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# SHARES

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FTSE 100 RESULTS: **LLOYDS, GLENCORE, PERSIMMON, RSA, HSBC, CENTRICA** AND MORE

# FUNDS FOR YOUR ISA

**MOVING SIPP PROVIDER**
IS IT WORTH IT AND HOW LONG DOES IT TAKE?

**BUYING AND SELLING FUNDS**
WHY DOES IT TAKE SO LONG FOR THE ORDER TO PROCESS?

**STOCKS ANALYSED THIS WEEK**
AA, RELX, BACANORA, XPEDIATOR, CRODA, JOHNSON SERVICE & MORE

# Calm before the next stock market storm?

Some experts believe we could get another market correction this year

It's been nearly a month since the global stock market sell-off and equities still haven't fully recovered all the lost ground. While some institutional investors say the sell-off wasn't severe enough for them to go bargain hunting, others suggest another (deeper) correction could be on its way later this year.

The truth is that no one really knows what will happen to the market. However, it is always worth listening to different viewpoints to comprehend what's going on.

The FTSE 100 is currently sitting 2.8% below the level at which it traded on the night before the first major movement happened, being the US stock market sell-off on 2 February.

Most other major indices around the world are also sitting in negative territory in the period since market close on 1 February, although the NASDAQ 100 is slightly higher and so are the major indices in Russia and Brazil.

**WHEN IS ROUND TWO?**

Investment bank Morgan Stanley believes the global markets sell-off was just an 'appetiser' before the main course. It believes gains for risk assets – such as equities – this year will be front-loaded in the January-April period.

'Things get trickier after the first quarter,' it writes. 'Past March, markets will need to digest rising G3 core inflation and declining PMIs, economic surprises and (quite possibly) earnings revisions.'

The bank believes we're in the late stages of a late-cycle environment. It implies 'rising equities, rising inflation, tightening policy, higher commodity prices and higher volatility' are a fairly normal patterns before the stock market trips up.

Michel Perera, chief investment officer at Canaccord Genuity Wealth Management, believes we are still in a bull market as the fundamentals remain strong.

However, he too reckons we could get another correction later this year. 'Inflation is one of the big issues. Markets will follow every data point on inflation like a hawk,' he remarks.

**HOW DOES THE SELL-OFF COMPARE HISTORICALLY?**

Perera says the average correction in a boom market from peak to trough is 14%. We saw approximately 10% reduction over two weeks earlier this year.

The historical average of the Vix index – which measures the market's expectation of 30-day volatility on the S&P index in the US – is 15. At the time of writing it was trading at 16.40, significantly below the 50 level it reached last month.

The current level of the Vix implies that investors aren't panicking which is a good sign. The Vix is good proxy for all developed markets, even though it is based on US equities.

Now is a good time to prioritise a review of your portfolio in order to manage the potential downside. Reappraise every investment, asking whether it is still appropriate to own when considering your risk appetite and time horizon.

But don't let the recent market pullback put you off making new investments completely. We're in the middle of corporate results season which is effectively a health check on many listed stocks.

There are plenty of opportunities to buy decent companies on reduced share prices as a result of the market sell-off.

If you believe they have the right credentials to thrive longer-term, now could be as good a time as any to buy the shares assuming the valuation isn't excessive. There may be bumps along the way, but that's the price you pay for putting your money to work in the markets. (DC)

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## WHO WE ARE

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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.

# How did investors react to the latest batch of FTSE 100 results?

We look at the market reaction to results from banks, miners, insurers, airlines and more

We're bang in the middle of corporate results season with many of the UK's largest quoted companies issuing their latest financial results.

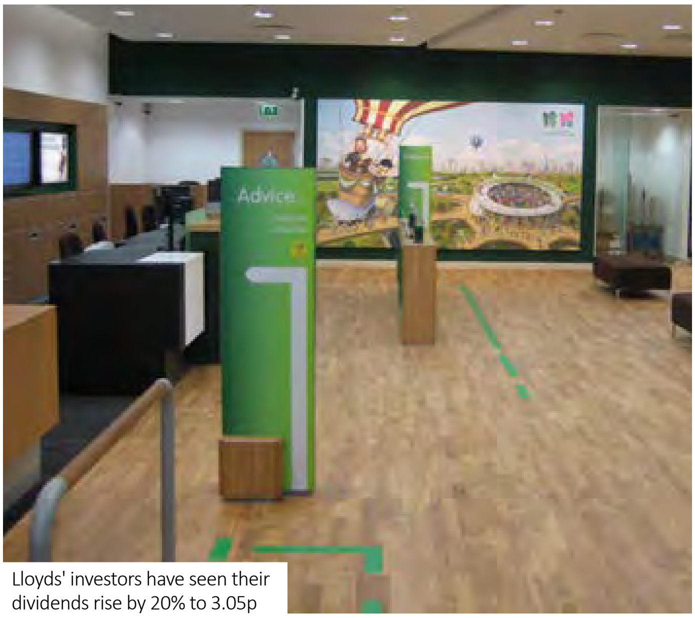
The main themes have been large earnings beats or misses and investors continuing to be very focused on dividend payments.

## THUMBS UP FROM THE MARKET

**Lloyds' (LLOY)** shares rose by 2.8% to 69.72p on 21 February despite missing consensus forecasts for its pre-tax profit. Fourth quarter underlying pre-tax profit of £1.9bn was 4% lower than expected.

Investors seem to be more focused on the bank hiking its dividend by 20% to 3.05p and news of a £1bn share buyback programme.

Lloyds' net interest margin, a key indicator of a bank's profitability, came in at 2.86% for the full year. It has guided for 2.9% in 2018 which is better than previous consensus forecast of 2.88%.




Lloyds' investors have seen their dividends rise by 20% to 3.05p

### DIVIDENDS ALSO IN FOCUS FOR BARCLAYS

Shares in **Barclays (BARC)** rose by 4.4% to 211p on 22 February after declaring a 3p per share dividend for 2017 and saying it would more than double this figure to 6.5p in 2018.

Barclays shows the importance of a payout for investors in banks. The share price rise happened despite it reporting a worse than expected loss per share in the fourth quarter of 2017 at 7.3p versus 4.6p consensus forecast.

### GLENCORE IMPRESSES

Commodities trader-to-mining house **Glencore (GLEN)** saw its share price rise 5.2% to 404.55p on 21 February after announcing a bumper dividend of $0.20 per share. Full year cost inflation was less than expected. Unit costs were flat in copper, down in nickel and zinc, but up 18% in coal.

Chief executive Ivan Glasenberg says the company's performance in 2017 was its strongest on record. Net debt fell 31% to $10.7bn which is at the bottom of the company's $10bn to $16bn target range. Analysts expect the business to remain highly acquisitive.

### CENTRICA RELIEF RALLY

British Gas owner **Centrica (CNA)** enjoyed a 7.5% relief rally to 142.15p on 22 February after keeping its 12p dividend intact and revealing a £500m cost cutting plan by axeing 4,000 jobs.

Investors were relieved the results were not worse at a difficult time for Centrica which is battling to stop rivals from swiping its customers. It also faces a potential energy price cap that could hit profitability. In the year to 31 December 2017, Centrica lost approximately 10% of its customers, totalling 1.38m.

### RSA'S PROFIT BOOST

The market was impressed by the better-than-expected profit at insurance firm **RSA (RSA)** announced on 22 February. Profit growth of 1% to £663m was counter to forecasts for a slump to £639m.

Its Canadian and Scandinavian operations were the stars with its underwriting business in the UK posting a loss. Shore Capital analyst Eamonn Flanagan points to the 5% fall in net tangible asset value as a concern given insurers are often measured against this metric.

### PERSIMMON HANDS OVER THE CASH

Another name boosted by its income appeal was housebuilder **Persimmon (PSN)** which revealed a much-improved dividend package alongside a 25% increase in 2017 pre-tax profit (27 Feb).

With the shares yielding close to 9% on the new payout guidance, they are likely to prove extremely attractive to income-seekers. However, the future direction of the stock is likely to remain in lock-step with the fortunes of a slowing UK house market.


Persimmon revealed a 25% increase in 2017 pre-tax profit

## THUMBS DOWN FROM THE MARKET

Half year results were worse than expected for diversified natural resources group **BHP Billiton (BLT)** on 20 February, triggering a 4.6% share price decline to £14.90.

Like its peers **Rio Tinto (RIO)** and **South32 (S32)**, BHP has suffered from cost inflation, experiencing approximately 9% increase in unit costs on average across its portfolio.

It reported $11.2bn EBITDA (earnings before interest, tax, depreciation and amortisation) versus a consensus estimate of $11.6bn. Higher commodity prices more than offset higher costs this time round – but analysts are concerned costs will keep going up in BHP's oil business.

### BIG MISS FOR HSBC

Shares in **HSBC (HSBA)** fell by 3.1% to 737p on 20 February as fourth quarter underlying pre-tax profit of $3.6bn was 8% below expectations.

