to date: 9.5%
Original entry point:
Buy at £11.87, 25 July 2019

OUR BULLISH CALL on **Ocado (OCDO)** continues to make steady progress thanks to a positive third-quarter trading update (17 Sep).

In the three months to 1 September the firm grew its orders at a double-digit rate, faster than the first half but in line with full year guidance, as it expanded its coverage of the country and picked up more new customers.

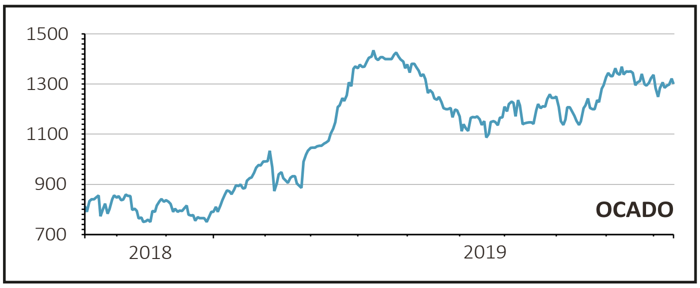
Retail sales were up 11.4% to £386m with the number of customer orders growing by 12.1% and the average order size shrinkingby 0.8% to £105.42.

The company puts the slightly lower order size down to customers ordering more frequently but buying one or two fewer items.

Newly-appointed chief executive of the retail arm, Melanie Smith, sounded fired up about the joint venture with **Marks & Spencer (MKS)** promising 'the very best experience to an ever-growing number of customers'.

Finance director, Duncan Tatton-Brown, even suggested that the joint venture could start before next September: 'There is a chance that we might bring forward that transition date'.

With the UK online grocery market expected to reach £20bn in 2023 against £12bn last year, the joint venture with M&S potentially making a contribution earlier than we thought, and the logistics platform expanding overseas, there should be plenty more good news to come from Ocado.



SHARES SAYS:
Buy on market weakness

DISCOVERIE
(DSCV) 445p

Gain to date: 9.6%
Original entry point:
Buy at 406p, 14 February 2019

FOR ELECTRONICS engineer **DiscoverIE (DSCV)** to put up half year revenue growth of 9%, 5% organically, is pretty good going given the prevailing economic uncertainty (10 Oct).

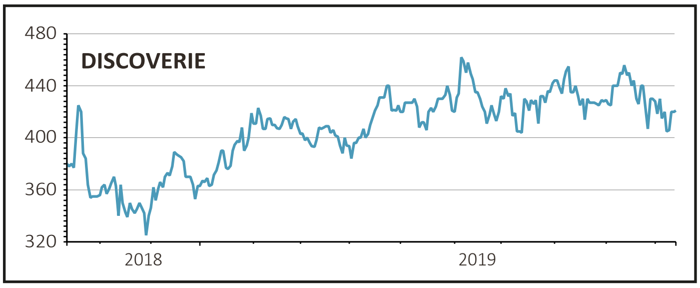
That the order book increased 15% (11% organically) to £153m is further evidence of the company's success in implementing its strategy revamp.

As we flagged in the original story in February, this involves concentrating on structurally growing markets where equipment specifications are high-performance, reliability, efficiency and regulations driven.

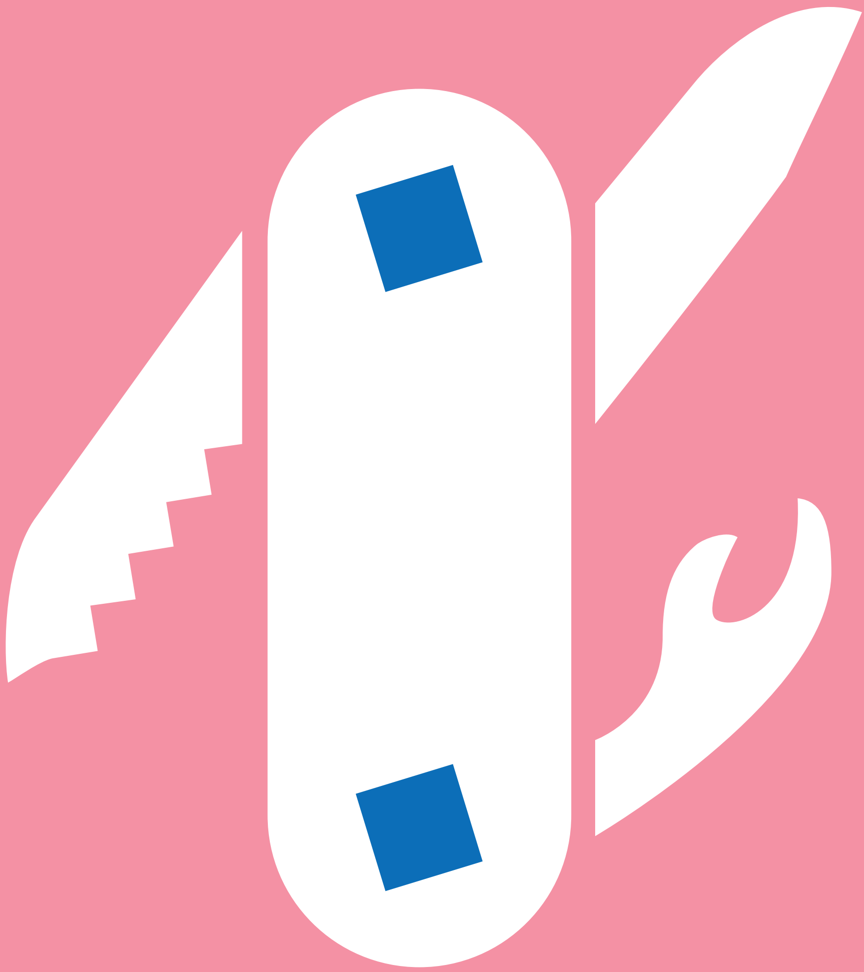
Think medical, aerospace, transport and renewables where it designs and makes kit such as blade controls for wind turbines, artificial intelligence-based telematics and connectivity components, sensing and power systems.

Both the Hobart Electronics and Positek acquisitions secured in April appear to have bedded in well, adding extra high quality, high margin custom equipment designs that can be cross sold to the enlarged customer base.

This year to 31 March 2020 analyst are predicting around £35m of operating profit, although the £28m growth cash call at the start of 2019 will cap earnings growth to single-digits, before accelerating in the 2021 year end. This year's price to earnings multiple stands at an undemanding 15.2.



SHARES SAYS:
DiscoverIE remains an inexpensive way into to niche structural engineering growth. Still a buy.



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RENISHAW

(RSW) £31.94

Loss to date: -16%

Original entry point:

Buy at £38.04, 20 December 2019

HIGH QUALITY engineering outfit **Renishaw (RSW)** has seen its share price come under considerable pressure after the latest of several downbeat updates from the company in 2019.

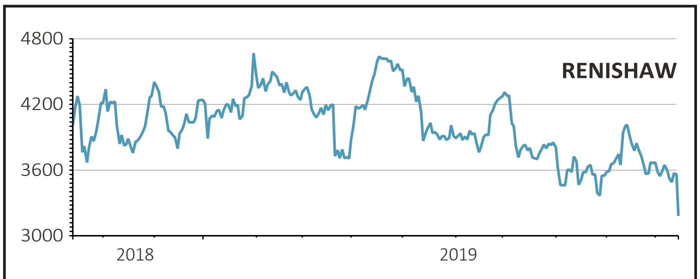
A first quarter update, for the financial year running to 30 June 2020, showed pre-tax profit for the three months through September down 85% to £5.1m, while adjusted profit was off 87% to £32.6m.

Revenue slid 19% to £124.6m. The company said its metrology (precision measurement) business had benefited from a large number of orders in the previous corresponding period from end-user manufacturers of consumer electronic products.

Revenue in the healthcare business fell due to the timing of additive manufacturing machine sales into the healthcare market.

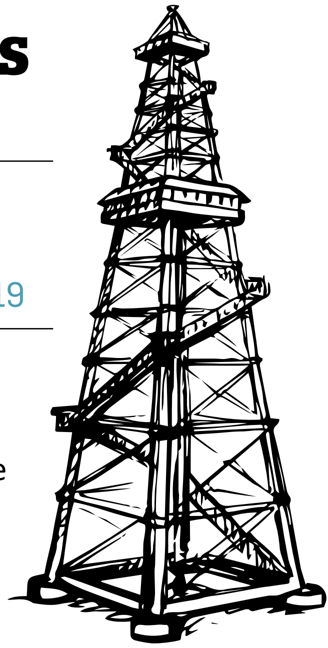
The company says it is confident the structural drivers in its end markets remain intact, however its short-term prospects look heavily tied to the global economy and, in particular, whether any kind of resolution can be found to the current trade war between the US and China.

