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WHY ARE SO MANY LAW FIRMS FLOATING ON THE STOCK MARKET?

*HOW TO INVEST A **CASH WINDFALL** FROM DOWNSIZING PROPERTY*

Should you stick with underperforming fund manager Mark Barnett?

Two of his investment trusts have just reported disappointing results for the second year in a row

While Neil Woodford's every move continues to be scrutinised by the market, another star fund manager is also having a tough time of late. Two investment trusts run by Mark Barnett have reported full year results and they've both underperformed their benchmark indices for the second year in a row.

Edinburgh Investment Trust (EDIN) saw its net asset value (NAV) fall by 5.9% in the year to 31 March 2018 and the share price down 6.7%. The previous year saw NAV rise 14.4% and the share price up 11.2%.

Perpetual Income & Growth's (PLI) NAV in the year to 31 March 2018 fell by 5.6% and its share price was down 4.9%. The previous year saw NAV up 9.6% and share price up 4.2%.

Both trusts are benchmarked against the FTSE All-Share total return index which grew by 1.2% in the year to 31 March 2018 and was up 22% in the previous year.

While the relative performance is disappointing, it shouldn't be the trigger for investors to dump either investment trust.

Barnett has a superb track record with a consistent investment process that has proved to be successful on many occasions in the past. He should be applauded for not deviating from this process simply to make short-term gains.

WHEN TO WALK AWAY

Fundamentally it raises the question of when you should give up on a star manager. Investing is a long-term process and there will be times when market conditions work against certain fund managers.

Better reasons to consider walking away from a manager should be deviation from a proven investment process and having a portfolio that has become too similar to the benchmark index. After all, you are paying a fund manager to beat the market – if they aren't adding value, you might as well have a tracker fund.

Last year Neil Woodford apologised for his performance since 2016 but said he wouldn't change his process. He commented: 'In terms of what it means for me as a fund manager, it's very, very important that through a period like this that you maintain your investment discipline.

'The temptation is to take the easy option, to sort of hide in the strategy that everybody else is pursuing. And then all the attention, and all the fuss, and all the criticism would go away. But that would be a betrayal of my investment principles.'

KEEPING THE FAITH

While the short-term performance hasn't been good, Edinburgh's five-year track record (encompassing Barnett's entire duration as manager since January 2014 plus a bit under his predecessor Neil Woodford) shows 25.8% NAV appreciation versus 15.2% from the benchmark index.

The investment trust team at stockbroker Numis hold Barnett in high regard as a manager. They say it is always tempting to react to a period of underperformance by selling. However, they retain faith that the Edinburgh team's relative performance will improve.

'At a time when market valuations appear full, we favour buying investment trusts with experienced active managers taking a long term investment approach, rather than those focused on relative index weightings,' says Numis.

If you're looking for a bargain and are prepared to look past the recent performance setback, it is worth noting that Edinburgh's portfolio bears little resemblance to the FTSE All-Share and it currently trades on an 8.8% discount to NAV – a significant drop from the 6% premium it commanded in 2013. (DC)

Contents

USING THE PDF VERSION?
CLICK ON PAGE NUMBERS TO JUMP TO THE RELEVANT STORY

07 June 2018

Contents

26

38

43

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BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: 4 2 1 means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

BT in charm offensive to get investors back onside

Telco lays out plans to please regulator, pension trustees and shareholders

BT (BT.A) has launched a charm offensive to convince analysts and investors that it can successfully navigate the many financial and regulatory challenges it is facing.

Last month the £20.5bn telco put dividend growth on hold. Income is one of the major reasons why shareholders own the stock.

In recent years BT's dividend growth has been running at double-digits, with the average annual payout increase between 2013 and 2017 (year end to 31 March) working out at close to 13%.

Now the payout is set to freeze for the foreseeable future at 15.4p a year. That implies an forward income yield of close on 7.5% a year at the current 206.5p share price.

BT hopes this will provide the financial leeway so that the group can emerge a leaner, more agile business better suited to the needs of the digital future. Importantly, it also anticipates that it will help get regulator Ofcom onside over Openreach investment.

Openreach is BT's national telecoms infrastructure backbone that it, and third party suppliers, expect to use to provide faster broadband speeds across the UK.

In a question and answer session BT's chief finance officer (CFO) Simon Lowth was apparently resolute that a cut to future dividends would not be necessary to clinch a 'fair bet' settlement with the telecoms watchdog.

'BT is adamant that a dividend cut won't be necessary,' is what researchers at investment bank Jefferies came away telling clients.

Analysts at Numis Securities were similarly reassured, with the brokerage's John Karidis saying he believed that BT's dividend per share 'is very safe'.

Balancing the requirements of shareholders, the regulator and pension trustees remains BT's biggest challenge. The UK Government wants 'full fibre' rollout across mainland Britain by 2020, meaning that 95% of UK properties can access internet connection speeds of 24Mbps, with the rest guaranteed minimum 10Mbps.

BT's Lowth spelled out guidance for 3m fibre-to-the-premises (FTTP) connections by 2020 as the 'first phase'. Beyond that the group is targeting an extra 1m connections per year, a build rate that analysts largely agree is testing but 'feasible'.

'There is now confidence that deployment beyond 3m premises can deliver acceptable returns as a commercial investment,' say Jefferies analysts.

Analysts now seem largely optimistic and hopeful regarding the BT investment story, with 20 of the 22 that research the stock either advising investment clients to 'buy' or 'hold' the shares. Only two remain firmly rooted in the sceptics' camp with 'sell' recommendations. (SF)

KEY FORECAST FINANCIALS FOR BT (CONSENSUS)

Year to 31 March	Revenue	Pre-tax profit	Free cash flow	EPS	PE	Dividend yield
2018	£23,723m	£3,444m	£1,017m	20.40p	10.1	7.46%
2019	£23,384m	£3,193m	£2,650m	22.05p	9.4	7.46%
2020	£23,542m	£3,307m	£1,927m	22.97p	9.0	7.46%
2021	£23,535m	£3,288m	£2,408m	24.81p	8.3	7.46%

Source: Reuters, Consensus forecasts based on latest share price

Why Hotel Chocolat continues to be a sweet investment

It has repaid bond debt early and analysts are upgrading earnings forecasts

Premium British chocolatier **Hotel Chocolat (HOTC:AIM)** is in an increasingly sweet situation. Its consistent improvement in cash flow generation has allowed for the early repayment of £6.4m of 'Chocolate Bonds' debt.

Back in 2010 and 2014, the company's Chocolate Tasting Club subsidiary issued two bonds which paid a return in the form of luxury boxes of chocolate or Hotel Chocolat Gift Cards, the cost value of these items recognised as an interest expense each year.

Bond proceeds were invested in UK manufacturing and new store openings in the UK and Ireland, as well as in cocoa sustainability projects in St Lucia and Ghana.

Reiterating its 'buy' rating with a 410p target price, Liberum Capital has nudged up its 2019 and 2020 earnings forecasts to account for the lower annual interest bill, while the broker's year-end net cash forecasts also move north on the news.

It is seeing top line growth and margin expansion

'While the retail backdrop of poor footfall and inclement weather has been used as a frequent excuse in reporting across the UK retail space, we suspect Hotel Chocolat's ranging, strength of offer and innovation has helped it trade through this period relatively well compared to the broader market,' thunders Liberum.

The brokerage reckons Hotel Chocolat is in a very small group of UK retail companies which are seeing top line growth and margin expansion. (JC)

Battle for control at Stobart and Petropavlovsk

There is a leadership battle at both the transport group and the gold miner

FORMER MANAGEMENT appear to be fighting back at industrial transport firm **Stobart (STOB)** and Russia-focused gold miner **Petropavlovsk (POG)**.

Stobart, the operator of Southend Airport, has confirmed that former chief executive Andrew Tinkler and other shareholders including Woodford Investment Management are looking to replace current chairman Iain Ferguson with billionaire Philip Day.

The matter will be decided at a pivotal shareholder meeting. The move follows a dispute between Tinkler, who is still a director at the group, and Ferguson over 'future strategy'.

Ferguson retains the support of the remainder of the board and Stobart's largest individual shareholder Invesco. Stobart's broker Cenkos has stepped down in the wake of the row thanks to its long-standing relationship with Tinkler.

At Petropavlovsk, Russian employees are coming out in support of plans put forward by rebel shareholders CABS Platform and Slevin to reinstate former directors ousted last year. (TS)

What does the Government sale of RBS stake mean for investors?

The government is taking a hit by selling down some of its RBS shares

Shares in **Royal Bank of Scotland (RBS)** are under pressure after the UK Government sold part of its holding in the bank, but it could ultimately prove an important step in the company's rehabilitation.

Long suffering shareholders in RBS are having an interesting year. The bank finally settled with the US Department of Justice, agreeing to pay a £3.6bn fine for mis-selling mortgage-backed securities in the run-up to the 2008 financial crisis.

This deal cleared the way for the Government to start selling its 70.1% stake in the bank and on 5 June it confirmed the sale of 920m shares, or 7.7% of the bank.

This crystallises around a £2bn loss for the UK taxpayer as the shares were sold at 271p. This is well below the 500p per share entry point at the height of the financial crisis.

Joseph Dickerson, analyst at investment bank Jefferies, says the move is a 'positive liquidity event' for RBS shares and one step on the path to 'value creation'.

He says the next step to creating value will be the announcement of an ordinary dividend this year, share buybacks in 2019 and the re-deployment of excess liquidity between now and 2020. Dickerson is a buyer of RBS with a bullish price target of 423p. (DS)

Markets are climbing the 'wall of worry'

Trade disputes are in focus ahead of an important G7 meeting

INVESTORS APPEAR to be shrugging off several potential macro-economic and political risks as US and Europe indices continue to trade close to record high levels.

The ability of the market to surmount several negative factors and continue rising is often described as climbing the 'wall of worry'.

The main negative factors currently at play are deteriorating relations between the US and several major trading partners as well as political turmoil in Europe.

For now, the market apparently believes US president Donald Trump's bark is worse than his bite on trade despite the imposition of tariffs on steel and aluminium from the EU, Mexico and Canada and a breakdown in talks with China over the last week or so.

The G7 summit in Quebec on 8 and 9 June is likely to be dominated by the trade issue. In Europe the fall-out from the recent change of prime minister in Spain and a formation of a new populist government in Italy continues as the latest Brexit talks get underway. (TS)

Bodycote boom time raises the fear of inevitable bust

Heating engineer's share price hits record highs, but for how long?

An operationally geared business model and limited visibility on future work could leave **Bodycote (BOY)** short of expectations if a cyclical downturn emerges.

Forecasts for the heating and thermal systems engineer have been upgraded at least twice this calendar year thanks to a robust end market demand.

This led to the company announcing a 25p per share special dividend alongside forecast-busting 2017 results. Bodycote raised 2018 full year guidance again at the end of May.

That has encouraged investors to chase the share price to all-time highs of £10.17, putting the stock's price-to-earnings multiple at 20.4, nearly a double-digit premium to sector peers.

While there is presently little hint that work is drying up – quite the opposite – Bodycote management admit that the business 'has limited forward visibility.' This suggests there will be little warning if a fall in demand does slam the brakes on new contracts.