There was also no growth in the dividend, although analysts hadn't expected the bank to increase its shareholder reward.

The market was also disappointed with full year results from **Royal Bank of Scotland (RBS)** on 23 February, sending its share price down 4.8% to 268.4p.

It managed to post a £752m profit for 2017, its first in 10 years and against expectations for material losses. However, the bank faces an impending multi-billion dollar fine from the US Department of Justice over the mis-selling of mortgage-backed securities a decade ago.

### TURBULENCE FOR IAG

British Airways owner **International Consolidated Airlines (IAG)** experienced some turbulence after missing its full year earnings expectations on 23 February, sending its shares down 5.7% to 587.2p.

The airline delivered operating profit of €3.015bn instead of the anticipated €3.046bn following changes to employee bonuses. (DC/TS/DS/LMJ)

International Consolidated Airlines missed its full year earning expectations

# Productivity growth hits its highest rate since the financial crisis

More productivity could accelerate interest rate hikes and wage growth

Interest rate hikes in the UK could be on the way from May onwards after the strongest productivity growth since the financial crisis.

In the last quarter of 2017, output per hour rose 0.8% according to statistics agency Office for National Statistics. This was supported by a fall in total hours worked and 0.5% increase in the value of goods produced.

This marks the second consecutive quarter of growth in output per hour following a 0.9% rise in the previous quarter. It is also the second highest rate of growth since the second quarter of 2011.

'As a consequence, output per hour growth in the second half of 2017 was stronger than any two consecutive quarters since the economic downturn,' comments the statistics agency.

It should be noted that over a longer period UK productivity growth has been relatively weak since the financial crisis.

## PRODUCTIVITY BOOST MATCHED BY WAGE GROWTH

Better productivity – even in the short-term – is also being accompanied by an increase in real wages.

PriceWaterhouseCoopers chief economist John Hawksworth argues average earnings have been subdued over the last few years due to relatively lower earnings growth in high skilled occupations.

But now wage growth appears to be accelerating, rising from 2.3% to 2.5% between October and December 2017, when bonuses are excluded. Real earnings are effectively still falling with inflation running higher than the Bank of England's 2% target at 3%.

In a bid to control high inflation, the Bank of England could boost interest rates from the current 0.5% faster than previously anticipated.

Analysts have pencilled in two hikes for 2018 with the first expected in May. The speculation has been supported by the Bank of England hinting in


February that interest rate rises could accelerate if the economy remains on track.

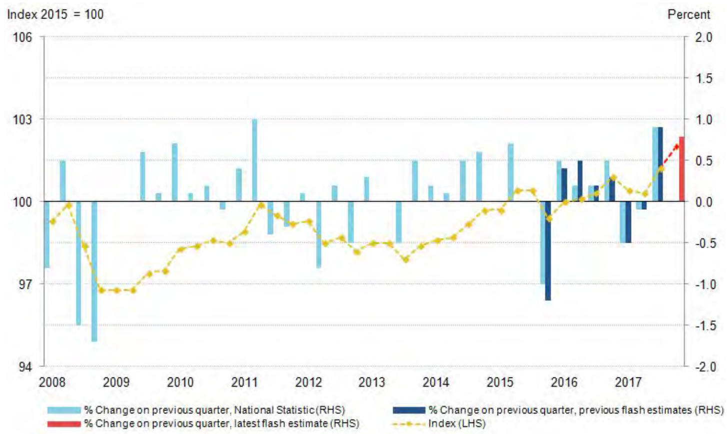
## HIGHER UNEMPLOYMENT NOT A CONCERN YET

This improvement in productivity and wage data should not necessarily be overshadowed by a surprise rise in UK unemployment.

In the last quarter of 2017, unemployment increased by 46,000 to 4.4%, driven by more people looking for work and being classified as unemployed.

'There was an unexpected rise in unemployment between the third and fourth quarters of 2017, but closer inspection suggests this is not a sign of labour market weakness as it was also accompanied by a healthy rise in total employment,' says Hawksworth. (LMJ)

### PERCENTAGE CHANGE ON PREVIOUS QUARTER AND INDEX OF OUTPUT PER HOUR




Source: ONS

# Will there be a bidding war for Sky?

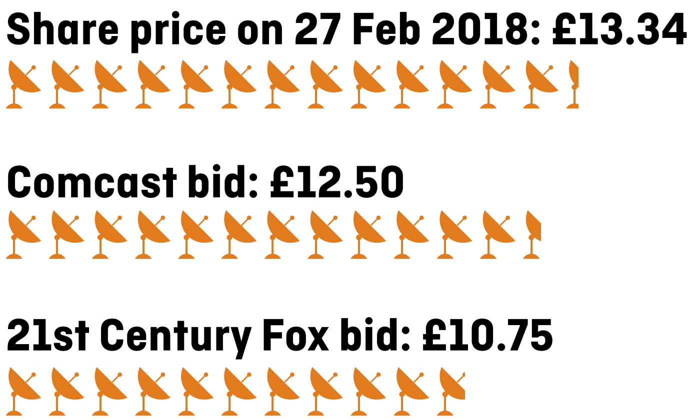
## Comcast swoops with offer which trumps Murdoch bid

The market appears to be pricing in a bid battle for pay-TV business **Sky (SKY)** with the shares trading above the £12.50 per share cash bid from US firm Comcast announced on 27 February.

This offer trumps the £10.75 per share on offer from Rupert Murdoch's 21st Century Fox, a deal which was recommended by Sky's board more than a year ago but has been mired in regulatory issues ever since.

The appeal of Sky's leading TV assets in the UK, Italy and Germany is reflected in the fact Disney is in the process of acquiring Fox's media businesses, including its existing 39% stake in Sky.

Comcast, which owns NBC and Universal, is unlikely to face the same levels of political scrutiny as Fox has, given that unlike Murdoch it does not own several other media assets in the UK and nor has it been hit by any big scandals.




The question for investors as we write is: will Fox counter bid? If it does, any offer will be conditional on the takeover being approved by culture secretary Matt Hancock when he delivers his verdict in late May/early June. (TS)

### Threads expert Coats impresses on margins and profit guidance

SHARES IN INDUSTRIAL threads manufacturer **Coats (COA)** jumped by more than 12% to 84p on 27 February after reporting a solid set of full year results.

Operating margins improved from 10.8% to 11.5% thanks to higher selling prices, productivity and procurement gains, and tight cost control.

Coats also rewarded shareholders with a 15% dividend hike to 1.44c per share. It expects 2018 adjusted operating profits to be slightly ahead of previous management expectations. (DC)

### Virgin Money results beat forecasts but doubts over ability to perform

CHALLENGER BANK **Virgin Money's (VM.)** 2017 results have beaten consensus forecasts, with profits after tax hitting £192.1m, 4% ahead of estimates. Its charge for impairments or bad debts is 25% less than market forecasts.

However, Virgin's 2018 guidance for its banking net interest margin is at the lower end of its previous 165 basis points to 170 basis points range. This suggests 'some pressure' according to Davy Research analyst Diarmaid Sheridan. (DS)

### Greggs' nourishing performance

NEWCASTLE-HEADQUARTERED baker **Greggs (GRG)**, a running *Shares Great Ideas* selection, delivered another nourishing performance in 2017. It served up (27 Feb) a 1.9% increase in adjusted pre-tax profit to £81.8m as like-for-like sales grew 3.7%. Despite cost and consumer spending headwinds, chief executive Roger Whiteside is also 'encouraged' by recent trading. The savoury snacks-to-sandwiches seller's like-for-like sales were up 3.2% in the eight weeks to 24 February. (JC)

# Lithium miner Bacanora prepares for substantial fundraise

The small cap wants to raise $450m to fund construction of a mine in Mexico

Aspiring lithium producer **Bacanora Minerals (BCN:AIM)** is hoping to raise $450m which is more than two and a half times its current market valuation. The money will be used to build its Sonora lithium mine in Mexico.

Bacanora is currently valued at £125m ($174m). The mine will cost $419m to build, yet it is good practice for a miner to have a bit of extra cash in case of issues during construction.

Chief executive Peter Secker says $200m of the $450m target will come from debt financing. The remaining $250m will come from issuing new shares to investors in exchange for cash.

Secker is confident that half of the equity component will come from existing major shareholders including Igneous Capital, BlackRock, M&G and Japanese commodities trader Hanwa.

'The rest of the money should come from investors in the US, London and the Far East,' he says.

Chinese fund management group NextView was due to take a near-20% stake in the business in January in exchange for £31.1m cash. It also agreed to buy some production in the future. The financial transaction has yet to happen and Secker insists NextView's involvement isn't critical to Sonora's near term development.

'We were looking at them for stage two production; other parties have expressed an interest so we don't see a problem if the NextView deal doesn't happen,' he adds.

Bacanora hopes to build Sonora's plant by the end of 2019 and start testing equipment in early 2020 ahead of maiden production that year. (DC)

## RIT Capital Partners reveals stellar gains since 1988's flotation

A £10,000 investment in **RIT Capital Partners (RCP)** at inception in 1988 would be worth c£330,000 today, as long as dividends were reinvested, says the investment trust.