Previously in 2019 the shares have bounced back strongly in the wake of disappointments but sentiment might be more difficult to revive this time round.



SHARES SAYS: ↗

We continue to believe in the long-term potential of the business but acknowledge it could be a bumpy ride in the near term.



ELAND OIL & GAS

(ELA:AIM) 167pp

Gain to date: 58.2%

Original entry point:

Buy at 105.5p, 10 January 2019

A 166p takeover bid for **Eland Oil & Gas (ELA:AIM)** by Seplat Petroleum has resulted in a healthy profit for our trade on the Nigerian oil producer.

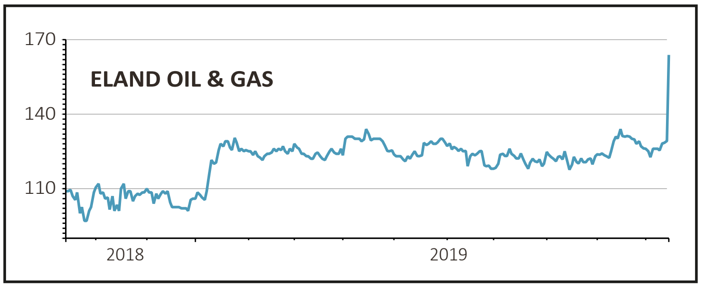
The deal, recommended by Eland management, values the company at £382m and represents a 28% premium to the closing price on 14 October before the offer was tabled. This looks like a 'done deal' with 60% of the shareholder base giving it their backing.

There may be some modest disappointment at the price achieved with Panmure Gordon noting the bid is around 6% below most brokers' price targets.

However RBC Capital comments: 'The 30% premium is in line with "tradition", but we would note the offer price is above Eland's previous all-time high; whereas many other companies have endured significantly greater ups and downs, and any bids may be well below previous (long-held) expectations.'

Under the terms of the transaction, shareholders on the register as of 18 October will also still get an interim dividend of 1p per share to be paid on 14 October.

Ultimately Eland management deserve credit for getting to a position of sufficient scale where they were able to attract Seplat's attention given the difficulties involved in operating in Nigeria.



SHARES SAYS: ↘

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[1]Based on the top 20 investments (88% of the portfolio by value) as at 30 June 2019.

[2]As at 31 August 2019.

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WHERE TO INVEST YOUR PPI WINDFALL

THE AVERAGE £1,700 PAYOUT COULD EARN YOU MORE FOR YEARS TO COME

By **Tom Sieber, Yoosof Farah, Steven Frazer**

The deadline for payment protection insurance (PPI) claims may have just passed but judging by the new provisions revealed by the high street banks many of us waited until near the August deadline before applying for compensation.

With the average compensation payment standing at £1,700 according to the Financial Conduct Authority, and sometimes running to several multiples of this figure, a PPI payout can represent a healthy windfall.

Not all of us were affected by PPI but perhaps you have had an unexpected gain from elsewhere, maybe a small inheritance or a premium bond prize.

In any of these circumstances, you might use this money to pay off a credit card or bolster your savings, but another option if your finances are otherwise healthy is to put the cash to work in the markets. We'll now give you some suggestions for how to put your money to work.

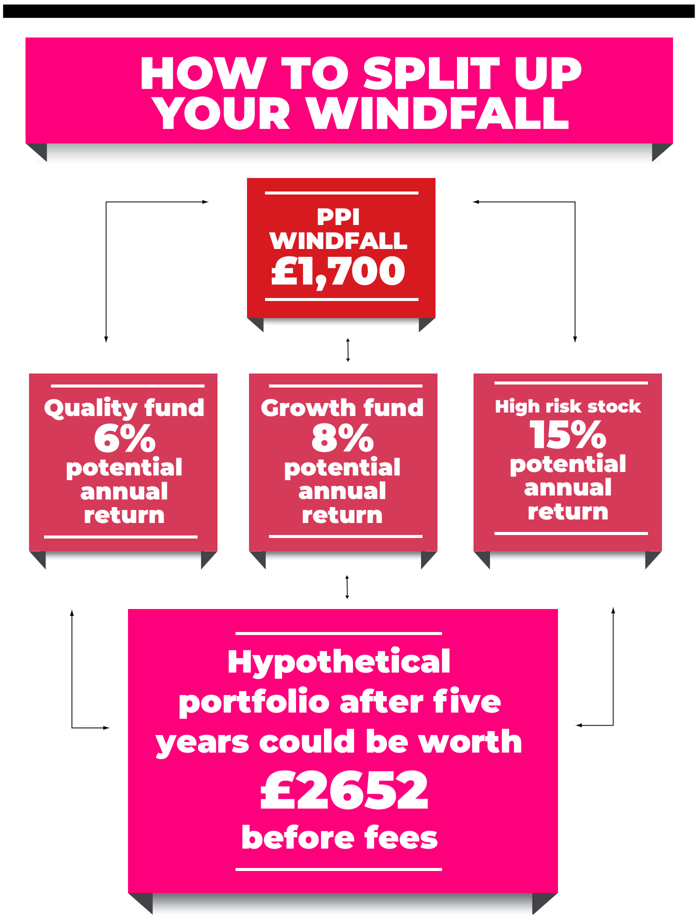
WHERE TO INVEST?

Let's assume you got bang on the average payout of £1,700, how might you invest this cash?

Shares has identified three potential avenues and you could vary your allocation based on your appetite for risk.

As a base case you could take £900 and put it in a fund with a quality bias which would be an appropriate core holding for the long-term.

If you already have some investments you may want to buy more of the favourite fund in your portfolio. Alternatively if you're looking for ideas we suggest you look at **Lindsell Train (LTI)** and **Liontrust Special Situations (B87GRQ1)**.



Returns are potential scenarios and not guaranteed outcomes. You could earn less or lose money

The remainder of your PPI windfall could be used to target higher risk but potentially higher reward investments.

You might want to think about splitting the remaining £800 equally between a growth-orientated fund and a stock which has the potential for significant upside via a turnaround effort or corporate shake-up. We have ideas for both later in this article.

HOW MUCH COULD YOU MAKE?

The returns you can achieve from investing are inherently unpredictable and you have to be prepared for things to go wrong.

However, let's assume your approach broadly works out in order to make some assumptions about the kind of returns you could expect from our three-pronged PPI compensation portfolio.

It is important to have realistic expectations. A quality fund like **Fundsmith Equity (B41YBW7)**, for example, has delivered annualised returns of 18.8% since inception but we don't expect such levels of return from the brodader market in the near term.

Let's assume the market gets a bit more difficult and your quality fund achieves 6% a year, more in line with historic averages from investing in equities.

As compensation for the greater risk, we'll assume your growth-orientated fund achieves 8% a year. And finally we hope the individual stock delivers 15% — although it is important to stress this could easily lose you money if there are new setbacks to its business.

After five years, before any fees, you would be sitting on a portfolio worth £2,652, close to £1,000 more than your starting position under our assumed returns. There is no guarantee you will make such money, we're simply trying to give you an idea of what might be possible.

RISK VS REWARD

Investors always face a balancing act between risk and reward. Someone wanting a high return might look at higher risk assets. Someone only wanting to invest in lower risk assets must be prepared to have lower returns.

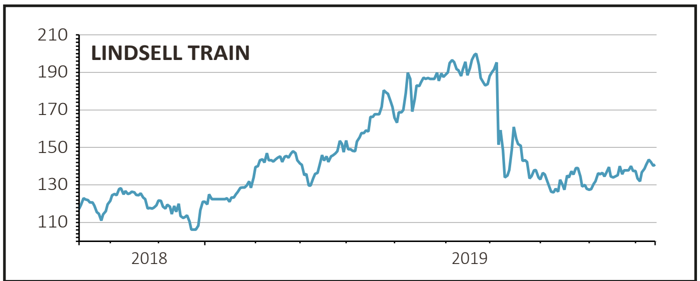
To put that into some context, assets with lower risks include cash and developed market government bonds. Stocks are considered to be higher risk assets.

But even within the stock (or 'equities') space, different types of companies and sectors have different types of risks and so the returns are variable. For example, utilities enjoy fairly predictable returns whereas biotechnology stocks have unpredictable outcomes and so could see their share prices soar or collapse based on the results of a single drug trial.

THE QUALITY FUNDS

We suggest you look for a fund with a clear and easy-to-understand investment process and a good track record. The bulk of your returns are likely to be generated through capital gains with only a nominal amount coming from dividends.

LINDSELL TRAIN INVESTMENT TRUST (LTI) £14.02 BUY



A recent sell-off in star fund manager Nick Train's **Lindsell Train (LTI)** vehicle means investors now have the opportunity to gain access to a winning strategy without having to pay an extremely high price.

