

SHARES

WE MAKE INVESTING EASIER

THE

£5,000

CHALLENGE

Mortgage rate
TV Package
Switch banks

How you could save this much in a year and invest it wisely in the markets



PLUS

WOODFORD WOE
THE LESSONS
INVESTORS CAN
LEARN ON FUNDS

APPETITE FOR JUST
EAT WHAT NEXT AS
FRESH BID COMES IN
FOR TAKEAWAYS FIRM?

US EARNINGS SCORECARD
HOW Q3 NUMBERS ARE
SHAPING UP ACROSS THE
ATLANTIC

Look beyond FAANGs and Unicorns to tech's enduring strengths

While certain companies dominate the headlines, others are quietly getting down to business

The technology sector feels a bit tarnished right now as many of its constituents prepare to report their third quarter earnings.

The famous FAANGs – Facebook, Amazon, Apple, Netflix and Google (whose parent company is Alphabet) are struggling. Some, namely Amazon, Facebook and Google, are under heavy regulatory scrutiny while others (Apple, Netflix) are struggling to maintain previously stellar growth rates.

Meanwhile a lot of the 'Unicorns' – that is start-up companies that have reached a valuation of \$1bn or more - are seeing their valuations come under severe pressure, or in the case of WeWork failing to reach the stock market at all.

Yet the tech-heavy US Nasdaq index continues to trade at record highs – a reminder that there is more to the sector than just the FAANGs and Unicorns and there are still reasons to be positive on the wider technology sector.

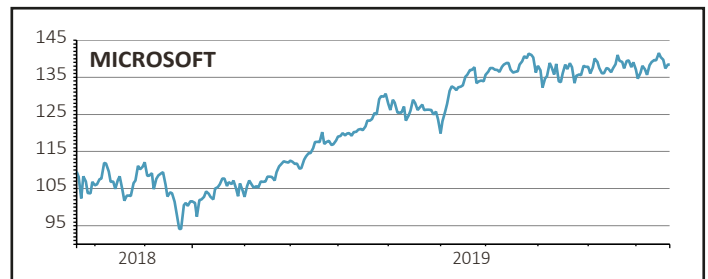
In truth investors should not be surprised by the problems facing the FAANGs which had been on a gravity-defying growth path for some time and have, in a lot of cases, been generating out-sized returns along the way.

PRESSURE ON RETURNS

Typically when margins are high competition moves in to take a slice of a lucrative market or regulators intervene to ensure consumers aren't being ripped off. The latter point is even more important in the tech sector given concerns over privacy and how our data is used.

Meanwhile the Unicorns, names like Uber, Lyft, Slack and Pinterest, have merely been colliding with reality as the capital markets do what they should.

Profit remains a long way off and, in a less certain environment, investors are quite rightly more reluctant to pay up for the promise of jam tomorrow.



Ahead of the current US earnings season former BlackRock technology fund manager William De Gale, who now steers BlueBox Global Technology Fund, highlighted several reasons to be cheerful about tech including:

- **Continuing demand from the US consumer;**
- **The roll-out of information technology across almost every other sector;**
- **The fact that Unicorns and FAANGs only represent a part of the technology industry.**

Just look at a stock like Microsoft, up more than a third in 2019 as it enjoys strong growth with its cloud-based and subscription-based business model. You can read a detailed article on the company [here](#).

It may not be as flashy as a firm like Tesla, Uber or Spotify but it has an extremely robust balance sheet and generates lots of cash-flow.

And given the continuing growth potential in technology, retaining some exposure to the space seems sensible as part of a balanced portfolio.

Popular funds include in this area include **Neptune Global Technology Fund (BYXZ5N7)** and **Polar Capital Global Technology Fund (B42W4J8)**.



By **Tom Sieber** Deputy Editor

OFFERING OUR BEST
IDEAS AT A LOW COST
SINCE 1987 – THE ONGOING
CHARGE IS JUST 0.43%*.

THINK OF IT AS A ONE-STOP SHOP.

For over three decades the **Baillie Gifford Managed Fund** has aimed to offer equity-like returns with lower volatility than stock markets.

The management team is drawn from our regional investment desks, complemented by our fixed interest experts. They seek to fill the portfolio with the best ideas from Baillie Gifford. They invest with no reference to any index and expect outperformance to be driven by companies, not markets.

The **Baillie Gifford Managed Fund** has an equity bias but a place for the individual attractions of bonds and cash. With a strategic asset allocation of around 75% equity, 20% bonds and 5% cash it could be the only investment you will ever need.

Performance to 30 June 2019**

	2015	2016	2017	2018	2019
Managed Fund	5.9%	6.8%	23.4%	11.5%	7.2%
IA Mixed Investment 40%–85% Shares Sector Median	6.8%	1.8%	16.5%	4.9%	3.7%

Past performance is not a guide to future returns.

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

The manager believes this is an appropriate benchmark given the investment policy of the Fund and the approach taken by the manager when investing.

To start one-stop shopping please call **0800 917 2112** or visit us at **www.bailliegiifford.com**



Long-term investment partners

*Source: Baillie Gifford & Co as at 31 January 2019, based on B Acc shares. **Source: FE, B Acc shares, single pricing basis, total return. Your call may be recorded for training or monitoring purposes. Baillie Gifford & Co Limited is the Authorised Corporate Director of the Baillie Gifford ICVCs. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co. Both companies are authorised and regulated by the Financial Conduct Authority.

Contents

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

02	EDITOR'S VIEW	Look beyond FAANGs and Unicorns to see the technology sector's enduring appeal
06	BIG NEWS	Brexit latest / Just Eat / Red flag alert
10	GREAT IDEAS	New: Merchants / Smart Metering Systems Updates: Royal Mail / JP Morgan Global Emerging Markets Income Trust / ICG Enterprise / Avast
15	ETFs	Why investors are worried about getting their money back from ETFs
18	TALKING POINT	Learning the lessons from Woodford woes
21	MAIN FEATURE	The £5,000 challenge
27	FUNDS	Concentrated funds: more risk, more reward?
30	BEAR MARKET	Which assets perform the best in bear markets
34	ASK TOM	'Should I wait to dip into my retirement pot?'
36	INVESTMENT TRUSTS	Growth strategies at investment trusts under scrutiny in third quarter
39	AEQUITAS	Higher quality of earnings failing to support FTSE 100
42	UNDER THE BONNET	Is Halfords a bargain or a value trap?
45	US EARNINGS	Why US earnings fears look overdone
49	INDEX	Shares, funds and investment trusts in this issue

DISCLAIMER

IMPORTANT

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

1. In keeping with the existing practice, reporters who intend to write about any

securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for seven working days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within seven working days after the on-sale date of the magazine.



Fundsmith

Emerging Equities Trust

The Fundsmith Emerging Equities Trust (FEET) research team searches the world to find companies that make their money from a large number of everyday, repeat, predictable transactions and will benefit from the rise of the consumer in developing economies.

Fundsmith LLP ("Fundsmith") is authorised and regulated by the Financial Conduct Authority and only acts for the funds to whom it provides regulated investment management and transaction arrangement services. Fundsmith does not act for or advise potential investors in connection with acquiring shares in Fundsmith Emerging Equities Trust plc and will not be responsible to potential investors for providing them with protections afforded to clients of Fundsmith.

Prospective investors are strongly advised to take their own legal, investment and tax advice from independent and suitably qualified advisers. The value of investments may go up as well as down and be affected by changes in exchange rates. Past performance is not a guide to future performance.

% Total Return

Year to end September	2019	2018	2017	2016	2015
Fundsmith Emerging Equities Trust	-2.4	+5.6	+0.4	+16.4	-11.8
AIC Global Emerging Markets Sector	+6.3	-0.8	+13.3	+30.0	-17.1

Source: Financial Express Analytics

www.feetplc.co.uk

Available for your ISA through your stockbroker.

The long wait for clarity on Brexit goes on

Will UK exit after a short delay or are we facing an imminent election?

The markets may be getting increasingly fatigued with days which keep getting trailed as pivotal for Brexit but then fail to deliver.

That is not to say nothing significant occurred on 22 October, after a promised 'Super Saturday' a few days earlier turned into a damp squib. For one thing the chances of the UK leaving the EU on 31 October now look minimal at best.

However, investors still don't know if they will be facing an election before Brexit or whether a deal will be approved allowing Brexit to be concluded before the end of the year. Which of these scenarios plays out could have a big impact on how UK assets perform in the remainder of the year.

WHAT HAPPENED?

MPs voted by 329 votes to 299, a bigger majority than had been predicted, to approve the Withdrawal Agreement Bill at its second reading. This does not mean the bill has passed as there are further parliamentary hurdles to clear but was a good start.

However, MPs then immediately voted against the so-called programme motion – in simple terms prime minister Boris Johnson's three-day timetable for scrutiny of the bill – by 322 votes to 308. In all likelihood this makes it impossible for the UK to leave the EU with a deal on 31 October.

A no deal outcome is not impossible but looks unlikely, as we write most observers expect the EU to grant a delay until 31 January. This was the extension envisioned by the Benn Act which was brought in by MPs with the aim of preventing a no deal outcome.

However, this three month delay could almost certainly be brought to an end earlier if Johnson can get his deal agreed.

A threat to pull the bill and pivot to a general election if his timetable was rejected proved empty and instead the bill has been put on pause while the Government awaits the EU's response.



Either Johnson agrees to accept a brief delay and makes a renewed effort to get the necessary legislation through, with the UK leaving at some point in the next few months, or he pulls the bill and looks for the support he needs from opposition parties to sanction an election.

WHAT DOES IT MEAN FOR MARKETS?

Assuming the EU offer an extension then the threat of an immediate no deal outcome will have been averted but if we have an election before Brexit then the uncertainty ratchets up again. This is likely to result in renewed volatility for the pound and UK assets, including real estate and sectors like construction, the housebuilders and the banks.

Bidding war for Just Eat

What should investors expect to happen next at takeaways business?

A rival approach for takeaways firm **Just Eat (JE.)** may have torpedoed an unpopular merger with Dutch rival Takeaway.com and there could now be a bidding war for the business.

Prosus, the recently Dutch-listed arm of South Africa's internet group Naspers has offered to buy Just Eat for 710p in an all-cash offer, and says its approach is friendly, rather than hostile.

At the time of the proposed merger with Takeaway.com we argued shareholders should hold out for a better deal, not least because the deal valued Just Eat at roughly half the multiple that Takeaway.com paid for Delivery Hero's German business a year earlier.

SEVERAL OFFERS REJECTED

The board of Just Eat promptly rejected the Prosus proposal saying the offer 'significantly undervalues Just Eat and its attractive assets and prospects both on a standalone basis and as part of the proposed recommended all-share combination with Takeaway.com'.

This is not the first time Prosus has approached Just Eat's board, with previous offers being pitched at 670p, 700p and, now, 710p per share all being rejected.

Whether shareholders swallow the board's logic is a different matter as an all-cash 'bird-in-the-hand' offer pitched close to the same price may well be considered a better option than one paid in shares, the so called 'bird in the bush' option.

At the time of going to press Just Eat's shares were trading at a premium to both offers, suggesting that the market is expecting a higher offer from Takeaway.com in

Shares in food delivery company Just Eat (JE.) had fallen back 18% from the implied 731p offer from Takeaway.com announced in July 2019 to just 598p on 21 October after a disappointing three-month trading update.



order to seal its own deal. In addition, other suitors may be watching closely.

SEVERAL SUITORS IN THE WINGS

In May 2019 the UK competition regulator put the brakes on Amazon's investment in Deliveroo while it launched a full investigation into the UK market. The companies have to act separately while they await the results of the first phase of its investigation.

The investment was Amazon's attempt to re-enter the takeaway delivery market following the shuttering of its own business Amazon Restaurants.

This opened up speculation that Amazon will look to take a minority stake in Just Eat or even make a full offer. Analysts at broker Liberum think that the regulator would let through an Amazon deal with Just Eat more easily. This is predicated on Amazon making its intentions clear and promising to keep Just Eat as a standalone business.

It should be noted that Prosus is not new to the food delivery space and has global ambitions, having already invested in the sector through iFood in Latin America and Swiggy in India. It has deep pockets and the appetite to invest, so investors should take its offer seriously.

Red flag alert on UK corporate debt

The number of UK firms in financial distress continues to climb with no sign of slowing



Last week saw the release of the latest 'Red Flag Alert' report from insolvency firm **Begbies Traynor (BEG)** covering the third quarter of 2019.

The total number of UK businesses in 'significant financial distress' is now 489,000, an increase of 22,000 or 2.5% over the previous year. More importantly, it represents an increase of 139,000 companies or 40% since the 2016 EU referendum.

TROUBLED TIMES

Begbies classifies companies as in 'significant' distress if they have minor county court judgements (CCJs) of under £5,000 filed against them or they have shown up on the firm's proprietary Red Flag credit-risk scoring system.

Factors affecting companies' credit-risk score include a marked deterioration in key financial ratios such as working capital, contingent liabilities, retained profits and net worth.

According to the report, over the past year 'significant financial distress has increased in 20 out of the 22 sectors monitored' and is affecting a broad spectrum of companies.

There has also been a significant increase in the number of companies in 'critical financial distress' – that is with CCJs of more than £5,000 and a poor score on the Red Flag model, which is typically a precursor to formal insolvency.

NO LONGER 'SAFE AS HOUSES'

The most severely-affected sectors are real estate

Global context

The International Monetary Fund warned at its recent annual meeting that \$19tn in corporate debt (around 40% of the total in developed economies) is at risk of default in the event of a severe economic crisis



and property, construction, retail and travel. The real estate and property sector has seen a 16% increase in businesses in 'significant' distress since last year with more than 50,000 firms now struggling. Falling residential and commercial property prices have impacted property investors particularly hard.

The construction sector has seen an 11% increase in companies in 'significant' distress to more than 13,000 firms, with the trend extending to companies involved in constructing commercial buildings. This is significant as the construction industry is a big employer.

NOT JUST ON THE HIGH STREET

The tough conditions on the high-street have been well documented, but now the malaise in the retail sector seems to be spreading online.

Whereas e-commerce had previously been viewed as 'immune to the travails of the sector' as the report puts it, online retail has seen a 10% increase in the number of companies in 'significant' distress in the last year to more than 9,000. Since the EU referendum, more than 30,000 retailers have found themselves in 'significant' distress.

The root cause of the problem, according to Julie Palmer, partner at Begbies, is that 'investment is on hold as businesses have their hands tied, not knowing what the state of play will be post-Brexit and whether the agreements or contracts they currently have in place will still be valid following the expected withdrawal'.

Meet your fund manager over lunch.

Charles Luke
Investment Director
Aberdeen Standard Investments



If you are a shareholder in Murray Income Trust PLC, come and meet the people who run it on your behalf.

Murray Income Trust PLC invests in high quality companies, mainly listed on the UK stock market, with the aim to deliver an attractive income together with income and capital growth.

The Company will hold its Annual General Meeting (AGM) on Tuesday 5 November 2019. If you're a shareholder, you're warmly invited to:

- Come and watch a presentation by Charles Luke, Investment Director, Aberdeen Standard Investments – and ask questions about his investment approach and thoughts on markets.
- Meet the Board of Directors – responsible for ensuring the Company is run in your best interests.
- Vote on any resolutions that have been proposed.