Over the past five years, RIT says its net assets have grown by £1.24bn before dividends. Over the same period its share price total return was 91.5%.

RIT Capital Partners says its net asset value grew by 8.2% on a total return basis during 2017. (DC)

## Triple Point eyes listing upgrade and £200m new cash

INVESTMENT TRUST **Triple Point Social Housing REIT (SOHO)** wants to upgrade its listing category so it would be eligible for inclusion in FTSE indices.

It also wants to raise up to £200m after its investment manager identified new potential investments.

Triple Point invests in social housing assets across the UK with a particular focus on supported housing. Its assets are subject to inflation-adjusted, long-term (typically from 20 to 30 years) leases. (DC)

## IntegraFin to be valued at c£650m at IPO

THE OWNER OF the Transact IFA technology platform has confirmed the price of its IPO (initial public offering) at 196p. IntegraFin's stock marketing listing on 2 March will value the business at £649.4m.

Transact currently serves more than 150,000 clients on behalf of over 5,100 financial advisers. It has approximately £29.7bn of funds under direction, as at the end of 2017.

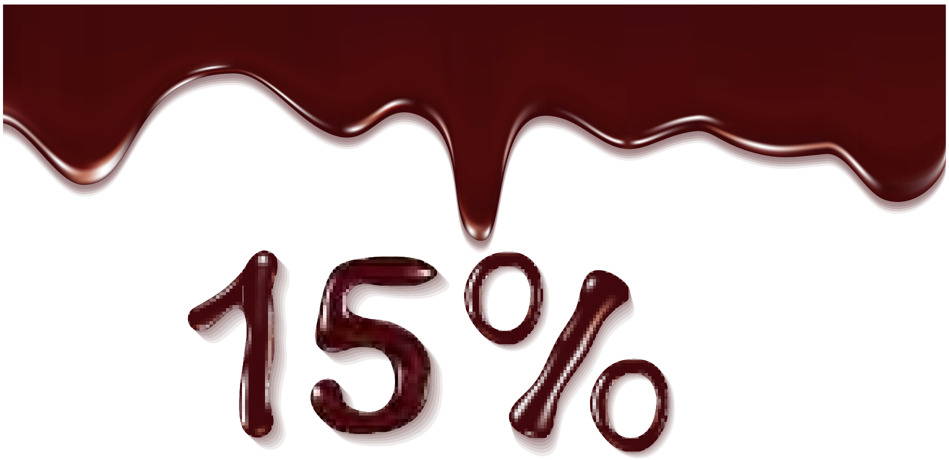
IntegraFin looks likely to qualify for the FTSE 250 index later this year. (DC)

# £100M

IF THERE WAS a bright spot in **AA's (AA.)** painful profit warning and slashed dividend it comes in the shape of *Car Genie*. This is the self-installed plug-in road vehicle diagnostics box that the road-side recovery business has been testing. You may have seen the ads on TV.

AA reckons *Car Genie* is capable of predicting a third of breakdowns before they happen. Powering the solution is the fleet telematics network and analytics of AIM-listed **Trakm8 (TRAK:AIM)**. The company saw its share price jump nearly 5% to 89.5p on the same day of AA's update.

Analysts at broker FinnCap have crunched the numbers on the AA's approximate 3.3m members and 1.9m insurance policies, and reckon there could be a £100m future revenue opportunity over the long-term for Trakm8 from this one contract alone.




## Hotel Chocolat revenue, earnings and profit all rise 15%

PREMIUM BRITISH chocolatier **Hotel Chocolat (HOTC:AIM)** served up 15% growth in sales, underlying earnings, profits before tax and earnings per share in the six months to 31 December.

Generating growth across its retail store estate and online channels, rising ingredient costs are a headwind, although CEO Angus Thirlwell is positive about Hotel Chocolat's new store site pipeline.

He also insists his charge has 'exciting plans in place for the key spring seasons of Mother's Day and Easter'. The AIM-listed concern has recently launched a new cacao beauty range and a weekly subscription called Mbox and Thirlwell is 'confident of further progress during the year'.

## Half of all investment trusts now pay dividends every three months

HALF OF ALL investment trusts now pay a quarterly dividend, according to analysis by the Association of Investment Companies (AIC).

In comparison, only 46% paid every three months in 2017 and 43% in 2016.

You can see the full list of investments on the AIC's website. The list also breaks down the trusts who pay monthly or every six months.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# Rare chance to buy FTSE 100 superstar RELX at a discount

Quality stock going cheap with publishing fears overdone

Data analytics, events and publishing business **RELX (REL)** is down 14% year-to-date as a reversal in the dollar strength which had boosted earnings and a dispute over the pricing of scientific journals have dogged the shares.

Sentiment is starting to turn and the stock is coming off its 2018 lows. We believe there is further upside to come, so buy now.

The shares trade on a forward price to earnings (PE) ratio of 16.6 times compared with 19-times average over the last decade according to SharePad.

**RELX BUY**
(REL) £15.00
Stop loss: £12.00

Market cap: £31.1bn

### GET IN QUICK

Based on our previous experience of covering the stock, this valuation anomaly is unlikely to persist indefinitely.

We wrote positively on RELX, previously called Reed Elsevier, in June 2015 when the company was trading on a PE of 17.1 times after a period of underperformance. Within 12 months the stock was trading 20% higher.

Is anything different this time? The threat to its scientific, technical & medical (STM) arm from a newly-formed consortium of German universities complaining about pricing looks modest. Investment bank Berenberg reckons this business accounts for 0.5% of divisional revenue.

There is always a danger this is a 'canary in the coalmine' warning of the more aggressive pursuit of open access – the principle of giving away publicly-funded peer-reviewed research for free.

However, most global governments have adopted policies which are unlikely to be too disruptive to subscription-based publishers like RELX.

Investors should keep tabs on this situation but there appears little reason for panic at the moment.

### SOLID GROWTH NUMBERS

The company was bullish on the STM division in an otherwise typically reliable set of full year results on 15 February.

The 2017 figures revealed profit up 6% and revenue up 4%, in line with recent trends. The dividend was lifted by 10% to 39.4p, underpinning robust guidance for another year of growth in 2018.

An announced change from a dual share structure to one single PLC share listed in London and Amsterdam also simplifies and improves the investment case.

Since taking over in 2009, chief executive Erik Engstrom has helped shift from print to digital, invested in its analytics skill-set and moved into faster-growing geographies.

The business is increasingly aligned with the big data trend given its ability to absorb large quantities of information and distil this data into information which can help its customers operate more efficiently.

The projects it completes often account for just 1% of customers' total cost base but can have a significant and positive impact on the economics of the remaining 99%, says RELX. (TS)

**BROKER SAYS:** 13 6 1

# Get smart Chinese exposure with bargain-priced investment trust

Fidelity China Special Situations looks very interesting at the current price

With its shares trading at a 12% discount to net asset value (NAV), **Fidelity China Special Situations (FCSS)** looks a potentially attractive investment.

Offering professionally-managed exposure to the Asian powerhouse economy's domestic growth opportunity, we believe the discount should narrow as the investment trust benefits from quality stock picking and builds on its impressive long-term performance record.

With a single country mandate and a small and mid-cap bias, the trust is managed by Hong Kong-based Dale Nicholls, who celebrates his fourth anniversary managing the fund in April.

Financial services group Winterflood notes that Fidelity China Special Situations has delivered an NAV total return of 156% since Nicholls took over its management in 2014, well ahead of the 112% return from the MSCI China benchmark.

An underweight allocation to cyclical stocks meant the NAV performance lagged the benchmark over the last 12 months.

## SEEKING OPPORTUNITIES

Nicholls looks for undervalued companies with good long-term growth prospects. 'I'm thinking about the size of the opportunity. How big can they be in five or ten years?' he says, also desiring companies which are cash generative and controlled by strong management teams.

**FIDELITY CHINA SPECIAL SITUATIONS**
**BUY**
(FCSS) 248.5p
Stop loss: 198.8p

Total assets: £1.97bn (Source: The AIC)

The fund manager tends to find mispriced stocks in the smaller companies universe, as they will typically be less well researched.

Nicholls also places lots of emphasis on risk management; meeting companies is essential in order to understand their business and monitor progress.

## DOMESTIC POTENTIAL

The trust has a particular focus on China's compelling consumption theme and rising levels of internet penetration.

China's middle class is expanding and has rising disposable income which is not only being spent on consumer goods, but increasingly on experiences including domestic and outbound travel.

To play the theme, the portfolio holds names such as online travel booking company Ctrip.com and budget hotel operator China Lodging.

Leading portfolio positions include tech giants Tencent and Alibaba. Nicholls insists there are still exciting areas of growth for these two Chinese national champions, which are seeing surging levels of operating free cash flow.