Operational gearing is when a business has predominantly fixed costs. This is a double edged sword that makes unexpected business wins more profitable when demand for products or services are high. Equally, it is harder to lower operating expenses when times get tougher, magnifying the negative effects on profitability. (SF)

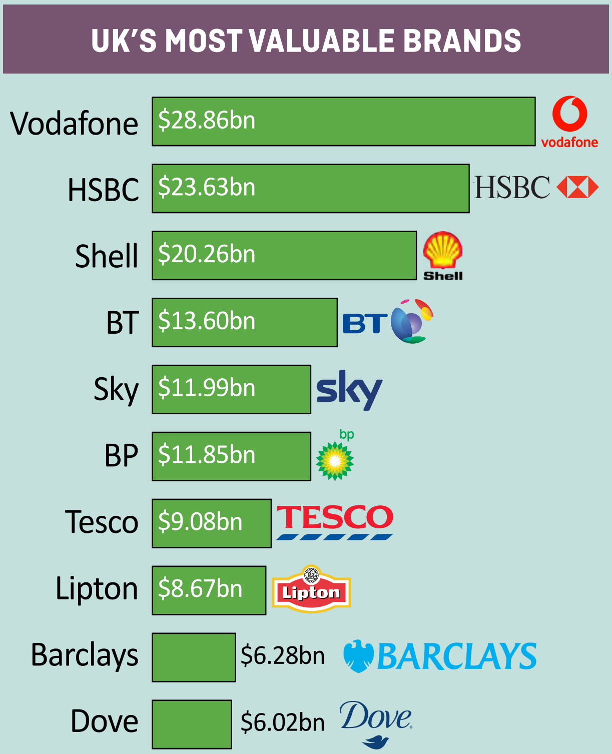
BRITAIN'S MOST PRIZED BRAND VODAFONE WORTH MORE THAN £21BN

Vodafone (VOD) is Britain's most valuable brand beating off competition from the likes of **HSBC (HSBA)**, **Sky (SKY)**, **Shell (RDSB)** and **Tesco (TSCO)**.

The mobile phones giant's name is worth a staggering $28.86bn, according to the latest polls by market researchers at WPP/Kantar Millward Brown, or £21.7bn at current exchange rates.

Eight of the top 10 are FTSE 100 companies, the other two (Lipton, famous for its teas, and Dove soap) are both owned by consumer products giant **Unilever (ULVR)**.

But Vodafone's brand is piddling compared to Google, which the Kantar poll estimates is the world's most prized name. It is valued at $302bn, followed by Apple ($300bn) and Amazon ($208bn).



GROCERS PROFIT FROM SOME 'MARKLE SPARKLE'

ON THE FRIDAY before the Royal Wedding and the FA Cup Final, the grocers' tills turned over a princely £415m as supermarkets profited from hot weather and the 'Meghan Markle effect'. This is on the say-so of Kantar Worldpanel, whose latest grocery share figures for the 12 weeks ending 20 May showed strong overall growth, up 2.7% year-on-year, as recent major events twinned with warm weather prompted shoppers into splashing out on barbeque products, beers, ice cream and sun care wares. Notable winners included **Morrisons (MRW)**, whose sales grew by a market-beating 2.9%.

£415M

CANADA RETALIATES TO US TARIFFS WITH TAX ON SURPRISING LIST OF ITEMS

A TRADE WAR could be on horizon as allies of the US retaliate to tariffs imposed on steel and aluminium imports from 1 June.

Among those affected is Canada, which slapped tariffs of 10% on a series of diverse items, including playing cards, inflatable boats, pizza, whiskey and candles – except those used for festive occasions from 1 July.

The country also imposed 25% tariff on imports of certain steel and aluminium products.

Load up on Hastings for cheap rating and 5.3% yield

It's time to go against the crowd and shop for bargain insurers

HASTINGS ↗ BUY
(HSTG) 260.6p
Stop loss: 208.48p

Market value: £1.7bn

The market has fallen out of love with general insurance companies due to various market issues such as growing competition, falling premiums and rising cost of claims.

Despite this negative backdrop, we believe now could be a good time to go hunting for bargains in the belief that the bad news is now priced in.

One share that catches our attention is **Hastings (HSTG)**. Its shares are cheap, it has an attractive dividend yielding a prospective 5.3% and the business is focused on being profitable rather than chasing growth on thin margins.

The company's value is down by nearly 20% since December 2017. Setbacks included a slight revenue miss for its 2017 results and greater payouts due to ice and snow in its first quarter to 31 March 2018. However, the company reiterated it is on target to meet its 2019 objectives.

One of these targets is to hit 3m customers by next year; 2017 results revealed 2.6m customers. It has an estimated 7.3% share of the motor insurance market.

Berenberg analyst Ian Pearce says a 12% share price fall following a small revenue miss and operating earnings beat at the full year results was unjustified.

'Slightly lower growth in 2017 was offset by superior profitability, which we believe can be projected forwards. Indeed, we believe these results exhibited the disciplined nature of the company's growth strategy. This is why we prefer Hastings to some peers which have more reckless growth ambitions.'

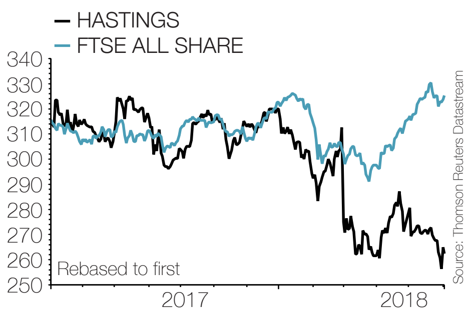
Hastings has invested in its business in preparation of future growth. It should soon complete the implementation of Guidewire, its claims and underwriting platform. This will allow its legacy platform to be closed and remove dual operating costs, explains Pearce who believes Hastings has the best IT systems in its field.

Hastings added 292,000 net policies in 2017 versus an average of 299,000 over the past five years. While that understandably troubled the market, investors seem to have ignored the fact that profitability came in ahead of expectations.

'We expect Hastings will see increasing retention rates over time,' says Pearce. 'It has a relatively immature book of business which naturally has a higher propensity to churn. As its in-force book begins to mature, we expect retention rates to gradually increase to levels closer to listed peers.'

Using forecasts from Numis, Hastings is trading on 10.4 times 2019's earnings. Nick Johnson, analyst at Numis, says the current valuation of Hastings is an 'opportune entry point' and we certainly agree. (DS)

BROKER SAYS: 6 5 0



Why JPMorgan Indian is a hot recovery prospect

High quality India fund is firmly positioned for a rebound

A wide 15.5% discount to net asset value (NAV) on the **JPMorgan Indian Investment Trust (JII)** should interest portfolio builders looking for exposure to one of the globe's biggest, most exciting long-term growth markets.

While performance in the six months to 31 March disappointed, JPMorgan Indian's NAV has in fact outperformed the MSCI India Index benchmark in six of the past eight financial years and the portfolio, which outperformed the benchmark in April, looks primed for recovery.

HIGH QUALITY BIAS

The largest, most liquid London-listed Indian equity fund, JPMorgan Indian is managed by seasoned Indian equities experts Rukhshad Shroff and Rajendra Nair, supported by the well-resourced JPMorgan Emerging Markets team.

The pair invest in good quality businesses with superior growth prospects, holding them for the long term. Stock selection is driven by quality first, followed by valuation and the managers flat out won't buy a stock if they distrust management.

A few years ago, the managers became more optimistic on the domestic economy and tilted the portfolio towards cyclicals, notably banks – top 10 positions include HDFC Bank, Kotak Mahindra Bank and IndusInd Bank – as well as building materials and autos.

JPMORGAN INDIAN INVESTMENT TRUST

BUY

(JII) 692.72p

Stop loss: 554.176p

Market value: £732.5m

Net asset value (as at 31 May 2018) £732.5m

Discount to 31 May NAV: 15.5%

For the half year to 31 March, NAV fell by 3.6% compared with a 0.5% decline in the benchmark, underperformance largely reflecting the trust's low weighting in index heavyweights Reliance Industries and Infosys.

An overweight position in cement sector players ACC and Ambuja Cement, in Bajaj Auto and select mid and small caps detracted from performance, as did gearing in a weak market. Overweight positions in Jubilant Foodworks, Shriram Transport Finance and auto sector players Maruti Suzuki and Ashok Leyland lent some support.

LOOK TO THE LONG TERM

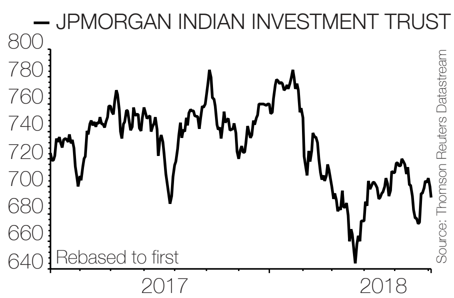
India's economy is growing more rapidly in 2018 than it did in 2017, yet the headwind from high valuations means the stock market hasn't made progress.

The investment managers expect the next year to be a period of increased uncertainty and volatility in India, currently in an important election cycle. You should therefore treat this as a high-risk investment.

Since Narendra Modi came to power the market has risen significantly more than underlying corporate earnings. Equities have rerated thanks to macro reforms and because investors have expected a recovery in the pace of economic growth and corporate profits.

Gearing in the fund has been reduced to provide the flexibility to capitalise on buying opportunities 'should the market weaken in the face of increased uncertainty'.

For investors prepared to look past near-term challenges, JPMorgan Indian offers a compelling play on a market with 'great human potential and huge scope for improving its economic performance', to quote chairman Richard Burns. (JC)



JOHNSON MATTHEY

(JMAT) £37.45

Gain to date: 22.1%

Original entry point:

Buy at £30.66, 21 December 2017

ENCOURAGING ANNUAL RESULTS from chemicals group **Johnson Matthey (JMAT)** have helped the shares to rise further.

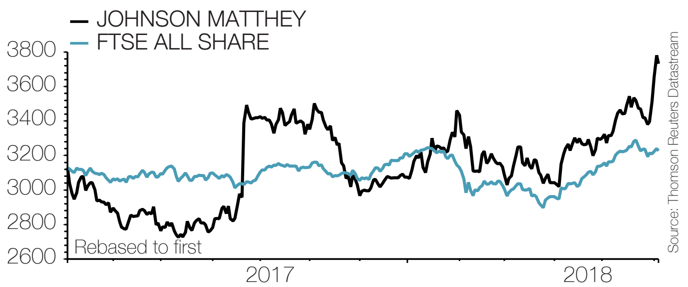
Johnson Matthey develops catalytic converters to reduce emissions from cars; it creates active pharmaceutical ingredients for treatments; and offers solutions to improve agricultural production.

There was robust trading in the year to 31 March 2018 despite pre-tax profit falling by 1% on a constant currency basis to £486m.

The standout performance was the clean air division as heavy duty diesel and light duty sales supported a 9% jump in revenue to £2.45bn.

Significant progress was achieved for Johnson Matthey's enhanced lithium nickel oxide material (eLNO), which could potentially disrupt the market with higher energy density and lower cobalt usage. The company is doubling capacity at its battery materials demonstration plant to 1,000 tonnes.

The market has valued Umicore's automotive battery business at €3bn, but Johnson Matthey's battery operations have been given virtually zero value. One explanation is that Umicore addresses today's market, but Johnson Matthey is targeting next-generation materials such as eLNO where production is not expected to start until 2021-2022.