Murray Income Trust PLC AGM

12.30pm, Tuesday 5 November 2019, London, EC4V.

Includes a buffet lunch.

Each shareholder may bring a guest.

For further information on how shareholders may attend, please email your name and whether you are bringing a guest to murray.income@aberndeenstandard.com

murray-income.co.uk

Please remember, the value of shares and the income from them can go down as well as up and you may get back less than the amount invested.

How Murray Income Trust PLC has performed

Year ending	31/08/19	31/08/18	31/08/17	31/08/16	31/08/15
Share Price	12.2	2.8	12.8	10.3	(6.4)
NAV ^A	6.7	4.6	11.6	14.6	(4.7)
FTSE All-Share	0.4	4.7	14.3	11.7	(2.3)

Cumulative performance (%)

	as at 31/08/19	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Share Price	832.0p	(1.7)	1.2	10.7	12.2	30.1	34.3	153.2
NAV ^A	882.3p	(2.0)	3.2	9.3	6.7	24.5	35.9	153.4
FTSE All-Share		(3.6)	2.0	4.3	0.4	20.2	31.2	124.8

^A Including current year revenue.

Total return; NAV to NAV, net income reinvested, GBP. Share price total return is on a mid-to-mid basis. 12 month returns to 31 August.



Morningstar Sustainability Rating



Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments. Issued by Aberdeen Asset Managers Limited, 10 Queen's Terrace, Aberdeen AB10 1XL, which is authorised and regulated by the Financial Conduct Authority in the UK. Telephone calls may be recorded. aberndeenstandard.com | GB-120819-96789-3.

FTSE International Limited ('FTSE') © FTSE 2019. 'FTSE®' is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. RAFI® is a registered trademark of Research Affiliates, LLC. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent. Please quote MINC14.

Trust Merchants to deliver on its income and value goals

Better than average yield from FTSE 100 blue-chips makes investment trust highly dependable

Market shake-outs are often a great time to buy high quality investments with long track records of wealth creation. With investors torn over the prospects of the major UK stock markets we believe **Merchants Trust (MRCH)** is just such an opportunity.

With roots that go back to 1889 there is no type of market the trust has not navigated, embracing both booms and busts without ever swerving from its value-oriented knitting. Merchants mainly looks for reliably high-yielding large cap stocks that are capable of paying above market dividend yields, year after year.

Running a fairly concentrated portfolio of between 40 and 60 stocks, typical examples include cash generative industries like tobacco, oil and financial services, where the trust has recently been upping stakes in names like **Imperial Brands (IMB)**, **Royal Dutch Shell (RDSB)** and **Barclays (BARC)**. But Merchants will also happily scour mid caps for opportunity, such as new stakes in soaps maker **PZ Cussons (PZC)** and spirits supplier **Stock Spirit (STCK)**.

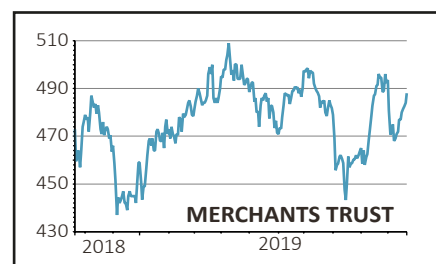
These holdings provide the cash flow to pay Merchants' shareholders a dividend yielding

MERCHANTS TRUST



(MRCH) 484p
Stop loss: 387p

Total assets: **£544m**



5.5%, a rare prize given the level of security built in.

This should be of enormous comfort to income-starved investors today faced with significant uncertainties, both at home and abroad, plus dismal returns from both savings accounts and bonds.

Merchants is one of just 20 investment trust 'dividend heroes', which means it has increased shareholder payouts every year for at least the last two decades. Merchants' own track record is 37 years, and counting.

OUT OF FASHION

This sort of firm focus on value and income is not always fashionable and, being totally honest, the trust's near-term performance has been patchy. In the half year to 31 July the trust generated a total return (share price growth and dividends combined) of 7.6%, decent

but less than the 10.6% of its benchmark FTSE All-Share.

Merchants' manager Simon Gergel, part of the Allianz Global Investors team, puts this temporary underperformance down to what he sees as a 'polarisation' of the UK market that has become even more extreme this year.

Macro events like the US-China trade tiff and, of course, Brexit have encouraged investors to chase perceived high-quality companies at any cost, or inexpensive tracker options like ETFs.

Merchants' above average yield, and inexpensive 0.27% ongoing charge, offers significant security and downside protection for investors if value remains relatively out of favour for longer.



By **Steven Frazer**
News Editor

Smart Metering Systems looks a savvy portfolio addition

Now could be a good entry point for a stock that's uncorrelated to the UK economy.

A decent sized, relatively liquid investment that's uncorrelated to the UK economy and a good structural growth story to boot, now is an excellent time to buy **Smart Metering Systems (SMS:AIM)**.

It is the only company that installs, owns, operates, and maintains gas and electricity smart meters on behalf of major energy suppliers in the UK.

Government regulation means all households and businesses need to be offered a smart meter.

While the firm swung to a £1.7m pre-tax loss in the six months to 30 June, which did highlight some inefficiency in the business, revenue was up 14% to £54.2m, ahead of expectations.

Because it is the only end-to-end provider of smart meters in the UK, SMS delivers and should continue to deliver predictable, inflation-linked revenues.

The firm's share price has dropped from a high of 650p this year to hover around the 460p mark as its half year loss disappointed the market, but this could now be an attractive entry point.

There is a reason why the shares have gone out of fashion with the market.

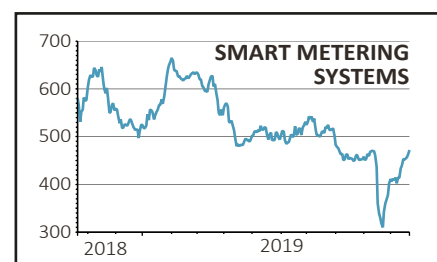
In September the government pushed back the smart meter deadline by four years to 2024,

SMART METERING SYSTEMS BUY

(SMS:AIM) 470p

Stop loss: 370p

Market value: £523m



so the installation bonanza the firm – and its investors – would've expected right now hasn't happened.

The firm also has some operational issues which are forecast to drag on full year profits. It has over 500 engineers but not much use for them all with installations lower than expected.

But the firm is best placed to take advantage when business does pick up, and foresees a big ramp up of activity in the second half of its financial year.

BREXIT BALLAST

In addition, Liberum analyst Joe Brent thinks the firm should do well after Brexit, particularly in a 'hard Brexit'.

He explained, 'We view [Smart Metering Systems] as very uncorrelated to the economy. The key driver is bond yields which are likely to stay low in a hard Brexit.'

'If they closed the energy and installation businesses, and did not install another meter, we estimate

that the shares should be worth 543p. We expect disposals near term to provide proof of value and further capital for expansion.'

That lack of correlation could be key.

Deal or no deal, the forecasts for UK economic growth aren't great and many investors believe there's a storm brewing over the global economy, something which again would impact the UK.

Particularly if Brexit doesn't go well, investors will rush to find uncorrelated assets, i.e. bonds, property, gold – things that don't go the same way as the stock market.

But stocks are still the most liquid, so a listed company which doesn't go the same way as the economy will no doubt be attractive for investors. It's likely SMS could therefore see interest from the market again.



By **Yoosof Farah**
Reporter

ROYAL MAIL

(RMG) 226p

Gain to date: 14.1%

Original entry point:

Buy at 197.95p, 27 June 2019

ON 15 OCTOBER the Communications Workers Union (CWU) cheered one of its biggest turnouts and yes votes for many years as 97.1% of its members agreed to strike.

Dates have not yet been announced, but many suspect that 29 November will be targeted. This is the so called 'Black Friday sale' weekend in the UK that coincides with the Thanksgiving holiday in the US.

The issue is that **Royal Mail (RMG)** wants to increase automation in the long term to improve productivity and offset an agreement with the union to reduce the working week to 35 hours from 38 hours today.

A further one hour reduction was due to kick-in from the end of this month, subject to the successful trial of productivity initiatives.

It now appears that the expected improvements may have not materialised or possibly that the CWU are trying to squeeze a better deal out of the bosses. Either way, the union has accused management of reneging on the deal.

One of the key supporting legs of our positive stance was based upon the company achieving at least some of its targeted 15% to 18% productivity improvements over the next five years to 2024.

If it goes ahead the strike will disrupt business at one of the busiest times of the year. More importantly in our view is that it also potentially dents credibility with clients in the long-term.



SHARES SAYS: ⬇️

Shares says: A change in circumstances means now is a good time to take profit.

JPMORGAN GLOBAL EMERGING MARKETS INCOME TRUST

(JEMI) 127.5p

Loss to date: 6.6%

Original entry point:

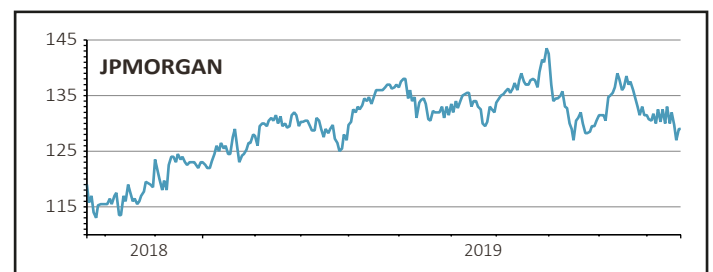
Buy at 136.5p, 19 September 2019

OUR BULLISH CALL on **JPMorgan Global Emerging Markets Income Trust (JEMI)** is currently 6.6% in loss, likely reflecting anxieties over slowing economies, US-China trade tensions and the stubbornly strong US dollar.

Yet we are increasingly confident in the prospects for the fund, a lower risk play on far-flung developing economies as it invests in a diversified portfolio of high yield, high profitability companies with good governance structures.

Results for the year to July (18 Oct) demonstrated a commendably strong performance against a backdrop of rising trade tensions.

Managed by Omar Negyal, Jeffrey Roskell and Amit Mehta, the trust outperformed the MSCI Emerging Markets index by a considerable margin thanks to a strong contribution from financials including Russia's Sberbank plus Chinese firms like electrical appliance maker Midea, not to mention Taiwan Semiconductor Manufacturing and Kimberly-Clark de Mexico.



SHARES SAYS: ⬆️

Despite a weakening corporate performance across emerging markets, we are sticking with JPMorgan Global Emerging Markets Income Trust for its diversified dividend income stream and compelling long-term capital growth scope.

ICG ENTERPRISE

(ICGT) 898p

Gain to date: 10.7%

Original entry point:

Buy at 811p, 31 January 2019



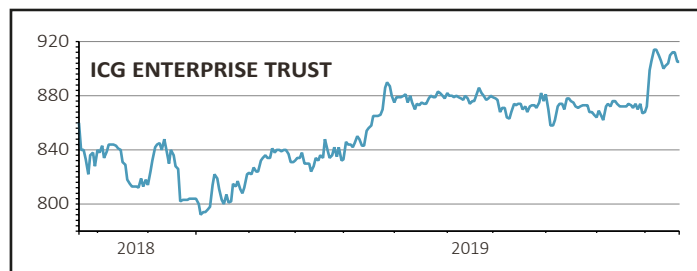
OUR FAITH IN private equity investment trust **ICG Enterprise (ICGT)** is finally being rewarded after a strong set of first half results (3 Oct).

The fund generated a net asset value (NAV) total return of 12.4%. This was supported by the top 30 holdings, accounting for 48% of the fund's total value, which saw average earnings growth of 16% in the last 12 months compared with growth of just 6% for the FTSE All Share.

The company continues to invest heavily and the portfolio looks well positioned for uncertain times. There is a bias towards more defensive firms which are not as exposed in relative terms to fluctuations in the economy and which enjoy strong barriers to entry to underpin reliable cash generation.

Winterflood analyst Simon Elliott comments: 'We find it hard to rationalise the current discount that ICG Enterprise Trust finds itself on, given its long-term performance record and the uplifts from realisations seen in recent years, albeit this is equally true for its peers too.'

The discount to NAV has actually barely budged from where it was when we first flagged the trust's attractions in January at 22%, suggesting there is still plenty of value here.



SHARES SAYS: ↗

Keep buying.

AVAST

(AVST) 406p

Gain to date: 35.9%

Original entry point:

Buy at 298.8p, 16 May 2019

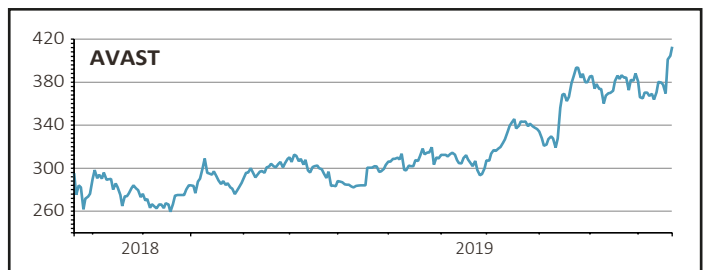
TO PUT UP a near 36% return since mid-May while the overall market has gone sideways shows how increasingly investors are taking note of the emerging potential at **Avast (AVST)**.

Shares in the Czech-based supplier of its Avast and AVG firewall, anti-hacking, malware and anti-virus tool kits to consumers have rallied around 10% since a robust third quarter update (18 Oct) that showed an impressive 9% increase in adjusted revenue to \$218.3m, after stripping out discontinued and sold-off parts of the business.

The headline equivalent for the three months to 30 September was 7.3% growth, still very good given the rather anodyne growth of many global economies.

Billings growth was similar while adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) rallied 8.7% to \$121.9m. Guidance was reaffirmed at high single-digit revenue growth (for continuing operations) and broadly flat adjusted EBITDA margins.

This looks very much like a continuation of the company's ongoing strong momentum, which analysts suspect is driven primarily by its core consumer desktop products. Mobile still appears to be a relatively small work in progress



SHARES SAYS: ↗

The 2020 PE has now expanded to 21.9, although potential to derive increasing revenue from its vast 435m consumer base could mean faster earnings growth than currently forecast. Still a buy.

Focusing on **strong** and **sustainable** dividend payers

Sam Morse, Portfolio Manager of Fidelity European Values PLC, explains why companies that can sustainably grow dividends tend to reward investors over time.

THE APPROACH I TAKE to managing Fidelity European Values PLC is to look beyond the economic and political noise and concentrate on the real-life progress of listed businesses across this large and diverse region. In running the Trust, I focus on researching and investing in stocks I believe can grow their dividends consistently, irrespective of the prevailing economic backdrop. History shows that these companies tend to outperform the market over the longer-term.

Since the launch of Fidelity European Values over 26 years ago, Europe has witnessed its fair share of political and economic upheaval. It's important to note though, that however significant changes might be on the political stage, the corporate sector carries on regardless.

I am naturally cautious and I am not inclined to take large bets against the market in individual sectors or countries, preferring instead to focus on companies which I believe will be able to outperform their competition over the longer-term.

On this basis I look to build a portfolio of 40-50 attractively valued companies, with strong balance sheets and a track record in cash generation, which have the potential to grow dividends consistently on a three to five-year view. This type of company offers a good combination of fundamental value and therefore downside protection, as well as good growth prospects likely to be identified by the market in future. Historic data shows that companies of this nature tend to outperform, however the trick is to identify those future dividend growers before they have done so – and importantly, before the rest of the market. This requires time and discipline from me and our analyst team in London and throughout Europe.

