STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

THIS WEEK:
ROYAL MAIL, CAPITA, PURPLEBRICKS, BT, VODAFONE, BP, SHELL
AND MORE

MARKET
SELL-OFF

The key points to consider with your investments

JUST THE JOB
BOOM TIME FOR RECRUITERS

DOMINO'S MARK 2
FRANCHISE BRANDS' STRATEGY FOR SUCCESS

RARE SETBACK *FOR INFRASTRUCTURE INVESTMENT TRUSTS*

Why you should stay calm amid stock market volatility

The key points to consider with your investments

The decline in share prices around the world has dampened the spirits of many investors. In times like this, it is important to stay calm and consider the reasons behind the market sell-off.

You should ask whether the fundamentals have changed for your investments. If they haven't, it's probably best to do nothing. If they have, you need to do further research and ask whether you should still own that investment.

On one hand, global growth expectations have been upgraded this year which should be good news for corporate earnings and share prices. However, equity valuations have been high in many parts of the world – particularly the US – and so many observers have been expecting a pullback for some time.

WHY HAVE THE MARKETS WOBBLED?

Last week's US jobs report spurred talk that the US economy may be strong enough to warrant acceleration in interest rate hikes. The jobs data led many investors to believe inflation could rise quickly this year as US tax cuts take effect and more companies start raising pay and prices.

You have to remember the stock market is forward looking and is pricing in potential events that may not happen for many months. A rapid acceleration in interest rates could cause consumers and businesses to cut back on their spending as borrowing costs would become more expensive, thereby damaging the economy.

Investors will now want guidance from the US Federal Reserve that rates aren't going to go up quickly in order to feel more confident about the stock market.

WHY IS THE SELL-OFF GLOBAL?

The US has a major influence over what happens on markets around the world. Investors will now look to places like Germany and Japan to see what's happening with their wage inflation. For example, German unions and employers agreed a deal on 6 February to lift wages for 900,000 employees in the metal and electric industries by 4.3%.

On a broader basis in Europe, there is an argument to suggest more jobs could be created without creating rampant wage or inflationary pressure, given that unemployment in the Eurozone is still at 8.7%. The European Central Bank has also given no indication that it is prepared to raise interest rates or bring its monetary stimulus programme to an end early.

WHAT HAPPENS NEXT?

Remaining invested in the market has historically been the best course of action if you're a long-term investor. Stock markets have a tendency to recover faster than you think, although no one knows exactly when that recovery will happen.

It is also worth considering the scale of the latest market sell-off in the context of earlier gains. Many investors who have been in equities for the past two years should still be sitting on decent returns even after the latest market wobble.

For example, anyone investing in the FTSE 100 index would have made 24% return in the two years to 1 February 2018, being the night before the global sell-off began. Over the same time period, you would have made 59% from investing in the Dow Jones index.

Extending the holding period to early trading on 6 February (when this article was written) would have reduced those gains to 15.6% for the FTSE 100; and 39.7% for the Dow Jones.

The past week has been a long overdue reminder that markets move up AND down and investing in equities does come with risk attached. (DC)

AN OPPORTUNITY NOT TO BE MISSED

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Asset Management

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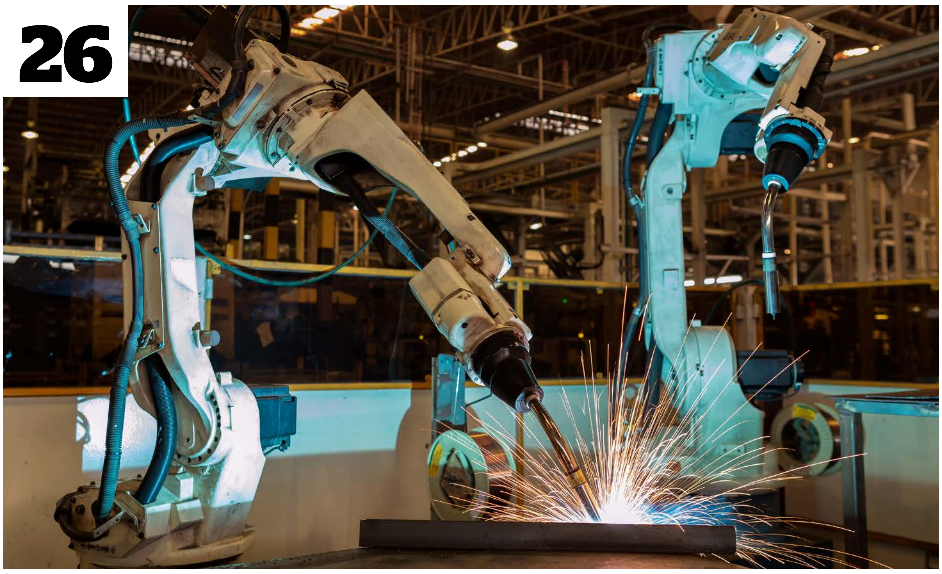

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BROKER RATINGS EXPLAINED:

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.

Weighing up the impact of the market sell-off

We discuss the warning signs, where the sell-off ranks historically and the UK stocks and sectors which have been worst affected

The past week has been a haunting experience for many investors with a pullback in stock markets around the world.

The US Dow Jones Industrial Average endured its worst ever one-day fall on 5 February, down 1,175 points to 24,345.

As we write (6 Feb) the FTSE All-World index has fallen 5.4% since the beginning of February – a very big move in just a handful of trading days.

The VIX index, which measures market volatility, surged to just over 50 on 6 February, its highest level since 2015 and up from 13.75 at the start of the month.

The selling pressure seems to have achieved a momentum of its own. Most observers attributed the weakness to expectations for acceleration in US interest rate hikes as the Federal Reserve contends with the threat of rising inflation.

WERE THERE ANY WARNING SIGNS?

We discussed the risk of an imminent market correction in the US in the 25 January edition of *Shares* after the yield on two-year US government bonds eclipsed the dividend yield from US stocks.

The logic was that if the income on offer from low-risk government bonds was higher than more risky equities, then investors might begin to trim their exposure to the latter in favour of the former. Experts have also been warning that US stocks were becoming overvalued for some time.

ARE THERE ANY CONCERNS ABOUT THE 'REAL' ECONOMY?

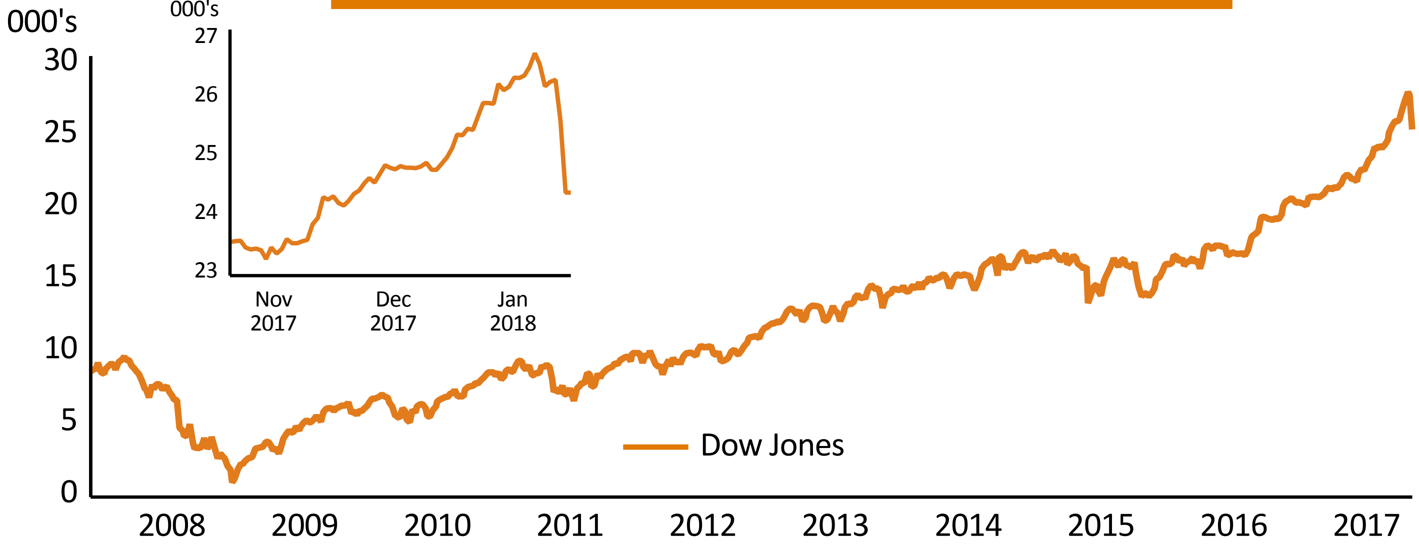
Although a prolonged sell-off in the markets would have a wider economic impact given the hit to people's pension pots, savings and investments and the availability of capital for companies, short-term volatility is unlikely to do any lasting damage.

However, there are some reasons for caution despite global growth and corporate earnings looking robust for now.

Inflation is something to monitor closely as it has a big influence on consumer and corporate spending habits and therefore economic activity.

Most notably, we'd point to the level of global inventories – the raw materials, partially finished products and finished goods held by companies – going up fast.

DOW JONES OVER 10 YEARS AND (INSET) THREE MONTHS



Source: Thomson Reuters Datastream

Investment bank Liberum comments: 'Global inventories are on the rise, with widespread bottlenecks. US inventories increased sharply this month. EU inventories are above 50 for the third month in a row, for the first time since mid-2008.' A figure over 50 implies expansion.

'This is the fourteenth month of US orders above 60; over the last 50 years US orders remain above 60 for 10 months on average, with 17 months being the longest period in 2003-04.' Liberum implies that a fall in orders below 60 and inventories remaining high due to bottlenecks could be the first sign that corporate earnings have peaked.

WORST PERFORMING SECTORS IN LATEST MARKET SELL-OFF

SECTOR	FEB 2018 PERFORMANCE (%)
FTSE 350 Sector Mobile Telecommunications	-7.79
FTSE 350 Sector Electricity	-6.88
FTSE 350 Sector Real Estate Investment Trusts	-5.74
FTSE 350 Sector Aerospace & Defense	-5.66
FTSE 350 Sector Construction & Materials	-5.62
FTSE 350 Sector Oil & Gas Producers	-5.60
FTSE 350 Sector Electronic & Electrical Equipment	-5.54
FTSE 350 Sector Industrial Engineering	-5.49

WHICH STOCKS AND SECTORS HAVE BEEN WORST AFFECTED BY THIS MONTH'S DECLINES ON THE UK STOCK MARKET?

The worst performing sectors in the sell-off for UK-listed stocks are mostly at the cyclical end of the spectrum, meaning they are very sensitive to fluctuations in the markets and the economy.

Among the worst performing FTSE 100 stocks in the wake of the global market sell-off are **Vodafone (VOD)**, which disappointed the market with a recent trading update; health and safety kit firm **Halma (HLMA)** whose premium valuation left it vulnerable to an equity de-rating; and equipment hire business **Ashtead (AHT)**.

The mid cap fallers are mainly firms which have been hit by unrelated negative news and include office provider **IWG (IWG)** and defence firms **Cobham (COB)** and **Ultra Electronics (ULE)**. They sit alongside transport operators **Stagecoach (SGC)**, which is to lose the East Coast mainline franchise early, and **Go-Ahead (GOG)**; as well as asset management firm **Man Group (EMG)**.

On AIM, growth stocks have been hard hit with double digit declines in many companies on high equity valuations which had previously enjoyed strong upwards momentum.