SHARES SAYS: ↗

We're really pleased with the share price progress so far and we're also very excited about the health arm as well as the battery developments. Keep buying. (LMJ)

BROKER SAYS: 10 3 2

FILTA

(FLTA:AIM) 215p

Buy to date: 26.5%

Original entry point:

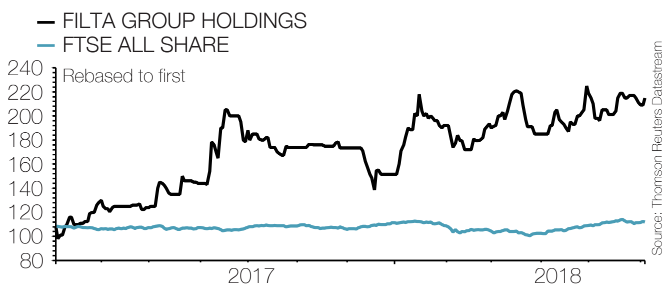
Buy at 170p, 14 September 2017

A TRADING UPDATE from fryers-to-drains cleaning specialist **Filta (FLTA)** on 5 June has gone down well with investors. It has signed six new franchises so far this year including one in each of its newest operating locations, Canada and Germany.

It has also secured 17 MFU sales, referring to mobile filtration units which are the drivers for repeat revenue.

EBITDA (earnings before interest, tax, depreciation and amortisation) is up 11% so far this year, compared with the same period in 2017. That equates to 23% growth at constant exchange rates. This performance is very encouraging given that the weak US dollar had an adverse impact on its revenue in the early part of the year.

The company told shareholders at its annual meeting that it has a good pipeline of enquiries from 'high-quality aspiring franchisees' in North America and Europe, giving it confidence about the prospects for this year and beyond.



SHARES SAYS: ↗

This trading update underpins our continued confidence in the business to deliver superior value to shareholders over time. Keep buying. (DC)

BROKER SAYS: 1 0 0

TELFORD HOMES
(TEF:AIM) 466p

Gain to date: 14.1%
Original entry point:
Buy at 408.5p, 14 December 2017

Investors used full year results from London-based housebuilder **Telford Homes (TEF:AIM)** as an opportunity for some modest profit taking. However, the stock still trades materially higher than the level at which we flagged it in December 2017.

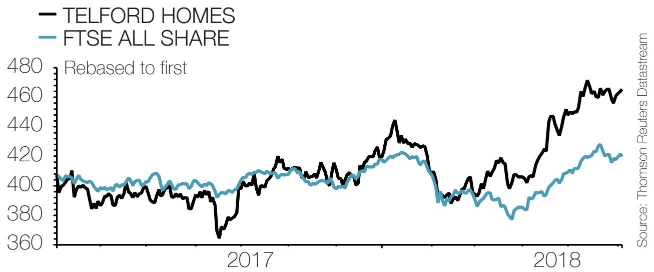
In the year to 31 March 2018 Telford posted a 35% increase in pre-tax profit to £46m, against a forecast £45m, and said it could beat the £50m profit target for the current financial year. This would add up to a doubling of pre-tax profit over a four-year period.

The company, which focuses on 'non-prime' or in other words less expensive parts of the capital's housing market, says it is benefiting from an 'under supply' of new homes in London and demand for more affordable homes, particularly for renting.

It expects to take advantage of this demand by focusing on the build-to-rent sector across London.

Because these projects are often pre-funded by institutional investors this enables the company to grow without taking excessive risk or needing additional equity capital.

Canaccord Genuity analyst Aynsley Lammin says Telford's valuation is 'less compelling' after its recent share price run, but it is still well supported with improved visibility on profits and growth.



SHARES SAYS:
We remain big fans of Telford. Keep the shares in your portfolio. (TS)

BROKER SAYS: 3 1 0

IBSTOCK
(IBST) 287.4p

Loss to date: 4%
Original entry point:
Buy at 299.4p, 10 May 2018

We recently updated on **Ibstock (IBST)** after a downbeat trading update on 24 May where it blamed cold weather for a subdued start to 2018.

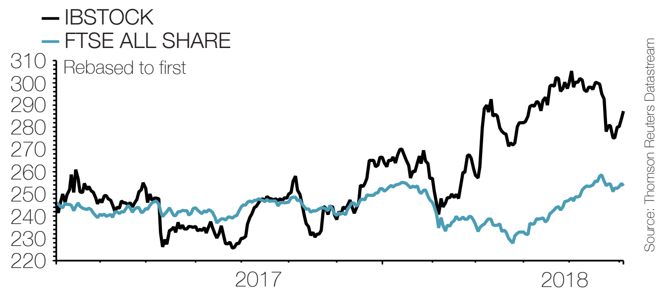
However, investment bank Berenberg notes a key item of news in rival brickmaker **Forterra's (FORT)** 22 May update which has positive implications for the sector over the medium-term.

Forterra has announced plans to build a new brick plant which would add 4% capacity to the UK market.

Berenberg comments: 'As this plant is not expected to be in full production until 2022, we believe it highlights both the group's and the industry's positive view of the UK new-build housing market.'

Brick makers have significant pricing power thanks to strong demand from housebuilders which is only being met at present with the help of imported bricks.

Berenberg reiterates its 'buy' recommendations on both Ibstock and Forterra with price targets of 330p and 350p respectively.



SHARES SAYS:
The signal of confidence from a key member of its peer group bodes well for Ibstock going forward. Keep buying. (TS)

BROKER SAYS: 3 1 0

The market's biggest bargains

Why value is back in fashion

Snaring a bargain can be very satisfying in any aspect of life and when it comes to the stock market increasingly lucrative too.

There are signs that value is starting to come back into fashion following several years when investors were focused on companies delivering growth with little regard for valuation.

Growth investors look to snaffle out stocks where there is potential for significant expansion. A growth stock is usually defined as a company whose earnings are expected to grow at an above average rate either for its industry or the overall market.

A growth investor will buy such a stock even if it appears to be expensive based on metrics such as the price-to-earnings (PE) ratio.

Value investing is often seen as the reverse of growth investing and places the emphasis on finding assets which trade on lowly valuations, in the hope that the valuation will eventually revert back to more normal levels.

VALUE IS PERFORMING WELL AGAIN

Philip Wolstencroft, fund manager of **Artemis European Growth (GB0006600844)**, comments: 'Over the past 100 years or so, cheap stocks have tended to outperform the market in two years out of three. In the past decade the proportion has been nearer two out of 10.

'The reasons for this are many fold; essentially cheap stocks have delivered poor growth since the financial crisis and so have delivered poor share price performance. This appears to be changing. Cheap stocks are now delivering superior growth.'

Wolstencroft says numerous fund managers are loaded up with growth stocks at a time when not only are they expensive, but are delivering poor relative growth and so are underperforming.

Matthew Jennings, investment director at fund provider Fidelity, says investors should not get too hung up on any particular style of investing. 'We should look beyond these labels, towards rigorous and differentiated fundamental research and performance driven more by stock selection than by style bias,' he says.

LOOK BEYOND THE METRICS

We agree with this assessment and the selections overleaf aren't solely picked because they look cheap on certain metrics like price-to-earnings and net asset value per share. They have also been subjected to close analysis by the *Shares* team and have clearly identifiable catalysts which can drive the shares higher.

INCHCAPE (INCH) 738.5P

BUY

A PROSPECTIVE PE of 11.3 for Inchcape, based on J.P. Morgan Cazenove's 65.1p earnings per share estimate for 2018, appears grudging for a multi-brand car distributor whose global diversification and scale are under-appreciated. J.P. Morgan Cazenove's 920p price target implies 25% upside for the share price over the next year.

So why are the shares cheap? Testing market conditions in certain regions are weighing on the stock. While the higher margin distribution arm is motoring, Inchcape's retail business is challenged by new car margin pressures in the UK and Australia and a cyclical downturn in the Singapore market.

Deutsche Bank also expects flat 2018 profits in sterling from Inchcape, however it is continuing to motor in emerging markets. Inchcape has also been swept up in the souring of sentiment toward the UK domestic automotive retail sector, unfairly so given its profit bias to emerging markets.

Myriad strengths include long-established partnerships with high-end car brands, among them BMW, Aston Martin and Mercedes-Benz, and entrenched distribution in developing markets, which have combined to carve out a wide economic moat.

Earnings are diversified across five continents and revenue streams span new and used car sales, higher margin aftersales, spare parts, finance and insurance products.

A better second half of 2018, supported by easier comparatives, could act as potential re-rating catalyst, so long as growth trends in challenged markets improve.

Furthermore, a solid balance sheet and strong cash generation will enable Inchcape to capitalise on a healthy acquisitions pipeline, while continuing to fund a progressive dividend and a new £100m share buyback. (JC)

INTERNATIONAL CONSOLIDATED AIRLINES (IAG) 705.4P

BUY

THE BRITISH AIRWAYS owner still looks cheap despite a decent run for the share price since October 2016.

The airline trades on a mere 7.1 times forecast earnings compared to its peers which have an average PE of 12.67, including rivals such as **Ryanair (RYA)** and **EasyJet (EZJ)**. IAG also has an attractive 9.6% free cash flow yield.

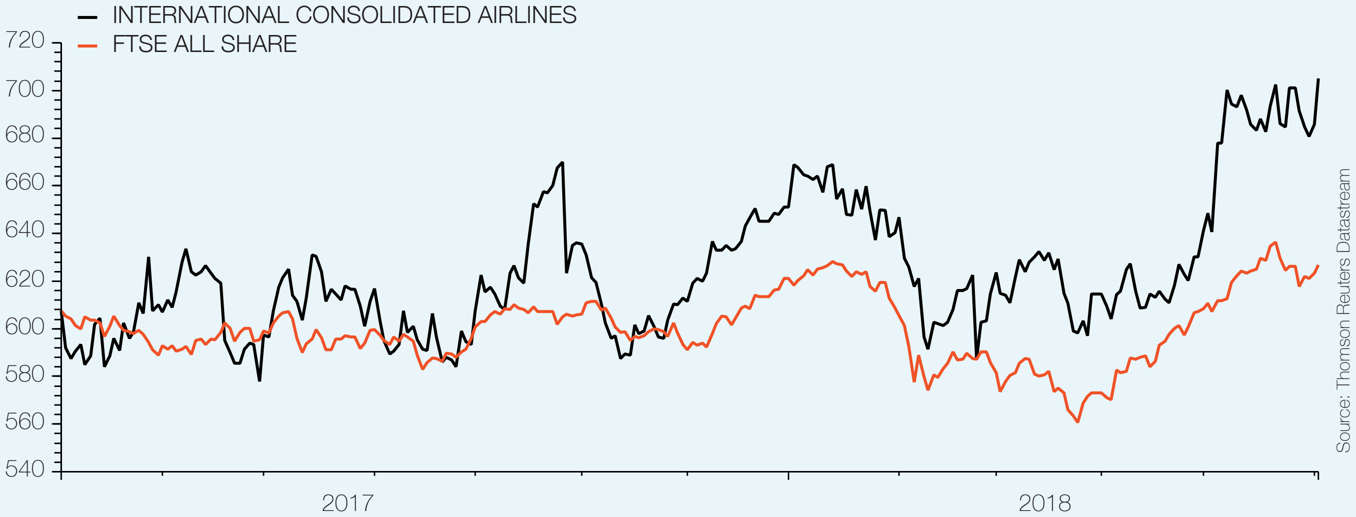
While the airline sector is starting to recover from an intense price war, analysts have been wary of a range of risks including rising fuel costs and the impact of Brexit negotiations.

Although IAG's most recent full year results, published in February, slightly missed expectations at the operating profit level, a subsequent update shows a business in good health.