The trust has historically traded on a very large premium to net asset value – peaking at 100% earlier this year – as many investors believe its stake in the Lindsell Train asset management business is worth significantly more than book value. The latter has more than tripled assets under management in the past four years and represents half of all the assets in the Lindsell Train investment trust.

In recent months the trust's premium to net asset value has fallen to 31% after investment platform **Hargreaves Lansdown (HL.)** removed two other Lindsell Train funds from its best buy list to avoid any conflicts of invest – they both have a stake in the investment platform provider. The share price de-rating for the investment trust reflected concerns that this move could result in Hargreaves' customers dumping all Lindsell Train products due to the loss of the 'best buy' accolade.

Nick Train and business partner Michael Lindsell look to buy shares in quality businesses which are generating strong cash flow to pay growing dividends and have the ability to adapt to different economic conditions.

The investment trust has a concentrated portfolio with around 20 companies including Nintendo and **London Stock Exchange (LSE)**.

LIONTRUST SPECIAL SITUATIONS (B87GRQ1) 419.36p BUY

A perfect buy and forget option, **Liontrust Special Situations (B87GRQ1)** is run by Anthony Cross and Julian Fosh, who are both AAA-rated by financial information company Citywire.

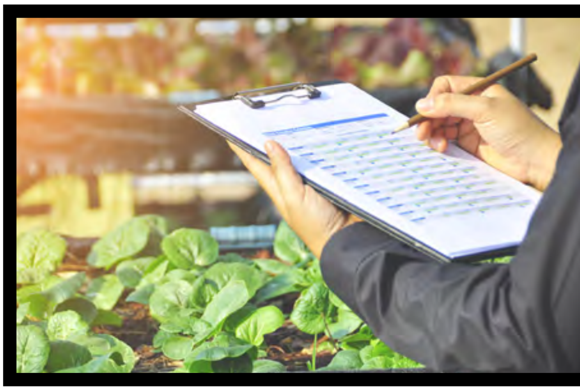
Over 10 years, it has delivered a total return of 300%, a performance bettered only by three other funds out of the 178 available in its category.

Investing predominantly in UK stocks, the fund aims to identify high quality businesses with strong growth characteristics, taking advantage of areas outside of the largest companies. It is concentrated in nature, holding anywhere between 40 and 60 stocks.

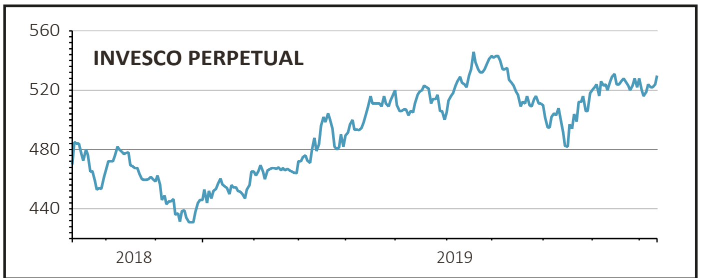
The managers look for firms which have a durable, competitive edge so they can sustain profits for an extended period of time – which they believe translates to strong share price growth.

THE GROWTH FUNDS

Many growth funds invest in smaller companies which have greater capacity to expand than larger businesses. You should expect nearly all your returns to come from capital gains than dividends. Investing in this category of fund involves taking on more risk in the hope of achieving more substantial returns.



INVESCO PERPETUAL UK SMALLER COMPANIES (IPU) 522p BUY



By putting your money to work with this trust you benefit not just from the fact smaller businesses have more capacity for growth than their larger more mature counterparts but also a management team which have bags of experience investing in smaller businesses. Co-managers Jonathan Brown and Robin West are a genuine duo, teaming up for site visits and company meetings.

Unlike most small cap funds, this investment trust offers capital growth and income, yielding 3.6% and paying dividends quarterly.

While the trust has the word 'smaller' in its name, its portfolio does include several stocks with market caps of more than £1bn.

Brown and West look for businesses with a track record rather than start-ups. They are focused on businesses with self-help potential, a successful roll-out strategy and exposure to secular growth trends. Names in the portfolio include defence firm **Ultra Electronics (ULE)** and vets outfit **CVS (CVSG:AIM).**

MERIAN GLOBAL EQUITY (B1XG7H7) 400.0p BUY

Formerly called Old Mutual Global Equity, over the past decade **Merian Global Equity (B1XG97H7)** has been second only to Fundsmith Equity in terms of performance with a 292% total return.

Admittedly it didn't have the best of years in 2018, and to an extent this year as well with performance decent but still slightly below its benchmark. However, its long-term track record is reassuring.

Where it has excelled in the past and – given the way the nature of investing is heading – where it could easily excel in future, is through the systematic way it deploys investors' money.

The fund's main manager, Ian Heslop, has effectively built his name in the investment world by developing algorithms to help him and his team find the best opportunities, the idea being that it avoids the biases fund managers may intrinsically have.

HIGHER-RISK STOCKS

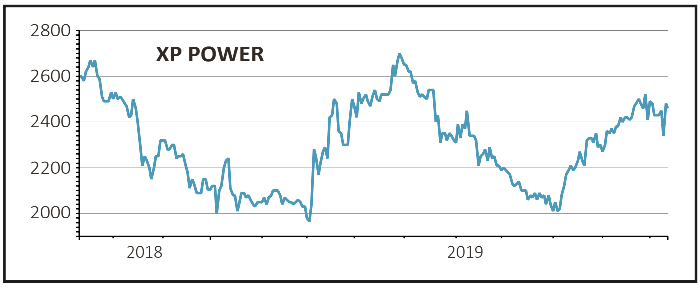
Many investors like to look for companies whose share prices have been hit by specific issues in the hope these can be resolved and the shares bounce back. Scenarios might include temporary financial pressures caused by the loss of a contract, regulatory threats, a market slowdown or margins being squeezed by cost inflation.

Buying these stocks means having faith in the management being able to resolve problems quickly otherwise you could see the value of your investment fall before any chance of rebounding.

These should be treated as high-risk situations and you should not invest any money you might otherwise need.

One could argue that PPI compensation is essentially free money so it doesn't matter if your investment goes wrong. However, that doesn't mean you should make reckless stock decisions. You should still undertake the same level of thorough research you make with all other investments and fully understand what could go wrong if you bought the shares.

XP POWER (XPP) £24.40 BUY



The power switching equipment engineer is seeing demand recover. This follows a lacklustre first half linked to slowing sales into the stock-piled semiconductor industry.

A recent third quarter trading update showed improving order flow and a book-to-bill ratio of 1.04-times after dipping below one previously. This implies that future sales contracts are once again running ahead of current orders, a sign of growth.

XP Power's real attraction is its engineering excellence and it typically works with customers on long-term power system projects that require custom output voltage combinations, unique control or status signals and specific mechanical packaging for optimal performance and integration.

It has a strong balance sheet, an outstanding operating track record and attractive, growing dividends. The risks come from an acceleration of the slowdown in the global economy, and the demand bounce from semiconductors industry could take longer than hoped.

XAAR (XAR) 49.3p BUY

The Cambridge-based inkjet printhead technology designer will be hoping new chief executive Stuart Mills can bring much needed stability after two years of hell. End markets have dried up as capital budgets of customers shrank leaving legacy equipment sales in the lurch while new kit has failed to fill the gap. That's led to profit margins being battered and multiple profit warnings, the most recent just last month, when Xaar said it would have to write down the value of its assets and delayed the date of its first half results. This makes the share price chart resemble a ski resort black run, smashing the company's market value from about £350m to just a tenth of that today. But Xaar has been a market leader in its field for years and we believe there is some very good underlying technology.It is vulnerable to a takeover particularly while the pound is so depressed.

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ESPORTS – INVEST IN THE FUTURE OF SPORTS.

The esports market has been growing by 40% every year since 2015 and is still gaining in popularity: In 2019, more than 450 million people around the world will follow the top players at live events and via streaming services.

VanEck Vectors Video Gaming and eSports UCITS ETF is a globally diversified investment in companies that stand to profit from these virtual competitions, the interest of digital natives, and the confluence of video games, sports, media and entertainment.

Upon inclusion in the index, all companies must generate at least 50% of their earnings through esports and video gaming, resulting in a pure-play investment in a disruptive growth industry.

VanEck Vectors Video Gaming and eSports UCITS ETF (ESPO)

ISIN: IE00BYWQWR46 | Replication: Physical (full, with no securities lending)

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When to use price-to-book value

How to apply the valuation tool, and when it is most useful

It has long been a vital tool in helping investors to value shares but price-to-book value (PBV) has fallen out of favour in recent years.

For most of the past decade investors have been drawn to growth stocks because that's where the best returns have been earned.