HOW DOES THIS EVENT COMPARE WITH OTHER SELL OFFS?

Headlines calling the worst fall for the Dow Jones on record are somewhat misleading as they are merely discussing the decline in terms of points – and the index had recently hit record highs.

In percentage terms, the Dow Jones was down 4.6%. This is undoubtedly a big move, the biggest since August 2011, but not even close to ranking in the 20 biggest percentage falls on record.

Notably after a big fall at the market open in London on 6 February, bargain hunters began to emerge, lifting the FTSE 100 off its lows. (TS)

HOW WERE OTHER MARKETS AFFECTED?

JAPAN / NIKKEI 225	-8.0%
HONG KONG / HANG SENG	-6.3%
FRANCE / CAC 40	-4.8%
GERMANY / DAX XETRA	-4.0%
INDIA / S&P BSE 100	-3.2%
BRAZIL / BOVESPA STOCK INDEX	-1.0%

Source: SharePad. Data 1 Feb close to 6 Feb 3.30pm

Four important stories from the past week: Capita, Purplebricks, BT and Vodafone

We look at the latest news from four well-known stocks on the UK market

Outsourcer **Capita (CPI)** is seeking to avoid the fate of its doomed peer Carillion by taking steps to fix its balance sheet under new chief executive Jonathan Lewis.

In a kitchen sinking exercise, Lewis has cancelled the dividend, announced plans for a £700m rights issue, targeted disposals of certain businesses and also downgraded profit guidance.

If Carillion had taken similar actions 12 or 18 months ago it might have avoided liquidation, with *Reuters* analysis showing the company had paid out £727m to shareholders since it was created 19 years ago.

Shore Capital analyst Robin Speakman says: 'Capita still faces significant challenges in its core UK market on contract pricing and with continuing hiatus in public sector services, in our opinion.'

Fund manager and Capita shareholder Neil Woodford believes it is now a takeover target for rivals or private equity buyers.

PURPLEBRICKS FIGHTS OFF CRITICISM

Online estate agent **Purplebricks (PURP:AIM)** has been hit by analyst criticism of its business model and media reports which have called into question its success rate for selling homes.

Jefferies analyst Anthony Codling says just half of the company's customers in November 2016 sold their homes within 10 months while the company has regularly quoted success rates around and above 80%.

Codling also says there is a possibility that revenue may have been overstated. These criticisms have been 'firmly' refuted by the company.

FEARS OVER BT DIVIDENDS

A £14bn pension black hole, tightening regulation and an expensive-looking sports broadcast rights process are big reasons why **BT (BT.A)** investors are getting hot under the collar.

Watching its UK consumer arm go ex-growth in the third quarter to 31 December 2017 doesn't help matters.

The main worry for shareholders is that these issues could squeeze BT's future cash flows and limited its ability to keep paying its high-yielding dividends. BT's share price has plunged to a five-year low of 241.55p, putting the full year to 31 March 2019 income yield at 6.7%, which looks attractive, but only if the group can afford to pay it.

VODAFONE IN TALKS OVER LIBERTY ASSETS

Confirmation of asset talks between **Vodafone (VOD)** and Virgin Media-owner Liberty Global have grabbed the market's attention. Negotiations could see Vodafone invest up to €14bn to take ownership of various European assets from Liberty, particularly fixed-line and broadband assets.

Vodafone insists that it is not looking to launch a full takeover of the US-listed company. But it does raise an interesting question over the future of Liberty-owned Virgin Media in the UK; an asset that many analysts believe would add a useful fibre network as well as content to Vodafone. (TS/SF)

Purplebricks has been hit by criticism of its business model

Why Royal Mail's pension breakthrough is such a big share price catalyst

The company can now focus on productivity gains instead of negotiating with staff to avoid strikes

Shares in parcels-to-letters delivery service **Royal Mail (RMG)** are enjoying their best run in two years, currently trading at 505.8p versus a 12-month low of 370.9p in November 2017. The market has given a positive reaction to a breakthrough deal on pay and pensions.

Alex Paterson, an analyst at investment bank Investec, reckons the shares could hit 600p over the next 12 months. He says the company should now be able to focus on product development and generating further operational efficiencies.

'For delivery staff, roughly 90% of UKPIL employees, out of a working day of between 7 and 8 hours, only between 4 and 4.5 hours, or about 56%, is spent actually delivering mail and parcels, with the remaining time spent in the local delivery office where a number of functions take place,' comments Paterson. UKPIL is Royal Mail's UK parcels and letters arm.

'One of the most time-consuming functions is manually sorting and sequencing parcels and unaddressed mail and this can now be automated and hence the 56% of time spent delivering can increase.'

WHAT DID ROYAL MAIL PROMISE IN ORDER TO END THE DEADLOCK?

Royal Mail says it will close its defined benefit final salary pension scheme at the end of March but will maintain transitional pension agreements ahead of the eventual launch of a defined contribution scheme. The ongoing annual cash cost of pensions will remain at £400m per year.

In exchange for a 5% pay rise and shorter working week, employees will work with Royal Mail to increase operational efficiencies by using technology to efficiently process and deliver parcels.

The Communication Workers Union has endorsed the terms of the agreement and says the deal will now be recommended to the union's 110,000 members in a ballot.

Alongside news of this agreement Royal Mail reported robust trading. It expects to deliver operating profit before transformational costs of at least £680m in its March 2018 financial year.

Paterson at Investec comments: 'We believe that by unlocking the potential for productivity improvement, the outlook for Royal Mail has been transformed.

'Royal Mail is the lowest margin and lowest rated mail stock in Europe, indicating that the market does not believe that margins can be maintained, never mind increase. We believe that margins can rise.'

Shares said last October to buy Royal Mail at 381p in the belief that its problems could be fixed – and we remain fans of the stock at the current price.

Even after the recent share price strength the company offers a generous prospective yield of 4.9%. (LMJ)

BP wins the battle of the oil majors

Company reveals better performance in refining and marketing than Royal Dutch Shell and US peers

Of the UK's two large integrated oil companies, **BP (BP.)** looks to be the winner over **Royal Dutch Shell (RDSB)** in terms of fourth quarter and full year results.

Shares in both companies fell on the day of their results earlier this month but BP's performance both in share price terms and operationally was the more impressive, with a modest fall in its shares on 6 February coming amid a much wider market decline.

Expectations for both sets of results were high after a significant recovery in the oil price. Shell's largely in-line numbers were not enough to match these expectations. Current cost of supply earnings (Shell's preferred measure of profit) excluding one-off items came in at $15.76bn compared with $7.19bn a year earlier.

However, this was only marginally ahead of the analyst consensus figure of $15.72bn. In part this was due to a weaker than expected performance from its downstream (refining and marketing) operations. This pattern was repeated in the quarterly results from US rivals ExxonMobil and Chevron.

BP posted underlying replacement cost profit of $2.1bn against consensus estimates for $1.9bn, quadrupling year-on-year, and, in contrast, delivered 'very strong' downstream earnings.

Both companies achieved a robust cash flow performance which is encouraging for the sustainability of their respective dividends. At £23.60, Shell is yielding 5.7%; and at 478p, BP is yielding 6%. (TS)

Tesco impresses with profit and dividend guidance

BRITAIN'S BIGGEST retailer **Tesco (TSCO)** has issued guidance for better than expected profit and dividend payments.

It expects to show at least £1.575bn operating profit before one-off items when full year results are published on 11 April. It has flagged a 2p per share final dividend.

The latest grocery share data from Kantar Worldpanel shows Tesco remains the fastest growing of the big four supermarket groups. (JC)

Shoppers keep calm and carry on

DESPITE A testing backdrop for UK shoppers, total retail sales rose 1.4% in January 2018, versus 0.1% growth in January 2017, according to the latest (6 Feb) BRC-KPMG Retail Sales Monitor.

On a like-for-like basis, UK retail sales crept 0.6% higher, a pretty solid performance, albeit one delivered against a weak prior year comparative. 'The figures paint the same old picture of divided fortunes for food and non-food sales,' comments BRC CEO Helen Dickinson.

Food sales continue to be much stronger than non-food sales (JC)

Ocado story sours again

SHARES IN online supermarket **Ocado (OCDO)** soured as full year results (6 Feb) revealed a return to a pre-tax loss and a warning that 2018 profits will be pegged back by ongoing investment spend to 'accelerate' growth opportunities.

Ocado also announced a 5% placing which in the scathing words of Shore Capital analyst Clive Black, 'reflects the magnitude of cash burn for its NASA-like projects; high in technological detail but one just never sees their benefit from Planet Earth'. (JC)

18%

MANY UK technology stocks are not as expensive as they may at first appear, especially when current growth forecasts are taken into account. This is the finding of a study by investment bank Investec.

Its analysts found their universe of technology stocks were trading at a 18% discount to the wider FTSE All Share index, on a price to earnings growth or PEG multiple.

The Investec research, published on 31 January, found that technology stocks were trading on an average PEG ratio of 1.8, versus the FTSE All Share equivalent of 2.2.

The PEG ratio is worked out by dividing the price to earnings (PE) multiple by forecast earnings growth. Typically, lower PEG ratings imply that earnings growth is not being fully reflected in share price valuations.

Although it doesn't include all technology stocks on the London market – Investec's list focuses on the FTSE 350 constituents plus a wide selection of small technology firms – it does provide a fair overall view of the space.

Investec estimates average earnings growth in 2018 for its technology list of low-teens. The analysts believe that macro indicators are sound and that many business models are in good health.

The UK technology sector outperformed strongly through 2017.

A.G. BARR'S SALES CONTINUE TO FIZZ

SCOTLAND-BASED soft drinks maker **A.G. Barr (BAG)** says it now expects up to 99% of its own portfolio will be exempt from the UK sugar tax, up from previous guidance of 90% and leaving a meagre 1% of the portfolio exposed to the levy. The *IRN-BRU*, *Rubicon* and *Strathmore Water* brand owner's innovation and reformulation programme has proved so successful that almost all of its own portfolio will contain less than 5g of total sugars per 100ml before the soft drinks sugar tax is implemented in April. This news accompanied a positive trading statement from A.G. Barr, flagging 7.5% sales growth to around £277m for the year to 27 January 2018, outperforming the UK soft drinks market.

UK CONSTRUCTION FLATLINES

THE LATEST purchasing managers' index (PMI) data on the UK construction sector suggests the fall-out from the collapse of **Carillion (CLLN)** is having a negative impact.

A reading of 50.2 in January implies negligible growth. Any figure above 50 means expansion while anything below this threshold means activity is slowing.

PMI releases are seen as offering a good insight into current conditions as they are based on responses from the people within companies who have responsibility for buying in required goods and services.

Snap up Laird before the market wakes up to its turnaround

Substantial recovery could be on the cards at reshaped electronics expert

The breathless sell-off in share prices earlier this week is a good reminder not to be over-exposed to stocks with high valuations. With that in mind, we've spotted an interesting stock on an undemanding valuation and one with a potential re-rating catalyst on the horizon.

Laird (LRD) is a global technology company, designing and manufacturing complex engineered components that facilitate and protect mobile communication systems and connected solutions.

It is an increasingly big supplier to new cars which are becoming wired for the internet like never before. Car technology is one of its big growth opportunities alongside 5G extra superfast mobile communication and internet of things applications.

Its shares are trading on 11.2 times forecast earnings per share for 2018. That rating falls to 9.9-times based on 2019's forecast earnings. It also has a 3.4% prospective yield for 2018 with scope for rapid dividend growth.