Its first quarter results showed a 75% jump in operating profit to €280m, smashing consensus expectations of €206m and helped by favourable exchange rates, the timing of Easter and a continuation of improvements that began in 2017. That news, plus a new €500m share buyback, has helped to strengthen the share price.

The airline is trying to acquire embattled rival Norwegian Air Shuttle after buying a 4.61% stake, but has already had two 'undervalued' takeover offers rebuffed.

Norwegian runs ultra-cheap US flights from Europe but doesn't make any money and is drowning in debt. IAG's interest in the business looks like a mixture of defending its own transatlantic operations from low cost competition, plus an opportunistic move while Norwegian's own valuation is very cheap. (LMJ)



BARCLAYS (BARC) 203.95P

BUY

PUT SIMPLY, Barclays is one of the cheapest UK banks. According to data from Reuters, it trades on a price-to-book ratio of just 0.6-times, quite a bit below its peer group average of 0.9-times. However its first quarter results to 31 March go some way in explaining the relative cheapness of the financial institution, having recorded a pre-tax loss of £236m.

This loss was largely due to the cost of settling a historic case with the US Department of Justice over the mis-selling of mortgage-backed securities. Barclays had to pay the US regulator £1.4bn to settle the matter and a further £400m in relation to ongoing Payment Protection Insurance claims.

However, if these misconduct charges are stripped out, the bank's pre-tax profits actually increased by 1% to £1.73bn. This was driven by a 45% improvement in impairment charges and a 6% reduction in operating costs.

A key sign of a bank's profitability is its return on tangible equity (ROTE); last year Barclays posted a worst in class 1.1%. However, for the first quarter of 2018 the bank's ROTE was an impressive 11% when exceptional items such as litigation charges are stripped out.

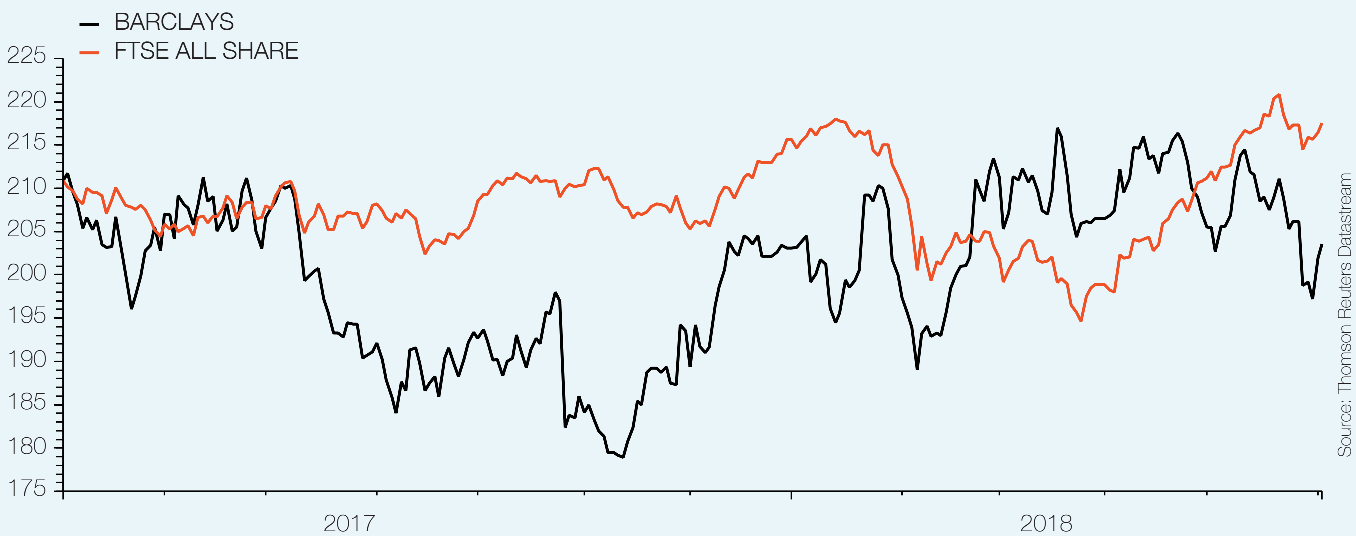
Given that Barclays has now settled with the Department of Justice the bank's return to profitability should continue and its shares could re-rate.

However, you should note activist investor Edward Bramson recently appeared on the shareholder register with a 4.9% stake held via investment vehicle **Sherborne Investors (SIGC)**.

Little is known about his intentions but media reports suggest his presence is unwelcome given Barclays' management are focused on reviving the business and could do without the distraction of a shareholder who may push for big M&A deals.

As such, you should treat this stock as fairly high risk although you do get some compensation in the form of a dividend yield in the region of 3.2% based on current year forecasts, rising to 4.1% in 2019 and 4.6% in 2020.

Those figures are less generous than the yields you could get from **HSBC (HSBA)** and **Lloyds (LLOY)**, although they are arguably less risky investments (relative to the broader sector) and so the potential rewards may not be as high as from Barclays if the latter can rejuvenate its business. (DS)



STRIX (KETL:AIM) 145P

BUY

ON PRICE-TO-EARNINGS metrics Strix trades at a rough 50% discount to peers, according to Reuters' data. Based on 2018 earnings estimates, Strix trades on a PE of 10.6, falling to 9.8-times in 2019.

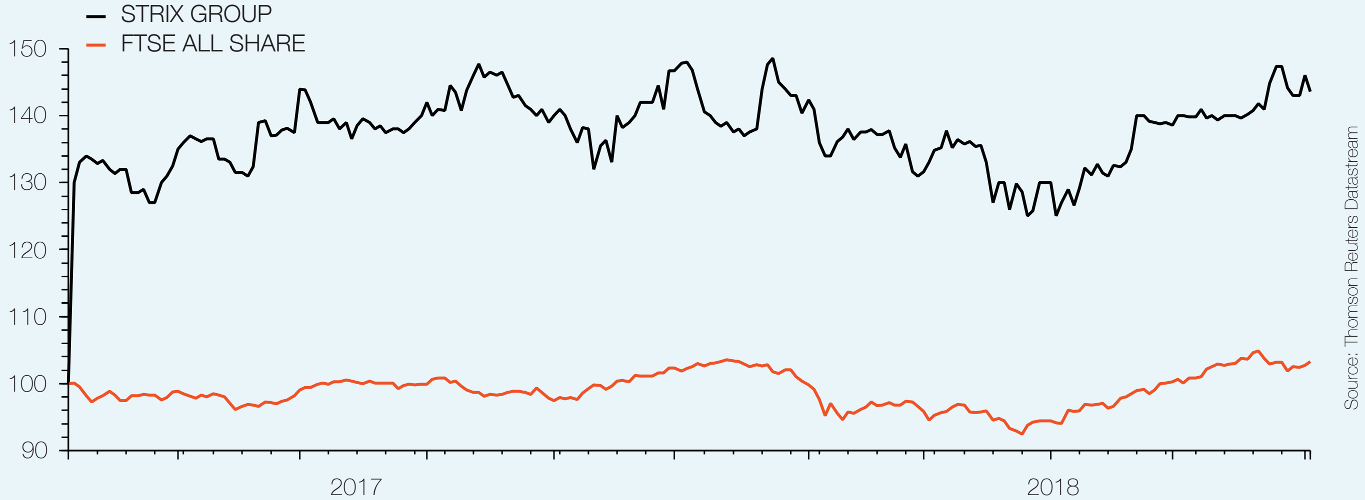
The company designs and makes clever controls and safety devices fitted on many of the 70m kettles sold worldwide each year. They appear on brands you should recognise including products from Bosch, DeLonghi, Kenwood, Russell Hobbs and more.

Strix's intellectual property-protected devices are widely considered best-in-class, demonstrated by long-term relationships with over 400 brands and retailers. It claims to have about 40% of global market share.

There are cheaper copycat devices available but many mainstream volume makers stick with Strix and pay more because they trust the equipment and are likely to avoid expensive product recalls. That should help Strix defend 30% to 33% operating profit margins.

Yet the wider kettle market is also growing faster than before, largely because more affluent Chinese people can afford household labour-saving luxuries. Between 2012 and 2017 the market averaged 5.6% growth a year but this pace is expected to accelerate to 7%-plus through to 2020, say analysts.

Strix has generated over £30m of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) in each of the last 10 years, and is very cash generative. That helps to fund generous dividends with the shares currently yielding 5.4%, far higher than the 3.6% FTSE All-Share average. (SF)



SHOULD YOU INVEST IN THE LEGAL EAGLES JOINING THE MARKET?

For the first time law firms are going public in material numbers

When **Gateley (GTLY:AIM)** listed in London in June 2015, it became only the second law firm in the world to join a public stock exchange. Only Australian firm Slater & Gordon had made the move before, back in 2007.

Now there are four legal 'companies' on the AIM market and while all feature lawyers as their main employees, they are all very different businesses.

Keystone Law (KEYS:AIM) has been described as a 'virtual law firm' probably due to its lack of bricks and mortar offices. Instead it allows its lawyers to work remotely. The business revealed that its fee earner headcount grew by 17% to 266 in its recent full year results.

Michael Donnelly, analyst at Panmure Gordon, says Keystone 'continues to attract the best talent in the business'.

The value of a law firm is inherently linked to its human capital. The more lawyers it has charging clients for its services, the greater revenue and profits it can make. For 2018, Keystone's revenue had grown by 23.6% to £31.6m while underlying pre-tax profit hit £2.9m, a 63% improvement on the prior year.

THE REMUNERATION ISSUE

Keystone CEO James Knight says 'Keystone's model is attractive to investors because the deal fee earners receive is unaffected by equity, it doesn't diminish their earnings'. Knight is referring to how traditional law firms pay their partners and potential problems it could cause new hires and shareholders.

If a law firm operates an equity partnership model, this may cause problems if it floats on the stock market. Partners are paid from the equity of the business and as Knight says, if a listed legal business was to offer lots of free shares to an incoming partner, it would have a dilutive effect on the equity which is bad news for shareholders.

This is probably the biggest barrier to traditional law firms joining the stock market and an issue that Adrian Biles, chief executive of another listed law business **Gordon Dadds (GOR:AIM)** is well aware of.

He describes the traditional limited partnership model of law firms as 'cash extractive'. 'Partners want to profit and not invest for the future. It mitigates against the business having an enterprise value of any great extent,' he says.

Trading at 150p, Gordon Dadds is a highly acquisitive legal business, having bought four law firms since its IPO in August last year. Its most recent deal with Cardiff's Thomas Simon cost £1.88m and will be merged with Gordon Dadds existing offering in the Welsh capital.

Ben Thefaut, analyst at broker Arden Partners, says since the company's IPO his full year 2019 earnings per share forecast has increased by 70% to 13.1p. Thefault 'believes tangible acquisition delivery and significant earnings upgrades are not reflected in the current share price'.

FIRST MOVER ADVANTAGE

The first UK law firm to list, Gateley, took some time to get the attention of investors. Its share price was stuck in a narrow band for the first 18 months.

However, investors who had got in on the first day's trading would have enjoyed seeing their holding in the company appreciate by almost 80%.

Nick Smith, acquisitions director at the company, says that although he and his colleagues knew they had a profitable business they wanted to float because in the 'non-quoted environment what people are trying to do is sometimes more difficult to see'.

The firm is also acquisitive, recently announcing its third acquisition since IPO of GCL Solicitors. The company released a bullish pre-close statement for its year ending April 2018, saying revenues will be no less than £84m with EBTIDA (earnings before interest, tax, depreciation and amortisation) reaching at least £16m.