The PBV value tool is not always suited to rapidly growing business, but it is much better at flagging up value, which may be coming back into fashion after a decade in the investment shadows.

At the simplest level, a company is worth the value of its assets minus its liabilities – its book value. Book value is the amount of money that would be available to shareholders if the company's assets were sold at their balance sheet value and all liabilities were paid off.

For example, if assets equal £100m while liabilities are £60m then the company's book value is £40m.

Assets - Liabilities = Book Value

Book value, also known as net asset value, is often expressed in per share terms, or book value divided by the number of shares in issue.

The market price per share is then compared to the book value per share, a figure called the PBV ratio. This is worked out by dividing the share price by the book value per share.

This is often a first point of call when looking for potentially underappreciated stocks, and especially takeover targets. If the market value of a company, or its share price, is lower than its book value, or book value per share then, in theory, a buyer could take control, and sell the company's assets for more than it paid. This was a key theme during the heyday of the asset-strippers in 1970s and 1980s.

Price-to-book value = Share price divided by book value per share

Investors and analysts use this comparison to differentiate between the true value of a publicly traded company and investor speculation.

As a rule of thumb, investors will infer a PBV of less than one to indicate that a stock is undervalued, while a ratio of greater than one may indicate that a stock is overvalued.

THEORY IN TO PRACTICE

Let's look at an example, one we'll call ABC plc. There are a couple ways to calculate book value, depending on the company. For purposes of this example, we'll assume that the best measure of book value is total assets minus total liabilities. We'll also assume that ABC's shares are currently trading at 600p and there are 100 shares in issue.

ABC's balance sheet looks like the table over the page.

A major drawback with book value is that it is not always easy to establish the value of a company's assets accurately. It may be unrealistic to assume that the value of an asset on the balance sheet equivalent the value it would fetch if it were to be sold off. It may be that an asset is no longer a useful to the business as it used to be, such as

ABC'S BALANCE SHEET, 31 DECEMBER 2019

Assets	
Cash	£2,500.00
Accounts Receivable	£1,500.00
Inventory	£1,000.00
Total Current Assets	£5,000.00
Liabilities	
Accounts Payable	£1,500.00
Current Long-Term Debt	£1,000.00
Total Current Liabilities	£2,500.00
Long Term Debt	£2,000.00
Total Liabilities	£4,500.00
Owners' Equity	**£500.00**

P/B ratio = Stock Price / Book Value per share

Book value: £5,000 – £4,500 = £500
(note that this is the same as owners' equity)

Book value per share: 500 / 100 = 500p

P/B ratio = 600p / 500p = 1.2

an old paper mill.

Equally, the value of an asset acquired in the past may have significantly increased. Property companies are a good example, where land and buildings typically sit on a balance sheet at cost yet years later may be worth substantially more, especially when property is often revalued only periodically.

Things like land, property, machinery, furniture are called tangible assets. In other words, they can be seen and touched. But not all assets can. Intangibles include more esoteric yet no less valuable entities like software, apps, brand names, corporate reputation and much else including goodwill on acquisitions. The latter effectively reflects the premium paid by an acquirer to complete most deals.

Intangible assets are another elephant in the book value room because they are often tricky to value accurately. This problem has been compounded in recent years by the fact that far higher value has been placed on intangible assets than in the past.

For example, many technology companies can trade at a PBV of 10 or more, while banks will mostly trade around 1. What accounts for this massive difference is largely how an industry uses capital to generate earnings. Technology firms do not use much physical capital to create earnings.

A perfect example is Microsoft, which is mainly a software company. Microsoft's key costs are staff, human capital that creates earnings – the business model is not capital intensive.

On the other hand, banks require a lot of capital, such as bank deposits, bonds and so on. Because banks tend to hold relatively liquid assets on their balance sheets, these assets can be valued at their fair market value.

This means that a bank's balance sheet, or the PBV, should be roughly equal to the fair market value of its assets, or one, whereas Microsoft currently trades on PBV of 8.3, based on Reuters' data.

The price-to-book ratio indicates whether or not a company's asset value is comparable to the market price of its shares. For this reason, it can be useful for finding value stocks.

It is especially useful when valuing companies that are composed of mostly liquid assets, such as in finance, investment, insurance, and banking and, bearing in mind what we said earlier about revaluation, some property companies and housebuilders.

The PBV is not as useful for firms with large research and development expenditures or so-called asset-light digital economy businesses.

Like most ratios, it's best to compare PBV within individual sectors rather than across different industries.

By **Steven Frazer**
News Editor

FTSE 100 loses earnings momentum again

Are UK stocks really cheap and do forecasts stack up?

By **Russ Mould**
AJ Bell Investment Director

Brexit continues to dominate the headlines as the 31 October deadline for a withdrawal by the UK draws near and equity, bond and currency markets are becoming more volatile as a result.

The dangers of second-guessing the outcome of the talks between Britain and the EU are clear from how the FTSE 250 index soared by more than 800 points, or 4%, one day (11 Oct) only to shed more than 200 points during the next trading session (14 Oct) as hopes for a deal rose and then fell.

Sterling made big gains and then losses, too, while the yield on the 10-year Gilt rose from 0.46% to 0.71% in a single day before falling back.

Given that no-one – not even the politicians involved in the talks – knows what is going to happen it is either very brave or very foolish of investors to try to second-guess and trade the outcome.

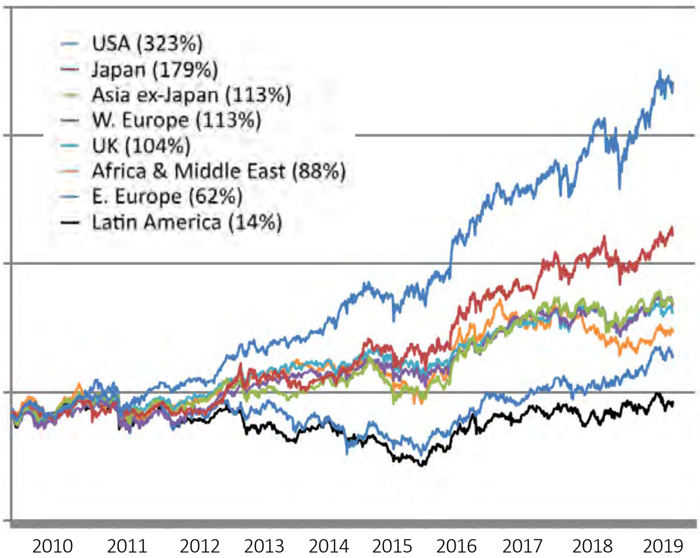
Narrative does not determine investment returns. Even relatively inexperienced investors can spot a good story and swerve a bad one. Rather it is the price paid and the valuation accepted to access the profits, cash flows and dividend stream of an index in aggregate, a sector in total or a specific stock that is the ultimate arbiter of investment returns.

PRICE MUST BE RIGHT

The good news is that it is possible to make a case for UK equities being cheap, especially after a period of underperformance on the global stage that pre-dates the summer 2016 EU referendum vote by some distance. Over the past 10 years, the UK stock market, as benchmarked by the FTSE All-Share has provided a total return in sterling terms of 104%.

That lags not just the rip-roaring US equity market but Japan, Asia and even Western Europe as well (with sterling's decline playing part). UK equities have outperformed only emerging markets, not developed ones.

UK EQUITIES HAVE LAGGED DEVELOPED MARKET ALTERNATIVES OVER THE PAST DECADE



Source: Refinitiv data. Total returns in sterling terms since 1 January 2010.

As a result of this moderate showing, it can be said that UK equities look cheap relative to their international peers and to their own history on just 12.7 times forward earnings for 2020, with a dividend yield of 4.6%.

That dividend yield in particular may catch the eye of income-seekers, as it is the highest figure on offer from any of the eight major geographic equity market options and represents a premium of more than four hundred basis points (or four percentage points) relative to the benchmark 10-year Gilt yield.

Investors need to ask themselves: are the earnings and dividend forecasts which underpin those tempting valuation metrics any good?