WHY THE STOCK IS SO CHEAP?

The share price has more than halved over the past 18 months after the company got itself into a terrible state. Poor operational management, an overly-complex structure and too much exposure to mobile phone markets were to blame.

But the big fix is taking shape now that its balance sheet has been repaired, as evidenced by an impressive trading update in October 2017. Third quarter results showed almost everything rising – revenue, profit, operating margins and forecasts – except the share price.

Checks and balances put in place by a shaken-up management team means near-term growth may be more considered, but also more reliable.

For example, where once it earned about 30% of revenue from Apple, the Cupertino giant's contribution has been reduced to around 15% – still large but more manageable.

LAIRD BUY
(LRD) 118.7p
Stop loss: 95p

Market value: £580m

WHAT NEXT?

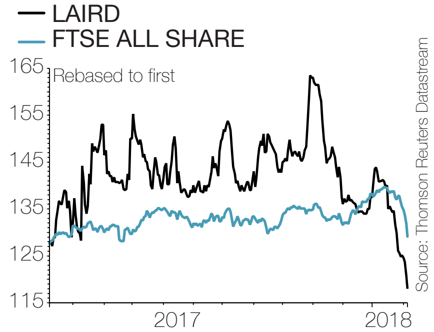
There is now real scope for rapid recovery and the market has been slow to pick up on this point. We believe this will shine through when 2017 full year results are unveiled, pencilled in for 1 March.

This trade is not without risks. Laird remains a big Apple supplier, not always a comfortable position to be in, while visibility in some of its other end markets is not great. There is also ongoing execution risk to the recovery plan.

Yet these factors look overly discounted in the current share price with little value given to outperformance. Its peer group trades on a rough forward price-to-earnings multiple of 17-plus, according to Reuters.

That implies considerable scope for Laird to enjoy a higher rating once it can convince the market that its turnaround is in full effect. (SF)

BROKER SAYS: 5 3 0



Time to feast on high quality Cranswick

Cash-generative pork and poultry processor is a tasty pick for uncertain times

CRANSWICK ↗ BUY
(CWK) £29.32
Stop loss: £23.40

Market value: £1.5bn

An equity market sell-off should remind investors of the need to include some high-quality, cash-generative growth stocks in a well-balanced portfolio.

Buying shares in the current market will take some nerve given the heightened volatility. As such, you should only make new investments if you feel comfortable about the market backdrop and understand the risks.

If you're happy to proceed, we believe a good starting point is fresh pork-to-premium cooked poultry products supplier **Cranswick (CWK)**. The food producer has an unbroken dividend growth track record stretching back to 1990, a reflection of a well-run business.

Over the past decade, Cranswick's UK pork revenue has fattened up impressively from around £500m to north of £1bn per year, aided by investments in boosting pig-processing capacity and in new product capability.

The £1.5bn business has also built scale in the poultry market through two acquisitions: 2014's Benson Park and 2016's Crown Chicken.

Investment bank Berenberg expects Cranswick to deliver substantial organic growth from pork and the convenience channel over the coming years.

POSITIVE TRADING UPDATE

Hull-headquartered Cranswick reported (1 Feb) a strong performance for the third quarter including Christmas with trading 'slightly ahead' of management's expectations. Its total and like-for-like sales were both ahead of the prior year.

Impressively, each product category delivered positive volume growth, supported by new business wins in both pork and poultry and with bacon proving a standout Christmas performer. Total export sales were also 'well ahead' with China proving a strong market for off-cuts including chicken feet.

HEADWINDS TO CONSIDER

After 18 months of rising UK pig prices, the market is now deflationary. This trend could prove a headwind for selling prices. However in the short-term, lower pig prices could potentially boost Cranswick's margins, given the usual lag in pricing pass-through to customers.

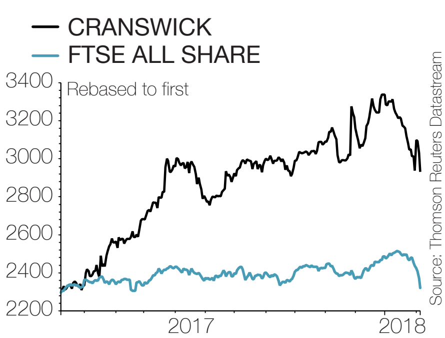
Cranswick continues to take market share via organic and acquisitive means. Its focus on premium or super premium products is serving it well while investing in manufacturing capabilities.

The business continues to invest for growth, but retains significant financial flexibility with little net debt expected at year end, says investment bank Investec.

'Despite the record levels of capex, we still anticipate the company's net debt will fall slightly from £11m to £9m this year,' chips in Berenberg. It believes Cranswick has significant financial capacity to make acquisitions.

For the year to March 2018, stockbroker Shore Capital forecasts pre-tax profit to grow by 18% to £90.7m. It expects the dividend to increase by 15% to 50.8p. For the following year it forecast £95.5m pre-tax profit and 54p dividend. (JC)

BROKER SAYS: 4 2 0



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TRADING STATEMENTS	
Victrex	VCT
AGMS	
GCP Infrastructure Investments	GCP
Port Erin Biopharma Investments	PEBI
Shaftesbury	SHB
Victrex	VCT
ECONOMICS	
UK	
Construction Output	
Industrial Production	
Manufacturing Production	

TUESDAY 13 FEBRUARY

FINALS	
Acacia Mining	ACA
INTERIMS	
A&J Mucklow	MKLW
Oncimmune	ONC
Pan African Resources	PAF
AGMS	
F&C Capital & Income Investment Trust	FCI
Pressure Technologies	PRES
TUI	TUI
ECONOMICS	
UK	
PPI	
HPI	
CPI	
RPI	

WEDNESDAY 14 FEBRUARY

FINALS	
Coca-Cola HBC	CCH

SUPPLY ISSUES and a fall in full year revenue growth toppled ConvaTec's (CTEC) shares late last year, leaving the wound care specialist trading below the 225p price at which it joined the stock market in October 2016.

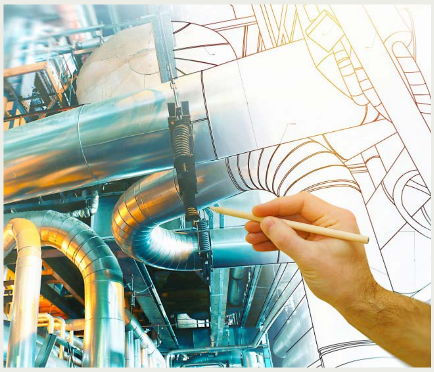
Shares in ConvaTec are now trading at 188.65p. The company publishes its half year results on 15 February.

Management need to spell out when ConvaTec can resolve its supply problems in its advanced wound and ostomy care division can be resolved.

INTERIMS	
Galliford Try	GFRD

THURSDAY 15 FEBRUARY

FINALS		
ConvaTec	CTEC	
Indivior	INDV	
Lancashire Holdings	LRE	
Primary Health Properties	PHP	
Relx	REL	
AGMS		
John Lewis of Hungerford	JLH	
Petro Matad	MATD	
Paragon Banking	PAG	
Sanderson	SND	
EX-DIVIDEND		
Avon Rubber	AVON	8.21p
Gateley	GTLY	2.2p
Henderson Smaller Companies Investment Trust	HSL	6p
MedicXFund	MXX	0.755p
Mountview Estates	MTVW	200p
PRS REIT	PRSR	1.5p
PZ Cussons	PZC	2.67p
Rank	RNK	2.15p
Unilever	ULVR	31.55p



DEADLINES ARE coming thick and fast for industrial design software supplier AVEVA (AVV). The group expects to get the sign-off from US regulators on 9 February for its proposed £3bn merger with the software arm of French engineer Schneider Electric.

That will swiftly be followed on 15 February with a trading update for the Schneider part of the enlarged group. Final merger completion remains on track for some time towards the end of February.

On 19 February new chief executive Craig Hayman will start work, and we expect details on the future strategy of the enlarged company during this busy month of news.

MANAGEMENT WILL be looking to draw a clear line between their charge and liquidated construction services business Carillion (CLLN) when Galliford Try (GFRD) reports its half year results on 14 February.

Since the news of Carillion's collapse on 15 January, Galliford Try's shares have lost 18% of their value, with the group warning of a potential £30m to £40m cash outflow to complete a joint venture it was working on with Carillion.

Alongside its construction business, which has faced problems of its own on legacy contracts, Galliford Try is also active in regeneration and housebuilding.

Click here for complete diary
www.sharesmagazine.co.uk/market-diary

BOOM TIME FOR RECRUITERS

WHY GROWING ECONOMIES ARE JUST THE JOB

Recruitment companies tend to do well in strong economic conditions. Corporates feel more compelled to hire people and individuals feel confident enough to move jobs, seeking new opportunities.

Upgrades to global growth forecasts last month by the International Monetary Fund (IMF) strengthen the outlook for recruiters. The new global forecast has been lifted from 3.7% to 3.9% for both 2018 and 2019. It also constitutes faster expansion than previous years (3.7% in 2017; 3.2% in 2016).

Growth is widespread. The IMF says 120 economies, accounting for three quarters of world GDP, have seen a pick up in growth in year-on-year terms in 2017, the broadest synchronised global

growth upsurge since 2010.

This presents a strong backdrop for recruitment companies with interests in multiple countries. Fortunately for UK investors, the majority of the mid and large cap London-listed recruitment agencies have global interests and aren't solely dependent on the UK to make money. The IMF didn't upgrade the UK's growth forecasts for 2018, leaving them flat at 1.5%.

While the IMF noted that advanced economies were doing well, these regions paled in comparison to developing powerhouses in Asia. China has been the growth story of the last decade but is now being challenged by India as the country's reforms bear fruit. The fund says 'the region [Asia] continues to account for over half of world growth'.

PAGEGROUP'S GLOBAL ADVANTAGE

Recruitment consultant **Pagegroup (PAGE)** has operations in 36 markets across the globe and 82% of its revenue comes from outside the UK, a point of note considering the IMF's pessimistic view of the UK's growth prospects.

Pagegroup has transformed significantly since it started as a business. It used to only place accountants. Now the company has candidates from a wide variety of professions. Steve Ingham, CEO, says 'now we can adapt our model to what suits the market'.

Like most of its peers, it grows organically. Ingham says this is because the markets it is targeting tend to be under-penetrated by recruitment firms so it's 'difficult to buy something that isn't there'.

Its recent fourth quarter results to 31 December 2017 show the company's profits up 19.3% in Europe, the Middle East and Africa and 14.9% in Asia Pacific. However, the company's profits were down 2.8% in the UK.

Kean Marden, an analyst at investment bank Jefferies, upgraded his stock rating on Pagegroup from 'hold' to 'buy' following the fourth quarter results.

He comments: 'Industry penetration in Germany and the US is increasing, China is now Page's third-largest individual country, and the Brazilian economy is slowly improving. If synchronised global economic momentum persists then we believe full year 2018 net fee growth could comfortably reach 12%'.

HAYS IS THRIVING OUTSIDE OF THE UK

Hays (HAS) is the largest UK-listed recruiter with a market cap nudging £3bn.

Finance director Paul Venables says that outside of the UK all aspects of the economy are good and 'this is the third year of that trend'. He adds that constraints on capital investment by the company's clients are lower which creates a 'more supportive environment'.

Similar to Pagegroup, the vast majority of Hays' fees come from outside the UK at 77%.

Venables is not overly concerned about a misjudging of the economic landscape. He views any problems will be of a geopolitical nature.