In terms of recent market movements, European equities saw a strong rebound in the first half of the year. While the third quarter was marginally positive, we saw elevated market volatility - the summer months, when liquidity dries up, are often like that! The great



uncertainties regarding trade, geopolitics and Brexit rumble on with investors swinging between optimism and pessimism depending on events (and tweets).

There appears to be growing evidence that these uncertainties will continue to slow economic growth and damage some sectors, particularly areas like autos. Central banks, however, are riding to the rescue. This backdrop should help to support stock market in the short-term, even if fundamentals don't improve markedly. There has also been more noise about fiscal easing too from European governments although finances will be a constraint.

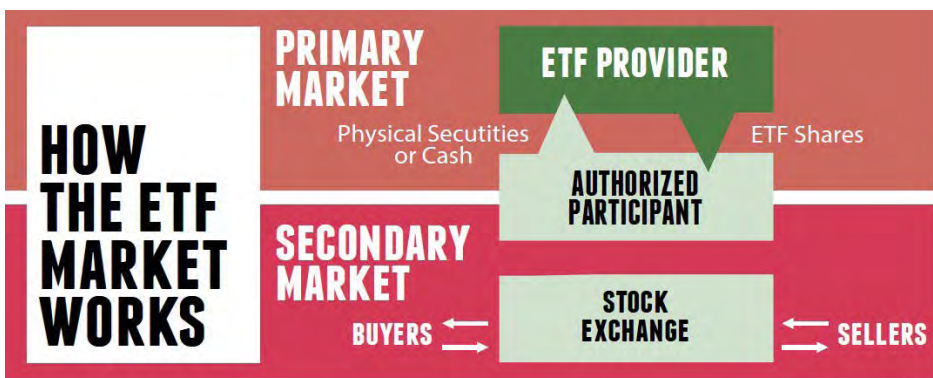
Our proprietary leading indicator of economic activity suggests that the environment could improve going forward and if it proves correct, economically-sensitive companies on low valuations may have their day in the sun while steadier companies with more stable cash flows may suffer. Anticipating such changes, however, has proven costly in the last few years. The trust will continue to focus on companies with strong balance sheets which are able to grow their dividends consistently.

Important information

The value of investments and the income from them can go down as well as up, so you may get back less than you invest. Past performance is not a reliable indicator of future returns. Investors should note that the views expressed may no longer be current and may have already been acted upon. The Fidelity European Fund and Fidelity European Values PLC can use financial derivative instruments for investment purposes, which may expose them to a higher degree of risk and can cause investments to experience larger than average price fluctuations. Changes in currency exchange rates may affect the value of investments in overseas markets. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser.

Why investors are worried about getting their money back from ETFs

After issues for investors in Neil Woodford's funds, how do liquidity problems impact ETFs?



Source: SSGA

Exchange-traded funds (ETFs) can be a great way for people to get started with investing.

This is mostly because of their simplicity, low cost and the ease at which they can be bought or sold, which is known as liquidity.

But that last point has some investors worried, as rising market volatility has once again got people concerned about how the multi-trillion pound ETF industry would react in a financial crisis.

While ETFs have been around since 1993 in the US, and around 2000 in the UK, they only started gaining real popularity after the global recession in 2008.

The concern is whether or not, in times of market stress, they can be sold off seamlessly and at a reasonable enough price to be able to give investors their money back quickly.

Especially in the wake of the demise of Neil Woodford, who

struggled to give investors their money back, as well as other liquidity issues affecting fund management firms like GAM and H2O Asset Management, many market watchers are increasingly voicing concerns about ETFs, which have more people's money than ever but are untested in a real market crisis.

PRICE DE-COUPLING

One of the main issues involves 'price decoupling', which is triggered when the liquidity of shares in the ETF – which trade every second – and the liquidity of the underlying holdings fail to match up.

The fear is that this could lead to a breakdown between the price of the fund and the price of the underlying holdings, a 'price decoupling', which could lead to people getting less money back when they choose to sell ETFs from their portfolios.

In a research note from

August, UK regulator the Financial Conduct Authority (FCA) conceded the 'rapid growth' in ETF markets 'creates potential risks to investor protection and financial stability'.

But it ultimately found no threat to financial stability as of yet as the market has coped well so far with liquidity crunches.

The FCA looked at three instances of stressed markets – the US presidential election in November 2016, a volatility spike in February 2018, and a big bond selloff last December.

Buying and selling of ETFs in the marketplace is largely done by 'authorised participants' (APs), who are typically investment banks or trading firms, with the five largest APs accounting for 75% of ETF trading according to Reuters. These APs can exchange baskets of securities or cash for ETF shares and back again in the so-called 'primary market'.

The FCA found that during the above periods of market stress, other APs who are normally less active came into the market and started buying and selling, making up for any gaps in liquidity.



By Yooosof Farah
Reporter

Which stock markets are “cheap” entering the final quarter of 2019?

ADVERTORIAL

Schroders

There are plenty of reasons why investors could justifiably feel pessimistic about the future, but stock market valuations are not one of them



Which stock markets are “cheap” entering the final quarter of 2019?

There are plenty of reasons why investors could justifiably feel pessimistic about the future, but stock market valuations are not one of them.

In 2019 the global economy has gone into a marked slowdown. US-China relations have remained tense. Drones have attacked oil infrastructure in the Middle East. Global corporate earnings growth has collapsed towards 0%.

If at the start of the year you had foreseen this cavalcade of bad news – what would you have predicted for stock market returns?

I doubt that many predictions would have stretched as high as the 21% that US equities have managed to deliver in dollar terms so far. Nor the 16% from European equities or the 14% from the UK, in euro and sterling terms, respectively.

So what has been behind this? It has certainly not been fundamentals.

The outlook for the corporate sector has been continually downgraded throughout the year (see chart). UK and Japanese companies are now both forecast to suffer a decline in profits this year, while profits are only expected to grow by around 2% in the US, Europe and emerging markets. Things have been looking worse on this front, not better (at least in the short term).

It is true that analysts are forecasting 8% profit growth in the UK next year and more than 10% in the US, Europe and emerging markets, so this may be part of the explanation. However, Schroders’ economists are forecasting that economic

growth in 2020 will be lower than it has been this year, so these look a stretch.

Central banks at the wheel

In reality, the main drivers of stock markets have been central banks.

Near the end of 2018, the market was expecting the US Federal Reserve to raise interest rates twice in 2019. Instead, it has cut them twice, with one further cut still expected before the year is out.

The European Central Bank and Bank of Japan have also joined the “cutting club”.

The Bank of England stands apart in not acting, but may be keeping its powder dry in case it needs to respond to a disorderly Brexit.

As has happened so many times in the past decade, whenever it has seemed that the tide was set to turn against the stock market, central banks have ridden to the rescue. Risk has been squashed.

Can valuations reassure investors?

Long term investors may feel uneasy about this. Questioning the sustainability of the rally based on central bank support, rather than fundamentals, is natural. This is where an analysis of valuations can help, by providing a more dispassionate way to look at things.

Reassuringly for long term investors, while fundamentals may appear shaky, valuations are not giving any warning signals.

How various stock market valuations stack up

With the exception of the cyclically-adjusted price earnings multiple (CAPE),

UK and European stock markets are valued pretty close to their 15-year average. If the timeframe is extended to 20 years, they are both cheap on all fronts. Japanese equities are also cheap but our economists are forecasting a fall in Japanese economic output next year, so this cheapness is not without reason. Emerging markets present an interesting proposition. Valuations are cheap but stocks could be buffeted by political manoeuvrings on trade. The US stock market is the only one which gives cause for concern from a valuation standpoint. However, it is also where growth is forecast to be strongest. Reassuringly expensive?

The underlying message is that even though the fundamental backdrop has been miserable and markets have performed exceptionally well this year, valuations remain at pretty reasonable levels. There are plenty of reasons why investors could justifiably feel pessimistic or fearful about the future, but valuations are not one of them.

The pros and cons of stock market valuation measures

When considering stock market valuations, there are many different measures that investors can turn to. Each tells a different story. They all have their benefits and shortcomings so a rounded approach which takes into account their often-conflicting messages is the most likely to bear fruit.

Forward P/E

A common valuation measure is the forward price-to-earnings multiple or



forward P/E. We divide a stock market's value or price by the earnings per share of all the companies over the next 12 months. A low number represents better value.

An obvious drawback of this measure is that it is based on forecasts and no one knows what companies will earn in future. Analysts try to estimate this but frequently get it wrong, largely overestimating and making shares seem cheaper than they really are.

Trailing P/E

This is perhaps an even more common measure. It works similarly to forward P/E but takes the past 12 months' earnings instead. In contrast to the forward P/E this involves no forecasting. However, the past 12 months may also give a misleading picture.

CAPE

The cyclically-adjusted price to earnings multiple is another key indicator followed by market watchers, and increasingly so in recent years. It is commonly known as CAPE for short or the Shiller P/E, in deference to the academic who first popularised it, Professor Robert Shiller.

This attempts to overcome the sensitivity that the trailing P/E has to the last 12 months' earnings by instead comparing the price with average earnings over the past 10 years, with those profits adjusted for inflation. This smooths out short-term fluctuations in earnings.

When the Shiller P/E is high, subsequent long term returns are typically poor. One drawback is that it is a dreadful predictor of turning points in markets. The US has been expensively valued on this basis for many

years but that has not been any hindrance to it becoming ever more expensive.

Price-to-book

The price-to-book multiple compares the price with the book value or net asset value of the stock market. A high value means a company is expensive relative to the value of assets expressed in its accounts. This could be because higher growth is expected in future.

A low value suggests that the market is valuing it at little more (or possibly even less, if the number is below one) than its accounting value. This link with the underlying asset value of the business is

"The Bank of England stands apart in not acting, but may be keeping its powder dry in case it needs to respond to a disorderly Brexit."

one reason why this approach has been popular with investors most focused on valuation, known as value investors.

However, for technology companies or companies in the services sector, which have little in the way of physical assets, it is largely meaningless. Also, differences in accounting standards can lead to significant variations around the world.

Dividend yield

The dividend yield, the income paid to investors as a percentage of the price, has been a useful tool to predict future returns. A low yield has been associated with poorer future returns.

However, while this measure still has some use, it has come unstuck over recent decades.

One reason is that "share buybacks" have become an increasingly popular means for companies to return cash to shareholders, as opposed to paying dividends (buying back shares helps push up the share price).

This trend has been most obvious in the US but has also been seen elsewhere. In addition, it fails to account for the large number of high-growth companies that either pay no dividend or a low dividend, instead preferring to re-invest surplus cash in the business to finance future growth.

A few general rules

Investors should beware the temptation to simply compare a valuation metric for one region with that of another. Differences in accounting standards and the makeup of different stock markets mean that some always trade on more expensive valuations than others.

For example, technology stocks are more expensive than some other sectors because of their relatively high growth prospects. A market with sizeable exposure to the technology sector, such as the US, will therefore trade on a more expensive valuation than somewhere like Europe. When assessing value across markets, we need to set a level playing field to overcome this issue.

Finally, investors should always be mindful that past performance and historic market patterns are not a reliable guide to the future and that your money is at risk, as is this case with any investment.

THIS IS MARKETING MATERIAL

This communication is marketing material. The views and opinions contained herein are those of the named author(s) on this page, and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds.

This document is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. Information herein is believed to be reliable but Schroder Investment Management Ltd (Schroders) does not warrant its completeness or accuracy.

The data has been sourced by Schroders and should be independently verified before further publication or use. No responsibility can be accepted for error of fact or opinion. This does not exclude or restrict any duty or liability that Schroders has to its customers under the Financial Services and Markets Act 2000 (as amended from time to time) or any other regulatory system. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions.

Past Performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall.

Any sectors, securities, regions or countries shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. Forecasts and assumptions may be affected by external economic or other factors.

Issued by Schroder Unit Trusts Limited, 1 London Wall Place, London EC2Y 5AU. Registered Number 4191730 England. Authorised and regulated by the Financial Conduct Authority.

Learning the lessons from Woodford woes

Star fund manager's reputation in tatters as investors count the cost

Investors have been rocked by the culmination of the woes facing one-time star fund manager Neil Woodford and more importantly those who put their faith in him.

Having seen the flagship equity income fund wound up, Woodford Investment Management has now resigned from **LF Woodford Income Focus (BD9X6D5)** and **Woodford Patient Capital (WPCT)** investment trust.

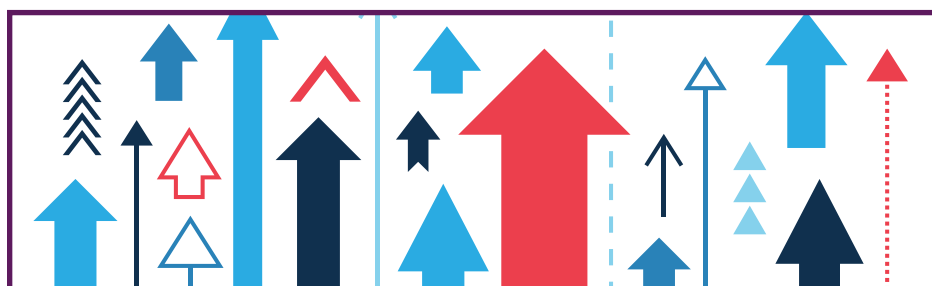
The latter is likely to bring in a new manager, while Income Focus, currently suspended, could be wound up, amalgamated with another fund or also see a different manager appointed.

DON'T GIVE UP ON ACTIVE FUNDS

What lessons can be drawn from the sorry episode? The first thing to say is that what happened with Woodford should definitely not put people off from investing in the markets entirely or from using actively managed funds to do so.

However, there should certainly be a move away from the approach pursued by those who effectively entrusted all of their cash to just one or two very popular funds.

Dealing was suspended in LF Woodford Equity Income in early June after an increased level of redemptions. The problem was



TOP PERFORMING UK EQUITY INCOME FUNDS

Fund	Fund Size (m)	10-year capital return	10-year total return	10-year income earned
MI Chelverton UK Equity Income	£627	97%	235%	£8,491
Unicorn UK Income	£615	116%	225%	£7,574
Royal London UK Equity Income	£2,036	88%	185%	£6,271
Franklin UK Equity Income	£770	126%	151%	£6,499

Source: FE/AJ Bell. Income figure based on £10,000 invested. Data to 10/10/19.

one of liquidity (or the ability to buy and sell). Woodford had invested in lots of unquoted assets which were then difficult to sell when he needed to hand investors back their cash.

Although Woodford attempted to rejig the portfolio towards more liquid assets the fund's authorised corporate director, Link Fund Solutions, ran out of patience on 15 October and elected to wind up the fund.

Asset manager BlackRock has been appointed to sell the listed assets from the fund and broker Park Hill will handle the disposal of the illiquid assets with the first batch of money being paid at the

end of January 2020.

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.

LEARNING THE LESSONS

Rather than being attracted by the cult of a star manager, you should look for funds which have a clear and consistent strategy and a track record of success over the long term. It is also worth investing in a portfolio of funds, rather than risking all your cash with just a single collective.