NUMBERS GAME

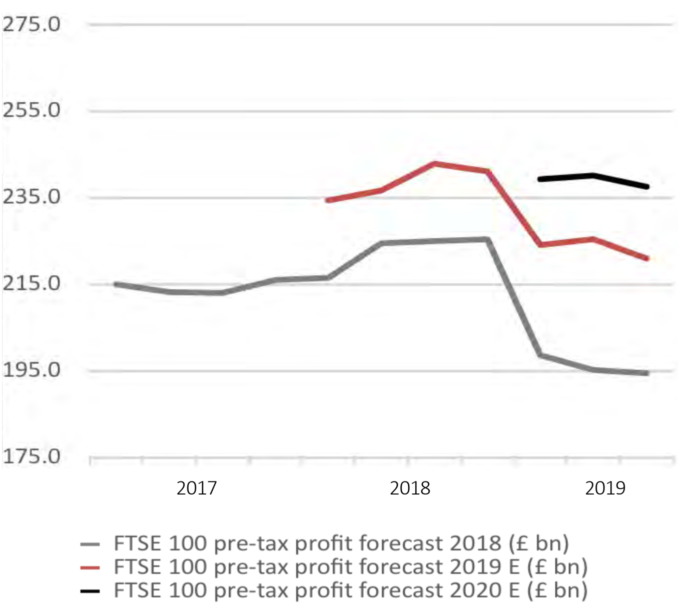
The good news is the aggregate consensus analysts' forecasts for 2020 do not look unduly aggressive. Looking at the FTSE 100 alone (and this represents some 85% of the UK's market cap) analysts' estimates are calling for revenue growth of 2%, to an all-time high of £1.85tn; pre-tax profit growth of 8%, to an all-time high of £238bn; dividend growth of 3%, to an all-time high of £95.1bn (even excluding special dividends)

Granted, if the UK economy slips into an unexpected recession, and is joined there by, say, the US, then such figures are likely to prove wildly optimistic.

Equally, the numbers could prove to be too low if the British and global economies prove more resilient than the current consensus amongst analysts and economists would have us believe. And the trio of all-time highs would lead investors to ask why the FTSE 100 is still trading some 8% below its May 2018 closing peak of 7,877.

The issue is perhaps that investors are wary of the reliability of the forecasts. Unfortunately, we can see how aggregate earnings estimates have begun to slip a little for 2019 and 2020, as downgrades at the banks outweigh upgrades at the miners:

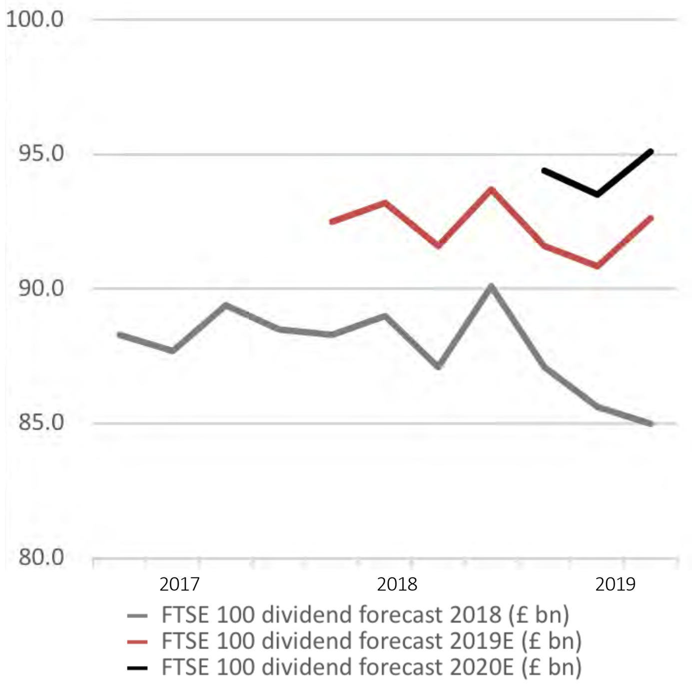
FTSE 100 EARNINGS FORECASTS ARE STALLING AGAIN



Source: Company accounts, Sharecast, consensus analysts' estimates

By contrast, dividend estimates are still sneaking higher. That offers some encouragement but you do have to wonder how long that trend can continue if profit forecasts are leaking lower at the same time.

FTSE 100 DIVIDEND FORECASTS ARE STILL RISING



CONCLUSION

The absence of profit forecast upgrades does leave the UK equity market bereft of one possible catalyst for performance. But someone, somewhere still thinks the combination of lowly earnings valuations, a fat yield and a depressed currency offers some value, judging by the rash of bids for quoted UK firms from foreign rivals.

Sophos (SOPH) is just the latest example after ARM, Sky, Punch Taverns, Premier Farnell, Brammer, **Greene King (GNK)** and many more besides. If overseas captains of industry think there is value to be had, perhaps investors should be paying attention.

'What should I avoid doing with my pension pot?'

Our expert looks at three top mistakes to avoid with your retirement fund

I often read experts giving their 'top tips' for pension saving and drawdown, but what are the things I should avoid doing with my retirement pot? I'm thinking mainly about drawdown as I'm approaching my 60th birthday and plan to retire at 65.
Gareth

By **Tom Selby**
AJ Bell
Senior Analyst

Here are three of my top mistakes to avoid with your hard-earned retirement fund.

1. DON'T SPEND IT ALL AT ONCE

While some people will be lucky enough to have significant defined benefit entitlements which mean they can spend other funds relatively quickly without being left short of income, most will need their defined contribution pension (or pensions) to last throughout their retirement.

To do this you need to manage withdrawals in a sensible way and review your portfolio and withdrawal strategy regularly.

As well as the risk of running out of money early, there could also be tax consequences if you take out most or all of your pension in one go. While 25% of your pension withdrawals are tax-free, the remaining 75% are taxed as income, so watch out for any withdrawals which push you into a higher tax bracket unnecessarily.

2. DON'T INVEST IN CASH FOR THE LONG-TERM

For those in drawdown, holding some cash is necessary to pay yourself an income and any associated fees to your provider. However, cash is a lousy long-term investment as it usually offers little or no returns and can be ravaged by inflation.

As an example, if you held £100,000 in a cash account paying 0.5% and inflation ran at 2% during that period, your fund would be worth around £86,000 in real terms after 10 years.

By diversifying your investments between different stocks and bonds spread around the world, you can grow your pension over time. At the very least long-term investors should be aiming to protect the value of their pension from rising prices.

3. DON'T TRANSFER OUT OF A PENSION AND INTO ANOTHER FINANCIAL PRODUCT FOR NO REASON

Pensions suffer from a trust issue which goes as far back as Robert Maxwell and the Daily Mirror pension scandal in the 1980s.

As a result, some savers rush to whip their money out of their retirement pot at the earliest possible opportunity and shove it straight in a similar tax wrapper such as an ISA or, even worse, a bank account paying little or no interest.

In most circumstances this is likely to be a monumental error. Firstly, you'll risk paying thousands in unnecessary tax when you make the withdrawal for no discernible benefit.

Secondly, those who stash the money in a bank account risk seeing their pot routed by inflation over the long-term.

And finally, by accessing taxable income from your pot you will trigger the money purchase annual allowance (MPAA), meaning you'll only be able to pay £4,000 a year into your pension rather than the usual £40,000.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

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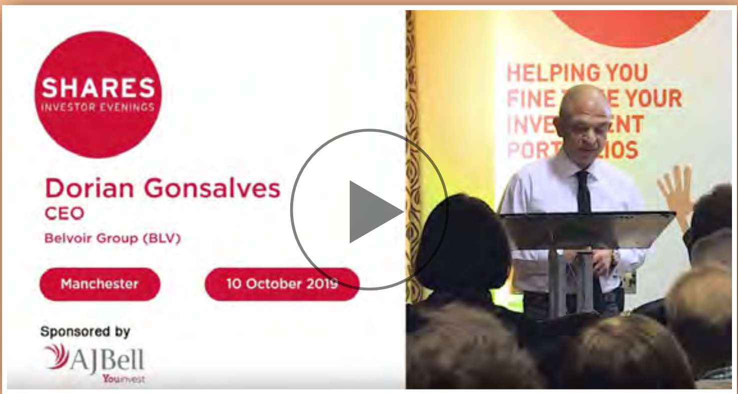
AMRYT PHARMA (AMYT)

Kieran introduces Amryt Pharma and explains what the company has been doing over the past year as well as looking at its future plans.

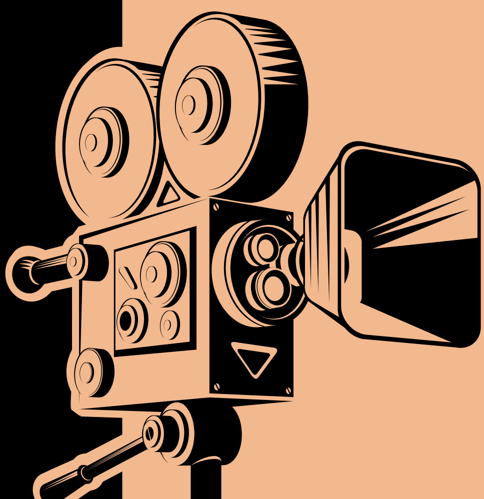


Dorian Gonsalves, CEO
Belvoir Group (BLV)

Dorian talks to us about Belvoir Group, its 372 individual franchises, 2,200 staff and its growth strategy.