Concerns include the maverick US president Donald Trump and his relations with North Korea as well as the enduring Brexit saga. He is not alone among senior recruitment employees in thinking these as the main risks.

REAPPRAISING THE OPPORTUNITIES

Venables says that at one time US multinationals would have put Europe at the low end of their growth opportunities. 'Now they see it as the biggest market and are piling in'.

Further evidence of a sector-wide uplift was provided when Hays released its quarterly results to 31 December 2017.

Recruiters are judged by net fee income which is another way of saying gross profit. Hays' net fee income for Asia Pacific grew in the three month period by 16% while Continental Europe and the rest of the world went up by 17%. Even the UK was positive with 1% growth. Twenty four of its 33 markets grew by in excess of 10% in net fee income terms.

CPL RESOURCES (CPS:AIM)

Reported an 11% increase in pre-tax profit to €9m for the six months to 31 December 2017. CPL has been investing heavily in technology including the development of artificial intelligence tools for use in the recruitment sector.

UK-QUOTED RECRUITMENT COMPANIES
THE GOOD, THE BAD AND THE UGLY

SHARE PRICE CHANGE	10 Years	5 Years	3 Years	1 Year
Robert Walters	446.0%	206.0%	87.7%	75.9%
Harvey Nash	88.9%	30.7%	10.0%	40.7%
Norman Broadbent	-89.4%	-66.5%	-36.7%	32.6%
Hays	88.8%	124.0%	30.4%	31.0%
Pagegroup	96.3%	28.6%	14.7%	24.4%
Parity	-76.5%	-55.6%	-12.7%	17.3%
SThree	79.8%	5.4%	6.9%	13.5%
CPL Resources	92.7%	38.6%	31.7%	8.2%
RTC	66.7%	342.0%	45.6%	4.6%
Servoca	-42.2%	482.0%	-7.3%	0.5%
Kellan	-96.8%	-43.4%	-31.8%	0.0%
Prime People	33.8%	80.2%	-9.0%	-3.2%
Empresaria	41.9%	300.0%	172.0%	-8.3%
Gattaca	-25.1%	0.0%	-47.4%	-9.0%
Staffline	749.0%	247.0%	26.5%	-10.5%
Nakama	-65.6%	-22.5%	-66.5%	-16.2%
Impellam	368.0%	75.4%	-2.1%	-23.5%
Hydrogen	-87.3%	-68.4%	-61.7%	-23.8%
InterQuest	-69.4%	-51.4%	-69.5%	-28.9%

Source: Shares, SharePad. Data as of 2 Feb 2018

CASH MACHINES

Recruitment companies can be highly cash generative and Hays is certainly no exception. After paying £94.3m in special and final dividends in November 2017 the company still had a £35m cash position at the start of 2018.

HSBC analyst Matthew Lloyd says Hays is a 'well-managed staffer' with strong potential for earnings upgrades if UK performance is not as poor as widely modelled.

Robert Walters (RWA) is another major recruiter on the UK stock market although perhaps not of the scale of PageGroup and Hays. Chief executive Robert Walters says: 'The best thing we did was go international a few years ago and, as we are organically grown, that has taken time and effort.'

While it was certainly a good move, the company is perhaps the odd one out of the major players on the UK stock market as it has almost a third of its profits coming from the UK. However its fourth quarter results show that its net fee income was up by 13% in the UK on a year-on-year basis.

Its fastest growing market is Japan and the Asia Pacific region achieved the highest proportion of net fee income in its fourth quarter at £33.6m. On a group basis it achieved £90.5m in the three month period.

Investment bank Liberum upgraded its 2017 pre-tax profit forecast for Robert Walters by 10% in December to £38.5m after an unusually strong end to the calendar year.

The positive trend in October and November continued into December with the company announcing 22% constant currency net fee income growth in the fourth quarter of 2017.

> THE BEST THING WE DID WAS GO INTERNATIONAL A FEW YEARS AGO
>
> ROBERT WALTERS, CHIEF EXECUTIVE

HARVEY NASH (HVN:AIM)

Pre-tax profit increased by 16.8% to £4.4m in the six months to 31 July 2017. It reported record results in Benelux and an improvement from Asia Pacific and the Nordics.

STHREE (STHR)

Adjusted pre-tax profit for the year to 30 November 2017 increased by 9% to £44.5m. The US and Continental Europe were the bright spots while the UK and Ireland were very bad for the business during the 12 month period.

SMALL CAP RECRUITERS

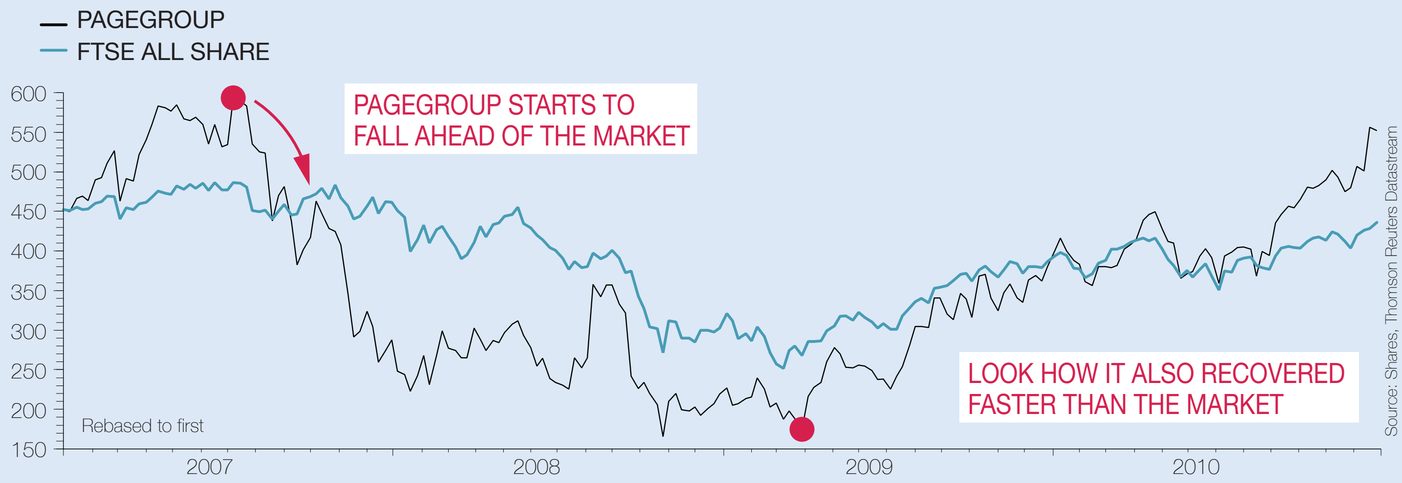
While no way near the scale of the aforementioned companies, **Empresaria (EMR:AIM)** should be another beneficiary of global growth given its coverage. It estimates that 80% of its adjusted operating profit comes from overseas.

The company has 21 brands in 19 countries although unlike its larger peers Empresaria has not found operating in certain parts of Europe plain sailing.

Finance director Spencer Wreford says new legislation in Germany regarding how long a temporary worker can be employed has negatively impacted the company although he remains upbeat. 'There's a huge opportunity in the German markets as despite the legislative issues it's a young market,' he adds.

The company has exposure to some very high growth markets with limited recruitment sector penetration such as Thailand, Vietnam, Malaysia and the Philippines.

Ian Jermin, analyst at stockbroker Allenby Capital, comments: 'Empresaria continues to demonstrate the strength of its diversified business model and we continue to look forward to further growth in 2018'.



DIFFERENT VIEWS ON THE SECTOR'S HEALTH

While many people in the recruitment sector believe we are seeing a broad upsurge in global growth, not everyone thinks it is that simple.

Steve Ingham at PageGroup doesn't believe the whole world is on the up; he should have a good idea considering how many markets the company is in.

He says: 'The UK is a challenge and Australia is reasonably challenging.' He also sees tough times in Brazil, particularly given uncertainty around the country's election this year.

Conversely, Spencer Wreford at Empresaria says: 'All economic indicators are positive for the first time since the global financial crisis. You've got alignment with the largest markets and emerging economies are showing positive GDP forecasts. Even the UK is positive if just barely.'

He concludes that these positive economic indicators 'should mean a great market for recruitment'.

GATTACA (GATC:AIM)

Underlying pre-tax profit fell by 21% to £16.2m in the 12 months to 31 July 2017. The UK operations have struggled but there were more promising signs from its Americas and Asian businesses at the financial year end.

PARITY (PTY:AIM)

It recently said operating profit for the year to 31 December 2017 would come in ahead of expectations. The business has been in turnaround mode and decent cash generation has helped to knock a good chunk off its net debt position, falling from £7.5m at the end of 2015 to £2.3m by mid-2017.

ARE RECRUITERS LEADING INDICATORS FOR THE MARKET?

Recruitment companies should in theory see a rising share price from increased economic activity in their markets. However, the opposite lies true if economic activity eases back.

Recruiters are likely to be among the first to know when life is getting tougher for companies as holding off hiring new people is an easy way to save money. As such, we believe there is a strong chance that shares in recruitment companies will fall before you see the situation reflected in economic data.

That was certainly the case in 2007 when Pagegroup's share price started falling well before the broader market as the subprime mortgage crisis began. It also started to rise ahead of the FTSE All-Share's recovery after the global financial crisis, perhaps a reflection of recruiters being among the first to see initial signs of increased activity among corporates.

So if you see shares in recruiters start to fall in tandem, don't rule out a broader market decline soon afterwards.

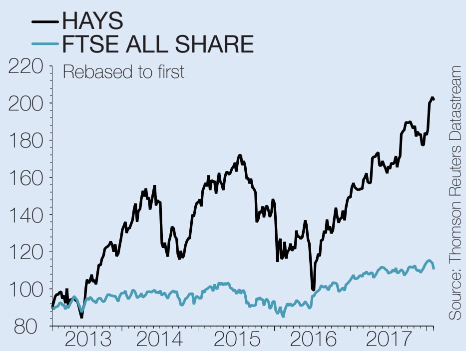
OUR TOP PICK OF THE LISTED RECRUITMENT COMPANIES

Hays (HAYS) is our pick of the UK-quoted recruitment firms. At 202p, the global powerhouse trades on 18.4-times 2018's forecast earnings per share of 11p. The dividend is forecast to be 3.7p in 2018, implying a 1.8% yield.

Liberum forecasts the company will have £103m net cash position at the end of its financial year on 30 June 2018. That provides firepower to potentially pay even greater dividends than is currently forecast, assuming business goes well in the current year.

Unlike some of its main competitors, it is still maintaining positive net fee income growth in the UK and its performance in its other markets is stellar. For example, in the three months to 31 December 2017, it reported 16% organic net fee income growth at constant currency in Asia Pacific; and 17% growth for Continental Europe and 'rest of the world'.

Liberum comments: 'We continue to see Hays as our preferred large cap recruiter given its greater discipline diversity and exposure to the more defensive contract market'.



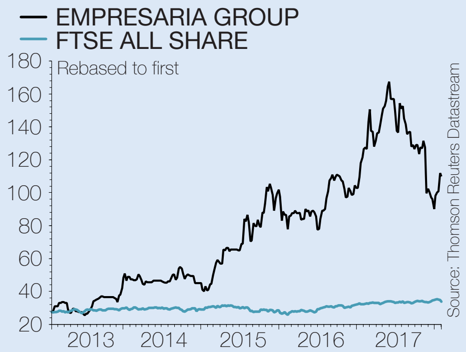
ONE FOR INVESTORS WITH AN APPETITE FOR HIGHER RISK

Empresaria (EMR:AIM) benefits from having global exposure.