Up to 10% of Fidelity China Special Situations, which owned Jack Ma's Alibaba before it floated, can be invested in unlisted holdings. The private equity portion of the portfolio gives investors exposure to additional high growth businesses of the future, many of which may list on the stock market in time.

They include Didi, 'the clear leader in ride-sharing in China'; e-commerce services business Meituan; Yiguo, 'a leader in online grocery that has aligned itself heavily' with major shareholder Alibaba; and Jiguang, which helps app developers with marketing and could be the first to float. (JC)

## CRODA
(CRDA) £45.05

### Gain to date: 3.8%
**Original entry point:**
**Buy at £43.47,** 15 February 2018

CHEMICALS SPECIALIST **Croda (CRDA)** has the right formula for success, delivering a record adjusted pre-tax profit of £320.3m in the year to 31 December 2017.

Croda's focus on premium, faster growth niches in personal care, life sciences and performance technologies drove sales 10.4% higher to £1.37bn.

In the two weeks since we flagged Croda as a high quality investment, shares in the company have advanced 3.8% to £45.05 (27 Feb).

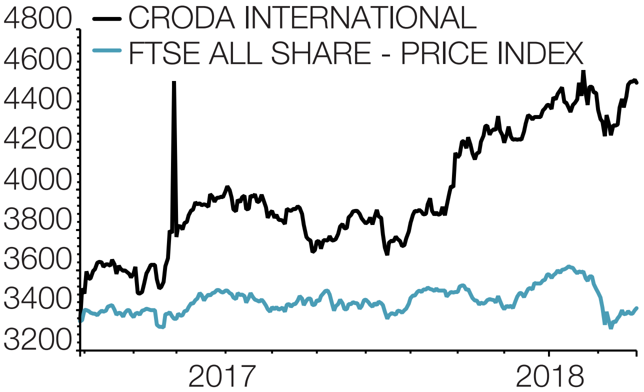
Some investors may have been disappointed by the lack of a special dividend, as previously mooted by some analysts.

In January, Berenberg analyst Rikin Patel argued a special dividend could be paid if leverage fell below 1 to 1.5 times. He forecast net debt/earnings before interest, tax and depreciation and amortisation of 0.9 times in 2017, but Croda narrowly missed this target.

Investors can still expect some form of income after the dividend per share was hiked by 9.5% to 81p.

UBS analyst Andrew Stott says 2018 will be another healthy year of growth for Croda despite currency headwinds.

He flags savings from a newly commissioned US bioethanol plant, a small uplift from US tax cuts and organic growth in personal care and life sciences as growth drivers, as well as potential M&A. (LMJ)




## JOHNSON SERVICE
(JSG:AIM) 136.2p

### Loss to date: 3.9%
**Original entry point:**
**Buy at £141.74,** 14 September 2017

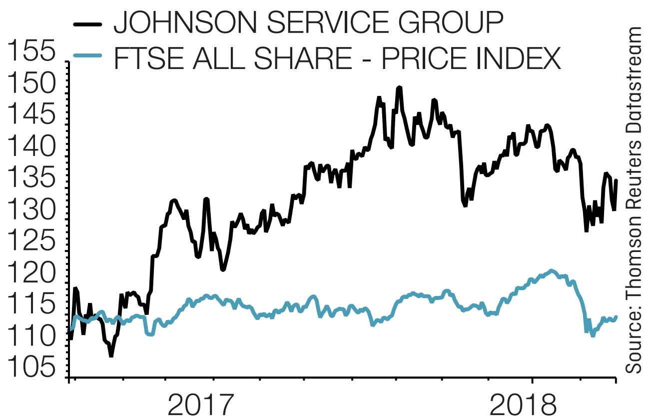
OUR BULLISH stance on textile rental firm **Johnson Service (JSG:AIM)** may not have been rewarded by share price gains yet but we're still backers of this business. Its 2017 results released on 27 February show a company improving revenue and profit while reducing its net debt at the same time.

Its revenue was up 13.3% to £290.9m while adjusted pre-tax profit improved 17.5% to £39.7m (both on a year-on-year basis).

Chief executive Chris Sanders tells *Shares* his company's share of the UK's hotel, restaurant and catering laundry sector is 27%, or £168m a year.

Johnson has big ticket clients such as BMW and Ford for which it provides and services work wear. Sanders says that the average value of contracts are £36 per week. The company has 34,000 clients ranging from the aforementioned international names to small guest houses.

Sanders also tells *Shares* that while the average client contract is agreed for three years, it typically retains customers for around 15 years. This implies good visibility on future revenue.




**SHARES SAYS:**
**Johnson Service's 2017 results show that this company is a long-term winner. (DS)**

**BROKER SAYS:** 2 0 0

# WEEK AHEAD

## FRIDAY 2 MARCH

| | |
|---|---|
| **FINALS** | |
| Essentra | ESNT |
| IMI | IMI |
| London Stock Exchange | LSE |
| Mondi | MNDI |
| Spire Healthcare | SPI |
| **INTERIMS** | |
| Revolution Bars | RBG |
| **AGMS** | |
| Aberdeen Diversified | ADIG |
| AFH Financial | AFHP |
| Global Ports Investments | GLPR |
| Impax Asset Management | IPX |
| John Laing Environmental Assets | JLEN |
| **ECONOMICS** | |
| UK | |
| Construction PMI | |

## MONDAY 5 MARCH

| | |
|---|---|
| **FINALS** | |
| Trinity Mirror | TNI |
| Ultra Electronics | ULE |
| **AGMS** | |
| Kennedy Ventures | KENV |
| **ECONOMICS** | |
| UK | |
| Services PMI | |

## TUESDAY 6 MARCH

| | |
|---|---|
| **FINALS** | |
| Aggreko | AGK |
| Apax Global Alpha | APAX |
| Bodycote | BOY |
| Cairn Homes | CRN |
| Escher | ESCH |
| Headlam | HEAD |
| Huntsworth | HNT |
| Ibstock | IBST |
| Intertek | ITRK |
| IWG | IWG |
| Just Eat | JE. |
| Mpac | MPAC |
| Rotork | ROR |
| SDL | SDL |
| Tyman | TYMN |
| Yu Group | YU. |
| **INTERIMS** | |
| Ashtead | AHT |
| CAP-XX | CPX |
| Craneware | CRW |
| PureCircle | PURE |
| **TRADING STATEMENTS** | |
| McCarthy & Stone | MCS |
| **AGMS** | |
| BlackRock North America | BRNA |
| CareTech | CTH |
| Ecofin Global Utilities | EGL |
| Ediston Property Investment | EPIC |
| JP Morgan Russian Securities | JRS |
| Nexus Infrastructure | NEXS |
| Redx Pharma | REDX |
| **ECONOMICS** | |
| UK | |
| BRC Retail Sales Monitor | |

IN SEPTEMBER, private hospital operator **Spire (SPI)** revealed lower NHS referrals, dragging on underlying sales and earnings growth. Investors should find out if referrals have recovered when Spire publishes full year results on 2 March.

Rumours are also swirling that **Mediclinic (MDC)** will sell its 29.9% stake in Spire after the latter rejected a takeover approach.

## WEDNESDAY 7 MARCH

| | |
|---|---|
| **FINALS** | |
| Anpario | ANP |
| Tritax Big Box REIT | BBOX |
| Bioquell | BQE |
| Equiniti | EQN |
| Esure | ESUR |
| FDM | FDM |
| Hill & Smith | HILS |
| Legal & General | LGEN |
| Lookers | LOOK |
| Microgen | MCGN |
| Ophir Energy | OPRH |
| PageGroup | PAGE |
| Paddy Power Betfair | PPB |
| Restaurant Group | RTN |
| Rolls-Royce | RR. |
| Stock Spirits | STCK |
| Tyman | TYMN |
| **INTERIMS** | |
| 88 Energy | 88E |
| Netcall | NET |
| River and Mercantile | RIV |
| **TRADING STATEMENTS** | |
| DS Smith | SMDS |
| **AGMS** | |
| BlackRock Income & Growth | BRIG |
| EF Realisation | EFR |
| **ECONOMICS** | |
| **UK** | |
| Halifax HPI | |

## THURSDAY 8 MARCH

**RETIREMENT HOUSEBUILDER McCarthy & Stone's (MCS)** upcoming first half results on 28 February are likely to be overshadowed by the impact of changes to the rules surrounding ground rents.