Martin Whitaker, CEO
Diurnal (DNL)

Martin is interviewed by *Shares Magazine*'s Dan Coatsworth on Diurnal's area of treatments and the potential market size.



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Earn a monthly income from investment funds

Certain products can provide a regular source of cash

The idea of funds which can help you pay your monthly bills is an attractive one and the good news is there are a large number of UK funds which pay dividends every month.

In some cases this will mean sacrificing some of the potential for capital gains, as their main aim is protect your money and give you an income every month.

Most are typically bond or multi-asset funds, or equity funds that invest in the big FTSE 100 companies.

HOW THEY WORK

Most monthly dividend funds tend to work by paying 11 equal monthly dividends, and then give you whatever's left in the pot for the twelth month.

Open-ended funds have to pay out all of the income that accrues in the fund over their accounting year (the accumulation units allow you to roll it up in the fund). You need to invest in the 'inc' version of the fund to receive dividends as cash.

If you're in retirement and want to pay the bills with the income from such funds, it would be a good idea to check if the income paid out from a fund is smoothed or lumpy.

Some funds don't pay exactly the same amount of money each month, hence the term 'lumpy'.

A smoothed payment involves the fund manager attempting to pay out the income in equal monthly instalments. But this tends to involve the fund manager holding back some of the income in case there is a bad month.

The risk of a fund encountering a difficult period feels particularly acute at the moment with Brexit uncertainty and US-China trade talks causing market volatility.

When the manager holds back some of the money, this can subsequently mean a bigger payment is made towards the end of the year if there is excess cash to be handed back.

An example of a fund which pays lumpy dividends is **Fidelity Multi Asset Income (BFPC050)**, while a fund which smooths out payments is **Premier Multi-Asset Monthly Income (B7GGPC7)**.

The tables, comparing their recent dividend payments, show

Premier Multi-Asset Monthly Income	
MAY-18	0.459p
JUN-18	0.459p
JUL-18	0.459p
AUG-18	0.459p
SEP-18	0.459p
OCT-18	0.459p
NOV-18	0.459p
DEC-18	0.459p
JAN-19	0.459p
FEB-19	0.459p
MAR-19	0.459p
APR-19	1.772p

Fidelity Multi Asset Income	
DEC-17	0.2399p
JAN-18	0.26p
FEB-18	0.3398p
MAR-18	0.3357p
APR-18	0.3362p
MAY-18	0.36p
JUN-18	0.36p
JUL-18	0.34p
AUG-18	0.36p
SEP-18	0.38p
OCT-18	0.43p
NOV-18	0.6507p

Source: Premier Multi-Asset Monthly Income annual report, Fidelity website

TOP 10 MONTHLY DIVIDEND FUNDS BY YIELD %

FUNDS	YIELD %
UBS Global Enhanced Equity Income	9.4
BNY Mellon Equity Income Booster	8.5
Fidelity Enhanced Income	7.6
Schroder High Yield Opportunities	6.6
VT Garraway Diversified Fixed Interest	6.6
JPM Global High Yield Bond	6.0
TB Wise Multi-Asset Income	5.8
BlackRock Global Multi Asset Income	5.6
L&G High Income Trust	5.6
BMO Diversified Monthly Income	5.6

Based on historic payouts. Dividends are not guaranteed. Open ended funds universe. Source: FE Analytics

how the income profile of each fund compares.

It's important to understand that aside from the dividend yield, overall returns from monthly income funds haven't been great this year, and it may take a while before performance picks up significantly.

WHAT ARE THE RISKS?

A lot of them invest in bonds, and some bond yields are currently at record lows, so if you desire a better return, you'll have to move into funds that invest in shares, which inevitably pushes you further up the risk scale.

While it is worth keeping these factors in mind, it is far from the case that all monthly dividend funds are inherently risky. Here are two top constituents from AJ Bell's Favourite Funds list that pay out income every month.

Artemis Strategic Bond (B2PLJS2)

A popular fund for bond investors, Artemis Strategic Bond has delivered steady returns.

Managed by veteran bond manager James Foster and rising star Alex Ralph, the fund invests in both investment grade bonds (considered safer but typically with a lower return) and high yield bonds (riskier but with a potentially better return), as well as government and corporate bonds.

The managers look at the economic cycle, a company or government's default (bankruptcy) outlook, yields and interest rates when deciding what to put in their portfolio.

While the fund is down in the past year against its benchmark, over the longer term the process seems to have worked well with the fund ahead on a three, five and 10-year basis.

This fund does have a monthly distribution share class, but it's worth highlighting the share class for this fund on AJ Bell's Favourite Funds list is the quarterly distribution share class.

Man GLG UK Income (B0117D3)

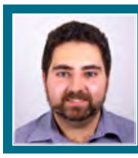
Packed full of big dividend-paying stocks like **Rio Tinto (RIO)**, **BP (BP.)** and **Royal Dutch Shell (RDSB)**, this fund looks at companies which have strong potential for dividend growth that exceeds twice the market average.

The fund also invests a small amount in bonds, and does so if they appear more attractive than investing in shares. But the bond element of the fund can't exceed 20% of the whole portfolio, and the amount in bonds currently stands at only 3.5% of the fund.

Managed by the highly regarded Henry Dixon, the fund has lagged its benchmark over one year, but comes out well ahead over three, five and 10 years.

It has an attractive dividend yield of 5.4%.

The fund's investment process is the same as the successful **Man GLG Undervalued Assets (BFH3NC9)** – which has consistently beaten its benchmark over three and five years. It picks out stocks where it feels the market is undervaluing the profit stream.



By **Yoosof Farah**
Reporter

SIPPs | ISAs | Funds | Shares

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Healthcare property investor Civitas punished for housing association troubles

Regulatory uncertainty is casting a shadow over a niche part of the property world

Sitting in a relatively unknown niche within the real estate investment trust (REIT) sector is **Civitas Housing (CSH)** which provides secure housing on long-term 25-year leases to tenants who fall under the Government's supported living criteria.

An integral part of the UK healthcare sector is facilitating care for individuals with significant long-term care needs. It enables people to live fulfilling lives in the community and close to their families rather than reside in a hospital or institution.

In addition to solving a valuable social need Civitas also saves the Government money by providing cheaper accommodation than residential care home or in-patient facilities.

In June 2019 social advisory firm The Good Economy published a report which examined the impact of the trust's investments. It found that in monetary terms the portfolio had produced £114m of social value per year. That equates to £3.50 of value being created for every £1 of annual investment.

Civitas Housing is the first and largest of only three quoted funds operating in the supported living sector. Priced at 84.5p, it has a 6.2% dividend yield and is trading at a 20.7% discount to net asset value (NAV). The other funds in the space include **Triple Point Social Housing REIT (SOHO)** which trades on a much narrower discount to NAV of 10.7%.

It should be noted that the sector is still in its infancy and therefore unproven, with significant regulatory risk attached. Therefore Civitas' high yield and wide discount to asset value could reflect some of the extra risks that investors face.

CIVITAS GROWTH AND DIVERSIFICATION

	June 2017	June 2018	June 2019
Investment	£206m	£508m	£761m
Number of Properties	167	440	594
Number of Tenancies	1130	2845	4094
Number of Housing Associations	7	12	15
Number of Care Providers	42	71	113
Average lease length (years)	24.3	25.4	24.1

Source: Civitas, QuotedData

WHAT IS SUPPORTED LIVING?

Supported housing properties are homes for people requiring some form of specialist care, such as those with learning disabilities, autism, mental health issues as well as physical disabilities.

It means that homes need to be adapted to the specific needs of tenants, and include specialist requirements such as 24-hour staffing, CCTV, enhanced fire and safety equipment and office facilities for staff.

Across the UK there are more than 170,000 people housed in supported living facilities and the numbers are increasing at a rate of 5% a year due to ongoing demographic shifts as well as Government policy designed to offer supported living to more people.

A 2018 report published by Mencap estimated that between 29,000 and 37,000 supported living homes would be required by 2027/28, meaning there is a substantial unmet demand for suitable properties to fill the gap.

Richard Williams of QuotedData

PEER GROUP COMPARISON

	Market Cap (£m)	Discount to NAV (%)	Yield (%)	Launch date	NAV total return 1 year %	Price total return 1 year (%)
Civitas Social Housing	529	20.7	6.2	18/11/16	7	-15
Residential Secure Income REIT	158	13.2	5.4	12/07/17	6	5
Triple Point Social Housing REIT	319	10.7	5.5	08/08/17	7	-8

Source: Winterflood, AIC, as of 15 Oct 2019

says: 'The fundamentals are all there for the supported living sector, with demand for homes from some of the most vulnerable people in the country far outstripping supply of appropriate accommodation.'