At 110p, the company trades on 8.7 times 2018's forecast 12.6p earnings per share, supported by a 1.2% prospective dividend yield. Its equity rating is lower than many of the other recruiters due to recent volatile trading conditions and a large increase in net debt to £15.9m at the 2017 half-year stage versus £10.2m a year earlier.

A recent trading update flags strong performance in various parts of the world including the UK with professional services; Japan with the IT sector; and Chile with the retail sector. In contrast, it's having a tough time with the technical and industrial sector, although not disclosing the countries in which it is experiencing issues.

It has had some problems with a few of its markets underperforming such as the Middle East but it has taken action to remedy this situation.

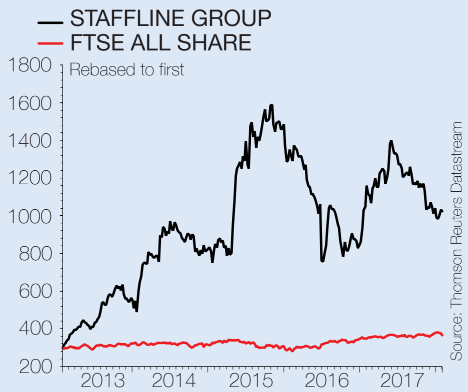


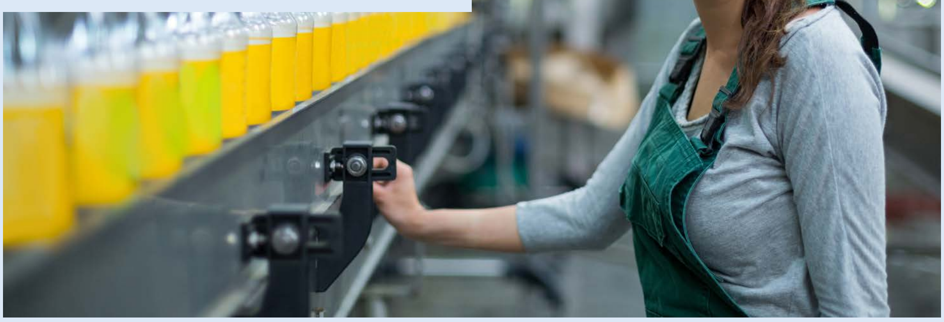
ONE TO AVOID

We are not fans of **Staffline (STAF:AIM)** mainly due to its sole UK focus. Its two divisions Onsite and PeoplePlus are both UK-focused and the business is low margin at around 4%.

This means that it has to fill lots of roles to make money and while the business is doing fine at the moment, any decline in the UK economy could have devastating effects.

Investment bank Berenberg describes its outlook as 'challenging' and expects cost cutting to help support margins. (DS)





Can Domino's Pizza gurus repeat success with another franchise business?

Franchise Brands is well worth a look given the pedigree of the people behind the small cap business

A man walks into a bar. He says: 'I want to unblock a drain, look after a dog and fix a scratch on a car'.

While this sounds like a joke, it doesn't have a comedic punch line. Instead, it's an accurate description of a £47m business quoted on AIM called **Franchise Brands (FRAN:AIM)**.

There's very good reason to take a closer look as it's fairly easy to see why some investors are excited about its prospects.

Franchise Brands is run by executive chairman Stephen Hemsley who is considered to be one of the UK's experts on franchise businesses. He's credited with driving the rapid growth of **Domino's Pizza (DOM)** in the UK, having been chief executive of that business between 2001 and 2008 before shifting to the chairman's role which he still holds today.

He founded Franchise Brands with well-known investor Nigel Wray in 2008 and both of them are still major shareholders owning a combined 54% stake. Wray was also a shareholder in Domino's for a long time, turning a £6.1m investment in the pizza business into an estimated £137m by the time he sold out completely in 2013.

Metro Rod is Franchise Brands' biggest operation

DOMINO'S MARK 2?

It's no wonder the pair attracted decent interest when Franchise Brands floated on the stock market in August 2016. 'Some of our bigger investors want us to do a repeat of Domino's and make them rich again,' comments Hemsley.

Helping the cause is the fact that Hemsley has recruited a few other Domino's alumni including the group's former marketing and IT directors.

Franchise Brands' task is to help franchisees to become more efficient operators and win more business. The more money generated by the franchisees and the less help they need to operate smoothly, the greater the amount of money that goes into Franchise Brands' pocket after costs.

EASY TO UNDERSTAND

Franchise Brands has a fairly simple business model. It owns various franchise companies and earns money from franchisees through start-up charges and monthly income from licence fees and product sales.

It provides central services which can be applied to any of the franchise companies in its portfolio, namely national brand marketing, customer lead generation, recruitment, training, support and IT. All franchisees pay money into a national advertising fund.

PRINCIPLE INTEREST

The biggest operation in its portfolio is Metro Rod which provides business-to-business drains clearance, maintenance and plumbing services in the UK. It has approximately 3,000 customers on 30,000 to 50,000 premises.

Hemsley wants it to become a £100m turnover business. That's about five times the level it achieved in 2016. 'We'll have to invest a lot in IT and franchisees will need to invest in equipment. That will take all of 2018 to achieve.'

Metro Rod has framework contracts to provide reactive services, such as working for a facilities management business who'd have a contract with the prison service, for example. 'Very often unblocking a drain on a reactive basis reveals a bigger problem with the drain. We would then quote to do the underlying repair.'

It also undertakes planned preventative maintenance such as cleaning fat and grease from drains. 'Metro Rod has good visibility and we know how often this type of work will happen.'

Metro Plumb, another business in the Franchise Brands portfolio, works for the likes of AXA and **AA (AA.)** doing home plumbing for customers with emergency response policies. 'Insurers' predictive models are uncannily accurate. We can plan our labour force and not sit around waiting for the phone to ring,' says Hemsley.

A FEW WEAK POINTS

A business called Kemac was inherited as part of the Metro Rod acquisition in April 2017. 'It was a basket case. It was formed to help improve water pressure issues in tall buildings and has gone through many different owners. Unlike our other companies, Kemac is a direct labour business.'

Kemac's poor performance in the months following the Metro Rod acquisition forced analysts to downgrade their earnings forecasts last September at the group's half year results. Since then, Hemsley says the business has been restored to profitability and hints it may be sold.

The executive chairman says another part of Franchise Brands is 'more or less defunct', being the MyHome cleaning business. That leaves ChipsAway, Barking Mad and Ovenclean as the core interests alongside Metro Rod and Metro Plumb. All have growth potential, he says.

GROWTH OPPORTUNITIES

ChipsAway specialises in on-the-spot repair of cars with scratches and dents. A big part of the business is working with fleet managers as its repair costs are cheaper than a body shop. It originated as a man-in-a-van operation but Hemsley says there is now an opportunity to increase scale by some franchisees having premises.

'The rise of park assist, and autonomous vehicles in the future, suggests a franchisee may benefit from having certain equipment to help recalibrate car systems during the repair. That's better suited to being done in small premises and not out the back of a van. Having premises may also warrant doing more respraying jobs as well.'

Barking Mad is a profitable dog sitting service and has an estimated 20,000 active customers. Franchisees are turning over £70,000 to £80,000 each, keeping below the £85,000 turnover level at which they must pay VAT.

As such, franchisee turnover is unlikely to get much higher, yet Hemsley does believe there is scope to introduce many more franchisee territories in the UK and potentially triple the size of the network.

Franchise Brands has approximately £6m net debt position. We expect debt to fall fast over the next few years given the cash generative nature of the business. Further acquisitions may change this situation, of which there are plenty of targets according to the chairman.

SHARES SAYS: ↗
Looks really interesting but you need to take a long term view and be patient for value creation. Buy at 61p. (DC)

FRANCHISE BRANDS: FINANCIAL SUMMARY

	2015	2016	2017E	2018E
REVENUE (£m)	4.38	4.87	24.00	36.00
ADJUSTED PRE-TAX PROFIT (£m)	1.12	1.24	2.09	2.90
EPS (p)	2.14	2.38	2.40	2.96
DIVIDEND (p)	n/a	0.17	0.45	0.60
NET CASH / (DEBT) (£m)	1.27	2.58	-6.21	-4.12

Source: Allenby Capital, Franchise Brands

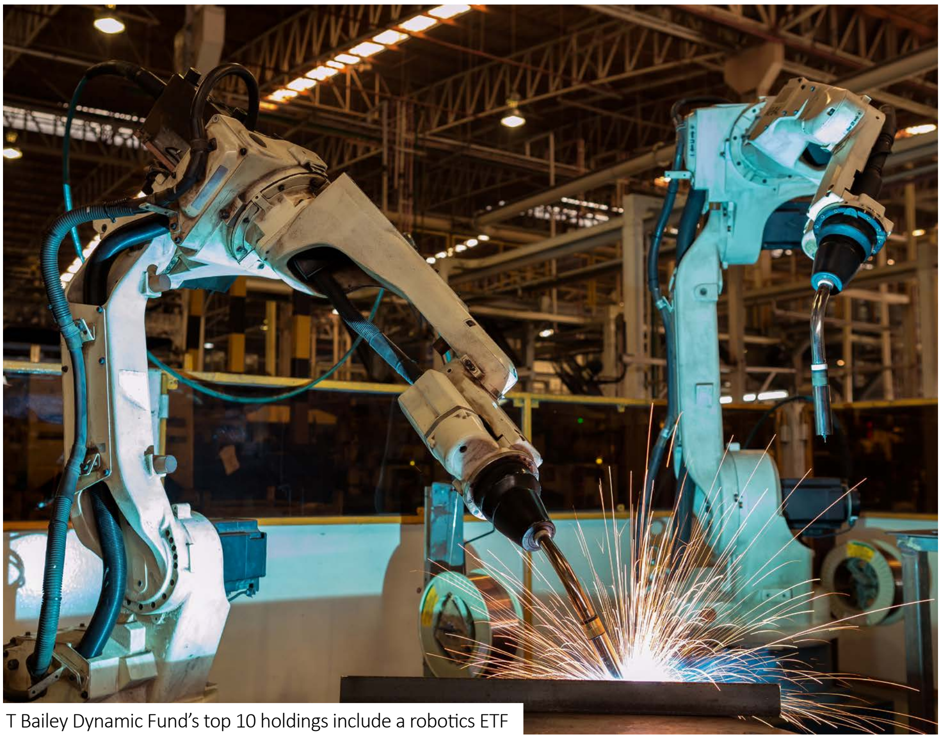
The search for funds that invest in specific themes

Thematic investing is growing in popularity, so why is it so hard to find relevant funds and investment trusts?

We're amazed by how few funds and investment trusts provide clear information on their portfolio's underlying themes. Many people choose funds and investment trusts in order to play specific themes, yet most thematic products only market themselves based on geographic or single sector coverage.

Property funds are arguably the only area where it is easy to find different ways into the sector such as medical centres, student accommodation or large warehouses.

But what if you want to play themes like e-commerce, the rise of the electric vehicle industry or cyber security? These are all large industries with considerable growth prospects so it makes perfect sense to have some allocation to them in a diversified portfolio. So how do you find the right product?



T Bailey Dynamic Fund's top 10 holdings include a robotics ETF

WHAT IS THEMATIC INVESTING?

Consultant McKinsey says thematic investing requires a fundamental understanding of the impact of long-term economic, political and social trends on regions and sectors, which reveals investable opportunities.