Make sure you understand what the person investing on

"With Woodford there were a lack of checks and balances"

your behalf is trying to achieve. Performance will always be variable, markets can be volatile and different investment styles can go in and out of fashion but if a fund is pursuing an approach which has proved profitable historically this provides a measure of comfort as an investor.

After all managers can always leave a fund, but if there is a well-defined game plan for their successors to follow there is more chance of long-term performance being maintained.

Woodford moved away from what had made him so successful at his previous employer Invesco Perpetual. Namely buying mainly large cap stocks whose income potential had been undervalued by the market.

One of his big calls was buying big tobacco stocks in the early 1990s when others were fearful aggressive US authorities would drive them out of business. He subsequently benefited from significant capital gains and a steady flow of dividends.

WATCH FOR A SHIFT IN STRATEGY

Since leaving Invesco in 2013

and setting up his own asset manager Woodford Investment Management, Woodford increasingly pursued a different more growth-focused approach which involved picking smaller and in some cases unquoted businesses. By early 2019 nearly 20% of the Equity Income fund was in companies which were not listed on a recognised stock market.

In hindsight the decision by the Investment Association to kick the fund out of its equity income sector for failing to meet yield requirements in March 2018 should have set alarm bells ringing.

The Woodford case also highlights the need to investigate the corporate governance and culture of the asset manager behind a fund.

With Woodford it appears there were a lack of checks and balances to prevent him from pursuing a strategy of investing unquoted assets, when the structure of open-ended funds always made this a big risk.

Just as many open-ended property funds found in the wake of the Brexit vote, if investors are selling or redeeming their holdings then assets need to be sold to pay these investors. But providing daily liquidity in this way is at odds with investing in assets which you cannot be bought or sold at the click of a button.

REGULATORY CHANGE

This brings us on to a conversation about the role regulation can play. The Financial Conduct Authority is bringing in new rules on liquidity, forcing certain funds to come up with

detailed contingency plans for liquidity issues and to be clearer in explaining liquidity risks to investors.

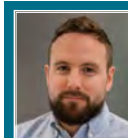
It has proposed other changes, including different redemption conditions for large institutional investors. Relevant in the Woodford case because Kent County Council's withdrawal from the Equity Income fund was effectively the straw which broke the camel's back and led to the suspension.

The chief executive of investment trust industry body the Association of Investment Companies, Ian Sayers, says there should be a move towards 'reliable redemption'. In practice this might mean that as he observes, 'funds with liquid portfolios could still offer daily redemption of an investor's entire holding.

'At the other end of the spectrum, for a fund invested in the most illiquid assets, the ability to redeem the entire holding might have to be subject to, say, a year's notice.'

He adds: 'I was very concerned to read that the FCA does not consider that how often funds suspend is a measure of success or failure. I doubt many investors in Woodford Equity Income Fund would agree.

'This "normalisation" of suspension is perhaps the most worrying trend in recent months and perhaps reflects the fact that, under the FCA's new rules, suspensions are likely to become more frequent, not less.'



By **Tom Sieber**
Deputy Editor

Allianz Technology Trust – uncovering the trends of the future



WALTER PRICE

Co-manager of the AllianzGI Global Technology Team

With every year, the reach and influence of technology grows. It disrupts new industries and moves into different parts of our lives. Technology is present in the way we drive, the way we shop, in our workplaces, in our homes. It helps us communicate effectively and manage our lives more efficiently. The companies that create that technology are in a powerful position to grow even in stagnant economic conditions.

So, for the Allianz Technology Trust, what has been the secret to success in following this multi-faceted sector development? In short, the common theme across all successes within the portfolio has been the team's process. The team seeks to identify major transformative secular growth themes within technology. Once we identify a theme we like, the team looks to identify the leaders within the theme.

The most significant themes in the current portfolio are cloud and Software-as-a-Service (SaaS). The cloud enables businesses to build sufficient scale to cope with the demands of data-intensive services and the influence of 'big-data' and Artificial Intelligence (AI). This is driving wider adoption of cloud-based systems.

It is also saving companies money: moving to SaaS and cloud computing lets companies avoid costly hardware upgrade cycles. Rather than having to support expensive in-house technology capability, they can pick and mix their technology requirements to suit their business requirements. They can move data storage to the cloud and buy their software on a subscription basis.



In addition to reduced costs, cloud customers have reported benefits such as; better security, more frequent upgrades, opportunities for new revenue streams, lower downtime, faster analytics, improved performance and productivity, faster innovation and time to market, and lower risk of getting locked into one vendor.

Trends such as cloud and SaaS have helped make technology a successful investment in recent years. That said, just because technology is pervasive and high growth, it doesn't guarantee good returns. This was seen starkly in 2018, when strong revenue growth provided little protection in the technology rout in the last quarter of the year. While technology companies can justify a premium to the wider market, valuation levels are important and need a discriminating eye.

Technology investment demands that investors uncover the trends of the future, looking to see where industries are going, and who is likely to win or lose from those developments. In this way, it forces investors to keep pace with changing markets. At each stage, therefore, the technology investor should be aligned with the winners from change, rather than those at the wrong end of it. We continue to see new industries being created, while old industries die or are forever altered and technology sits at the heart of this global innovation.

To discover more about Allianz Technology Trust, visit www.allianztechnologytrust.com where you can register for regular updates.

All sources Allianz Global Investors GmbH unless otherwise noted. This is no recommendation or solicitation to buy or sell any particular security. A security mentioned as example above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date.

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested. Past performance is not a reliable indicator of future results. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication.

Allianz Technology Trust PLC offers investors access to the fast moving world of technology with the reassurance that investment decisions are made by Walter Price who has 45 years of experience of investing in technology.

Walter is co-manager of the AllianzGI Global Technology Team which currently has \$4bn in assets under management. Located in San Francisco, the team benefits from its close proximity to Silicon Valley where many of the world's key technology companies are headquartered. Walter is also a Director of the M.I.T. Club of Northern California and heads the Educational Council for M.I.T. in the Bay Area.

This is a marketing communication (976792) issued by Allianz Global Investors GmbH, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, D 60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (www.bafin.de). Allianz Global Investors GmbH has established a branch in the United Kingdom, Allianz Global Investors GmbH, UK branch, which is subject to limited regulation by the Financial Conduct Authority (www.fca.org.uk). Allianz Technology Trust PLC is incorporated in England and Wales (Company registration no. 3117355). Registered Office: 199 Bishopsgate, London, EC3M 3TY.

THE £5,000 CHALLENGE

Mortgage rate
TV Package
Switch banks

Take control of your financial destiny and tap into the power of the markets



By Laura Suter
AJ Bell Personal
Finance Analyst

Are you ready to take on the £5,000 challenge? It's an annoying admin task that most feel like isn't worth the hassle of dealing with, but cutting the cost of your monthly bills can lead to a tidy pot saved – and an even bigger pot if you invest these savings prudently in the markets.

The Government has been focusing on the so-called 'loyalty penalty' this year, whereby loyal customers who don't hunt around for a better deal each year are charged more than new customers. Citizen's Advice says the loyalty

penalty costs consumers £2.9bn each year, and that's only across five areas: mobile, broadband, home insurance, mortgages and savings.

If you're someone who doesn't regularly shop around each time a contract needs renewing, offer period ends or savings rate matures you could be paying way over the odds. This is particularly the case when you include other areas, such as your TV package, your gym membership or other subscriptions you have.

So where can you save the most?

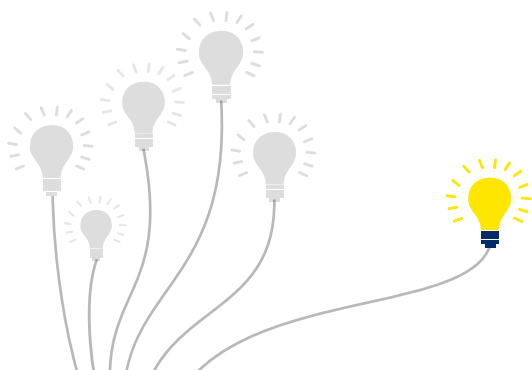


CANCEL YOUR UNWANTED SUBSCRIPTIONS

Lots of people have subscriptions they signed up to that they no longer use, or even ones they never intended to pay for. Most of us have fallen victim to signing up for a free trial to something and then forgetting to cancel before the trial period ended – Amazon Prime is a regular culprit.

The Citizens Advice Bureau estimates that the average Brit spends £640 a year on unwanted subscriptions, and some people don't even realise they are paying for them. Check your bank accounts, including any old accounts you think you no longer use, and cancel anything you don't use, don't need or don't want.

SAVING: AROUND £640 A YEAR



SWITCH ENERGY SUPPLIER

Lots of people keep meaning to hunt for a better deal but never get around to it. The Government estimates that the average household could save £300 or more by switching, particularly if you've fallen on your energy provider's Standard Variable Tariff, which is usually the most expensive rate.

Around half of UK households are on these standard tariffs, so the chances are high that this includes you. Get your recent energy bill and go to a comparison site, which will work out the best deal based on your usage.

SAVINGS: ON AVERAGE £300



GET A CHEAPER PHONE BILL



Lots of people sign up to a new monthly phone contract to get a new handset, but forget to switch once they've reached the end of that contract and paid off the cost of the handset. This means you're paying a higher cost for no extra benefit. Also, when you come to renew each year or two, do you really need the latest handset or will your current one last another year?

If your phone still works then you can keep it and switch to a SIM-only contract, which means you just pay for the monthly plan and not the phone. This is far cheaper than signing up to get a new handset. For example, Vodafone has a £8 a month SIM-only deal with 4GB of data if you sign up for 12 months, while the latest iPhone 11 will cost you £63 a month with unlimited of data on a 24-month contract, and a £9 upfront cost. If you went for the slightly older iPhone 8 you'd pay £40 a month for 24 months, plus £19 a month upfront.

SAVINGS: BASED ON THE TWO OPTIONS ABOVE, YOU'D SAVE £1,329 OR £787 A YEAR BY GOING SIM-ONLY

GET A NEW MORTGAGE RATE

The average person on a two-year fixed rate mortgage is paying £439 a year too much, but 10% of people are paying more than £1,000 a year too much, according to Citizens Advice. This is because people sign up to a fixed rate deal and when that expires they move on to their provider's Standard Variable Rate, which will be at a much higher interest rate.

The impact of this is seen in your monthly repayments, and will have a bigger impact the larger your mortgage. But it will also have a big impact on the total amount you repay over the 20 or 30-year term of your mortgage.

Switching your mortgage is a biggie, in terms of hassle. You'll need to go through a full affordability assessment and apply for a new mortgage, perhaps with a new provider if they are offering the best rate. However, in terms of cost per minute of hassle, there's the potential to save a lot too.

For example, a current top two-year fixed rate mortgage from Natwest has an interest rate of 1.4%, based on an 80% loan-to-value and a £200,000 loan over 25 years, but the Standard Variable Rate is 4.24%. On the fixed-rate deal you'd pay £790.51 a month, but on the SVR you'd pay £1,082.36 a month. In this example that means you've be paying out more than £3,500 a year more. At that level of saving it's surely worth consideration.

SAVINGS: VERY SPECIFIC TO YOUR MORTGAGE AMOUNT AND CURRENT RATE, BUT POTENTIALLY THOUSANDS



SWITCH SAVINGS – AND BANK ACCOUNT



Savings rates are so low at the moment that many people don't think it's worth switching to a better deal. But the chances are that if you've had your account for more than a year you've fallen onto your bank's measly standard rate. If you've got a lot of cash savings you can make a decent amount more money by getting a to rate account.

The top easy-access account is from Marcus by Goldman Sachs, paying 1.45%. If we assume your cash savings are getting just 0.1% at the moment – although it could be less – on £10,000 of cash that equates to a gain of £140 a year.

You can get higher rates than this, albeit usually on smaller sums. M&S Bank pays 5% on its regular saver account, and you can pay in up to £250 a month, while Nationwide pays 5% on up to £2,500 in its FlexDirect current account.

Another option is to switch your current account to make free money. Banks will pay you an incentive to switch to them – HSBC is currently top with £175 of free cash. Each account will have specific requirements in order to get the free money, so make sure you stick to them. However, once you've met the requirements, stayed for the required amount of time and got your free cash, there's nothing to stop you switching again.

SAVINGS: £175 FOR SWITCHING ACCOUNT, AND POTENTIALLY HUNDREDS OF POUNDS DEPENDING ON YOUR CASH SAVINGS

CANCEL YOUR PRICEY TV PACKAGE

People who have been with Sky or Virgin Media for a number of years will have seen their costs creep up. For those wedded to keeping the service, you can call up to negotiate a new deal, and it's likely you'll instantly save money. Often a new deal will mean signing up to a new contract for a year, or more, but you'll usually be able to cut your costs. You should also consider whether you're using all the services and channels you're paying for or whether it's worth scaling down your package.

Another option is to ditch the service altogether and sign up to a streaming service, like Netflix or Amazon Video, and rely on that and Freeview. The cheapest membership for Netflix is £5.99 a month, so you could save a lot. Now TV is another option, as it has a lot of the series that are on Sky but you can buy a monthly pass and then turn it off when you no longer need it. The Entertainment pass, giving access to boxsets, costs £7.99 a month, while the Cinema Pass is £9.99 a month.

SAVINGS: VARIES. AS AN EXAMPLE, IF YOU GO FROM PAYING £80 A MONTH FOR SKY TO £8 FOR NOW TV, YOU'D SAVE £984

WHAT DO I DO WITH MY SAVINGS?

Now if you take all the money you've saved in a year and make sure you invest it (rather than splurge it), how much could you make? Let's assume you've saved £5,000 – it will clearly vary depending on the individual, but based on the above this isn't unattainable for some.

If you invested that £5,000 and assume it grew at 5% a year after fees, you'd end up with almost £10,400 after 15 years, and almost £13,300 after 20 years. After 30 years your pot would have grown to more than £21,600.

Let's also assume that you do this finances overhaul every five years and save this amount each time. In that instance, after 20 years you'd have just shy of £39,500 in your investment pot – having paid in £20,000 over that period. After 30 years you'd have more than £62,000, based on contributing £25,000 over that period.

"After 20 years you'd have just shy of £39,500 in your investment pot"



WHAT COULD I INVEST IN?

A return of 5% means taking on some risk but a selection of good quality funds should do the trick. All three of these collectives have delivered annualised returns of comfortably more than 5% over the last three years. While past performance is not always a reliable guide to the future, these funds look to have a reasonable chance of achieving the targeted return of 5% after fees.

First State Global Listed Infrastructure (B24HK55)

THREE-YEAR ANNUALISED RETURN: 7.8%



Infrastructure, think everything from roads to railways to electricity pylons, has attractions as an asset class in that it is uncorrelated from stocks and shares and offers consistent long-term yields. This collective, steered by experienced managers Peter Meany and Andrew Greenup, invests in listed infrastructure firms, an approach that marks it out from lots of funds in this space which invest directly in infrastructure assets. This potentially offers greater diversification and less volatility. Top holdings include the East Japan Railway Company and US mobile phone mast business Crown Castle.