Given these figures exceed house broker Cantor Fitzgerald's own forecasts at the time, its analyst Keith Baird upgraded his earnings forecasts by 4% for 2019 to 12p and by 5% for 2020 to 13.2p respectively.

LITIGATION

The most recent arrival to the market is **Rosenblatt (RBGP:AIM)** which listed last month. While all the legal companies have institutional interest, this company has particularly stellar shareholder list with BlackRock, Fidelity and Schroders among its top holders.

KNIGHTS, ONE OF THE UK'S TOP 100 LAW FIRMS BY REVENUE, HOPES TO FLOAT ON THE UK STOCK MARKET IN LATE JUNE. IT HAS CIRCA 7,500 CLIENTS INCLUDING ALDI AND ROLLS-ROYCE

The reason could be the stated aim of the company to not just be a law firm but also develop a separate entity that will be a litigation funder. The success of existing AIM quoted **Burford Capital (BUR:AIM)** in this area may have stoked these investment titans' appetite.

Burford's share price is up nearly 16-fold since its own listing at 100p in 2009.

Nicola Foulston, CEO of Rosenblatt, says it's not possible for a law firm to fund third party actions (conflicts of interest), so the funding part of the business will have no lawyers involved.

The company has practice areas of real estate, corporate and employment all with contentious elements, or the chance of litigation.

All the lawyers and others associated with the legal companies believe there are going to be more firms on the market. Some think that it may one day be its own subset of the FTSE.

There are reasons to believe a diversified and well-managed law firm could perform well whether the economy is blowing hot or cold. In good times, lots of deals are being done and corporate lawyers are busy.

When the economy is in a downturn, people want money they're owed so contentious practices do well. For this reason the law space may turn into one of the more interesting parts of the market. (DS)

SHARES SAYS: ↗

Our top pick of the sector is Keystone Law. Buy at 329p.

CAN INVESTORS ENJOY A WORLD CUP BOOST?

We examine the potential winners and losers as kick-off approaches

On 14 June at 4pm UK time at the Luzhniki Stadium in Moscow the 21st football World Cup kicks off as the host nation Russia takes on Saudi Arabia. As well as football fans, several stock market names will be watching the tournament closely to see if they will enjoy a World Cup-related boost to their trading.

If history is any guide then pubs will be busier, some retailers should benefit from increased demand, bookies will be taking more bets while broadcasters and advertising firms could also do well.

BUYING THE SHIRT

Specifically, investors in sportswear retailers **Sports Direct (SPD)** and **JD Sports Fashion (JD.)** may expect to see a spike in sales from England replica shirts and other World Cup merchandise. While **Dixons Carphone (DC.)** could see some tangential benefit as households splash out on new TVs to watch the action.

For those watching at home, a takeaway may be a popular option. The previous World Cup in Brazil in 2014 helped **Domino's Pizza (DOM)** deliver a 10.1% increase in first half profit.

Another big spend will be on food and drink for those hosting parties as the tournament progresses, which could move supermarkets such as **Sainsbury (SBRY)**, **Morrison (MRW)** and **Tesco (TSCO)** into focus.

WATCHING AT THE PUB

Not everyone will stay at home to watch the games, with lots of us heading to the pub with friends and family.

Our key World Cup selection is **Marston's (MARS)** whose shares are looking attractive at current levels regardless of any impact from the football. They look even tastier when you consider the football event could provide a boost to trading.

While bookmakers are expected to take an increased volume of bets, the fortunes of the likes of **GVC (GVC)**, **William Hill (WMH)** and **Paddy Power Betfair (PPB)** will likely depend on the outcome and whether the favourites prevail – typically this would see them lose out.

Free-to-air broadcaster **ITV (ITV)** is set to show upwards of 30 matches including England's tussle with Belgium on 28 June.

It allayed fears that the tournament would be a damp squib in a 10 May update. Media buyers had been feeding back to the analyst community that the market might only be up by single digits year-on-year. However, ITV guided for national advertising revenue to be up by 15% in June. Increased advertising spend could also be good news for advertising agencies like **WPP (WPP).**

IS IT ALREADY PRICED IN?

A key question investors need to consider is whether all of this has already been priced in by the market. Russia was awarded this World Cup in December 2010 so there has been plenty of time to think about who the winners and losers might be and to factor this in to equity valuations.

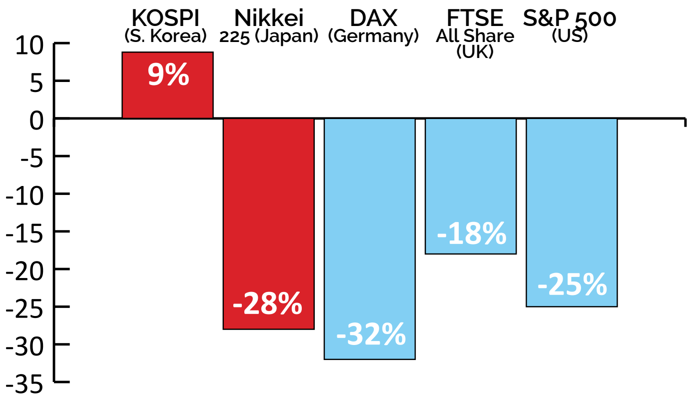
The key uncertainty which could catch the market off guard and provide opportunities for investors is if the England football team enjoys a strong run in the tournament. Research commissioned by discount deals company VoucherCodes.co.uk suggests a £1.33bn boost to the domestic economy if England makes it to the second round.

And if the Three Lions made it all the way to the final this would double to £2.72bn. However, England's poor record in recent tournaments and their status as 16-1 outsiders suggests investors should not set too much store by this happening.

DOES A WORLD CUP BOOST STOCK MARKETS?

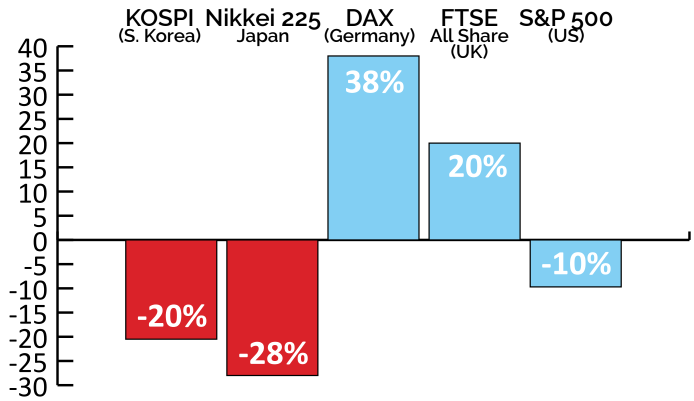
JAPAN AND SOUTH KOREA 2002

Lead up (two years before World Cup)



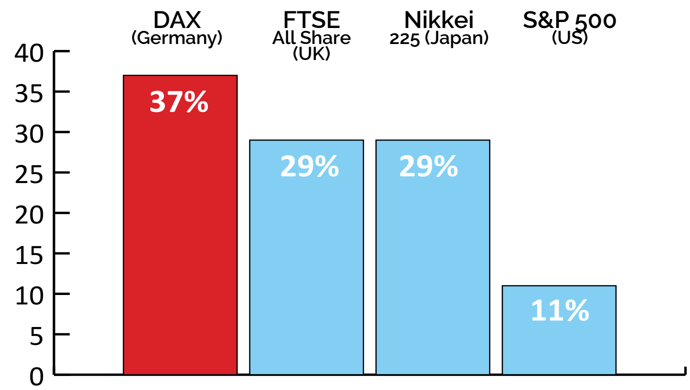
JAPAN AND SOUTH KOREA 2002

Aftermath (one year after World Cup)



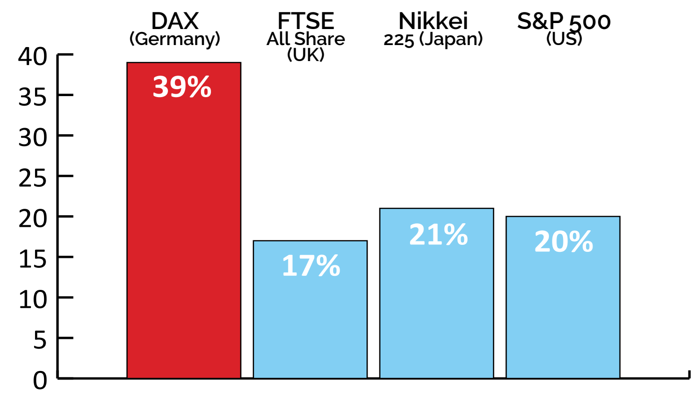
GERMANY 2006

Lead up (two years before World Cup)

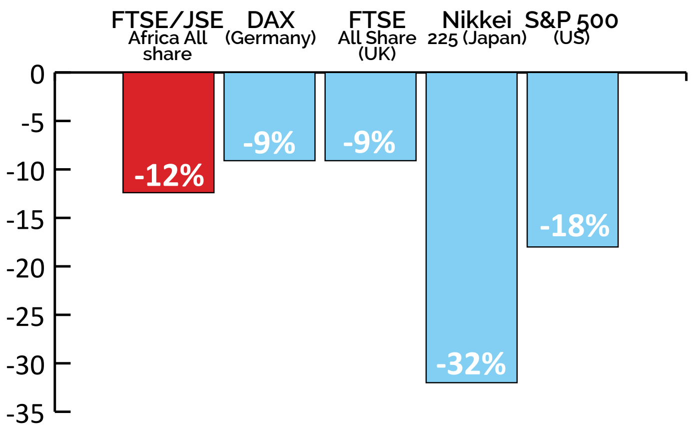


GERMANY 2006

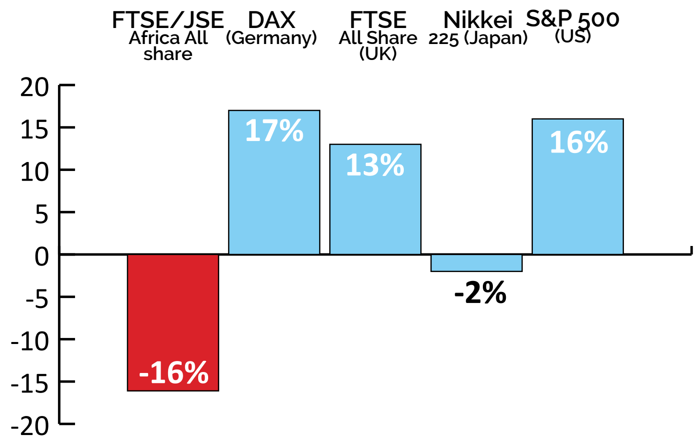
Aftermath (one year after World Cup)



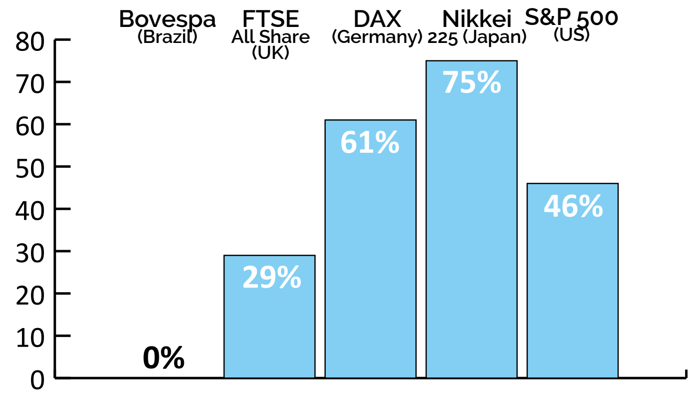
SOUTH AFRICA 2010
Lead up (two years before World Cup)