The company says it should be exempt from a proposed reduction in ground rents to zero as it does not employ the rapidly increasing rents targeted by the new policy.

| | |
|---|---|
| **FINALS** | |
| Alfa Financial Software | ALFA |
| Attraqt | ATQT |
| Aviva | AV. |
| Capital & Regional | CAL |
| Communisis | CMS |
| Countrywide | CWD |
| Dairy Farm International | DFI |
| Domino's Pizza | DOM |
| G4S | GFS |
| Jardine Matheson | JAR |
| Premier Oil | PMO |
| Spirent Communications | SPT |
| **INTERIMS** | |
| Origin Enterprises | OGN |
| **AGMS** | |
| Benchmark | BMK |

| **EX-DIVIDEND** | | |
|---|---|---|
| Ashmore | ASHM | 4.55p |
| Aviva | AV. | 4.1875p |
| CareTech | CTH | 6.6p |
| F&C Capital & Income | FCI | 2.45p |
| Joules | JOUL | 0.7p |
| Ladbrokes Coral | LCL | 4p |
| LPA | LPA | 1.65p |
| Renishaw | RSW | 14p |
| Raven Russia | RUSC | 1.63p |
| Safestore | SAFE | 9.8p |
| Scottish American Investment Company | SCAM | 2.83p |
| Shire | SHP | 21.46p |
| St Modwen Properties | SMP | 4.26p |
| Thomas Cook | TCG | 0.6p |

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ADVERTORIAL

# DISCOVERING **HIDDEN GEMS** AND UNCOVERING A **HIGH QUALITY** INCOME STREAM

unicorn
ASSET MANAGEMENT

**THE UNICORN UK INCOME FUND** IS PERHAPS NOT THE MOST WELL-KNOWN FUND TO FEATURE ON THE AJ BELL FAVOURITE FUND LIST, HOWEVER, AS MANAGERS SIMON MOON AND FRASER MACKERSIE ARE KEEN TO POINT OUT, IT IS OFTEN THE UNKNOWN NAMES WHERE THEY TOO FIND THEIR BEST OPPORTUNITIES.

Founded in 2000, **Unicorn Asset Management** believes that there are great rewards for fund managers willing to do the research and uncover smaller and mid-sized UK companies not widely covered by the market. Since launch in 2004 it has been investing in these less well-known companies that has helped the **Unicorn UK Income Fund** to be not only the best performer in the sector (1/43) but also to provide a diversified income stream, differentiated from many of its better known peers.

The IA UK Equity Income sector consists of 100 funds, many of which focus on FTSE 100 dividend stalwarts such as Glaxo, HSBC and BP for income. Unicorn believes that there is an overreliance in the UK placed on these types of shares for dividend income. The top ten biggest dividend-paying companies account for 54% of all dividends paid in the UK, whilst the top dividend payer Shell, currently pays out 13% of all UK dividends income.

This dominance means that in the IA UK Equity Income sector 35% of funds now hold Shell in their top ten positions. The trend is evident with Glaxo appearing in 32% and BP in 44% of the top ten holdings of funds in the sector. Mackersie and Moon are choosing to focus outside of the FTSE 100 as they firmly believe there are great opportunities to be found with better growth prospects and reliable dividend payments.

This focus on high quality less well-known companies has led the £660m **Unicorn UK Income Fund** to look different from much of the sector, with a correlation of 0.6. It has also led to another feature that often surprises investors: these less well-known dividend-paying companies often have a higher level of earnings covering dividend payments than much of the FTSE 100. This isn't cause for immediate alarm but does give the Unicorn managers faith that they are continuing to look in the right part of the market for their opportunities, not just for superior growth but also high quality income.

2017 was another good year for the Fund with the managers believing small and mid-caps continue to offer relative value against large cap UK equities today. Moon and Mackersie put a huge amount of emphasis on the access they have to senior company management and find regular meetings often provide their most reliable economic indicator, as well as providing a real insight into the operational and trading performance of companies. Whilst markets have had a nervy start to the year, the managers are finding that their well run, well capitalised, profitable companies with exposure to strong end markets are continuing to trade well.

This fund has been selected as part of the **AJ Bell Favourite Fund List**

AJ BELL FAVOURITE FUND LIST

| **MONETARY VALUE CREATED**<br>24 MAY 2004 TO 31 JANUARY 2018 | |
|---|---|
| Initial investment | £10,000 |
| Capital value now | £27,812 |
| Dividends received | £9,700 |
| Total value – dividends extracted | £37,512 |
| Total value – dividends reinvested | £48,524 |

Source: FE Analytics, Returns from 24 May 2004 to 31 January 2018, TV – Total Value including £10,000 initial investment

| **PERFORMANCE SINCE LAUNCH**<br>24 MAY 2004 TO 31 JANUARY 2018 | |
|---|---|
| UK Income Fund | 385.2% |
| FTSE All Share | 200.0% |
| UK Equity Income | 184.1% |
| Rank | 1/43 |
| Quartile | 1 |

Source: FE Analytics , Total Return % from 24 May 2004 to 31 January 2018

All dividend data in the article comes from Link Asset Services 2017 dividend report and Bloomberg.

Fund information is provided by Unicorn Asset Management 31/01/18.

**Important Information**

Issued by Unicorn Asset Management Limited, Preacher's Court, The Charterhouse, Charterhouse Square, London EC1M 6AU. Unicorn Asset Management Limited is authorised and regulated by the Financial Conduct Authority. The information should not be construed as an invitation, offer or recommendation to buy or sell investments, shares or securities or to form the basis of a contract to be relied on in any way. Unicorn Asset Management Limited provides no guarantees, representations or warranties regarding the accuracy of this information. No third party liability is accepted by Unicorn Asset Management Limited, its directors and employees, or its affiliates and their directors, in respect of errors and omissions, other than under the duties and liabilities of the Financial Services and Markets Act, 2000. Past performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and investors may not get back the full amount of their original investment. You should not invest unless you are prepared to accept a high degree of risk. Taxation levels, benefits and reliefs may all vary depending on individual circumstances and are subject to change. Investing in smaller companies, including AIM companies, can carry greater risks than those usually associated with large capitalisation companies. Smaller companies are likely to be less established and may not have access to the financial resources available to their larger counterparts. The shares of smaller companies are relatively illiquid and under-researched.

# Why does it take so long to buy and sell a fund?

We explain the different experience when buying or selling funds versus stocks, investment trusts and ETFs.

Have you ever invested in a fund and wondered why it doesn't immediately show up in your portfolio as per stocks, investment trusts and exchange-traded funds (ETF)?

Sadly it typically takes a day for your fund 'buy' order to be processed and the investment to appear in your ISA, SIPP (self-invested personal pension) or other account. The same applies for 'sell' orders and leaving your portfolio.

Stocks, investment trusts and ETFs allow transactions in real-time pricing so you can see at what price you are transacting at before you invest.

Open-ended funds are forward priced. This means unit trusts and Oeic funds are priced only once a day.

When someone places an order, it will trade at the price on the next valuation point, which could be up to 24 hours later.

In rare cases for funds with illiquid assets, the pricing could occur less regularly in either a week or a month.

## MORE EFFICIENT PROCESSING

'The advantage of forward pricing is that it enables the fund manager to manage cash flow efficiently as there is only one aggregated amount taking into account all of the buys and sells in a period,' says Ryan Hughes, head of active portfolios at investment platform provider AJ Bell.

While this method can be tedious for investors, forward pricing helps fund managers efficiently process large numbers of small transactions every day, which is particularly helpful with large funds.

The price of a fund is determined by the value of its assets, which is then divided by the number of units in issue.

## WHY IS THE BID/OFFER SPREAD IMPORTANT?

Investors should pay close attention to the bid/offer spread as this can reflect how easy it is to buy and sell units in a fund.

The bid is the price investors get when selling a unit and the offer is the price that investors pay for a unit, while the spread is the difference.

The bid/offer spread on a fund is purely a function of the dealing costs and is not related to its popularity or size.

Unit trusts also have a bid/offer spread but Oeics are single priced. The latter have a mechanism called 'swing pricing' which occurs when a fund provider adjusts the net asset value of a fund in order to pass on the costs of trading to individuals that are buying and selling within their accounts.

It is designed to protect longer-term investors from having the value of their accounts eroded by the transaction activity of others within the same fund. (LMJ)

# THE OUTLOOK IS BRIGHT

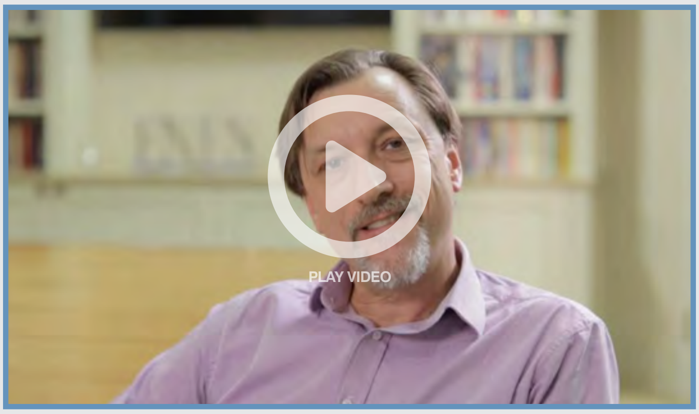
Finsbury Growth & Income Trust (FGT) added a new holding in the Summer of 2017, the first for a couple of years. The company was Manchester United. There were several reasons we made this investment. The most topical being our conviction that the value of compelling TV entertainment that appeals globally is just going to carry on going up. But Manchester United also fits another even more important criterion for getting into the portfolio: it's a rare and beautiful thing (although perhaps that does depend on your tribal loyalties). It goes without saying – there is only one Man Utd and there is also no denying that the franchise has a heritage and glamour about it that, at the least, advertisers and sponsors want to bask in.