Franklin UK Mid Cap (B7BXT54)

THREE-YEAR ANNUALISED RETURN: 12.3%

This fund has a disciplined investment process which it applies largely to investing in



mid cap FTSE 250 companies. This part of the market has performed well over the long term, comprising largely of established businesses which generate revenue and cash flow but which are not so big they don't have room to grow. Managers Paul Spencer, Mark Hall and Richard Bullas use their own valuation tools and growth forecasting to identify quality companies trading at realistic levels and with robust balance sheets.

Man GLG Undervalued Assets (BFH3NB8)

THREE-YEAR ANNUALISED RETURN: 9.7%



This fund has performed well despite the market showing a clear bias in recent years towards rewarding growth rather than looking for value. A recent shift in emphasis towards stocks which are perceived to be undervalued could provide a helpful backdrop for managers Henry Dixon and Jack Barrat. The pair look to identify stocks which either trade below the value of their assets or where their future profit and revenue is being underestimated. Prospective investors should be aware that the portfolio contains tobacco and oil and gas stocks, including **British American Tobacco (BATS)** and **BP (BP)**.



EMERGING MARKETS REQUIRE ESTABLISHED EXPERTISE

JPMorgan Emerging Markets Investment Trust plc

Our established expertise in emerging markets allows us to leave no stone unturned in order to find optimal growth opportunities. This investment trust keeps investing in emerging markets simple. Our approach – be smart, be consistent, be patient and cut through the noise to find tomorrow's sustainable emerging markets stars that target attractive long-term capital growth.

Find out more at

jpmorgan.co.uk/JMG



Morningstar Analyst Rating™ as at April 30, 2019.



Your capital may be at risk. Past performance is not a reliable indicator for current and future performance.

©2019 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. LV-JPM52136 | 06/19 | 0903c02a825a13f6

J.P.Morgan
Asset Management

Concentrated funds: more risk, more reward?

Funds with a limited number of holdings may seem more risky, but they can work well in your portfolio.

We often hear that the number one rule of investing is diversify, diversify, diversify.

And on the face of it, so-called 'concentrated funds' – investment funds that typically hold no more than 50 stocks – would seem to fly in the face of this strategy.

Indeed modern portfolio theory, one of the first things professional investors learn before they enter the industry, dictates that more stocks in a portfolio the better, at least when it comes to combating volatility.

But managers of several of the most well-known funds out there, from houses like Lindsell Train and Fundsmith, typically



run concentrated strategies across their funds.

According to AJ Bell's head of active portfolios, Ryan Hughes, despite the perception of higher risk, concentrated funds can be a 'good thing'.

He says, 'They might look risky, but don't look at these funds in isolation. In the context of an overall portfolio, concentrated funds aren't a lot riskier and can perform well.'

ACTIVE SHARE

He cites a famous study from 2009 by academic researchers Martijn Cremers and Antti Petajisto regarding active share, i.e. the fraction of a fund's holdings that deviate from the benchmark index it follows.

They found that high active share funds were more likely to 'significantly outperform' their benchmarks, both before and after expenses were deducted.

However, a later study by Vanguard found no relationship between high active share and strong investment performance.

Funds with a high active share typically deviate significantly

from benchmarks like the FTSE 100 for example.

Concentrated funds tend to be pretty much only equity funds, as bonds funds have a lot more holdings.

WHY BOND FUNDS ARE DIFFERENT

Bond fund managers are known in the investment world to be a pessimistic bunch, and having more bonds in their portfolios helps them manage risk better.

Hughes explains: 'The downside risk in bonds is high i.e. a bond fund has limited upside given all you get is your coupon plus a return of capital but can lose a lot of money if the manager gets it wrong so they mitigate this by holdings lots of different bonds.'

Of course there is another school of thought on concentrated funds, which argues that adding more stocks dilutes your best ideas.

Veteran buy-and-hold investor Richard Oldfield goes to greater lengths; he believes all you need is around 15 to 20 stocks and then you're diversified. After that, he argues that gains in diversification are marginal. The average number of holdings for UK funds is somewhere around the 50 to 60 mark.

A great recent example of the potential pitfalls of concentrated funds is revealed by Lindsell

“Despite the perception of higher risk, concentrated funds can be a ‘good thing’”

Ryan Hughes



Train fund manager Nick Train's comments in September 2019 about educational publisher **Pearson (PSON)**.

Train is a longstanding backer of the stock, and continues to stick with it, but recently confessed he is 'mortified' after another profit warning from Pearson, something which he said has become 'traditional' for the company.

In his latest update Train said, 'At its month end close of £7.38 there has not been a ruinous loss of value for fund holders, although there is an unrealised loss on our book cost, but there has been an opportunity cost hanging on to this holding, when other ideas we have had, have done so much better.'

As a result **Lindsell Train UK Equity (B18B9X76)**, which holds just 24 stocks including Pearson, returned -0.3% in September, compared to a 3% return for its benchmark.

Of course there is always risk in investing, and not all stocks or funds will work out all of the time.

CONCENTRATED FUNDS HAVE A PLACE

But for the average investor, concentrated funds have their place in a portfolio.

To start with, it is probably sensible to own between five and 10 funds which are global and diversified, but for the more experienced investor, then 15 to 20 funds of a concentrated nature would be a reasonable amount for a portfolio.

Below are two suggestions from AJ Bell's favourite funds list.

TB Evenlode Income (BD0B7D5)

A UK equity income fund, **TB Evenlode Income (BD0B7D5)** tries to outperform the FTSE All Share index by investing mainly in large cap names with an emphasis on income.

And over a one, three and five year basis, the fund has done exactly that.

On an annualised basis, its trailing returns have been 14.7%, 11.97% and 13.27% over one, three and five years respectively, well ahead of the 2.68%, 6.76% and 6.79% returns respectively from the FTSE All Share.

Holding just 38 stocks, manager Hugh Yarrow – another highly regarded manager in investment circles – seeks to pick companies with high profitability, low capital intensity and low debt levels.

The fund pays a dividend

quarterly, with its 3% yield broadly in line with other funds in the sector.

Stewart Investors Asia Pacific Leaders (3387476)

If concentrated funds generally sound risky, and if investing in emerging markets like the Asia Pacific region also typically appear risky, then this fund probably might seem super risky.

There is merit to this argument, and there is always risk in investing of course, but **Stewart Investors Asia Pacific Leaders (3387476)** has proven itself to be as conservative as it gets in this area

Investing in anywhere between 30 and 60 large cap stocks (it currently holds 35), the fund's managers look for high quality companies whose share prices might be a little undervalued but who can still offer sustainable earnings growth.

The fund has beaten its benchmark more years than not but doesn't necessarily come out on top in terms of overall performance.

Where it shines however is in its standard deviation, a measure of risk which determines how much an asset's performance varies over time.

The fund consistently ranks higher than virtually of its peers when it comes to this measure of risk, with a lower standard deviation than most. That's probably why it holds £7bn of investors' money.



By **Yousuf Farah**
Reporter

VinaCapital Vietnam Opportunity Fund:

What's driving Vietnam's growth story?

With strong GDP growth, a stable macro-economic environment, increasing exports and record levels of foreign direct investment, it is easy to see why Vietnam is considered among the world's most exciting markets. VinaCapital Vietnam Opportunity Fund provides investors with exposure to a range of carefully selected investments in the listed and private companies that are participating in and benefitting from Vietnam's long-term secular growth story. This short animated video explores the key drivers behind Vietnam's success.



DISCLAIMER

The views expressed in this video should not be taken as a recommendation, advice, or forecast. We are unable to give financial advice. Nothing in this video is intended as an offer or solicitation for the subscription, purchase or sale of securities in VinaCapital Vietnam Opportunity Fund Ltd.

Past performance is no guarantee of future returns. The price of shares and the income from them may fluctuate upwards or downwards and cannot be guaranteed. Investors should consult independent financial advice, suitability and the risks involved, and you may wish to consult a financial adviser.

Which assets perform the best in bear markets

We look at historic performance to draw lessons for any future slowdown

Worries about the possibility of a global economic slowdown appeared to gather pace last week when China posted its slowest growth since 1992.

This adds to existing concerns about a brewing trade war between the US and China, a US stock market seemingly running out of steam, yield curve reversion, economic decline in the EU's Germany powerhouse, and what a potential Brexit deal might do the UK economy.

IT IS BECOMING INCREASINGLY EASY TO FEAR THE WORST.

The UK stock market has gone pretty much nowhere for three years, there have been corporate collapses and a flood of profit warnings this year, the IPO market seems to dried up entirely, yet many investors still feel hugely exposed to the possibility of a stock market collapse.

When stock markets go south it is hard to hide in equities. Superficially, global equities have performed well in 2019, led by the US market's 24.6% increase, according to data compiled by Fidelity International. Global stocks are 20.6% ahead this year while even the UK market has put in a 14.4% rally.

Yet these seemingly impressive returns mask a strong rebound following the hefty market



correction that echoed across global stock markets a year ago. Precious little in the way of real returns have been earned since.

If this adds to the sense of foreboding and investors find themselves reaching for the tin hats and stockpiling baked beans, it is worth looking at what various assets have done in the past when stock markets have slumped.

Fortunately, there are other asset classes that tend to either hold steady in a downturn or rise when equity markets suffer. While history can't predict what will happen in the future, several assets have historically

performed well in times of crisis, and appear to be leading the pack again.

WHAT DOES WELL IN BEAR MARKETS?

Fixed income has had a bad rap over the last few years, because it barely pays a yield in today's low interest rate environment. But this is because demand has been high from investors increasingly keen on these risk-

KEY
Commodities
Global Equities
Gvt Bonds
Real Estate
Source: Fidelity International

DOTCOM CRASH - HOW DIFFERENT ASSETS PERFORMED				
1999	2000	2001	2002	2003
30.91	42.25	2.18	13.82	26.53
28.36	22.83	-1.27	8.06	21.08
12.39	10.45	-13.69	-7.05	11.45
-1.43	-7.14	-17.38	-26.75	2.91



off assets. As the price of the underlying bond rises, so the yield falls.

The rally in fixed income bonds is understandable when you look at past bear market performance. In the teeth of the financial crisis bonds were one of the only asset classes not to lose investor's money. In 2008 government bonds rose more than 53%, corporate bonds rallied close on 27% while emerging market debt also performed strongly, versus the 6.4% return on cash that year.

All other major asset classes went down in 2008, with equities leading the pack.

It was a not dissimilar story once the dot.com boom turned ugly in 2000, beginning a three year run for decent bonds returns, interspersed with periodic shows of strength for commodities and real estate.

Between 2000 and 2002 global equities endured three years of declines versus mid-single digit returns from cash.

It's an instinctive reaction for

investors to sell out of stocks and shift into cash when the markets are panicking about stock markets. Shifting to less risky investment options during times of uncertainty has its strategic merits, capping losses if relatively temporary market corrections evolve into more prolonged slumps.

GOING INTO CASH MAY NOT BE THE RIGHT MOVE

But there are important downsides to consider. It is nigh on impossible to know ahead of time how far or for how long a market downturn will last, or even when it will come.

'Late cycle equity returns can be very strong,' Michael Bell of JP Morgan Asset Management reminded clients in September.

Just as importantly, it is equally tricky to know when to get back into stocks and often they can often bounce back far quicker and faster than most investors can anticipate, meaning missing out on considerable recovery upside.

Global equities rallied more than 21% in 2003, the year directly following the 2002 nadir for stocks, when they crashed 26.8%.

The pattern was repeated straight after the worst of the financial crisis collapse, when in global equities rallied 20.6% in 2009. UK shares did even better (up 30%), while stock markets across Asia-Pacific and emerging markets soared 50%-plus as investors were swept up in a risk-on rally.

This underscores the advice of many of the world's best investors over the years - that trying to time the markets is a mugs game.

'Only liars manage to always be out during bad times and in during good times,' said US financier Bernard Baruch.

Far better to invest for the long-run and and diversify your portfolio sensibly across equities, funds and asset classes. Focus on high-quality stocks, or funds that do, with strong market positions, that have highly valued products or services with decent pricing power, and with the balance sheet and cash flow strength to withstand temporary slowdowns.

These are the types of company that will be capable of emerging from spells of volatility equipped to take advantage when things stabilise.

Remember, equities have historically beaten all other asset classes in the past, when judged over a reasonable period.

DOTCOM CRASH - HOW DIFFERENT ASSETS PERFORMED		
2007	2008	2009
14.28	26.97	23.09
10.3	-10.9	20.56
5.49	-19.48	6.11
-8.52	-27.62	5.87

KEY
Commodities
Global Equities
Gvt Bonds
Real Estate
Source: Fidelity International



By **Steven Frazer**
News Editor

GLOBAL MEGATRENDS AND MINING

BLACKROCK WORLD MINING TRUST PLC

The mining sector is benefiting from the world's most compelling long-term trends. From digital transformation, to the sustainability agenda, Olivia Markham, Co-Portfolio Manager on the BlackRock World Mining Trust plc, discusses how the sector is changing.



Olivia Markham
Co-Portfolio Manager
BlackRock World Mining Trust plc

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. You may not get back the amount originally invested.

It is tempting to believe that only certain sectors harness the world's largest structural changes: technology, for example, or emerging markets. It is easy to overlook the mining sector, yet it has consistently reflected as the most compelling global long-term trends – the growth of China, industrialisation and urbanisation.

Today is no exception: the mining sector continues to benefit from themes such as urbanisation and population growth. The world's population is set to rise from 7.7 billion people today to 9.7 billion by 2050¹. The world's resources are finite and as the population grows and living standards improve, it increases demand for mined products.

Identifying and keeping pace with these trends is a vital part of our approach to investing in the sector. As such, we have identified a number of emerging global trends that will influence the mining sector over the next decade.

Demand for new commodities

It is easy to forget that technology is not virtual. It requires hardware to make it happen. New products require mined materials to build them, which can create long-term demand



for specific commodities. This presents new growth opportunities for mining companies. Most recently, we have seen this with the rise of hybrid vehicles, which has created demand for palladium.

One of the major structural growth trends we see is the move to a lower carbon economy. We have been a significant investor in the producers of lithium and cobalt, key components in the batteries necessary for electric vehicles. These companies have been strong performers for the Trust and we continue to see future growth. Although electric vehicles only make up a relatively small part of the global market, they are seeing exceptional growth, particularly in China. Electric vehicles now have a 5% market share in China and this is predicted to reach 10% by 2020².

Technological advances – changing distribution

Autonomous trucks are changing the costs of distribution for mining companies. Consulting group McKinsey recently estimated that with full autonomy, operating costs would decline by about 45%³.

The trend could have mixed effects on the profitability of miners. Production costs will come down, but overall supply is likely to increase as it becomes easier to transport goods. We need to ensure that we are invested in those companies on the right side of this trend. The same is true for emerging trends such as the smart grid and distributed power storage.

Technological advances - efficiency improvements

As certain natural resources become depleted, mining companies need to work harder with what they have. That means mastering new technology for more efficient extraction and processing. The use of 'internet of things' devices - digital devices set up to monitor and automate elements of mining processes – is becoming more widespread. Automation and digitalisation should allow more targeted and efficient mining. Those companies that embrace these new technologies can expect to stand ahead of their peers.