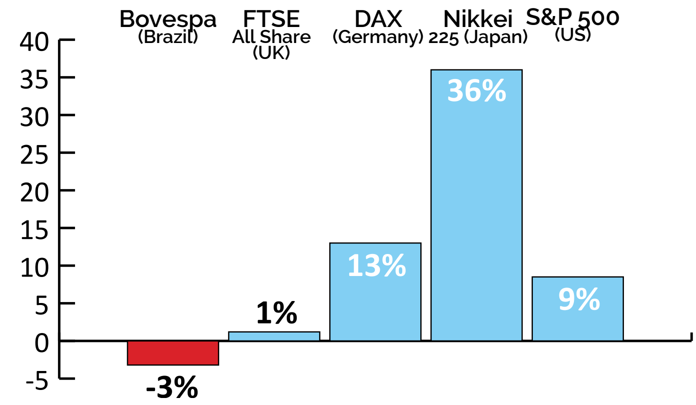
SOUTH AFRICA 2010
Aftermath (one year after World Cup)



BRAZIL 2014
Lead up (two years before World Cup)



BRAZIL 2014
Aftermath (one year after World Cup)



Source: SharePad, Thomson Reuters Datastream

> "The previous World Cup in Brazil in 2014 helped Domino's Pizza deliver a 10.1% increase in first half profit"

Based on the tournaments so far in the 21st Century and comparing the performance of stocks in the host nation to a series of other major markets the evidence is inconclusive on whether there is a World Cup effect.

You might expect the domestic economy to see a benefit from increased tourism and infrastructure spend as well as a higher profile from being associated with the tournament, particularly for smaller nations.

However, Europe's largest economy Germany had the most outperformance in the run up to and aftermath of its hosting of the World Cup in 2006.

SHARES
WORLD CUP PICK

MARSTON'S (MARS) 99.9P

British brewer and pub operator **Marston's (MARS)** is among the names expecting to see a boost from the World Cup and any improvement in trading could act as a catalyst for a depressed share price. At current levels and based on consensus forecasts the shares trade on a 2018 price-to-earnings ratio of 7.2 times and yield 7.6%. Langton Capital analyst Mark Brumby comments: 'The company continues to sell product that the consumer would like to buy at a price he/she is prepared to pay. Leisure remains a growth industry and, certainly over the medium term, the group should perform well.' (TS)

The next OPEC meeting is crucial for the direction of oil prices

Crude prices are already losing momentum heading into key summit

In just over two weeks oil producers' cartel OPEC will hold its latest meeting in Vienna (22 Jun), an event that could have a major influence on the direction of oil prices.

Oil prices have already started to retreat from recent highs above $80 per barrel ahead of this summit. Why? There is speculation leading member Saudi Arabia could boost its production amid disruptions to supply in Venezuela and Iran.

WHAT IS OPEC AND WHY DOES IT MATTER?

The Organisation of the Petroleum Exporting Countries (OPEC) is an intergovernmental organisation of 14 oil producing countries. The cartel is dominated by Saudi Arabia.

In 1973, during the Yom Kippur war when Israel lined up against Egypt and Syria, Arab members of OPEC refused to ship oil to western countries which had supported Israel. This prompted a four-fold increase in the price of oil.

Though its influence has waned in the intervening 40-plus years it still exerts a measure of influence over the short and long-term direction of the crude oil market – controlling around 80% of the world's proven crude oil reserves.

OPEC sets quotas, which determine how much member countries should produce, although compliance is often a long way short of 100%.

OPEC SETS QUOTAS WHICH DETERMINE HOW MUCH MEMBER COUNTRIES SHOULD PRODUCE

WHAT ARE PEOPLE EXPECTING FROM THE MEETING?

In the spring it was suggested the Saudis would be comfortable with an $80 per barrel oil price but with oil now around this level and amid complaints from the US, there are suggestions the Saudis may respond by increasing output. That could push the price down.

US president Donald Trump explicitly criticised the group in a Tweet on 20 April when he described 'artificially' high prices as 'no good' and said they 'will not be accepted'.

Economic turmoil in Venezuela and the US exit from the nuclear deal with Iran, bringing with it the renewed threat of sanctions, is putting pressure on oil production in both countries.

The Saudis are the ones with the spare capacity to boost output, but they may face opposition from the rest of the cartel who have little to gain from falling oil prices.

OIL PRICES HAVE ALREADY STARTED TO RETREAT FROM RECENT HIGHS ABOVE $80 PER BARREL

They may also look to partner with Russia again, having announced coordinated cuts back in November 2016.

Broker Cantor Fitzgerald comments: 'Russia is reported to have exceeded its agreed production quota last month, as both it and Saudi Arabia seek to fill the gap in cartel supply lost from the collapsing Venezuelan economy.

'With fears that OPEC may abandon the production quotas at the next meeting, some investors are worried that this would unleash a wave of crude onto the markets, which coupled with the rise in US production, could push the market back into an oversupply scenario once again.'

The oil price would probably fall if the market becomes oversupplied again. This is significant for UK investors as the flagship FTSE 100 index has a heavy weighting towards **BP (BP.)** and **Royal Dutch Shell (RDSB)** whose revenue, profit and cash flow is at least in part determined by the price of crude. (TS)

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In many investors' minds investment trusts are thought of as income generating investments. Indeed there are many that have fantastic, long-term track records of paying dividends and feature in many investors' portfolios.

There are lots of different ways that investment trusts invest to generate their income. They can be used to get exposure to different markets and asset classes so understanding where and how they put their money to use can help you better understand which investment trusts are right for you.

Come to the free **Investment Trusts for Income** event to hear insights from leading fund managers on how the investment trusts they are responsible for generate income, get your chance to ask the questions that matter to you and network with your fellow investors.

Aberdeen Diversified Income and Growth Trust
The goal of the trust is to generate sustainable long-term returns through a genuinely diversified portfolio making use of Aberdeen's global investment platform and specialist capabilities.

SLI Property Income Trust
The Trust owns a diversified portfolio of UK commercial properties with an emphasis on retail, office and industrial and has outperformed its sector on a 1, 3 and 5 year basis.

SAINTS Scottish American Investment Company
Founded in 1873 SAINTS is one of the oldest investment trust companies still in existence. Its aim is to deliver above-inflation dividend growth principally through investments in global equities, but also bonds, property and other asset types.

Merchants Investment Trust
Established in 1889 The Merchants Trust investment focus is on the UK's leading companies and has a track record of 35 consecutive years of dividend increases.

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Deputy editor
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Tom will be presenting on how income can help unlock the wealth generating potential of the markets.

The lowdown on Fundsmith's popular emerging markets trust

Does the fund deserve its premium given it has consistently underperformed its benchmark?

Save for three constituents, the trusts populating the Association of Investment Companies' (AIC) Global Emerging Markets sector trade at discounts to net asset value (NAV), while the sector average discount stands at 11.2%. The most well-followed among retail investors among this premium-rated trio, which includes **BlackRock Frontiers (BRFI)** and **Jupiter Emerging & Frontier Income (JEFI)**, is **Fundsmith Emerging Equities Trust (FEET)**, currently trading on a 1% premium and a company increasing in size as it issues new shares to satisfy investor demand.

However, performance since inception in 2014 has been patchy with the trust struggling to match its benchmark. Does a recent uptick in performance suggest a patient approach is starting to pay off?

FEET IN FOCUS

Capital growth focused 'FEET' is managed by combative City figure Terry Smith, who has forged a strong track record with the open-ended, developed markets focused **Fundsmith Equity Fund (GB00B4M93C53)**.

Fundsmith Emerging Equities Trust's manager, Terry Smith (Left).

Unlike Fundsmith Equity however, FEET invests in companies which have the majority of their operations in, or revenues derived from, developing economies and which provide direct exposure to the rise of the consumer classes in those countries.

No-nonsense East London native Smith scours emerging markets for firms which make their money by a large number of everyday, repeat, relatively predictable transactions, a process that leads him towards consumer stocks.

Blue sky or faddish names aren't for him; indeed, the median founding year of the 49 companies in the portfolio is 1966, so it is fair to say these are tried and tested businesses that have come through a cycle or two.

Furthermore, as the FEET literature explains, the trust puts shareholders' funds to work with companies that have relatively predictable revenues and low capital intensity, and correspondingly high returns on capital.

'The targeted companies will

also deliver most or all of their profits in cash. They will have defensible and strong market positions, typically derived from a combination of brands, trademarks and distribution systems or networks, it says.

Significantly, about one third of the companies in which FEET can invest are quoted subsidiaries or franchisees of the multinationals in which Fundsmith Equity may invest; the advantage is that Smith is well placed to conduct due diligence and assess the corporate governance of these companies. To illustrate, holdings include Hindustan Unilever (India), Colgate Palmolive (India), Nestle Nigeria and Kimberly Clark De Mexico SAB.

QUALITY INGREDIENTS

Smith's emphasis on sustainability of returns steers the seasoned stockpicker away from the financial sector and heavily cyclical industries such as construction, manufacturing, utilities, resources and transport.

And he unwaveringly sticks to his stated strategy of not overpaying for shares and then doing as little dealing as possible in order to minimise expenses, allowing the investee companies' returns to compound for shareholders.

Critics will point out that FEET actually underperformed during the financial year to 31 December, with NAV total returns of 21.2% compared to 25.3% from the MSCI Emerging and Frontier Markets Index, albeit the relative underperformance against the benchmark index was lower than in previous years.

Patrick Thomas, investment manager and fund expert, Canaccord Genuity Wealth Management, scathingly comments: 'The premium on FEET relative to its peer group defies all logic. It's managed to underperform during a market environment that has heavily favoured the kinds of companies FEET buys with a higher OCF (ongoing charges figure) than most peers.

'It is managed by a team with no real track record in the EM space. Yet there has never been a meaningful discount on the trust.'

Smith explains: 'None of the top ten constituents of the MSCI Emerging and Frontier Markets Index, which collectively represent 25% of

> **"The premium on FEET relative to its peer group defies all logic"**

FUNDSMITH'S THREE STEP INVESTMENT PROCESS

1 STEP ONE
We aim to invest in high quality businesses.

2 STEP TWO
We try not to overpay for shares when investing.

3 STEP THREE
We aim to buy and hold.

that index, are, in our opinion, of sufficient quality for inclusion in our portfolio, as they consist of Chinese banks, a Chinese insurer, e-commerce platforms, consumer electronics and semiconductor manufacturers.

'These companies bring with them risks of cyclicality, leverage, opaque accounting, lack of clear ownership rights and inadequate financial returns.' Furthermore, 70% of the index returns last year were generated in China (including Hong Kong), Korea and Taiwan, where the portfolio is underweight.'

Smith adds: 'It may be that most buyers of ETFs do not know or care what their constituents are, or they and other investors who take a different view from us may be playing "greater fool theory", and assuming that they will be able to sell these lower quality stocks at an appropriate time and realise a large gain.

'We do not have that skill. I suspect that neither do many other investors but it won't stop them trying, often with other people's money.'

CONFIDENCE IN THE LONG-TERM POTENTIAL

Terry Smith remains confident his strategy will deliver attractive long-term returns and is upbeat about the quality of FEET's underlying investee companies, arguing their returns on capital, profit margins and growth are superior to the firms that populate the benchmark.