As much as we can we want FGT's portfolio to comprise such "rare and beautiful things". The reason, candidly, is that we have no idea what is going to happen next in the world. The politics, the economics, the technology disruption all bewilder us. Given that uncertainty we hope that by making really long term commitments to companies with enduring and hard to replicate brands or franchises we'll be able to meet our shareholders' expectations over time.

Of course beauty is in the eye of the beholder, but can I provide you a list of key brands or franchises in FGT that we think fit the description? This is more or less alphabetical. Barr's IRN-BRU, Burberry, Celtic FC, the Daily Mail, Diageo's Guinness and Johnnie Walker, Dr Pepper, Euromoney's the Bank Credit Analyst, Fidessa's equity trading platform, Fuller's London Pride, Hargreaves Lansdown, Heineken, the London Stock Exchange, Oreos and Cadbury in Mondelez, Pearson's Mylabs online learning platform, Rathbone, Elsevier scientific publishing, Remy Martin cognac, Sage's millions of small company customers, Schroders and Cazenove, Unilever's Magnum Ice cream and Dove soap, Youngs pubs.

Some of these have done well as businesses and shares over the last few years. Some less so. I couldn't tell you what the next year is going to bring for any of them. But I will say that I have been adding to my own holding of FGT in recent weeks. I have done so because I see the portfolio as a collection of more or less unique companies with enduring worth and most with credible opportunities to grow that worth into the future. For most investors and certainly me that really should be enough.

***Finsbury Growth & Income Trust PLC is a £1.2bn UK-listed investment trust, which invests in the share of predominantly UK-listed companies, with the objective of achieving capital and income growth.***



# FUNDS FOR YOUR ISA

## WE OFFER IDEAS FOR INVESTORS WITH DIFFERENT APPETITES FOR RISK

You've got five weeks left to use up your annual ISA allowance. This year the figure stands at £20,000 which is the maximum you can invest across all types of ISAs; and the deadline is 11.59pm on 5 April.

You don't have to pay any tax on capital gains and dividend income if your investments are held inside an ISA wrapper. If you're serious about investing, using as much of your ISA allowance as possible each year has to be a priority.

**HOW SHOULD YOU FILL YOUR ISA?**

Over the coming weeks in *Shares* we'll give you some inspiration in the form of fund, stock and investment trust suggestions.

Our articles are designed to give you a head start so you can then go off and research the products further and decide if they're right for your investment strategy.

We appreciate that everyone has different personal circumstances, so we will split the suggestions into three groups – ideas for people with a lower appetite for risk; ideas for medium risk appetite; and ideas for anyone who is happy with higher risk selections.

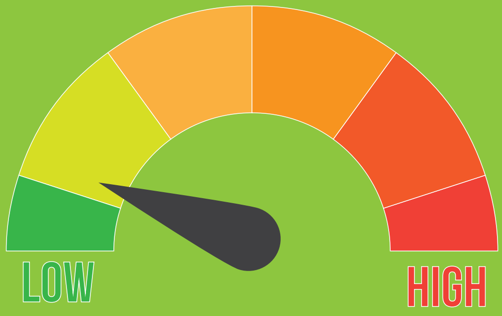
All the suggestions are aimed at long-term investors. You won't find short-term trading ideas.

**THIS WEEK'S 10 IDEAS**

This article focuses on actively-managed funds. We've picked a broad range of products giving exposure to major geographies and different sized companies, as well as choosing some based on the fund manager's skills and track record.

The next article in our three-part series will be stocks on 15 March, followed by investment trusts on 29 March.

If you don't manage to take advantage of any unused ISA allowance before 6 April, either because you didn't have time or any spare cash, all of our selections are valid ideas for investing in an ISA later in the year. The 2018/2019 ISA allowance limit stays the same at £20,000.




# LOWER RISK APPETITE

**TROY TROJAN INCOME (GB00B01BP176)**
This fund is run by Francis Brooke who has consistently applied a well-defined, conservative and low turnover approach, says Morningstar.

It has a bias towards large and mid-cap stocks with a focus on quality, low capital intensity and typically low cyclicality of earnings.

In a nutshell, you're more likely to see healthcare and consumer staples businesses in its portfolio than high risk sectors like mining.

The portfolio currently includes **Lloyds Banking (LLOY)** which last week reported a 24% rise in annual pre-tax profit to £5.3bn; and pharmaceutical giant **GlaxoSmithKline (GSK)**.

'The managers view risk as the potential for permanent capital loss and rightly take pride in this strategy's capacity to provide protection in more volatile periods,' says research group Square Mile.

We believe Troy Trojan's conservative approach makes it suitable for investors with a lower appetite for risk, even though it invests in equities which are riskier than cash.

It is an ideal fund to help form the backbone of a diversified portfolio. It's the sort of product where investing little and often could really pay off over time. Set up a direct debit to feed your ISA and make use of regular investment services which are offered by most investment platform providers.

You can get on with everyday life in the knowledge you have money going to work in the markets via a fund run by an experienced fund manager who won't take excessive risks.

| **TROY TROJAN INCOME:** TRAILING RETURNS | |
|---|---|
| 1 YEAR | -1.86% |
| 3 YEARS ANNUALISED | 5.30% |
| 5 YEARS ANNUALISED | 8.39% |
| 10 YEARS ANNUALISED | 8.78% |

Source: Morningstar, as of 23 Feb 2018

## FIDELITY MONEYBUILDER INCOME (GB00BBGBFM09)

Investment grade corporate bonds epitomise low risk investing. Highly rated companies issuing debt are less likely to face any real credit risk or default compared to lowly rates one. This also means that yields are going to be lower than the riskier high yield or 'junk' bonds.

Fidelity Moneybuilder Income is a bond fund and has been managed by Ian Spreadbury since its inception in 2005. The asset manager believes corporate bond markets are inefficient which can be exploited by bottom-up fundamental analysis of companies.

Spreadbury is well supported by a group of credit analysts, a quantitative analyst team and fixed income dealers. The diversified portfolio tends to consist of between 250 and 300 positions.

The manager is able to hold up to 5% of the portfolio in non-investment grade bonds, i.e. those rated below BBB-. The fund can also hold 20% in non-sterling bonds, although these are usually hedged back into sterling.

According to research house Square Mile, this fund is 'suitable for investors seeking a secure but variable income stream with a relatively defensive returns profile'.

| FIDELITY MONEYBUILDER INCOME: TRAILING RETURNS | |
|---|---|
| 1 YEAR | 2.41% |
| 3 YEARS ANNUALISED | 3.17% |
| 5 YEARS ANNUALISED | 4.66% |
| 10 YEARS ANNUALISED | n/a |

Source: Morningstar, as of 23 Feb 2018

## TWENTYFOUR CORPORATE BOND (IE00BSMTGJ19)

Jake Moeller, head of research for UK & Ireland at Thomson Reuters Lipper, says 'TwentyFour is a vibrant fixed income specialist that made a shrewd hire in (fund manager) Chris Bowie'.

The fund launched on 3 February 2015 and aims to beat the median return of the Investment Association's (IA) UK Corporate Bond sector by investing primarily in investment grade bonds.

Like Fidelity's aforementioned bond fund, TwentyFour's product can go outside the safety of the investment grade universe by investing up to 20% in high yield or floating rate notes which should help boost yields but not take on excessive risk.

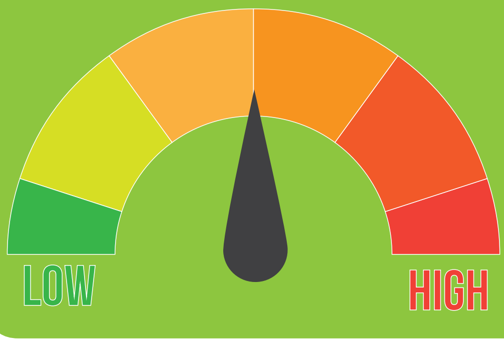
Floating rate bonds are perfect in an environment when there is a real possibility of interest rate rises as their coupons should also rise to match any increase. This also offers a level of protection against inflationary forces in the long-term.

Moeller adds that given the dominance of large funds in this space 'this nimble fund has much to offer'.

Like most funds aimed at the lower risk end of the spectrum, TwentyFour's bond fund is aimed at capital preservation and income.

| TWENTYFOUR CORPORATE BOND: TRAILING RETURNS | |
|---|---|
| 1 YEAR | 4.03% |
| 3 YEARS ANNUALISED | 4.31% |
| 5 YEARS ANNUALISED | n/a |
| 10 YEARS ANNUALISED | n/a |

Source: Morningstar, as of 23 Feb 2018




# MEDIUM RISK APPETITE

## INVESTEC UK ALPHA (GB00BJFLDM36)

It is only worth investing in an actively-managed fund if you think the product can beat the market, otherwise you might as well own a passive ETF. Investec UK Alpha seeks to outperform the FTSE All-Share index by 3% to 5% each year.