The sustainability agenda

Sustainability goes beyond electric vehicles. The world is moving towards more renewable forms of energy generation and mined materials will be required to produce products such as wind turbines and solar panels. We are seeing a

¹ UN World Population Prospects, June 2019

² McKinsey, January 2019

³ CleanTechnica, June 2019

divergence in the pricing of individual commodities. Those with a carbon-lite production process and speciality materials with a high degree of purity are now attracting differentiated pricing.

We believe this 'green pricing' may become more pronounced over the next few years. Commodities that support the sustainability agenda are likely to command higher prices than the other standard commodities. This is an important theme in the portfolio.

However, the move to a more sustainable economy also means that we could be approaching peak demand for certain commodities. While this will be outweighed to some extent by the rise in the world's population and ongoing industrialisation in emerging markets, avoiding those companies on the wrong side of this trend is an important discipline in the Trust.

We believe the mining sector is a beneficiary of some of the most enduring global megatrends. We aim to ensure that this is reflected in the choices we make for the BlackRock World Mining Trust. We dig deep to find the strongest opportunities - across mining company shares, but also

physical commodities, related fixed income bonds, unlisted mining companies and royalties. The Trust has also paid a high and consistent dividend stream to its investors, as companies in our universe improve profits and deliver cash to their investors.

In the early part of the 21st century, the growth in mining companies was driven by the spectacular development of China. As it industrialised, it needed raw materials on an unprecedented scale. Today, there are compelling structural growth stories to be found elsewhere and the mining sector is front and centre of those trends. As long as humans continue to produce things, mined materials will be needed to make them.

For more information on this Trust and how to access the opportunities presented by mining, please visit www.blackrock.com/uk/brwm

**TO INVEST IN THIS TRUST
CLICK HERE**



Trust Specific Risks

Exchange rate risk: The return of your investment may increase or decrease as a result of currency fluctuations.

Emerging markets: Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation.

Gold/mining: Mining shares typically experience above average volatility when compared to other investments. Trends which occur within the general equity market may not be mirrored within mining securities.

Gearing risk: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

Important Information

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority.

The Company is managed by BlackRock Fund Managers Limited (BFM) as the AIFM. BFM has delegated certain investment management and other ancillary services to BlackRock Investment Management (UK) Limited. The Company's shares are traded on the London Stock Exchange and dealing may only be through a member of the Exchange. The Company will not invest more than 15% of its gross assets in other listed investment trusts. SEDOL™ is a trademark of the London Stock Exchange plc and is used under licence.

Net Asset Value (NAV) performance is not the same as share price performance, and shareholders may realise returns that are lower or higher than NAV performance.

The BlackRock World Mining Trust plc currently conducts its affairs so that its securities can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The securities are excluded from the Financial Conduct Authority's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

BlackRock has not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our product is suitable, please read the fund specific risks in the Key Investor Document (KID) which gives more information about the risk profile of the investment. The KID and other documentation are available on the relevant product pages at www.blackrock.co.uk/its. We recommend you seek independent professional advice prior to investing.

Any research in this material has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This material is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

© 2019 BlackRock, Inc. All Rights reserved.

ID: MKTGQR0819E-915177-4/4

‘Should I wait to dip into my retirement pot?’

Our expert looks at the case for leaving pensions untouched

I am 58 years old and gave up full-time employment at the age of 53 to pursue my own interests. I have three separate pension pots of £30,000, £100,000 and £200,000 from previous employments and to date I have not touched any of them.

Should I continue this way until I reach retirement age when hopefully my pensions are worth more? My outgoings are fairly steady but I may have some expensive requirements in the near future.

I am debating as to whether to take a 25% lump sum from one of my pensions or leave them and sell some shares in my ISA portfolio.

Alasdair



By **Tom Selby**
AJ Bell
Senior Analyst

For readers who aren't aware, defined contribution pensions such as SIPP's can be accessed from age 55, with up to a quarter of the fund available tax-free and the rest taxed in the same way as income. Money paid into pensions also benefits from tax relief.

Most ISAs can be withdrawn in their entirety tax-free, although they don't benefit from tax relief in the same way as pensions.

Once invested, ISAs and pensions are broadly similar, benefitting from an exemption

from capital gains tax and tax-free investment growth.

So there is no tangible difference from a tax perspective whether you access the tax-free element of your pension first or your ISA pot, which is also tax-free.

One area where ISAs and pensions differ is their treatment on death, with the former likely to be considered part of your estate for IHT purposes and the latter outside of it. So if passing on any unused funds to loved ones when you die is important to you, this is worth bearing in mind.

To access tax-free cash from your pension you'll need to 'crystallise' your fund – this just means pick a retirement income route, such as entering drawdown and keeping your money invested or buying an annuity.

It is possible to just crystallise part of your pot if you don't want all of your tax-free cash now. The benefit of this is that the tax-free element of the 'uncrystallised' portion can continue to benefit from investment growth.

Issues may arise if you are

considering accessing the taxable element of any of your pensions, however. First, you'll need to assess any other income sources to make sure it doesn't push you into a higher tax bracket.

And second, your annual allowance – the amount you can save each year in a pension tax-free – will drop from £40,000 to just £4,000. Note you will retain the higher annual allowance if you only access the tax-free element of your pension.

In addition, you will lose the ability to 'carry forward' any unused allowances from the previous three tax years.

Your other major consideration should be sustainability. As you rightly say, any significant withdrawals today will not be able to benefit from any long-term investment growth you enjoy, whether in a pension or an ISA.

Furthermore, you need to remember that your retirement funds will need to sustain you throughout your retirement, which could well last 30 years or more.

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.

27 NOV
2019

Novotel Tower
Bridge
London
EC3N 2NR

Sponsored by



SHARES

INVESTOR EVENINGS

DISCOVER NEW INVESTMENT OPPORTUNITIES



During the event and afterwards over drinks, investors will have the chance to:

- Discover new investment opportunities
- Get to know the companies better
- Talk with the company directors and other investors

COME TO OUR NEXT INVESTOR EVENT.
COMPANIES PRESENTING INCLUDE:

AMRYT PHARMA (AMYT)
Speakers: Kieran Rooney, VP

ROCKFIRE RESOURCES (ROCK)
Speaker: David Price, CEO

SHANTA GOLD (SHG)
Speaker: Eric Zurrin, CEO

SILENCE THERAPEUTICS (SLN)
Speaker: Dr. Rob Quinn, Interim CFO

SKINBIOTHERAPEUTICS (SBTX)
Speaker: Stuart Ashman, CEO

Event details

Registration 18:00
Presentations to start at 18:30
Complimentary drinks and buffet available after the presentations

Register for free now
www.sharesmagazine.co.uk/events

Contact

Lisa Frankel,
Events Operations Manager
Lisa.Frankel@sharesmagazine.co.uk
020 7378 4406

Growth strategies at investment trusts under scrutiny in third quarter

Falling net asset values and widening discounts in evidence for previously popular funds



The allure of high growth and often pre-profit companies may be finally losing its hold over investors who are increasingly counting the cost of chasing supposedly 'hot' stocks regardless of valuation.

The collapse of the mooted IPO of US property firm WeWork at the end of September underlined a third quarter theme where the valuations of many recent IPOs and previously racy companies, including Uber, Lyft and Slack, have been checked, calling into question the inflated valuations private market valuations of emerging growth companies.

This change in sentiment has impacted investor appetite for the growth-focused equity strategies of many popular investment trusts during the third quarter to 30 September, according to statistics pulled together by analysts at broker Stifel.

Investment trusts exposed substantially to stakes in unlisted pre-IPO companies, and those which have taken on debt have been under particular pressure.

Scottish Mortgage (SMT), which has 22% of its portfolio in unlisted companies, has moved from a 2% premium to net asset value at the beginning of the quarter to a 4% discount and 'has continued to decline in share price terms post the period end,' note the Stifel investment trust analysis team.

This has seen the Scottish Mortgage share price fall by nearly 8% since the end of June, to 490.2p.

PREMIUM CONTRACTION AND DISCOUNT EXPANSION

While the sorry saga of **Woodford Patient Capital Trust (WPCT)** has added to the drag on growth oriented investment trusts over the period (its shares have more than halved

since early June), many have come under pressure from NAV declines and contraction in share price premiums, or the widening of discounts to NAV.

The share price of **Baillie Gifford US Growth Trust (USA)** fell 6.7% during the third quarter as its NAV declined 7%, keeping its modest 2.25% or so premium to NAV roughly intact. At the end of May, the Baillie Gifford US Growth portfolio had 11% invested in unlisted growth companies.

Perhaps most stark is the 25% share price slump of the previously bullet-proof **Lindsell Train (LTI)**, slashing its premium to NAV from a 85% to under 30%.

The collapse of the mooted IPO of US property firm WeWork at the end of September underlined a third quarter theme

There are a couple of fundamental reasons for the predominance of growth strategies for most of the past decade. First, economic growth has been modest or worse for much of the developed world since the end of the 2008 financial crisis.

That has meant that investors have been forced to accept more risk to get a return on their money, while companies capable of generating meaningful growth against such a backdrop have become highly prized by virtue of their relative scarcity, with often lofty valuations to match.

The second point boils down to the ready supply of cheap money. With interest rates anchored at or near rock-bottom levels, growth companies have enjoyed access to a sea of easy and cheap strategic capital to raise and deploy, even for many start-ups where a profits breakthrough has proved elusive for longer.

Macro factors, such as the US-China trade war and slowing economic growth, continue to hamper the markets and diminish investor risk appetite.

'This may be the reason that defensive asset classes are coming more into vogue at the expense of growth-focused funds,' adds Stifel.

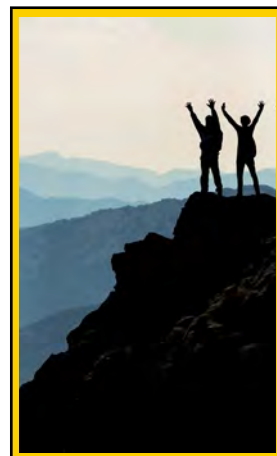
SAFETY IN INFRASTRUCTURE

This helps explain the firm third quarter performances of certain infrastructure trusts, those focused on speciality financing, and other more defensive funds started to show their value.

The infrastructure sector experienced the strongest sector

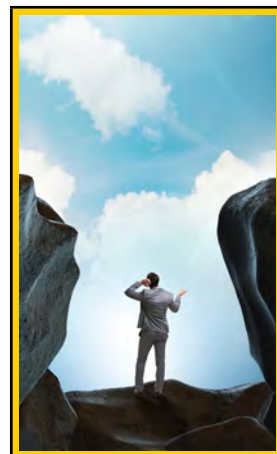
LARGEST PRICE RISERS OVER Q3 2019 (TOTAL RETURN)

CATCo Reinsurance	57%
Vietnam Enterprise	14%
Third Point Offshore	12%
VPC Specialty Lending	12%
Ecofin Global Utilities & Infrastructure	12%
Harbourvest Global	10%
Chenavari Toro Income	10%
Fidelity Japan Trust	9%
Gabelli Value Plus	8%
Apax Global Alpha	7%



LARGEST PRICE FALLERS OVER Q3 2019 (TOTAL RETURN)

Lindsell Train	25%
Woodford Patient Capital Trust	18%
Hadrians Wall Secured Investors	15%
The Biotech Growth Trust	10%
BlackRock Latin America	10%
BB Healthcare Trust	9%
European Assets Trust	9%
SQN Asset Finance Income	9%
Montanaro European Smaller Companies	8%
Baillie Gifford US Growth	8%



Source: Shares, Sharepad

re-rating during the third quarter with its overall premium to NAV rallying two percentage point from 9% to 11%.

Two key contributors were **BBGI Sicav (BBGI)** and **International Public Partnership (INPP)**. BBGI, whose 6% share price rise saw its premium increase from 15% to 19%, and International Public, whose premium increased from 2% to 5% following a 5% third quarter share price run.

'Both funds published good interim results during the period,' report Stifel's analysts.

Regardless of whether value investing becomes more popular

with investors in the future will be of limited interest to core growth investors anyway.

The underlying ethos of Scottish Mortgage, and many growth trusts like it, is to identify and invest in the best growth companies the world has to offer, and hold on to them for at five years, and often far longer.

That's where they see long-term value and real wealth creation, and that strategy won't change.



By **Steven Frazer**
News Editor

WATCH OUR LATEST VIDEOS



Maurice Treacy, CCO
Open Orphan (ORPH)

Maurice talks about the growth sector within the life science format biotech space.



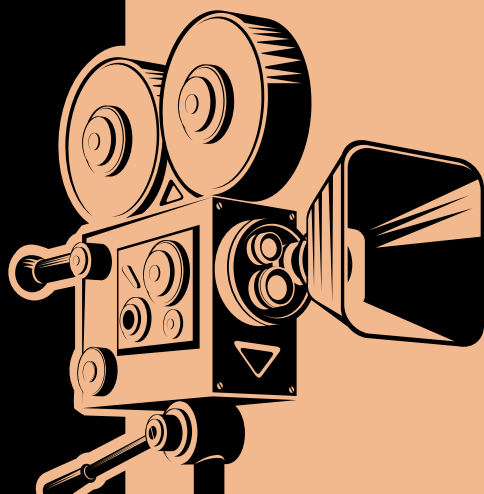
Michael Hunt, CFO
ReNeuron Group (RENE)

Michael gives an insight into this leading clinical stage cell therapy company with sites in the UK and Boston, US.



Cameron Reynolds,
President & CEO
Volition Diagnostics

Cameron presents this multi-national life sciences company developing simple, easy to use blood-based cancer tests to accurately diagnose a range of cancers.



CLICK
TO PLAY
EACH
VIDEO

SHARES SPOTLIGHT

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

 www.sharesmagazine.co.uk/videos

Higher quality of earnings failing to support FTSE 100



Blue chips not benefiting despite a smaller gap between statutory and adjusted profit

Last week's column looked at the quantity of FTSE 100 revenue, profit and dividends and drew comfort from how all three were expected to reach record levels in 2020, according to analysts' consensus forecasts. Better still, those forecasts did not seem unduly aggressive, with the sales expected to rise by just 2%, pre-tax profit by 8% and dividends by 3% next year.

This week, our attention will turn to the quality of UK plc's earnings. After spectacular collapses at Carillion, Patisserie Valerie and (former FTSE 100 member) Thomas Cook in the past two years, investors are more aware than ever of the importance of checking not just the quality of earnings but those profits' provenance, how efficiently they are turned into cashflow and the support they provide to a company's balance sheet.

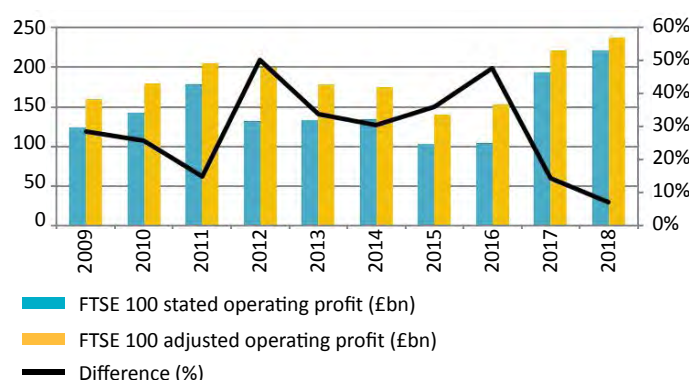
Operating profit is the
real pumping, beating
heart of a firm

And one test that diligent investors can apply here is to look at the gap between statutory earnings and companies' preferred profit metrics which can – cynically – be described as 'earnings before bad stuff, or 'EBBS'.