Exposure to healthcare in the trust doubled during the year and FEET also bought two Indian consumer durables companies – Eicher, the maker of Royal Enfield motorcycles and Havells, which makes consumer electrical appliances.

Smith also initiated stakes in Argentina-based e-commerce outfit Mercadolibre and Chinese airline reservation play TravelSky Technology as opportunities to own emerging markets IT stocks fit the investment criteria for the first time.

Scrutiny of the latest factsheet also reveals that during April, Smith took advantage of the weakness in the Turkish lira to start a new position in discount retailer BIM. (JC)

FUNDSMITH EMERGING EQUITIES TRUST (FEET)

MANAGEMENT GROUP: FUNDSMITH
AIC SECTOR: GLOBAL EMERGING MARKETS
TOTAL ASSETS: £321.7m
LAUNCH DATE: 25/06/2014
SHARE PRICE: £12.55
NAV: £12.42
PREMIUM: 1%
DIVIDEND YIELD: N/A

Source: AIC

TOP TEN HOLDINGS
AS AT 30 APRIL 2018

- Eastern Tobacco
- Britannia Industries
- Godrej
- Fosham Haitan
- Vitasoy
- Marico
- Philippine Seven
- Travelsky
- Vietnam Dairies
- Asian Paints

SECTOR SPLIT
(BY NAV, AS AT 30 APRIL)

69.5%	Consumer Staple
13.1%	Healthcare
5.5%	Consumer Discretionary
4%	Technology
3.9%	Industrials
2.9%	Materials

Source: Fundsmith

Is smart beta a smart bet?

Smart beta products aim to marry the positive benefits of active management with a cost that is closer to a passive product but despite rising popularity they have their critics

'Smart beta' is gaining traction as a method of index investing as investors adopt a growing range of strategies that have been used to generate outperformance by active managers for years.

Some $6bn flowed into smart beta exchange-traded funds (ETFs) in Europe last year, taking total assets under management to $46bn, data from BlackRock shows.

The asset manager's ETF subsidiary iShares points to three trends catapulting smart beta into the mainstream: lower returns for longer, cost consciousness and advances in portfolio construction.

'We expect appetite for smart beta strategies to continue to increase as investors seek improved investment outcomes beyond what traditional market cap weighted indices can offer,' says Anthony Kruger of its specialist sales team.

One such investor is Jim Mackie, an investment director in Brooks Macdonald's London-based multi-asset team. It is actively looking to add smart beta strategies to its passive model portfolios.

'Firstly, the available products may enable us to express a particular investment view in a cost effective manner which may, in turn, differentiate our portfolios from more mainstream offerings,' he says.

'Secondly, we believe it makes sense where possible to use funds that have a proven track record of outperforming their benchmark index in both upward and, more importantly, downward markets.'

WHICH PRODUCTS ARE POPULAR?

Also known as 'alternative beta' or 'factor investing', smart beta recognises that passive investing relative to a market capitalisation weighted index may not be the best approach and that other metrics should be used instead. Popular funds include those that equally weight stocks in an index or focus on factors like low volatility, high yield, value, growth, quality, momentum and size.

London-based Capital Asset Management, a long-term proponent of passive investing, favours the **Dimensional UK Value (GB0033771659)** and **Dimensional UK Small Companies (GB0033772061)** funds to tilt holdings towards value stocks (companies that are cheap relative to fundamentals) and small and mid cap stocks.

'There is now a significant body of academic research that supports the view that factors such as small cap, value and profitability are likely to deliver above broad market returns over the longer term,' says its chief executive Alan Smith.

'This seems to make intuitive sense on a risk/reward basis in that smart beta investors are effectively taking more risk than broad market investors and would, therefore, expect a greater return.'

Canaccord Genuity Wealth Management used the **UBS MSCI USA Value ETF (UC07)** to get exposure to the under-owned and unloved US value space earlier this year.

While Thesis Asset Management does not currently have any explicit core smart beta allocations, it makes long-term allocations to take advantage of historically outperforming factors like momentum. Simply buying more of what has already done well has provided more than double the return of the MSCI World index over the last 30 years (2,473% versus 945%), according to portfolio manager Adam Burniston.

Kruger at iShares believes momentum will continue to do well against the current backdrop of strong earnings momentum and a solid global growth outlook.

'We've seen particularly strong flows into risk-on factors like momentum and expect this trend to continue in the current environment,' he says.

While momentum tends to perform best in expansions, it has also proved resilient in slowdowns. During the sharp downturn in developed market equities in February, the relative performance of momentum strategies held up well: momentum outperformed the broader US equity market by 0.1% and global equities by 0.64% during the eight worst trading days.

JUMPING ON THE BANDWAGON

Criticism of smart beta centres on the growing complexity of products and difficulty in timing switches from one strategy to another as market conditions change.

'Investors are having to become smarter to understand what they're investing in,' says Justin Oliver, deputy chief investment officer at Canaccord Genuity.

He points to a torrid time for low volatility ETFs during February's downturn. Designed to suffer less in the event of a correction, many lost more than the broader market.

The problem with smart beta is the reliance on past risk data and investors chasing the latest fashionable strategy in the same way they plough into 'hot' stocks or 'star' fund managers. Former low volatility stocks tend to become more volatile as money flows into them and their valuations increase.

Avoiding the herd mentality is one way around this situation. 'Arguably, the smart beta products that should be of most interest to investors are those that have performed poorly, because they are more likely to come into vogue,' says Oliver.

Diversifying across a range of factors, either through a number of stand-alone strategies or a multi-factor fund, and taking a long-term view are other routes to consider.

'The key is time horizon,' says Smith. 'Most factor strategies are expected to play out over the longer term; this can mean ten years and beyond. The challenge in the short-term obsessed investment market is to stick to strategy and not bail out at the first sign of underperformance.'

Others, however, remain vehemently opposed to so-called 'smart beta'. 'It's not a smart bet; we don't gamble with clients' money,' says Richard Stammers, chief investment strategist at European Wealth. 'There may be a lot of these products, but it doesn't make any of them any good. It just means lots of people have jumped on the same bandwagon.' (JH)

Why the world is becoming hot on solar power

Falling panel costs, growing efficiency and solutions to storage problems are all helping to drive demand for solar energy

By Kevin Doran, managing director, AJ Bell Investments

The date was 27 August 1956. The UK was in the midst of the Suez Canal crisis and rationing petrol. Black and white TVs were about to enter mass production, and folk tuning in for the inaugural Eurovision Song Contest would be disappointed, not for the first time, at the British entry.

As a sign of the post-war decline, the people of the UK had increasingly fewer reasons to be proud of their lot, but on this day, they could at least point to the nation's pole position in the global energy race.

As Calder Hall, sited at the now Sellafield plant, plugged itself into the grid, the nuclear age had begun with the UK at its forefront.

The initial signs were encouraging. Not only was the plant capable of producing weapons grade uranium (its original purpose), the 240MWe of power on board promised cheap energy for the masses.

HYPE VERSUS REALITY

As with all new technologies, the early hype was largely overblown. With claims of progressing from nuclear fission to nuclear fusion abound, it wasn't too long before the Windscale fire of 1957 dulled the shine of the nuclear industry despite claims from physicists that free fuel for all could be just around the corner.

Even today, those claims persist. As nuclear scientists devote billions of dollars in an attempt to fuse hydrogen together and recreate the conditions of the sun, the truth is, fusion based power is already upon us and growing rapidly.

Located roughly 93m miles away and regular as clockwork, we have access to our very own fusion reactor. Providing us with all the energy we need, the sun has the power to generate all of the electricity we could ever wish for, thanks to our understanding of photovoltaics. Yet solar power isn't terribly efficient and the sun doesn't always shine when you want it to.

Step forward science. Thanks to improving technologies, solar panels are becoming not only cheaper, but also much more efficient. Combined with advances in material science, the problem of electricity storage is also declining. Therefore not only can more sunlight be captured and converted, but we can now begin to distribute and use the energy at a time and place of our choosing.

SOLAR PREDICTIONS

It is still early days. Just 2% of the world's electricity is generated via solar power, but the figure is growing rapidly and is predicted by visionaries such as Elon Musk to reach as much as 27% by 2050. Growth at that pace and in an industry with that scale points to an exciting time for investors ahead.

So how do you play the solar theme? Panel manufacturers, installers, inverters (to change DC to AC) and cabling companies will all no doubt have a role to play.

The enabling technology that will unlock not only solar but other forms of carbon-free power such as wind and tide is that of battery technology – both large scale to support industrial size solar arrays and small scale to support localised home power production.

As the motor industry transitions away from petrol to electric vehicles, it is here where some of the real advances in battery technologies are being made. When you change your perception of the automobile from that of a mechanical horse to one of a drivable battery, maybe the auto company valuations have a little more vroom in them yet?

What to do with the cash windfall from downsizing

Whatever your reasons for moving to a smaller property, how can you best invest the proceeds to provide a robust income in retirement?

There are a great many reasons that people choose to downsize their house: reducing running costs, feeling that the family home is now too big and, very often, to free up vital funds for retirement.

The average UK house price grew by 4.2% to £224,144 in the year to March, according to the Office for National Statistics. Research by SunLife reveals that the average person aged 55 or over has lived in their current home for 24 years and are likely to have seen its value triple in that time.

Someone making the move from a large family home to a smaller property could then potentially free up a chunky sum of £294,428

WHAT COULD YOU MAKE FROM DOWNSIZING?

Indeed, data from Nationwide, shows the typical UK home has more than tripled over the past two decades from £62,903 in 1998 to £211,792 today. Many homeowners who have enjoyed such astronomic gains are now looking to make use of that extra cash to help fund their retirement and downsizing is often the first step. But it's often not as easy – or as lucrative – as you may think.

Figures from online property portal Rightmove show the typical four-bedroom detached home in the UK (excluding London) is £478,176, while the average two-bed semi-detached house is £183,748.

Someone making the move from a large family home to a smaller property could then potentially free up a chunky sum of £294,428.

Of course, you won't walk away with the full amount. Stamp duty on the semi-detached home will be £1,174 and, after mover's costs and solicitor's fees, it is estimated that moving house costs around £9,000.

TAX IMPLICATIONS

If the house you're selling is a second home or buy-to-let property you may also have to pay capital gains tax on the profit you have made since purchasing it. Capital gains tax is 20% for basic rate payers and 28% for higher rate payers. That means if you had enjoyed the £148,889 of gains in the example above you could have a hefty tax bill of £38,608 after taking into account your capital gains tax (CGT) allowance of £11,000.

Some homeowners may be tempted to invest the money they have freed up from the house sale in a buy-to-let property. This can be an appealing investment proposition because it can provide a regular income from the rent received as well as the potential gains if house prices rise.

Jonathan Clark, mortgage partner at Chadney Bulgin, warns that purchasing a buy-to-let means paying an additional 3% in stamp duty as well as CGT when you come to sell the property.

Recent changes to legislation also mean the tax benefits of owning a rented home are not as generous as they once were.

He adds: 'I would have serious doubts about buy-to-let being a viable investment proposition. Renting isn't always easy, you can get void periods and there are high upkeep costs. As well as that, house price inflation has been rampant for the past decade but that doesn't mean it will continue.'

WHAT DO YOU NEED TO PROVIDE FOR?