'(Fund manager) Simon Brazier arrived at Investec in late 2014 with a strong track record managing core UK equity funds, having delivered outperformance at both Schroders and Threadneedle,' says Morningstar associate director Simon Dorricott.

'The consistency of Brazier's Threadneedle UK fund returns was particularly impressive; his approach has proved resilient through different market conditions. The fund's risk-adjusted returns were also strong.'

Brazier enjoyed a good start at Investec with the fund outperforming the benchmark by 6.5% in 2015. However, 2016 and 2017 underperformed the benchmark – partly because part of the portfolio contains UK domestic stocks which have been out of favour since the EU referendum vote in June 2016.

You shouldn't judge a fund merely on a few years' performance. We're picking the product because of Brazier's solid track record over a much longer period.

He's big on meeting company management and places a large emphasis on analysing a company's track record, strategy and allocation of free cash flow.

Top holdings include banking group **HSBC (HSBA)**. The fund is also allowed to hold a few overseas listed stocks, which explains why payments giant Visa appears in the portfolio.

| INVESTEC UK ALPHA: TRAILING RETURNS | |
|---|---|
| 1 YEAR | 4.69% |
| 3 YEARS ANNUALISED | 6.04% |
| 5 YEARS ANNUALISED | 10.86% |
| 10 YEARS ANNUALISED | 8.34% |


Credit card network specialist Visa features in Investec UK Alpha's portfolio

Source: Morningstar, as of 23 Feb 2018

## DODGE & COX US STOCK (IE00B50M4X14)

Fund house Dodge & Cox may be relatively unknown outside the US but it has a rich history on the other side of the pond. The strategy behind its US Stock fund dates back to the 1960s.

While some may argue that US equities are overheated given the length of time the markets have enjoyed a bull run, Dodge & Cox's fund aims to find attractively valued higher quality growth stocks. Long-term growth in earnings and cash flow is recognised as being a key driver of share prices.

Moeller at Lipper comments: 'The fund's long-term track record of beating the S&P 500 by identifying undervalued growth is enviable'.

Top holdings include some of the biggest US financial institutions such as Bank of America, Wells Fargo and Goldman Sachs. It also has tech heavyweights such as Google's parent company Alphabet and Microsoft.

Portfolio turnover tends to be low which means fewer costs for the investor. While building the portfolio of between 60 and 100 holdings around a core of high quality growth stocks, cyclical stocks will be considered if the valuation is viewed as attractive.

| DODGE & COX US STOCK: TRAILING RETURNS | |
|---|---|
| 1 YEAR | 0.77% |
| 3 YEARS ANNUALISED | 14.81% |
| 5 YEARS ANNUALISED | 16.85% |
| 10 YEARS ANNUALISED | 11.80% |

Source: Morningstar, as of 23 Feb 2018

## FP CRUX EUROPEAN SPECIAL SITUATIONS (GB00BTJRQ064)

Europe is really exciting from an investment perspective at the moment. After years of disappointment, the region is now delivering decent earnings growth, helped by brighter economic prospects. It also benefits from having little political noise and equity valuations aren't excessive.

FP Crux European Special Situations has been run since launch in 2009 by highly-respected fund manager Richard Pease. He's an expert on Europe and focuses on market-leading companies with exceptional management and a strong financial position.

These companies should be in a position to generate excess cash which can be reinvested to accelerate growth or returned to shareholders through dividends.

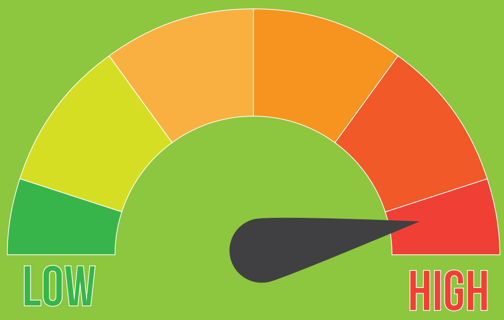
Nearly three fifths (57.7%) of the portfolio is invested in companies worth more than €10bn. One third of the portfolio is in the €1bn to €10bn market cap range; and just below 5% is in the small cap space. The biggest holding is real estate company Aroundtown.

'We believe this fund's consistency of management and approach gives it significant appeal,' says Muna Abu-Habsa, an analyst at Morningstar.

'The fund has remained less volatile than most of its peers over various time periods and the manager has skilfully made those bets pay as the fund is ahead of its index and peers over his tenure so far.'

| FP CRUX EUROPEAN SPECIAL SITUATIONS: TRAILING RETURNS | |
|---|---|
| 1 YEAR | 14.66% |
| 3 YEARS ANNUALISED | 14.45% |
| 5 YEARS ANNUALISED | 12.89% |
| 10 YEARS ANNUALISED | n/a |

Source: Morningstar, as of 23 Feb 2018




# HIGHER RISK APPETITE

### FIDELITY EMERGING MARKETS (GB00B4NTG252)

Fidelity's product is managed by the experienced Nick Price who leads a team which is responsible for their respective regions.

Research house Square Mile comments: 'This is a fund that can go through periods of feast and famine'. Moeller at Lipper says it is a high conviction portfolio 'so expect volatility'.

There are many risks associated with investing in emerging markets such as geopolitical, economic or currency, which is why it is crucial to invest using an experienced manager.

Emerging markets can offer scope for considerable capital gains but investors must recognise this could be a volatile part of an investment portfolio.

Fidelity's fund will typically hold about 75 stocks although Price can own up to 120 stocks at any given time.

The top holdings include fairly well-known names such as South Africa's internet and media company Naspers, Taiwan Semiconductors and Alibaba. Less known among the top holdings include Russian bank Sberbank and Inner Mongolia Yili Energy.

Dorricott at Morningstar comments: 'We consider the fund a strong offering based on the manager's process and the solid team behind him'.

| FIDELITY EMERGING MARKETS: TRAILING RETURNS | |
|---|---|
| 1 YEAR | 22.16% |
| 3 YEARS ANNUALISED | 13.22% |
| 5 YEARS ANNUALISED | 10.40% |
| 10 YEARS ANNUALISED | n/a |

Source: Morningstar, as of 23 Feb 2018

## OLD MUTUAL UK SMALLER COMPANIES (GB00B1XG9599)

Smaller companies can be extremely attractive investments over the long term as growth can be higher and faster than larger companies, potentially resulting in very decent capital gains.

However, small caps can also be bad investments if you pick the wrong ones. Working capital issues, insufficient cash flow and setbacks on contracts or other issues can often have a major negative impact on a small business.

As such, it is often worth using the skills of an experience fund manager who is able to spot the winners and avoid the losers.

Dan Nickols runs Old Mutual UK Smaller Companies and is highly rated as a small cap stock picker.

'He is well experienced in researching UK small cap equities with a career spanning over two decades,' says Simon Molica, a fund manager at investment platform provider AJ Bell.

'The investment process is flexible by design which Nickols utilises through his pragmatic approach and can be demonstrated by his inclusion of both growth and value names.'

Molica says the slightly elevated fees are justified for accessing a well-experienced fund manager with a 'tried and tested' approach. Ongoing costs are 1.03%.

The portfolio's top holdings include beverages group **Fevertree Drinks (FEVR:AIM)** and media events company **Ascential (ASCL)**.

| OLD MUTUAL UK SMALLER COMPANIES: TRAILING RETURNS | |
|---|---|
| 1 YEAR | 23.74% |
| 3 YEARS ANNUALISED | 20.64% |
| 5 YEARS ANNUALISED | 18.32% |
| 10 YEARS ANNUALISED | 14.29% |

Source: Morningstar, as of 23 Feb 2018

## POLAR CAPITAL GLOBAL TECHNOLOGY (IE00B42W4J83)

Polar Capital Global Technology is managed by two very experienced professionals in the tech space, Nick Evans and Ben Rogoff. As technology is an ever-evolving industry, the managers have to keep abreast of all the developments in the sector.

The managers try and see as many companies as possible, with the team attending around 800 company meetings a year. They are also in regular attendance at tech conferences.

Moeller at Lipper says Polar Capital is a 'genuinely innovative fund house'. He adds: 'It sees through high-level themes to invest in companies that are genuine technology innovators or established technology leaders'.

Finding the next generation of tech leaders may seem a tall order but if the managers succeed then an investor may be rewarded with considerable gains on their initial investment.

The fund is a great way to access many of the really big names in global tech through a single product, such as Alphabet (Google), Microsoft, Facebook and Apple as well as the Chinese powerhouses Tencent and Alibaba.

You'll also get exposure to tech stocks further down the market cap spectrum. After all, many of the undiscovered opportunities in this sector will tend to be smaller companies.