The good news is that the gap closed again in 2018 for the second decline in a row, when using operating profit as the main performance metric. The gap of just 7% is the lowest this decade.

By **Russ Mould**
AJ Bell Investment Director

GAP BETWEEN STATED AND ADJUSTED OPERATING EARNINGS AT FTSE 100 FIRMS STANDS AT A DECADE-LOW



Source: FTSE 100 companies' Annual Report and Accounts in aggregate, 2009-2018

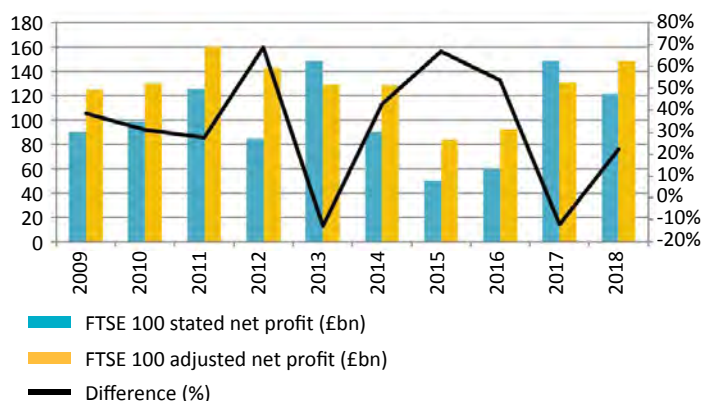
The less good news is that the gap between stated and adjusted net income has opened up again – and that is despite some £8bn in capital gains on disposals (mainly from **Whitbread (WTB)**, **Unilever (ULVR)** and **Rio Tinto (RIO)**) that flatter stated earnings. Whip those out and the net income 'quality gap' at the other 97 FTSE 100 firms rises to 32% from 22%.

For this column, operating profit is the real pumping, beating heart of a firm, so it is possible to draw encouragement from the closing of the 'quality' gap, even if it is not doing the FTSE 100 a huge amount of good. The index still trades some 10% below May 2018's all-time high.

QUALITY STREET

It would be nice to think that the improved quality of operating earnings will come through in cash flow – and since it is cash flow that funds dividend payments this closure of the gap between

GAP BETWEEN STATED AND ADJUSTED NET EARNINGS AT FTSE 100 FIRMS ROSE AGAIN IN 2018



Source: FTSE 100 companies' Annual Report and Accounts in aggregate, 2009-2018

statutory and adjusted operating profit could help to reaffirm the UK equity market's credentials for yield-seekers.

However, it has to be admitted that there are three possible interpretations for the apparent improvement in earnings quality. The first is that companies are simply being more transparent, providing greater clarity to shareholders on the many moving parts which make up their business and enabling investors to get a better view of what is really going on under the bonnet.

The second is that companies are getting to the bottom of their bag of accounting tricks. If that is really the case, we may start to see a number of chief financial officers decide to look for pastures new or companies start to make more (big) acquisitions, as such deals can create fresh leeway for earnings adjustments as the target is integrated. It will be worth watching out for any trend here in the next 12 to 18 months.

The third that companies feel a lesser need to embellish their numbers as underlying trading improves. This seems unlikely, given the general belief that the global economy is slowing down, but it cannot be entirely dismissed.

ASSET ASSESSMENT

Over the long term, a company's net asset value (NAV, or shareholders' funds or shareholders' equity) should rise broadly in line with profits. The share price should rise broadly in line with both, allowing for swings and roundabouts relating to

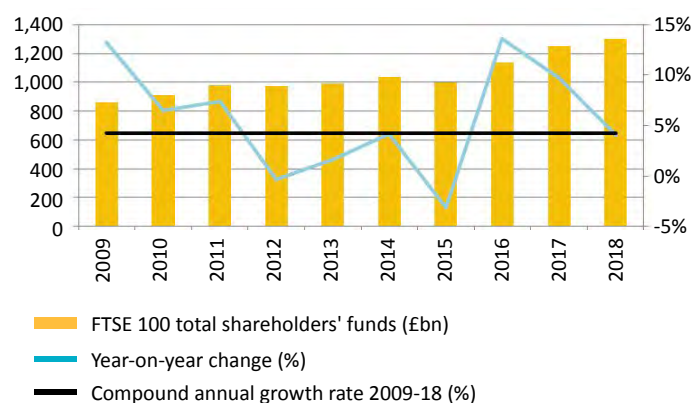
where we happen to be in the economic cycle.

It is therefore interesting to note that NAV in aggregate across the FTSE 100 rose by 4% in 2018 – exactly in line with the ten-year compound annual growth rate (CAGR) shown in that metric since 2009.

That seems to make perfect sense. GDP growth plus a little inflation and maybe some productivity gains could well come to trend profit growth of around 4% in the post-financial-crisis world. And most investors might be quite happy to get a 4% capital gain a year, with a dividend popped in on top, in a world where yields on cash on bonds are not much better than zero.

So if finance directors and CEO are playing about with their numbers for any reason (to trigger bonuses or stock options or simply avoid the sack) over time the effect still washes out, at least according to the ultimate arbiter, which is NAV.

AGGREGATE NAV GROWTH ACROSS THE FTSE 100 MAY GIVE A BEST VIEW OF TREND EARNINGS ACROSS THE INDEX



Source: FTSE 100 companies' Annual Report and Accounts in aggregate, 2009-2018

It is this figure, plus the gap between stated and adjusted earnings that investors need to watch. Firms where the difference has been consistently large include **Marks & Spencer (MKS)**, **Royal Mail (RMG)** and **Imperial Brands (IMB)**. All have performed badly and the first two have been relegated from the index.

Companies where the gap has begun to grow, albeit from low levels include **Reckitt Benckiser (RB.)**, **DCC (DCC)**, **TUI (TUI)**, **Sainsbury (SBRY)**, **DS Smith (SMDS)** and **Bunzl (BNZL)**, so it will be interesting to see how the trend develops here in 2019 and beyond.

The number cruncher

Discover your inner investor with our low cost dealing, from just £1.50.

youinvest.co.uk



AJ Bell Youinvest does not provide advice. Capital at risk.

Is Halfords a bargain or a value trap?

Should investors steer clear of auto and cycling products firm or back the recovery plan?

Specialist retailer **Halfords (HFD)** may be the market leader in various parts of the motoring and cycling sectors, but the company's protracted struggles are reflected in a rock-bottom equity valuation.

Once the go-to place for car parts and bikes, Halfords is recovering from a failed strategy between 2008 and 2012 driven by cost cuts, low capital expenditure and share buybacks, with poor stock availability, staffing and service levels areas that needed to be addressed.

Current swirling headwinds include frail consumer confidence with weak spending on discretionary 'big ticket' items, not to mention weak sterling.

Building on some heavy investment over the past five years, there are positive early signs emanating from relatively new CEO Graham Stapleton's strategy to 'inspire and support a lifetime of motoring and cycling'.

Essentially, Halfords is becoming a service-led business, leveraging its brick and mortar store presence as an advantage over cheaper online competitors whilst tying its retail and autocentres businesses more closely together.

HOW DOES HALFORDS EARN MONEY?

Redditch-headquartered



HALFORDS IN NUMBERS

	Yr to March sales (m)	PBT (m)	EPS (p)	DPS (p)
2019 (A)	£1,138.6	£58.8	24.2	18.6
2020 (E)	£1,126.3	£50.4	20.8	16.0
2021 (E)	£1,144.0	£21.9	21.9	16.6
2022 (E)	£1,166.7	£56.6	23.3	17.7

Source: Liberum

Halfords sells automotive, cycling and leisure products spanning engine fluids and car batteries and Dash Cams to bikes, cycle clothing and camping furniture.

At the last count, the retailer operated from 450 *Halfords* stores, 26 Performance Cycling stores trading as *Cycle Republic*, *Tredz*, *Boardman* and *Giant*, as well as 318 Halfords Autocentres garages.

Roughly two thirds of its sales come from motoring-related products and services with a third generated by cycling. Stapleton has outlined his strategy to compete in the fast-evolving retail market, one characterised by increasing competitive threats and a more demanding customer.

HOW IS HALFORDS ADAPTING?

Both the motoring and cycling markets have good long-term growth prospects, but generalists have parked their tanks on Halfords' metaphorical lawn.

In response, Stapleton has chosen to accelerate investment in the business to become a much more differentiated 'super specialist' with a unique and more convenient services offer, able to lead in its core motoring and cycling markets whilst retaining customers for a lifetime.

Interestingly, the dynamics of Halfords' markets are changing; cars are becoming more complex – think of the shift towards electric vehicles – meaning fewer people have the capacity to work

on their cars themselves even for minor issues, and Halfords is also seeing a massive surge in the popularity of E-Bikes.

It is also worth noting that Halfords' car servicing market share remains small at just 2%. That suggests scope for growth going forwards in a fragmented industry flush with less financially muscular independent operators. Stapleton's strategy also has a greater emphasis on cost and efficiency and the retailer is refreshing its stores in order to make them fit for the future.

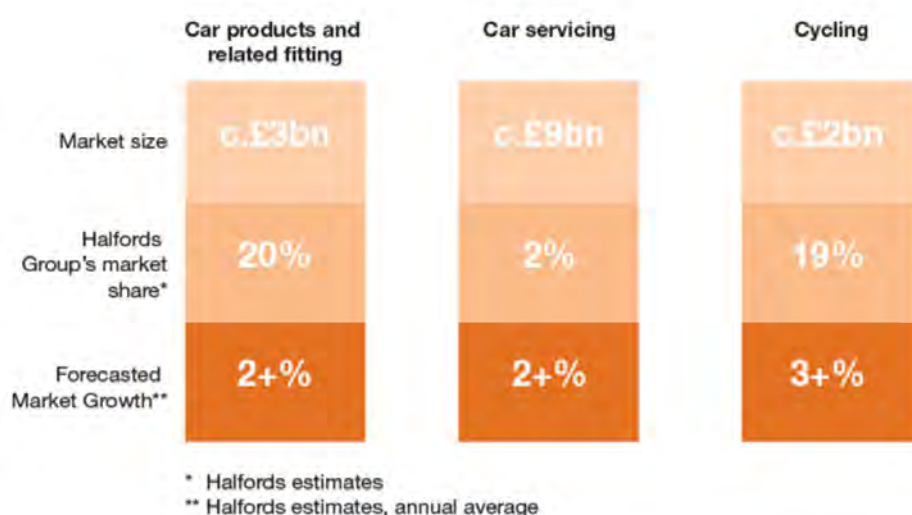
A CYCLE OF DOWNGRADES

Unfortunately, as broker Peel Hunt recently pointed out, Halfords has downgraded expectations 'almost every time that it has spoken to the market in the last 18 months'.

Besides fragile consumer confidence and subdued spending, especially for discretionary big ticket purchases such as bikes and car technology products, Halfords' faces margin headwinds from rising wages and sterling weakness versus the US dollar.

Bears will point out that Halfords is a particularly weather-sensitive retailer. Mild autumn and winter weather is unhelpful for car maintenance and car enhancements products, while summer downpours dampen cycling sales growth.

Analysts at Berenberg believe weakness in cycling is both structural as well as cyclical and have also argued the roll-



out of *Cycle Republic* stores might cannibalise the current store estate.

EARNINGS STUCK IN REVERSE

In its latest trading update (4 Sep), the car parts-to-bicycles purveyor reported weaker than expected first half sales growth and downgraded full year profit guidance.

During the 20 weeks to 16 August, sales were constrained by cooler, wetter summer weather and weaker consumer confidence, with like-for-like sales declining in both the motoring and cycling categories.

Encouragingly however, electric bike sales continued to grow strongly, Halfords' '3Bs' – bulbs, blades and batteries – returned to growth and online sales ticked 8.4% higher with a very healthy 85% of Halfords.com orders collected in store.

Focusing on improving gross margins and keeping a lid on costs, Halfords warned that subdued sales trends twinned with spending to stimulate growth would mean underlying pre-tax profit for the year to March 2020 weighing in 'within the range of £50m to £55m', a

downgrade to estimates.

Peel Hunt recently downgraded its price target from 200p to 150p, arguing Halfords needs to 'fundamentally rethink the way that it comes to market'.

Sellers of the stock, well-followed analysts John Stevenson and Jonathan Pritchard think Halfords is over-distributing given its gearing levels and believe 'a cut of the dividend and a major strategic rethink are required here and without that the shares are only for the brave'.

Essentially, while Halfords' high dividend yield looks is visually attractive, the payout could eventually prove unsustainable if sales remain subdued and profits decline further.

The shares have deep value appeal following a dire run and there are some promising early signs from Stapleton's strategy, although further downgrades or even a dividend cut could be coming down the track. Given the risks, Halfords is one to watch for now.



By James Crux
Funds and Investment
Trusts Editor



LISTEN TO OUR WEEKLY PODCAST



RECENT EPISODES INCLUDE:

Woodford's dramatic 24 hours, soaring UK stocks and how people spend their pension money

The Greta Thunberg approach to investing, Barclays' beef with the Post Office and first year joy for Fundsmith's Smithson

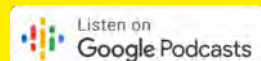
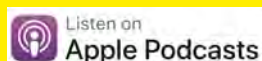
How Brexit could impact your investments, attitudes to risk, new twist on fund suspensions and Peloton's stock market flop



MONEY & MARKETS

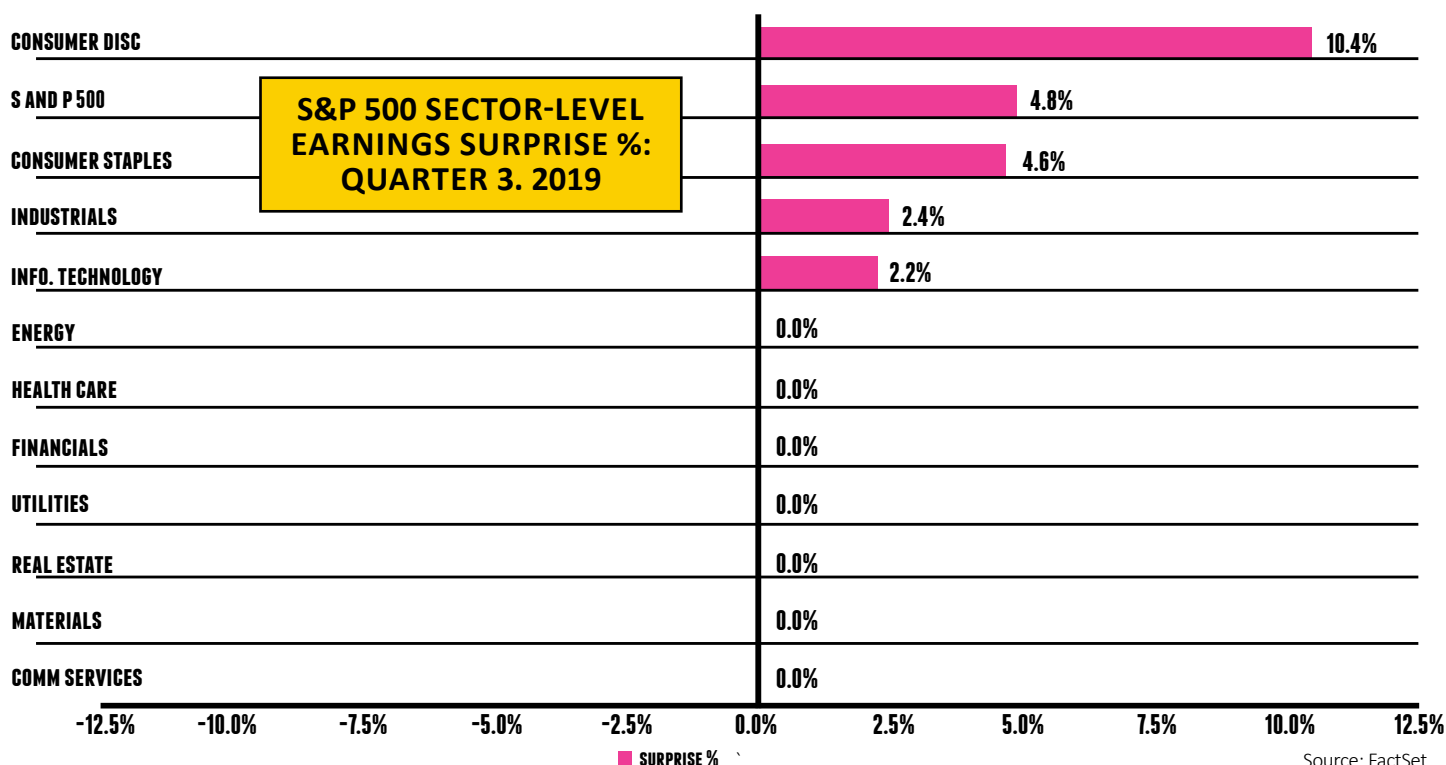
LISTEN ON SHARES' WEBSITE [HERE](#)

You can download and subscribe to 'AJ Bell Money & Markets' by visiting the Apple iTunes PodcastStore, Google Podcast or Spotify and searching for 'AJ Bell'. The podcast is also available on Podbean.