But planning your retirement income isn't as simple as working out how much money you could potentially make from selling your home. Pete Chadborn, director at adviser firm Plan Money, explains: 'Retirement incomes needs to meet two types of spending: basic expenditure which includes unavoidable costs such as utility bills, food shopping and running a car, and lifestyle expenditure, which covers holidays, meals out and hobbies.'

Savers should consider how much they need to generate to meet these needs and how long their money is likely to last. In some cases, he adds, an annuity may still be a good option – these are where you use your savings to buy an insurance policy, which provides a set income for the rest of your life.

POTENTIAL INVESTMENT OPTIONS

For others, investing in funds and investment trusts that aim to pay a steady income will be a better bet. Investing through retirement can be appealing because, as well as getting an income from funds, there is the potential they will grow your money too – however, this does come with the risk that the value of your investments could also fall.

Ryan Hughes, head of active portfolios at AJ Bell, likes **Evenlode Income (GB00BD0B7B32)**, which invests in dividend-paying businesses such as Marmite-maker **Unilever (ULVR)**, Guinness brewer **Diageo (DGE)** and pharmaceutical firm **GlaxoSmithKline (GSK)**. It yields 3.3%.

While the Evenlode fund sticks to UK companies, **Newton Global Income (GB00B7S9KM94)** looks across the world for dividends. The fund, which yields 2.9%, has investments in the US, UK, Switzerland and India. It backs companies such as fashion brand Ralph Lauren, tech company Cisco Systems and European drugs firm Novartis.

Meanwhile, Ben Yearsley, director at Shore Financial Planning, likes renewable energy investment trusts, which own solar panels and wind turbines and generate an income by selling the energy they produce. He likes **Foresight Solar (FSFL)**, which yields 5.9% and **Greencoat UK Wind (UKW)**, which yields 5.4%.

Finally, a fixed interest fund, which invests in bonds issued by companies and governments, can add some extra income into your portfolio. Hughes likes **Artemis Strategic Bond (GB00B09DMJ21)**, which can invest in a mix of bonds depending on where the manager thinks the best opportunities are. Currently the fund, which yields 4%, invests in bonds issued by the US Government, Nationwide Building Society and utilities company Electricite de France, among others. (HB)

Retirement incomes needs to meet two types of spending:

1

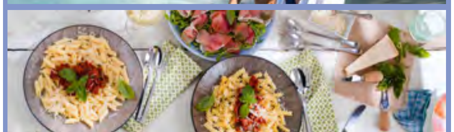
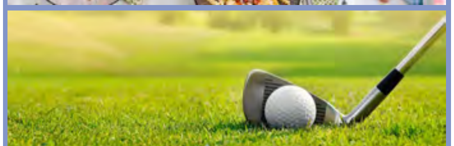
BASIC EXPENDITURE which includes

Utility bills
Food shopping
Running a car


2

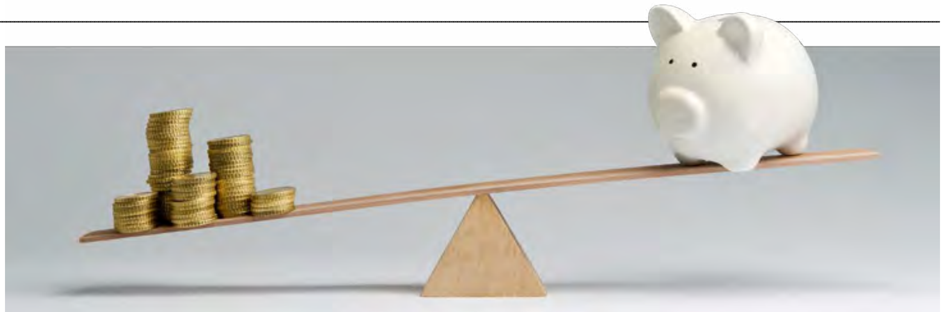
LIFESTYLE EXPENDITURE which covers

Holidays
Meals out
Hobbies

Pension savers risk double jeopardy with bank account withdrawals

We reveal how individuals are spending their retirement savings



A staggering £17.5bn has been withdrawn flexibly from savers' retirement pots since the pension freedoms launched in April 2015. But how are people spending it?

To find out, AJ Bell surveyed 370 people who have used the flexibilities – which allow you to spend your pension as you like from age 55 – to get an idea of where the money has gone.

The good news is plenty of the cash has been spent sensibly, with a quarter of withdrawals (£4.7bn) being used for day-to-day living and around £3bn being used to pay off debt and reduce interest payments.

A whopping £2.3bn has been used to fund luxuries such as holidays, cars and home improvements. While there's nothing wrong with this, you need to remember the main purpose of your pension is to provide an income through retirement – a period which could last for 30 years or more.

Rather bizarrely, £1.6bn has been withdrawn and invested in other products such as ISAs. This makes little sense in most cases – pensions offer tax-free investment growth (the same as ISAs) and you'll pay tax on 75% of the money you take out.

The bank of mum and dad (or maybe grandparents) is well and truly open for business, with £1.2bn being used to help people's children. The buy-to-let market, meanwhile, has had a £1bn injection from pension freedoms investors.

Despite stories of people using the flexibilities to squander their retirement pot on booze and gambling, only a tiny fraction of withdrawals (£245m) have been spent on 'entertainment' such as eating out, season tickets or betting. Similarly, a tiny proportion (£60m) has been used to fund elderly care.

MISSING OUT ON INVESTMENT GROWTH

Perhaps the biggest concern is around the £3bn that has been withdrawn from pensions and shoved into a bank account.

While having some ready cash is usually sensible, it is hardly a long-term investment strategy – particularly with many accounts paying ultra-low interest rates and inflation eating away at your capital.

In fact, savers who do this risk double jeopardy as they pay tax on their withdrawals and then potentially miss out on valuable long-term investment growth.

As an example, let's compare the outcomes of two people: one who withdrew their entire £100,000 pension and put it in a bank account paying 1% interest in April 2015, and another with a retirement pot worth exactly the same who chose to leave it within the tax wrapper and invest in the FTSE All-Share. Both had taxable incomes of £50,000.

The person who withdrew their pension first of all pays 40% tax on the withdrawal, meaning £60,000 went into their bank account. If this remained untouched and grew by 1% a year, by April 2018 it would have been worth £61,818.

By contrast, the person who left their fund invested (assuming 1% annual charge) would have seen their pot grow to £120,110 – almost double the size. They could then manage withdrawals to minimise their tax bills.

Tom Selby, senior analyst, AJ Bell

Scapa's smart new strategy could deliver big upside

It plans to use clients' own facilities to boost capacity and win new contracts

Bonding solutions specialist **Scapa (SCPA:AIM)** is worthy of closer attention thanks to an intriguing new technology transfer strategy to support growth in its healthcare division.

Scapa supplies bonding solutions and manufactures adhesive-based products for the healthcare and industrial markets.

Its industrial division accounts for approximately 60% of sales and focuses on adhesive components for a range of tapes for cable wrapping and packaging.

The healthcare division generates 40% of sales, partnering with market leaders to design, develop, manufacture and commercialise skin-friendly adhesives for wound care and medical devices.

WHAT IS A TECHNOLOGY TRANSFER?

Under its new strategy, Scapa plans to use so-called technology transfers where it buys a manufacturing site or a unit at a depreciated value from a client. It also receives a manufacturing contract on behalf of the client.

Scapa is taking advantage of more pharmaceutical companies outsourcing services, allowing them to focus on other areas such as marketing and branding.

Technology transfers will help Scapa acquire more capacity and increase production without significant outlays of capital.

It could also lead to recurring revenues by encouraging customer loyalty and speeding up product development times.

Over the last year, Scapa sealed technology transfers with a wound care business and a global consumer product firm.

HEALTHCARE ACCOUNTS FOR 40% OF SALES

WHY SPENDING £25M A YEAR COULD YIELD 30% UPSIDE

Berenberg analyst Benjamin May speculates £25m of spending on technology transfers every year could yield 'at least 30% upside' to his estimates for Scapa over the next three years.

On the back of forecast-beating annual results, May upgraded earnings before interest and tax (EBIT) expectations by 1% in 2019 and 2020 to £38.1m and £40.6m, respectively.

For 2021, EBIT is anticipated to jump 7% to £43.1m. Forecasts for sales, earnings per share and dividends were also hiked over the next three years.

Scapa trades on a 21.8 times forecast earnings per share (EPS) for the year to 31 March 2019 and so isn't cheap.

If the stock hits the 520p target price set by Berenberg the PE ratio would be 26.8 times, at current EPS estimates. We believe such a premium rating is justified based on Scapa's good track record and growth strategy.

Further levers for growth include organic gains and M&A, as well as manufacturing efficiencies and upselling in the industrials division.

Berenberg argues Scapa can benefit from reducing changeovers in manufacturing lines and upselling services to its larger clients.

SHARES SAYS:
We believe this could be an exciting new growth avenue for a quality stock. (LMJ)

BROKER SAYS: 3 1 0

Buy shares in Codemasters to play the boom in the gaming industry

The racing games specialist is off to a strong start on the stock market

Shares in video games developer and publisher **Codemasters (CDM:AIM)** have raced 35% higher to 270p since joining the stock market on 1 June. We feel the share price could rise further in the short term as more people become aware of the stock.

Warwickshire-headquartered Codemasters has raised £15m of new growth funds and a further £170m was raised for selling shareholders including management and Reliance Big Entertainment, part of the Indian conglomerate Reliance.

One of the most recognised British games developers with a 30 year track record of producing hit titles, Codemasters specialises in high quality racing games. It currently manages three established franchises, 'DiRT', 'GRID' and 'F1', with a fourth franchise, 'ONRUSH', launching this month.

Founded by the Darling family in 1986, Codemasters boasts a loyal fan club of gamers, a balanced racing games portfolio and strong ties to leading car manufacturers and automotive brands.

The company has been successfully turned around by the current management team, led by CEO Frank Sagnier, with sales and adjusted earnings before interest, taxation, depreciation and amortisation (EBITDA) having increased year-on-year since 2015.

For the year to March 2018, revenue grew by 27% to £63.6m and adjusted EBITDA shot up almost 90% to over £11.7m.

The new money raised at the AIM flotation will help Codemasters to extend the reach of its existing franchises onto more platforms such as mobile and virtual reality and beef up marketing to reach a wider audience of gamers.

From the launch of ONRUSH onwards, Codemasters will directly supply its new releases to digital retailers and app stores without the need for a third party distributor. This will provide the group with better margins as there are no

distribution fees or cost of goods fees from console manufacturers, plus there is no inventory risk.

Codemasters' IPO share placing was oversubscribed, reflecting investors' healthy appetite for access to the video games industry. It is one of few bright spots in the wider consumer space, where quoted investment options include **Sumo (SUMO:AIM)**, **Frontier Developments (FDEV:AIM)**, technical services provider **Keywords Studios (KWS:AIM)** and publisher **Team17 (TM17:AIM)**.

Besides 'large, technically competent and well capitalised' competitors, risks flagged in the admission document include reliance on the success of any new titles launched, deterioration in the popularity of F1 as a sport and the importance of the F1 licence.

The latter was recently renewed until 2021 by new F1 owner Liberty Media but Codemasters says a loss in the future of this exclusive licence 'could materially adversely affect the business of the group and its trading performance'.

SHARES SAYS: ↗

There is a strong appetite for gaming-related stocks given the strength of the industry and we believe Codemasters has all the right qualities to shine on the stock market. Buy at 270p. (JC)

BROKER SAYS: N/A

INDEX

KEY

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