ETF provider Global X Funds says many investors already apply principles of thematic investing, such as identifying investments that could benefit in a rising interest rate regime, in their portfolios.

'But thematic investing extends far beyond economic policies, and can potentially be most effective when used to identify opportunities in areas such as changing demographics, evolving consumer behaviours, innovative technologies, and the availability of natural resources,' it adds.

'Successfully implementing a thematic investment strategy requires correctly identifying structural shifts, finding companies with high exposure to those shifts, and timing the theme so as to enter early enough that earnings and forecasts have not fully priced in the theme's potential.'

BROAD INVESTMENT THEMES

Most actively-managed funds and investment trusts fall under the broad universe of: value, growth, income, multi-asset, opportunities, or concentrated on a specific sector like technology or geography such as North America. These aren't always the easiest starting points for an investor who wants to play a specific theme.

Some funds and investment trusts argue they don't restrict themselves to following a certain industry or theme. That's fine; but what about the ones who do follow more focused paths?

SPECIFIC THEMES

The exchange traded funds (ETF) industry is arguably better at marketing itself as a source of more niche thematic investments.

There has been a proliferation of ETF launches over the past few years including one exposed to companies battling obesity; another tracking the drone industry; and one tracking a gender diversity index which focuses on large US companies with the most women on their boards or in senior roles, compared with peers. There are many others.

The aforementioned examples are all overseas-listed ETFs. On the UK market you'll find a smaller pool of niche thematic passive products. For example, ETF Securities last month launched three products playing the themes of energy storage solutions, drugs trying to combat rare diseases and e-commerce logistics.

SEARCHING FOR THEMES AMONG ACTIVELY-MANAGED FUNDS

Thematic ETFs are fairly easy to find if you know which theme you want to play, as the theme tends to be in the product title. It's a lot harder to find thematic actively-managed funds and investment trusts.

Apart from the aforementioned property ones, you tend to only discover which specific themes are central to a fund or investment trust's strategy by reading annual reports or watching fund manager videos, beyond the broad descriptions discussed earlier in this article.

Mid Wynd International Investment Trust recently added to American railroad

For example, **T Bailey Dynamic Fund (GB00B1LB2Z79)** is big on thematic investing, although that's not clear from its website or factsheet. The only hint that it likes themes is the fact its top 10 holdings include a robotics ETF and a fund that invests in businesses helping to safeguard the integrity, health and freedom of individuals, companies and governments.

We only discovered it followed a series of key investment themes after interviewing Peter Askew, chief executive of T Bailey Asset Management. Askew says he and his team have been looking at ways to include the fund's preferred themes on the factsheet but so far haven't found a solution.

'We're up against space limitations and there are certain things we have to include on the factsheet for regulatory purposes,' he explains.

T BAILEY DYNAMIC – KEY INVESTMENT THEMES

- DEBT INFLATION
- CHANGE IN INTEREST RATES
- EXPOSURE TO GROWING MIDDLE INCOME GROUPS
- TRANSFORMING ECONOMIES
- DISRUPTIVE INFLUENCES
- LIVING LONGER

MID WYND KEY INVESTMENT THEMES

Theme	% of portfolio	Description
Automation	18.5%	Companies in robotics and factory automation which increase productivity and quality in manufacturing
Emerging market consumer	16.9%	85% of the world's population have rapidly growing income and dominate the sales growth of branded goods companies
Online services	13.9%	Aggregators of data and e-commerce platforms able to benefit from the network effect
Tourism	12.2%	Companies benefiting from the consistent growth in tourist numbers; helped by increasing wealth and easing of visa restrictions
Media content	10.4%	Proliferation of routes to access media makes quality of media content critical. Programme makers also seeing rapid growth in programme and format sales outside their home markets
Healthcare costs	10.3%	Companies helping health systems reduce costs – generic drugs and distributors
Scientific equipment	7.0%	Companies making the tools allowing advances in biopharmaceutical markets and greater testing in applied markets (e.g. food, water, environmental)
High quality assets	5.9%	Companies with scarce assets and growing demand
Retiree spending power	5.7%	In developed markets, the share of wealth held by the over 55-year-olds has grown, steadily driving the sales of products which suit this cohort

Source: Artemis. Data as of 29 December 2017

It's not impossible to publish the list of themes, as Artemis-run **Mid Wynd International Investment Trust (MWY)** has shown. Fund manager Simon Edelsten believes the investment trust is the only one in the industry to prominently display the theme split on the factsheet.

INVESTORS NEED TRANSPARENCY

Mid Wynd prides itself as wanting to profit from long-term trends and publishes a table that breaks down the weighting of each theme in its portfolio. At the moment, automation, emerging market consumer, online services and tourism are the largest themes.

'We want to offer transparency. The more we can help people to stay confident in how money is invested, the better,' says Edelsten.

'We identify a driver that could last three, five, 10 or even 20 years, driving up the cash flow of a company faster than economic growth would do.'

THE DOWNSIDE OF "HOT" THEMES

One of the disadvantages of using thematic ETFs is that they are likely to have been constructed as a result of demand for 'hot' themes. As such, there is a chance that valuations for the underlying holdings may have already been pushed up due to strong demand for the stocks.

Edelsten says he tries to identify themes and good value stocks before they are picked up by the wider investment market.

He pays close attention to valuation and won't pay any price simply to get exposure to a certain theme. He will start to sell holdings when they become highly valued, even though they may be components of his preferred investment theme.

'We also use themes as a risk management tool,' explains the fund manager. 'For example, we've recently added to American railroad. Freight rates are regulated; when inflation happens they can put prices up. The industry should do better if the market is worried about inflation.' (DC)

Rare setback for many infrastructure trusts

Carillion collapse leads sector fallout but experts still see value in this niche

The once reliable infrastructure investment trust space has come under enormous pressure as investors panic over the collapse of **Carillion (CLLN)**. There are very real fears that Carillion going to the wall could be the first in series of outsourcing failures.

A big profit warning at **Capita (CPI)** has not helped to calm those fears in the interim.

The Carillion episode has also sparked intense political debate about whether so-called Private Finance Initiative (PFI) contracts and the whole Public Private Partnership (PPP) funding scheme is fit for purpose.

Investors may well wonder if there is further fall-out to come, or conversely, whether there is now good value to be had in this typically reliable end of the investment spectrum.

CARILLION COLLAPSE

The past six months has been remarkably bumpy for the sector. There has been talk for several months about PFI contracts being taken in-house (placed under government control) under a Labour party government, prompted by comments from shadow chancellor John McDonnell last year.

Carillion's collapse has handed extra fuel to the anti-PFI clamour.

This has sparked notable share price declines for leading infrastructure trusts, including a near 10% at **HICL Infrastructure Company (HICL)** in January alone, after confirming a likely £50m hit to net asset value (NAV) as a result of Carillion's demise.

According to data from Numis Securities, 14% of HICL's portfolio is exposed to assets that had been managed by Carillion.

Valued at £2.6bn, HICL is one of the UK's largest infrastructure investment trusts, and while outsiders may deem this sort of share price decline modest, such

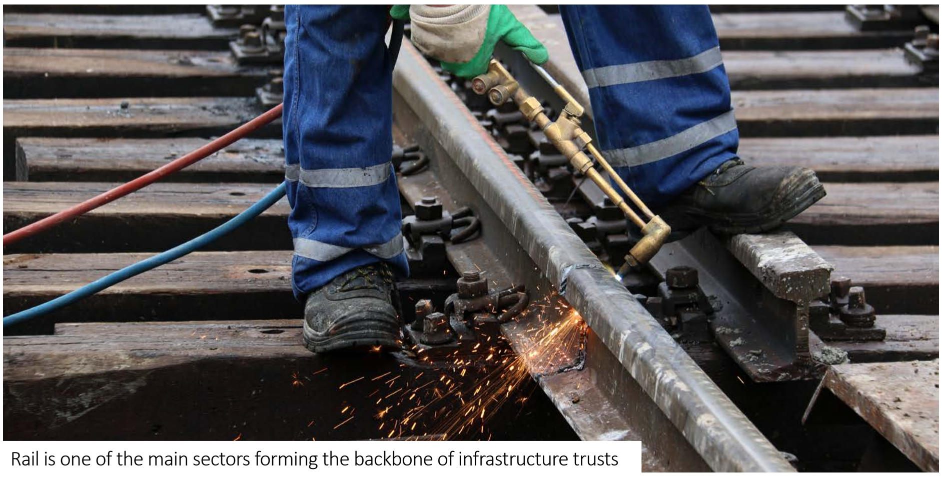
INFRASTRUCTURE INVESTMENT TRUST UNIVERSE

TRUST	SHARE PRICE	NAV	PREMIUM / DISCOUNT TO NAV
3i Infrastructure (3IN)	200.5p	172.34p	16.3%
BBGI Sicav (BBGI)	139p	122.01p	13.9%
Bluefield Solar (BSIF)	114.5p	106.05p	8.0%
Foresight Solar (FTSV)	107p	101.85p	11.0%
GCP Infrastructure Investments (GCP)	120p	111.29p	7.8%
Greencoat Renewables (GRP)	€1.07	€0.97	11.0%
Greencoat UK Wind (UKW)	121p	111.2p	8.8%
HICL Infrastructure (HICL)	147.1p	149.96p	-1.9%
International Public Partnerships (INPP)	150.8p	140.92p	7.0%
John Laing Environmental Assets (JLEN)	104.25p	96.92p	7.6%
John Laing Infrastructure Assets (JLIF)	118.8p	117.51p	1.1%
NextEnergy Solar (NESF)	112.5p	104.7p	7.5%
Renewables Infrastructure (TRIG)	106.6p	97.38p	9.5%
Sequoia Economic Infrastructure (SEQI)	109.5p	97.54p	12.3%

Source: AIC, 2 February 2018

sharp devaluations are rare in this niche part of the investment trust universe.

The **John Laing Infrastructure Fund (JLIF)** and the **International Public Partnership (INPP)** trust have also endured notable falls in their share price over the past six months or so. Like HICL, both are exposed to Carillion via it running various assets within their portfolios; 8.5% for JLIF, 3% for INPP.


Rail is one of the main sectors forming the backbone of infrastructure trusts

INFRASTRUCTURE TRUSTS EXPLAINED

This sector involves long-term investment (20 or 30 years is not untypical) in core services and facilities, such as motorways, energy projects and water treatment works. Highly regulated industries form the backbone, an area that consultancy KPMG categorises into five main sectors spanning aviation, electricity and gas, rail, telecoms and water/wastewater, encompassing a wide range of assets.

KPMG'S REGULATED ASSET WATCHLIST

- Long-economic lives often with strong inflation linkage
- Essential, often monopolistic assets
- Financed with investment grade credit
- Returns based on efficiently invested capital/cost recovery

These projects often enjoy a large degree of government backing, which helps support returns that are typically less volatile than those from the wider stock market, or other investment trust areas.

In theory, spending on infrastructure is likely to increase too, as monetary policy grows tired and governments look to other stimulus options.

This means that infrastructure investment trusts can be an efficient and well-managed way for investors to access infrastructure assets and the long-run cash flows that this implies.

RECOVERY OR FURTHER DECLINES?

As the research team at market marker Winterflood Securities points out, 'investors have not been accustomed to such drama from the infrastructure sector and it has served to intensify the political pressure on the PFI model.'

This comes as a shock to a sector where share price premiums to net asset value have been commonplace for some time, reflecting the high value ascribed to long-term, inflation-linked, government-backed income sources.

'Events of the last four months mean that a reappraisal of the asset class is required,' says the research team at Winterflood.