INCOME-PRODUCING ASSETS

Civitas is advised by a 16-strong team with a long experience working in specialist healthcare and collectively they have been involved in the acquisition and sale of more than 80,000 social homes.

The team have assembled a portfolio worth £761m since inception by acquiring properties from housing associations, care providers, developers and private owners. The investment trust only purchases finished properties which already have lease agreements in place and are therefore income-producing straightaway.

The team only invest in homes where the counterparty is either a housing association or local authority. The minimum lease term allowed on purchase is 10 years and the majority is leased for 25 years.

The investment trust is already diversified and has exposure to 10 regions across England, the largest being in London which represents around 14% of the total rent. It is mandated to have a maximum exposure of 20% to any region and 25% to a local authority or housing association.

GROWTH POTENTIAL

Civitas recently secured a new £60m debt facility and is in advanced negotiations to secure a separate £70m loan, both of which will be used to fund already-identified acquisitions. It aims to further diversify by geography with plans to enter Scotland and Northern Ireland.

The investment trust wants to enter new Government-backed social housing programmes aimed at addressing homelessness and so-called NHS 'stepping down' accommodation. These involve adults discharged from hospital with no medical need to stay in hospital but who can't immediately return home without support.

Similar to the current portfolio of properties the focus will be on helping individuals with learning difficulties and mental health issues while providing cost savings for the local authorities.

According to estimates from research group QuotedData once fully invested the extra investment will increase Civitas' earnings per share from 3.63p to 5.57p.

REASONS FOR THE VALUATION DISCOUNT

The registered providers of supported living have only been established in the past 10 years and have moderate capital and in some cases less sophisticated corporate governance structures.

The regulator has issued judgements and notices on five housing associations that feature in Civitas' portfolio, although the notices have not related to any financial matters or any of the properties owned by the investment trust.

However the news seems to have scared investors away and driven the shares to a significant discount. It should also be noted that in 2018 the investment trust did see one of its housing associations come under financial stress which led to the reassignment of 45 leases to other providers.

The financial impact was only 0.05% of the NAV which is not a material hit, but it wasn't a welcome development for shareholders and a reminder of the risks.

By **Martin Gamble**
Senior Reporter

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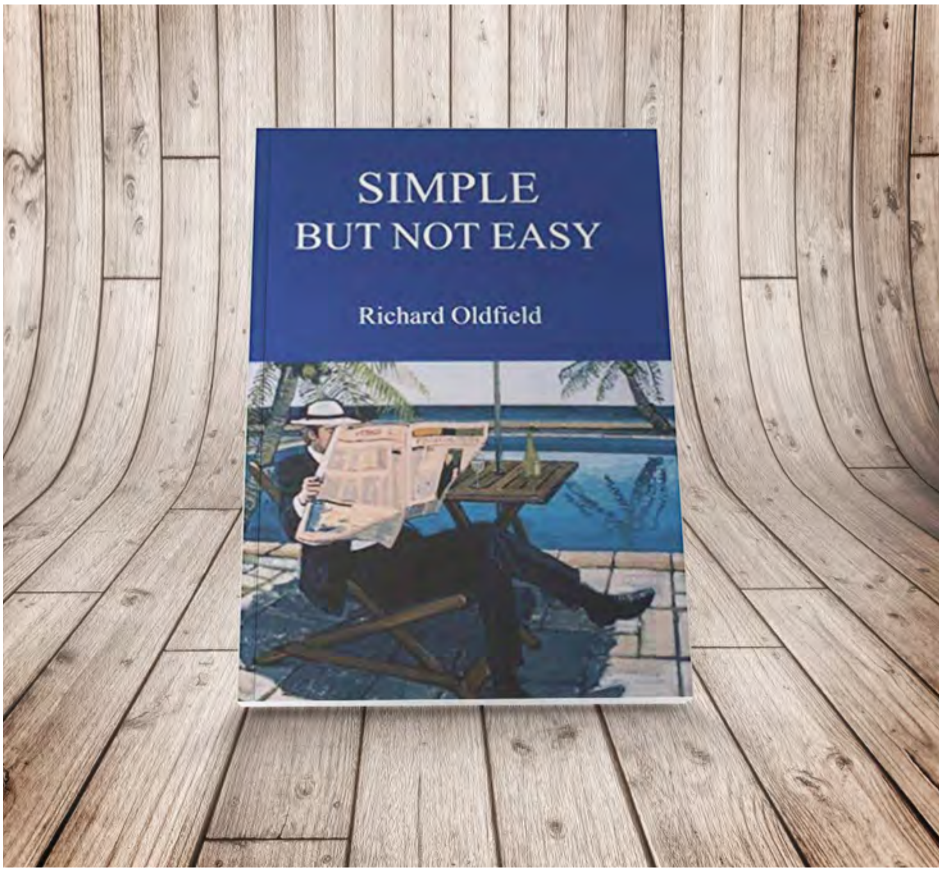
Investing is 'simple but not easy', says expert

Richard Oldfield's book contains valuable lessons on how to become a better investor



Like Howard Marks, the author of *The Most Important Thing*, Richard Oldfield is a highly-experienced value investor who after a long career in institutional asset management now runs his own firm managing money on behalf of families, trusts, charities and pension funds.

Also like Marx, Oldfield sets out early on in his book *Simple But Not Easy* that successful investing isn't straightforward but that with the right approach it is simpler than non-professionals think. He draws heavily on his own mistakes as well as his successes to get his message across.

MAKE FEWER MISTAKES

Strongly autobiographical, the first chapter is called 'Howlers' because howlers recur and they are instructive. By the author's reckoning, the gap between a successful and an unsuccessful investor 'is between one who gets it right 55% or 60% of the time and another who gets it right 40% to 45% of the time'.

Mistakes are usually judgement calls. For example this would be selling out of a stock which has fallen sharply when the right decision is to buy more; or worse, buying more when a share collapses and you haven't understood that the investment case has fundamentally changed.

Being 'too close to the market' and letting other people's views shape your own is another common mistake, which is why legendary investor Warren Buffett is quite happy to run his business from his home town of Omaha, Nebraska, well away from the frenzy of Wall Street. Distance brings dispassion.

The easiest mistake to avoid is to not take huge bets. Oldfield tells the story of how in the mid-1990s a currency hedge which was supposed to help his fund ended up swamping his performance.

He learnt two lessons: currency and stock decisions generally don't mix well, as the markets have very different dynamics, and a portfolio should depend on a lot of little decisions not one big decision.

KNOW YOUR RISK LIMITS

Rather than presenting a DIY kit for budding investors, Oldfield draws on his twin experiences as a fund manager at Mercury Asset Management, where he was head of US and global portfolios, and client of the fund management industry as head of a family office.

While he explains the fundamentals of good stock picking, he also explains the attractions of different asset classes including bonds, property, gold and 'alternatives' such as hedge funds and private equity, with an emphasis on the risks involved with each type of investment.

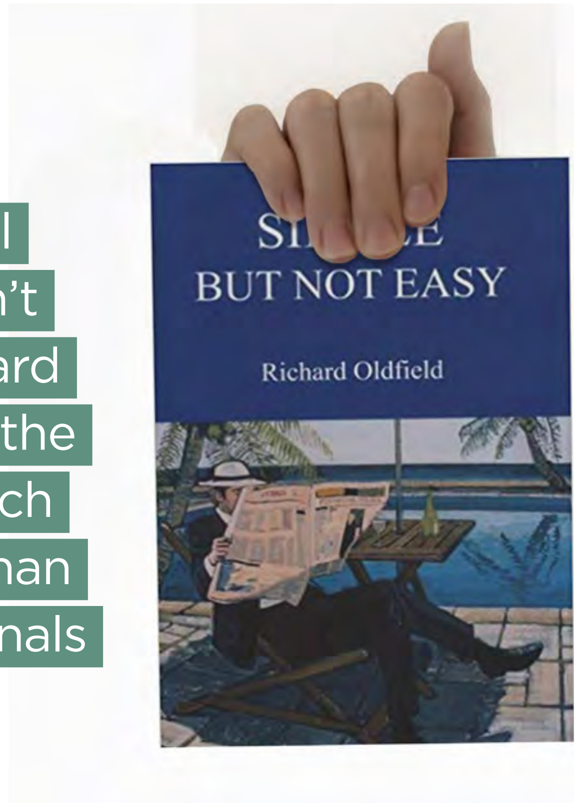
There is a wealth of academic evidence to show that over the long term equities are the most likely of all asset classes to provide high returns. However they are the most volatile and the least predictable in the short term, and are likely to give you 'plenty of hard knocks along the way'. Bonds offer fewer nasty knocks, but a lower long-term return.

As an equity investor, Oldfield favours a value approach because over long periods of time valuation matters, as it should. However, he dismisses the idea that 'value' stocks exist as a clearly-defined group. Values change, so after the tech bubble burst in the early 2000s there were even 'value' stocks in the technology sector which for many investors is the epitome of 'growth'.