Why US earnings fears look overdone

Companies have under-promised which means they should over-deliver



US stocks have been stuck in a rut for the last few months, unable to break out of their narrow trading range as investors weigh the potential damage to corporate earnings from tit-for-tat tariffs with China and a sharp fall in confidence among domestic manufacturers.

Thanks to the trade war, a strong dollar – which hurts US exporters – and an unusually strong third quarter last year, earnings for S&P 500 companies are expected to shrink the most in more than three years in the three months to September.

However, a study of past earnings reports suggests that fears could be overdone as



companies may have set the bar deliberately low in order to beat their own guidance.

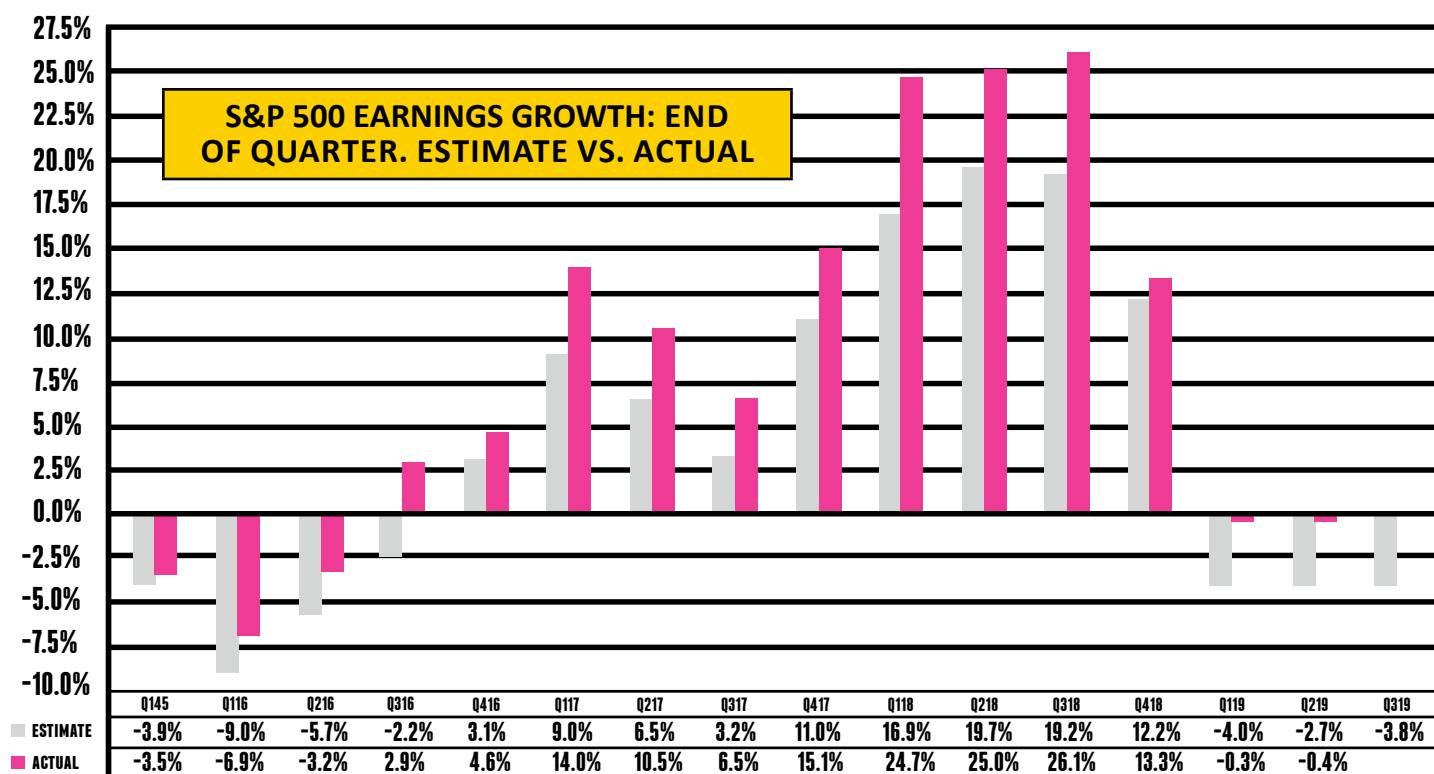
EARNINGS HEADWINDS

The S&P 500 index had a stellar start to the year, gaining more than 17% to the end of April, but since then it has failed to make much headway and seems stuck in a range between 2,800 and 3,000 points.

At the same time, earnings growth forecasts have been pared back. For the three months from July to September, earnings per share for the S&P 500 index are now seen falling by 3.8% according to data provider FactSet. This compares with a drop of 0.3% in the first quarter of 2019 and a drop of 0.4% in the second quarter.

If earnings do fall in the third quarter it will be the first time since the 'profits recession' of 2015-16 that the index has seen three straight quarters of earnings decline.

As well as the impact from tariffs and the trade war, a strong currency is hurting US exporters as their foreign earnings are



Source: FactSet

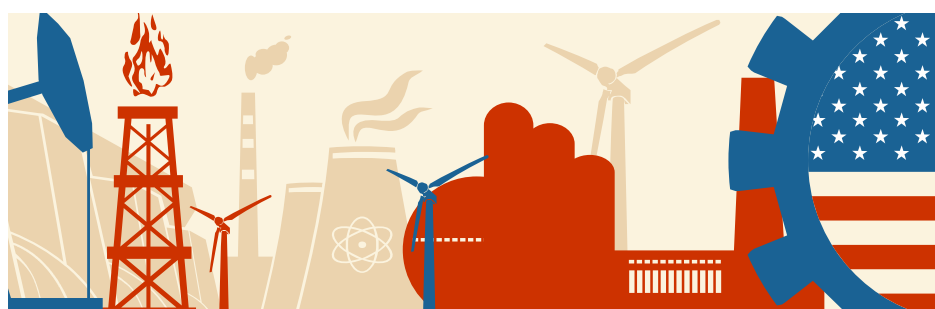
worth less once they are translated back into dollars.

Industrial, material and energy stocks have seen their earnings forecasts cut the most during the past quarter. Earnings forecasts for the material and energy sectors have been cut by 12.4% and 17.5% respectively during in the last few months.

Digging deeper, nearly 90% of energy stocks in the S&P 500 index have seen their third quarter earnings estimates reduced in the last three months.

Meanwhile, industrial stocks are at risk not just from the trade war but from a sharp fall in US manufacturing confidence. The Institute for Supply Management's monthly purchasing managers' index released at the start of this month registered its lowest reading since the end of the financial crisis in 2009.

Another factor behind the lack of earnings growth this year is that profit growth in



2018 was well above historic norms, averaging over 20% in each of the first three quarters (as shown by the chart), boosted by one-off tax breaks handed out by president Trump to US companies.

EARLY REPORTS ARE POSITIVE

Among the first companies to report earnings last week were banking giants Bank of America, Citigroup, Goldman Sachs and JPMorgan. The results were mostly favourable, with Bank of America, Citigroup and JPMorgan beating forecasts while Goldman Sachs disappointed.

Collectively banks are expected to report a 1.2% decline in

earnings, their first year-on-year drop in three, due to low interest rates and lower demand for corporate borrowing.

Also reporting last week were major healthcare stocks, which are generally more resilient to economic conditions. Johnson & Johnson and UnitedHealth both beat forecasts and raised full-year guidance, sending their shares sharply higher, while Abbott Labs met forecasts.

A key sector to watch is technology as a record number of tech companies issued negative earnings guidance in the last quarter. No fewer than 29 firms lowered their third quarter earnings forecasts, the



highest number since FactSet began tracking the data in 2006.

Investors will also no doubt be keeping a close eye on the newly-listed 'unicorns' like Snap, Lyft and Uber to gauge whether their earnings justify their stock market valuations.

GAMING THE SYSTEM

It's important to note though that when companies lower their earnings guidance, it makes it easier for them to beat these reduced expectations.

While the process of what's

known as 'walking down forecasts' in order to beat them isn't strictly against stock market rules, the number of companies now employing this tactic – including some of the biggest names in the US – shows that meeting or beating short-term earnings targets has become almost a goal in itself.

FactSet reports that of the 113 companies in the S&P 500 issuing earnings guidance during the last quarter, 82 lowered their forecasts while just 31 raised their forecasts.

This led analysts to lower their third quarter growth forecasts for the index as a whole by 3.6% during the quarter. On average, analysts have reduced their forecasts by 3.3% each quarter over the last five years so a 3.6% cut isn't overly negative.

Also, over the last five years actual earnings reported by S&P 500 companies have tended to beat estimates by around 5% each quarter, with more than 70% of companies typically reporting an 'earnings surprise'.

All of which means that, despite market worries about weak US earnings, if history is any guide earnings should come in ahead of analysts' estimates if for no other reason than the bar has been set very low this time round.



By Ian Conway
Senior Reporter

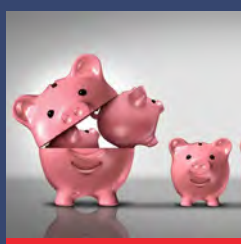
ARE YOU MISSING OUT?

SHARES PUBLISHES NEWS AND FEATURES ON ITS WEBSITE IN ADDITION TO CONTENT THAT APPEARS IN THE WEEKLY DIGITAL MAGAZINE.

THE LATEST STORIES INCLUDE:



**NEXUS INFRASTRUCTURE
IN DEMAND WITH
INVESTORS AS ORDER
BOOK BUILDS**



**WEALTH MANAGER
QUILTER SEES
CHALLENGING
BACKDROP**



WWW.SHARESMAGAZINE.CO.UK/NEWS/SHARES

This content is **FREE** to read and will help you stay up to date on the latest stock market news and events relevant to investing.

SHARPEN YOUR INVESTING SKILLS WITH **SHARES**



A **SUBSCRIPTION TO SHARES** HELPS YOU TO:

- Learn how the markets work
- Discover our best investment ideas
- Monitor stocks with our customisable watchlists
- Enjoy our guides to sectors and themes
- Get the inside track on company strategies
- Find out how fund managers make money



Digital
magazine



Online
toolkit



Investment
ideas

KEY

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

Avast (AVST)	13
Baillie Gifford US Growth Trust (USA)	36
Barclays (BARC)	10



BBGi Sicav (BBGI)	37
Begbies Traynor (BEG)	8
BP (BP.)	25
British American Tobacco (BATS)	25
Bunzl (BNZL)	40
DCC (DCC)	40
DS Smith (SMDS)	40
First State Global Listed Infrastructure (B24HK55)	25
Franklin UK Mid Cap (B7BXT54)	25
Halfords (HFD)	42



ICG Enterprise (ICGT)	13
Imperial Brands (IMB)	10, 40
International Public Partnership (INPP)	37

JPMorgan Global Emerging Markets Income Trust (JEMI)	12
Just Eat (JE.)	7
LF Woodford Income Focus (BD9X6D5)	18
Lindsell Train (LTI)	36
Lindsell Train UK Equity (B18B9X76)	28
Man GLG Undervalued Assets (BFH3NC9)	25



Marks & Spencer (MKS)	40
Merchants Trust (MRCH)	10
Neptune Global Technology Fund (BYXZ5N7)	2
Polar Capital Global Technology Fund (B42W4J8)	35
PZ Cussons (PZC)	10
Reckitt Benckiser (RB.)	40
Rio Tinto (RIO)	39
Royal Dutch Shell (RDSB)	10
Royal Mail (RMG)	12, 40



Sainsbury's (SBRY)	40
Scottish Mortgage (SMT)	36
Smart Metering Systems (SMS:AIM)	11

Stewart Investors Asia Pacific Leaders (3387476)	9
Stock Spirit (STCK)	10
TB Evenlode Income (BD0B7D5)	28
TUI (TUI)	40
Unilever (ULVR)	39
Whitbread (WTB)	39

Woodford Patient Capital Trust (WPCT)	18, 36
---------------------------------------	--------



KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

30 October: Leaf Clean Energy.

Half year results

25 October: Barclays. **28 October:** HSBC.

29 October: Bloomsbury, BP. **30 October:** Jyske Bank, GlaxoSmithKline. **31 October:** BT, International Consolidated Airlines, Indivior, Royal Dutch Shell, Samsung Electronics.

Trading statements

30 October: Computacenter, ConvaTec, Next, Smurfit Kappa, Standard Chartered. **31 October:** International Personal Finance, Lloyds, Provident Financial, Smith & Nephew.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth	DEPUTY EDITOR: Tom Sieber @SharesMagTom	NEWS EDITOR: Steven Frazer @SharesMagSteve
FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames	SENIOR REPORTERS: Martin Gamble Ian Conway @SharesMagIan	CONTRIBUTORS Russ Mould Tom Selby Hannah Smith Laura Suter
	REPORTER: Yoosof Farah @YoosofShares	

ADVERTISING Senior Sales Executive Nick Frankland 020 7378 4592 nick.frankland@sharesmagazine.co.uk	PRODUCTION Head of Design Darren Rapley Designer Matt Ely
CONTACT US: support@sharesmagazine.co.uk	Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852. All Shares material is copyright. Reproduction in whole or part is not permitted without written permission from the editor.

All chart data sourced by Refinitiv unless otherwise stated