REGAINING CONTROL

Confidence may take time to return. The 'perception of political risk is likely to continue to weigh on share prices across the sector, particularly for those with large exposure to the more sensitive UK PFI subsectors,' believe analysts at Numis Securities.

Perhaps the best way for infrastructure investment trust managers to restore confidence is to provide continual reassurance over the robustness of contractual revenue streams.

Importantly for investors there has been no hint that investment trusts in the infrastructure space may have to rethink their dividend policies, even in the face of the Carillion fiasco.

For the sector experts at both Numis and Winterflood there are still attractive investment propositions within the infrastructure trust space. **3i Infrastructure (3IN)** is one of the strongest convictions for both research teams, while they also share a positive view on HICL.

Winterflood also believes there is value to be had from the **Greencoat UK Wind (UKW)** investment trust, which ploughs money into large windfarm projects. (SF)

WHEN SHOULD YOU USE A **DEALING ACCOUNT TO INVEST?**

We explain how it differs to an ISA and the tax implications of using this type of account

Inexperienced investors may wonder why investment platforms offer dealing accounts, given the widely-held view that it is better to use ISAs to hold stocks and funds, thanks to the wrapper's tax benefits.

Dealing accounts are generally needed for investors who invest more than £20,000 a year, as that's the maximum you can invest in new money across the range of ISA wrappers. There are no limits on how much money you can deposit in a dealing account each year.

Once you've maximised your ISA allowance, you can then put any additional payments into a dealing account (or a self-invested personal pension, if relevant).

Many investors may still have dealing accounts because they used to be the place to hold most AIM market shares before the rules changed in 2013. Previously AIM stocks weren't allowed to be held in an ISA unless the company also had another stock market listing on a recognised exchange. All AIM stocks are now permitted to be held in an ISA.

If you have both a dealing account and an ISA, it is always worth using up the £20,000 allowance on an ISA first as all capital gains and dividend income will be tax free. The only exception is if your investments are subject to withholding tax on dividends.

It is important to note some forthcoming rule changes which could have a negative impact on anyone holding dividend-paying investments in a dealing account.

Everyone in the UK has a personal allowance of £11,500, set to rise to £11,850 on 6 April 2018, which is the amount of income you don't have to pay tax on. You also get a £5,000 dividend allowance which is the amount of income you can earn from dividends before paying tax.

The dividend allowance is set to fall to £2,000 from 6 April this year. Therefore many people holding dividend-paying investments in their dealing account risk paying income tax on their dividends.

You could sell an investment and repurchase it in your ISA, assuming you have unused ISA allowance, but you could be liable for capital gains tax when selling out of the dealing account if the value of your investment has gone up since the original purchase.

Please note that you only have to pay capital gains tax on your overall gains above your tax-free allowance which is currently £11,300, rising to £11,700 from 6 April 2018.

Both dealing accounts and ISAs can be used to hold shares, bonds, funds, investment trusts and exchange traded funds.

The costs of buying and selling these assets are generally the same for both account types; the main difference is the tax treatment.

Some people think the word 'dealing' in dealing accounts implies the account type should be used for casual share dealing; and that ISAs sounds more serious and is associated with long-term investing. In reality, both account types can be used for either strategy – but ultimately ISAs have the edge because of their tax benefits. (LMJ)

The simple planning tip that could save you over £1,000

We explain how to avoid incurring nasty tax payments on some of your investments

When it comes to building a retirement portfolio, there are rarely any no-brainer decisions.

Deciding how to split investments between your SIPP and your ISA, for example, will depend on a number of factors, not least how readily you need to be able to access the money.

And what do you do about the day-to-day running of your fund? Should you pick shares and bonds yourself or pay a professional to do it for you?

Then there's the question of picking fund managers (for those who choose to go down this route). Is 'active' worth it or is it best to minimise costs – one of the few things you can exert at least some control over – by investing in passive or 'tracker' funds?

Such decisions are not easy and require you to weigh up a multitude of factors based on your own income needs and personal circumstances.

However, as the 2017/18 tax year-end approaches there is a simple planning tip that could save you over £1,000 in 2018/19.

WHO DOES IT AFFECT?

If you have any investments held outside traditional tax wrappers, this could be relevant to you.

While dividends and investment growth in products like SIPPs and ISAs are tax-free, money held in interest-paying bank accounts or dealing accounts is subject to strict Government limits before you start paying tax.

At the moment, the dividend allowance is set at £5,000. So if you have a portfolio of investments in a dealing account worth £100,000, provided your total dividends for 2017/18 don't exceed 5% you won't pay any tax. Someone with £50,000 held in a similar account would be able to enjoy tax-free dividends of up to 10%.

Chancellor Philip Hammond has decided this is far too generous, so from April the dividend allowance will be slashed to just £2,000 a year – a whopping 60% reduction.

The tax rates that apply to dividends over this limit are particularly harsh. If you're a basic-rate taxpayer you'll face a 7.5% charge, while for higher-rate taxpayers it jumps to 32.5% before rising still further to 38.1% for additional-rate taxpayers.

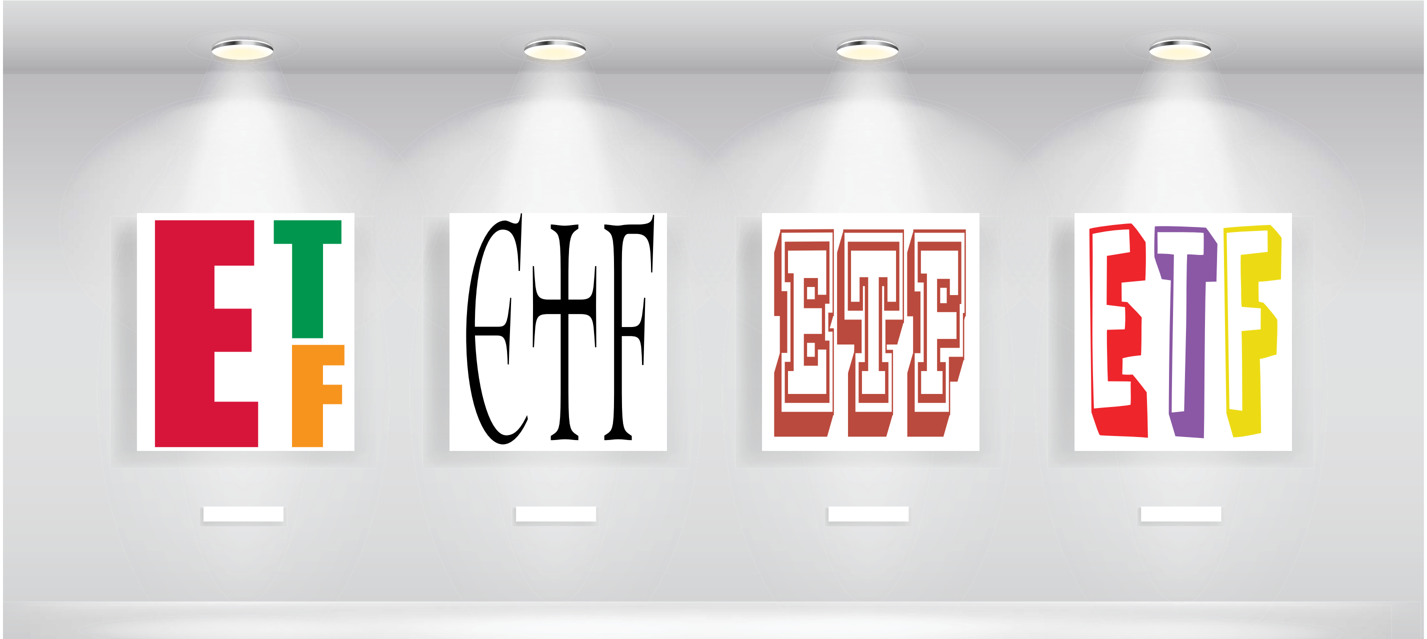
In pounds and pence, a basic-rate taxpayer who is paid £5,000 in dividends in 2018/19 would be £225 worse off if the investment is held in a dealing account. This increases to £975 for a higher-rate taxpayer and £1,173 for an additional-rate taxpayer.

You can dodge this charge simply by moving your money into a tax wrapper such as an ISA or a SIPP. However, there may be capital gains tax to pay when you sell investments in a dealing account.

Tom Selby, senior analyst, AJ Bell

Is it possible to build an investment portfolio just using ETFs?

ETFs offer a low-cost solution for investors wanting instant diversification



An exchange-traded fund (ETF) can give you access to a huge range of stocks in one, low-cost product.

It's possible to build an entire portfolio just using ETFs, although there are situations when actively-managed funds are worth considering.

IS AN ETF-BASED PORTFOLIO A GOOD IDEA?

There's a growing trend for investment platforms, financial advisers, fund managers and robo-advisers to offer portfolios that exclusively invest in ETFs.

Part of the attraction is that ETFs are very low cost. An ETF that tracks the FTSE 100 can cost as little as 0.1% in annual fees and the average charge is around 0.25%.

One ETF can give you access to hundreds of underlying investments in one trade, which means you can get instant diversification.

ETFs also offer transparency in the form of real-time, intraday pricing and up-to-date disclosure of their portfolio holdings. They can be bought or sold on an exchange during the day at a price that is clearly visible on a screen.

WHERE DO I START?

Before you invest any money you should always ensure the products are suitable for your individual circumstances.

Russ Mould, investment director at AJ Bell Youinvest, says you should answer four questions: Why am I investing? What is my target return? What is my time horizon? And what is my appetite for risk?

'The answer to these four questions will help to shape your portfolio in terms of asset allocation and what sort of themes, countries or sectors are most suited to your particular needs and preferences, be they low risk or high risk, income or capital gains or a broad mix,' he explains.

You can choose from thousands of ETFs. We'd suggest you start by building up a diversified core of assets.

Adam Laird, head of ETF strategy, Northern Europe at Lyxor ETF, says this core could be three simple low-cost options: a global equity ETF, a UK equity ETF and a gilt ETF.

Examples include **Source MSCI World UCITS ETF (MXWO)**, **iShares Core FTSE 100 UCITS ETF (ISF)** and **Vanguard UK Gilt ETF (VGOV)**.

'The more risk you can bear the more equity you might hold, with fewer bonds and gilts,' Laird says.

Once you've built a solid core you can then start to add in other ETFs which increase your weight to markets or strategies that suit your views and investment profile.

Mould says you shouldn't buy too many ETFs because trading costs would start to accumulate and the portfolio would become harder to manage.

'A range of 10 to 15 ETFs is probably the very maximum that is practical to run while still providing diversification,' he adds.

SHOULD I ADD ACTIVE FUNDS TO MY PORTFOLIO?

Whether you choose to focus solely on ETFs or combine ETFs with active funds is a matter of personal preference.

Some experts think there are situations when active funds could provide a better outcome. There's a chance that active managers will outperform the market, whereas ETFs can't by virtue of the fact they're index-tracking investments.

The difficulty is trying to identify the active fund managers who will outperform.

Will Dickson, head of portfolio management at P1 Investment Management, says there are markets where active managers can add value over and above the additional fees they charge, both in absolute and risk-adjusted return terms.

> **IF YOU'RE ADDING ACTIVELY-MANAGED FUNDS, KEEP AN EYE ON THE COST OF OWNERSHIP, AS THIS IS OFTEN HIGHER THAN WITH ETFS**

For example, some European and UK equity active funds have been able to outperform consistently over long time periods and in different market conditions.