The reason why value works, as Joel Greenblatt explained in his *Little Book That Beats The Market*, is that it is hard for people to make confident decisions about this group. 'The companies that show up on the screens can be scary and not doing so well, so people find them difficult to buy'. Also, most people just aren't capable of sticking with them during a period of underperformance.

Seth Klarman, chief executive of Baupost Group, puts it another way: 'If the entire country became securities

"Successful investing isn't straightforward but that with the right approach it is simpler than non-professionals think"



analysts, memorised Benjamin Graham's *Intelligent Investor* and regularly attended Warren Buffett's annual shareholder meetings, most people would still find themselves irresistibly drawn to hot IPOs, momentum strategies and investment fads.

'Even the best-trained investors would make the same mistakes that investors have been making forever, (because) they cannot help it'.

MANAGING MANAGERS

For investors who would rather let someone else run their money than take decisions themselves, Oldfield devotes a large part of the book to how to pick a manager.

The right manager should have strong convictions but be conscious of probabilities. In terms of conviction, a portfolio of as few as 15 stocks can still be 'diversified'. After that each additional holding does little to reduce risk.

The right fund manager should not trade much as 'on average the busiest managers perform less well than the least busy'. As the average turnover ratio of funds has risen due to short-termism, so average fund returns have fallen.

The right manager should also stick to their guns. A 'growth' investor can't and shouldn't change horses when 'value' outperforms and vice versa. It is down to the investor to choose which style of investment they believe in, and if that style stops working they have the option to switch managers.

By **Ian Conway**
Senior Reporter

AJBell Media

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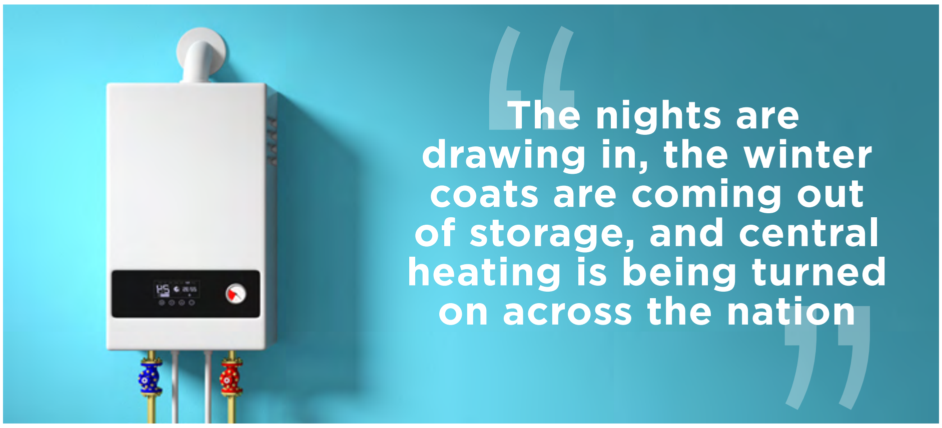
How to get financially fit for winter

Plus handy hints to keep your house and car ticking over

The nights are drawing in, the winter coats are coming out of storage, and central heating is being turned on across the nation.

This means it's a good time to make sure you and your home are ready for winter. From getting the right insurance to claiming all the money you're entitled to, here are some easy steps to make winter cosier.



STOP OVERPAYING

Around 11m households are on their energy provider's highest tariff, meaning they are paying more than they need for their gas and electricity. What's more, research from price comparison website MoneySuperMarket shows that almost a quarter of households have never switched suppliers.

Those who don't shop around are being hit with the 'loyalty penalty', as they will have come off their energy supplier's offer rates and will now be on their more expensive standard tariff. The Government's energy price cap, which was introduced this year, has helped some of these people to save money, but they could still get a cheaper deal by switching.

It's quick to switch. You'll need your latest bill, so you can see your usage, and then use a price comparison website to see how much you could save. It's important to not just go on price though, as you'll want to weigh up how good the firm's customer service record is too.

There are also lots of new energy providers on the market, so you might be wary of using a new firm with no track record. Those with an eye to making more environmentally-friendly life choices could also check out some of the 'green' suppliers that use renewable energy.

If all that feels too much hassle, you can just call your current supplier and get yourself onto a new deal with them. You might not save as much as if you switched, but at least you should pay less than you are now.

CLAIM YOUR FREE GOVERNMENT MONEY

If you're over the age of 64 or on certain benefits you could be eligible for some handouts. The Winter Fuel Payment is for anyone born on or before 5 April 1954, and you could get from £100 up to £300. Apart from a few exclusions anyone of this age will get the payment as it's not means tested.

If you qualify, you get £100 if you live with someone else who qualifies or live in a care home, or £200 if you live alone or with someone who doesn't qualify. Someone born on or before 22 September 1939 would get between £150 and £300. You'll need to claim it if you've not had it before, by calling 0800 731 0160, otherwise it will get paid automatically. Find out more information here.

People on certain benefits can claim extra allowances, have a look here if you're eligible.

IS YOUR BOILER COVERED AND DOES IT NEED TO BE?

Some people don't bother with boiler cover and instead prefer to self-insure, so effectively putting some money aside each month to cover any breakdowns or servicing. But if you're boiler is getting older, you might want to think about getting cover.

You can go to a price comparison website and see how much cover will cost you. If it's not included, most providers will want to ensure you've had the boiler serviced recently – and that's probably a good idea if you're due one as we go into winter and you use your heating more.

CHECK YOUR HOME INSURANCE

Winter means a rise in burst pipes. If not caught quickly, the resulting floods can cause thousands of pounds worth of damage. The Association of British Insurers (ABI) found the average claim to repair a burst pipe was £8,800. You should check what your home insurance covers, and whether it covers the cost of finding out the cause of the leak, rather than just repairing the damage.

The ABI also has some top tips to help prevent burst pipes due to freezing: if you go away make sure you leave the heating on at intervals to stop pipes freezing; make sure you know where your stopcock is and how to turn it off; and check any pipes and water tanks that are in the loft are lagged.

GET YOUR CAR READY

You can get a free winter car check if you pop down to Halfords. Although only worth around £15, it will check your battery, oil levels, windscreen wipers and light bulbs, and top up your screenwash for free. However, if it flags any issues that need fixing then make sure you shop around for repair costs, to make sure you're getting a good deal. Check here to see if you can get one in your area.

Also, while you're at it, check that you've got good breakdown cover, as you're more likely to get stuck in the cold weather. If you've already got cover see if you can get it cheaper elsewhere, or call up your current provider to get a better deal.

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

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Cambridge Cognition is a neuroscience digital health company specialising in the precise measurement of clinical outcomes in neurological disorders.

Coro Energy
Speaker: Andrew Dennan, CFO
Coro Energy is a London-listed E&P Co building a portfolio in SE Asia. Currently drilling in the West Natuna basin, offshore Indonesia.

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Equals Group is a leading challenger in the financial services sector catering for both business and retail customers operating under an e-money licence.

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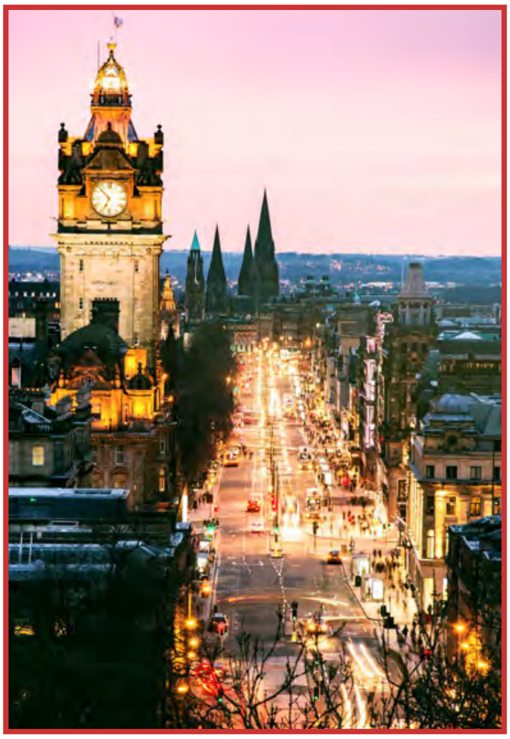

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23 October: Softcat. **24 October:** RDI Reit.

Half year results

22 October: Whitbread. **23 October:** Harbourvest.
24 October: AstraZeneca, Mail.ru, Novolipetsk Steel.

Trading statements

18 October: Dechra Pharmaceuticals, InterContinental Hotels, London Stock Exchange.
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24 October: AJ Bell, Kaz Minerals, National Express, Royal Bank of Scotland, RELX.

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