They include **Royal London UK Equity Income (GB00B8Y4ZB91)**, which has a 10-year annualised return of 9.9%, and **Jupiter European (GB00B5STJW84)**, with a 10-year annualised return of 13.8%.

Dickson says there are also more opportunities for niche investments within the active management space, which can add significant diversification to portfolios.

If you're adding actively-managed funds to your portfolio keep an eye on the cost of ownership, as this is often higher than with ETFs.

AJ Bell's Russ Mould says some experienced investors like to use a 'core-satellite' approach where their core holdings are in active funds and their shorter-term, more tactical asset allocation decisions are made through ETFs. This is because ETFs are more liquid and so are easier to trade.

IS THERE AN EASY WAY TO INVEST?

If you don't want to choose investments yourself, it's worth considering a ready-made portfolio, where the holdings are selected by an investment expert.

There is a wide range of ready-made options on the market. For example, AJ Bell Youinvest offers five passive funds, which are designed to cater for different risk profiles. They each contain around 14 ETFs and index-linked funds, tracking a wide range of indices and assets. (EP)

HOW TO PICK AN ETF

1. Decide how much risk you're willing and able to take – this will determine your asset allocation strategy.
2. Within each asset class identify the most appropriate index to follow.
3. Compare the costs of similar products.
4. Look at the tracking error – the higher the figure, the more likely it is that the ETF will outperform or underperform its benchmark.
5. Look at the 'replication method' – physically replicating ETFs hold all or a sample of the underlying assets that make up the index; synthetic ETFs replicate the performance of the index via swap agreements with a counterparty.

Dividend warning for SSE ahead of proposed asset merger with Npower

A 7.9% prospective dividend yield may be unrealistic if merger is successful

Questions are being raised over the future of dividends from energy supplier **SSE (SSE)** if it successful in spinning off its UK household supply operations and merging them with rival Npower.

Merger talks were confirmed in November 2017. A deal would marry the pair's UK retail units, effectively combining two of the UK's big six business and household gas and electricity providers into a single entity.

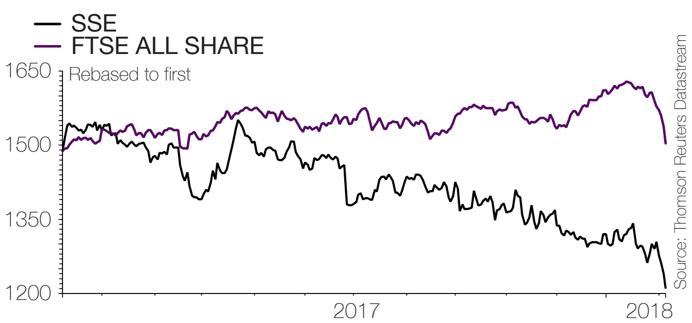
The current plan is to list the combined entity as a standalone business on the London stock market in late 2018 or early 2019.

The merger faces intense scrutiny from UK regulators given it involves two of the UK's dominant energy suppliers. Initial engagement with the UK's Competition & Markets Authority (CMA) is believed to have begun regarding the spin-off, although this is just the start of what is likely to become a protracted process.

Phase I of the review process has not started yet but will take 40 days once commenced, SSE says.

The only guidance coming from the group thus far on future dividend payments came in November, and reiterated on 31 January in a third quarter update.

SSE says that following the demerger of the household energy supply and services business, its dividend and dividend policy will reflect the quality and nature of its assets and operations, the earnings derived from them and the longer-term financial outlook. More information will be published in June 2018.



A reliable and high-yielding income is arguably the biggest reason that investors would consider owning shares in SSE. The company has increased its dividend payment every year since 2001. It aims to lift the dividend every year by at least the retail price index measure of inflation.

In the year to 31 March 2017 SSE paid ordinary dividends to investors worth 91.3p per share, a 2.1% increase on the previous year's 89.4p payout. That does not include special dividends.

Forecasts suggest a 3.5% increase in the payout is due this year to 31 March 2018 for a 94.5p per share dividend, rising another 3% to 97.4p in 2019.

But those forecasts would have to change if the demerger goes ahead as SSE would be left with a smaller business – potentially a good chance for it to rethink the dividend policy.

We would be very sceptical towards market forecasts for SSE's dividend beyond the current financial year (to 31 March 2018) as they are unlikely to factor in the planned demerger.

For example, investment bank UBS forecasts 98.4p for the year to March 2019 – implying a 7.9% yield based on the latest share price of £12.42.

Investors considering buying SSE shares should acknowledge a risk to future dividends or hold off until more information is provided in the summer.

BROKER SAYS: 11 4 1

Why ScS may not suffer the same fate as rivals

Resilient sofas and carpets seller is in a very interesting position

Sellers of big-ticket items are coming under pressure, as demonstrated by profit warnings from the likes of **Carpetright (CPR)** and **Safestyle UK (SFE:AIM)** as well as **DFS Furniture (DFS)**.

It may seem counterintuitive but *Shares* sees strong recovery potential at sofas-to-carpets seller **ScS (SCS)**.

Investors need to go into this trade with eyes wide open. The upholstered furniture-to-floorings seller plunged into administration in 2008, among the casualties of the financial crisis. Yet it relisted on the stock market in 2015 and has since demonstrated a more robust business model while gaining market share.

GREATER RESILIENCE

Under the leadership of CEO David Knight, management has made progress in improving the resilience of the business. This has been achieved in three ways: Strengthening its value-focused customer proposition; broadening the customer base to include more affluent shoppers via House of Fraser concessions as well as the addition of more premium brands; and increasing overall cost efficiency.

The self-styled 'Sofa Carpet Specialist' offers third party brands such as *La-Z-Boy*, *G Plan* and upmarket name *Parker Knoll*, as well as own brands *SiSi Italia* and *Endurance*, while offering four years' interest-free credit on already ultra-competitive prices.

LOW STOCK RISK

ScS is cash generative, has a strong balance sheet and a website that complements its large out-of-town retail outlets. And as broker Shore Capital explains, roughly 95% of ScS' stock is purchased on the back of a customer order, meaning the retailer bears very little stock risk, as the only inventory carried is display stock or returns.

Shore upgraded sales, profit and earnings per share estimates for the year to July 2018 and beyond following ScS' trading update (31 Jan) for the six months to 27 January 2018. This revealed better-than-expected 2.2% like-for-like order intake growth.

Knight insisted his charge performed in line with expectations over the key winter sales period and believes ScS' 'increasing resilience and value proposition will enable us to manage the continued economic uncertainty and take advantage of opportunities'.

For the year to July 2018, Shore forecasts adjusted pre-tax profit of £12.5m (2017: £12m) for earnings per share of 24p and a 15p dividend.

These estimates place ScS on a cheap-looking prospective price-to-earnings multiple of 8.8 times with an attractive 7.1% yield. For financial year 2019, the broker forecasts increased pre-tax profit of £12.7m, earnings per share of 24.5p and a 15.3p dividend.

SHARES SAYS: ↗

ScS is showing surprising resilience and at 212.2p, the shares look attractive. (JC)

BROKER SAYS: 2 0 0

Why Hostelworld could shell out up to €22m in special dividends

The hostel booking platform has a history of rewarding shareholders

Investors could be in for a late Easter treat when **Hostelworld (HSW)** reports its full year results on 10 April as a special dividend could be on the cards, according to stockbroker Berenberg.

Hostelworld is the largest online hostel-booking platform allowing budget-conscious travellers to book accommodation at the click of a button. Nearly half of Hostelworld travellers use the company's app during their trips, according to the company.

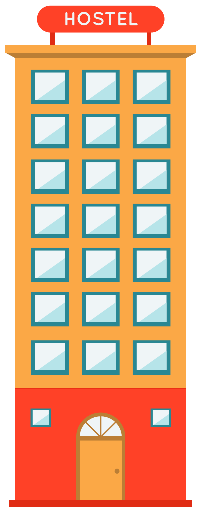
Berenberg analyst Owen Shirley says if Hostelworld were to pay out all of its net cash, it could return up to €22m to shareholders on top of its normal dividend.

One of Hostelworld's competitive advantages is its asset-light model as it does not own or maintain any hostels, underpinning generous pay-outs.

In the year to 31 December 2016, the company paid out €10m in special dividends alone.

Looking ahead, Shirley argues the global hostel market is anticipated to grow 7% annually, driven

BERENBERG ARGUES THE GLOBAL HOSTEL MARKET IS ANTICIPATED TO GROW BY **7% ANNUALLY,** DRIVEN BY SUPPLY GROWTH AND HIGHER-QUALITY AND HIGHER-PRICED HOSTELS



by supply growth and higher-quality and higher-priced hostels.

Hostelworld can ride this market growth and also target small, family-owned local hostels that may be overlooked by its rivals in a competitive space. (LMJ)

The small cap oil firm with big North Sea ambitions

IN RECENT WEEKS **BP (BP.)** announced two substantial discoveries in the North Sea and **Royal Dutch Shell (RDSB)** revealed its first investment in the region for nearly six years. A small cap looking to play this renaissance in the UK oil industry is **I3 Energy (I3E:AIM)**.

The AIM-quoted business has two major catalysts on the horizon which could help drive the market valuation upwards from the current £13m. The first concerns the 100%-owned Liberator project where the company is in discussions with multiple partners over a joint venture agreement.

This could help meet the $50m costs of getting Liberator to first oil. It could also provide investment to help unlock the potential in several licences on which I3 is currently bidding.

Chief executive officer Neill Carson says a decision on the award of licences is expected around the end of the first quarter or early in the second quarter although he admits the timing is somewhat unpredictable.

Carson is effusive about the potential of Liberator which is a low-cost project (it was bought when Brent crude was half the price it is today) and is close to existing infrastructure. (TS)

NOW IS THE TIME TO FOCUS ON YOUR INVESTMENT PORTFOLIO

Are you looking for new investment ideas for your ISA? Come to the Shares and AJ Bell Investor Evening in London on Wednesday 7 March 2018. Directors from Allergy Therapeutics (AGY), Bluejay Mining (JAY), Healthperm (HPR) and Mercia Technologies (MERC) will present their plans for 2018 and you will also have the opportunity to talk directly to these directors and put forward your questions.

Sponsored by PrimaryBid AJBell Youinvest

London – Wednesday 7 March 2018

Companies presenting

Allergy Therapeutics (AGY)
Allergy Therapeutics is a Europe-based specialty pharmaceutical company focused upon the diagnosis and treatment of allergy. Allergy Therapeutics has an existing sales base of approximately £40 million per year, an MHRA-approved manufacturing capability as well as an established sales and marketing infrastructure in several major European markets.

Bluejay Mining (JAY) Rod McIllree, MD
Bluejay Mining is primarily focused on advancing the Dundas ilmenite project in Greenland into production in 2018. Dundas is the highest-grade mineral sand ilmenite project globally, and with just 17% of the raised beach area having been assessed the true scale of this deposit is only just emerging.

Healthperm (HPR) Steve Howson, CEO
Healthperm is a healthcare recruitment business, which has been established to address the significant shortfalls in healthcare professionals in the UK and the UAE. The objective is to become a trusted provider of permanent experienced nurses and other healthcare professionals initially from the Philippines into the UK and the UAE.

Mercia Technologies (MERC) Dr. Mark Payton, CEO
Mercia is a national investment group focused on the funding and scaling of innovative technology businesses with high growth potential from the UK regions. Mercia benefits from 19 university partnerships and offices across the Midlands, the North of England and Scotland providing it with access to high quality, regional deal flow.

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KEY

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