Square Mile says the fund managers have a strong sell discipline, setting a price target for each stock.

| POLAR CAPITAL GLOBAL TECHNOLOGY: TRAILING RETURNS | |
|---|---|
| 1 YEAR | 25.15% |
| 3 YEARS ANNUALISED | 25.91% |
| 5 YEARS ANNUALISED | 23.10% |
| 10 YEARS ANNUALISED | n/a |

Source: Morningstar, as of 23 Feb 2018

## MAN GLG JAPAN COREALPHA (IE00B62QF466)

Japan is one of our preferred geographies from an investment perspective in 2018 thanks to an improving economic backdrop and attractive corporate valuations.

We prefer active management strategies rather than passive ones in Japan as the country's main stock market index contains some zombie companies.

Easy credit is keeping many businesses alive – just look at the fact that zero public companies in Japan went bust in 2016. As such, you may be better served using the services of a fund manager who can avoid 'the walking dead' and only back higher-quality businesses.

Man GLG Japan CoreAlpha has a large cap bias and is led by fund manager Stephen Harker who has been investing in Japan for more than 30 years. It buys unloved stocks and sells them when they become popular. It is difficult to predict when the latter will happen for each investment, so you'll need to be patient with this fund.

'The team's investment philosophy and process is exceptionally well defined, in that they purely focus on large cap and contrarian ideas which results in a strong value tilt,' says Molica at AJ Bell. 'The price to book multiple is their favoured valuation metric in which to identify undervalued opportunities.

'The team's ability to stick to this discipline rigorously through time is encouraging, which they have demonstrated over and over again. The resulting portfolio is long term and concentrated in nature.' (DC/DS)

ZERO PUBLIC COMPANIES IN JAPAN WENT BUST IN 2016.

**MAN GLG JAPAN COREALPHA:**
TRAILING RETURNS

| | |
|---|---|
| 1 YEAR | 1.56% |
| 3 YEARS ANNUALISED | 14.87% |
| 5 YEARS ANNUALISED | 14.56% |
| 10 YEAR ANNUALISED | n/a |

Source: Morningstar, as of 23 Feb 2018

# SHARES
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An expert panel from Shares and AJ Bell will guide you through their views on investment trust selection and the latest rules and uses for ISAs and SIPPs.

We will also be joined by four investment trusts that will explain their investment propositions so you can decide if they should be part of your investment mix.

**Brunner Investment Trust**
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**Henderson EuroTrust**
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A very strong performer in 2016 and again in 2017 with a total return of over 45% for the year. The Edinburgh Worldwide Investment Trust has a global portfolio of entrepreneurial companies that it believes offer long-term growth potential.

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Private companies and private equity funds can be difficult for many investors to get exposure to. The Standard Life Private Equity Trust provides investors access to this asset class by investing in a selection of leading private equity funds with an underlying portfolio of around 350 private companies.

Follow this link **www.sharesmagazine.co.uk/events** for full details and to register for your complimentary ticket.

**Event details**

**Registrations 17:45**
**Presentations start at 18:15**
Complimentary drinks and buffet available after the presentations

**Registration contact**

**Dimple Patel**
dimple.patel@sharesmagazine.co.uk
020 7378 4406

### Experts from Shares and AJ Bell

**Daniel Coatsworth**
Editor – Shares Magazine

Daniel will be hosting the evening and explaining how he approaches investment trust selection.

**Tom Selby**
AJ Bell – Senior Analyst

Tom will be looking at the latest rules, uses and developments of ISAs and SIPPs and will explain how to take best use of the tax efficient advantages they offer.

# Brunner shakes off debt and share overhang distractions

Global investment trust looks re-energised with plenty of investment ideas

As income statistics go, this one is pretty impressive. **Brunner Investment Trust (BUT)** has increased its annual dividend for the 46th year in a row (subject to shareholder approval, although we wouldn't expect any trouble there). The 16.5p payout, for the year to 30 November 2017, represents a 4.4% increase on 2016.

There are other investment trusts with similar 40-year plus runs of rising income, but it's a fairly exclusive club. Peers include **City of London Investment Trust (CLIG)**, **Bankers Investment Trust (BNKR)** and **Alliance Trust (ATST)**.

Despite this incredible dividend track record many investors have shied away from Brunner in the past because of a couple of poison pills. It's had expensive debt in the form of fixed-term debentures and a major shareholder that didn't seem to want to be there anymore.

Investors were spooked by 18.75% shareholder Aviva's decision to sell the trusts held for many years in the Friends Life portfolio it acquired in 2015. The market expected Aviva to sell its large investment in Brunner, something that's weighed on sentiment towards the investment trust.

A busy spell of talks seem ready to bear fruit, with a partial solution to the debentures and Aviva apparently happy to stay, releasing shares in an orderly fashion as demand dictates. That could actually boost liquidity in the shares.

Brunner had two long-term debenture which were taken out years ago when interest rates were much higher. The first debenture matured in January this year and has been redeemed by Brunner using its cash reserves.

The second debenture doesn't mature until 2023. However, the board has looked at various options to repay or refinance this loan.

'There would be an upfront cost in doing so, but the company would benefit over the long term from a much reduced interest cost and improved earnings profile,' it said in the recent results statement on 15 February.

'The board believes that these benefits outweigh the costs and therefore intends to progress this matter further over the coming months.'

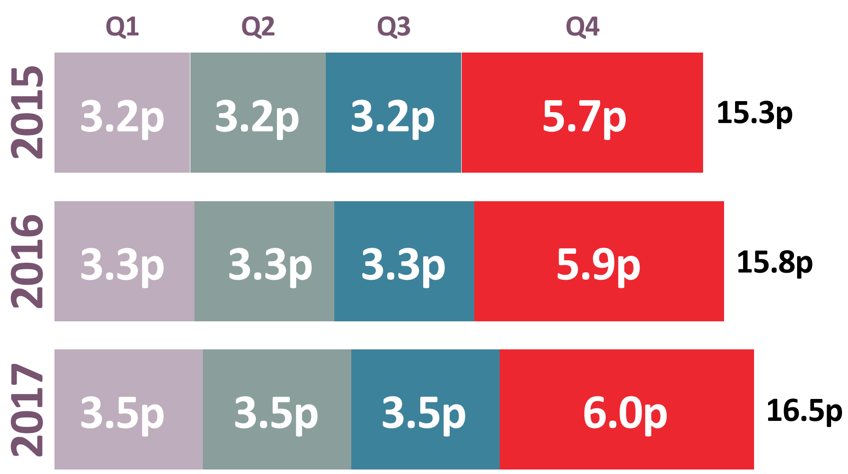
## NEW WORLD VIEW

Brunner, run by experienced manager Lucy Macdonald of Allianz Global Investors, operates a truly global strategy in its chase for capital and income investments.

Backed by a team of around 80 analysts on the ground, numbers are crunched in just about every corner of the world, with typically around 70% of assets in overseas-listed stocks and the rest in UK companies.

Copper-bottoming the trust's own dividend stream remains a priority. This explains the presence of typically reliable high-yielding income payers like **GlaxoSmithKline (GSK)**, banks

## BRUNNER: THREE-YEAR DIVIDEND HISTORY




Source: Brunner (year to 30 November)

and oil producers. **Royal Dutch Shell (RDSB)** is currently the trust's largest single holding worth 3.1% of assets.

Yet Macdonald is increasingly looking for more interesting opportunities beyond the obvious. This includes high cash generative businesses like Microsoft and AbbVie, the US drugs company, which may only yield 2% to 3% but whose own payouts are growing fast (13% forecast in AbbVie's case).

### DIGITAL SHAKE-UP

Traditional industrial companies in the teeth of embracing the needs of a digital future are also attracting Macdonald and her team at Brunner.

Sweden's industrial tools manufacturer Atlas Copco stands out, as does Adidas. The global sportswear firm is following its chief rival Nike in selling direct to consumers rather than solely relying on retail chains.

Macdonald admits business cost savings implied by Blockchain payments and cloud computing are other areas piquing her interest. Online accounting firm and QuickBooks-owner Intuit is one she admits to liking.

Online gaming is another theme she talks positively about, flagging *Call of Duty* developer Activision and Tencent, the Chinese social media and gaming giant.

### PAYING DIVIDENDS

The change of tack is paying off in the trust's performance and in that of its share price. Net asset value (NAV) rallied 19.4% to 862p last year, beating its benchmark's 15.1% performance. The benchmark, the FTSE Composite, is built 70% of the FTSE World Ex-UK index and 30% the FTSE All-Share.

More relevant to potential investors is the fact that Brunner's share price rallied close on 34% over the same period as the discount to NAV narrowed significantly, although the recent stock market correction has since knocked the stock back a bit.

The discount now stands at 11.3% but had been as wide as 20% as those aforementioned share overhang and debt pressures dragged on valuation.

### WOOING RETAIL INVESTORS

It's no wonder Macdonald is now trying to actively encourage retail investor interest.

She may have more luck appealing to younger investors, those with many years of working life still ahead of them for the income compounding effects to really play out. They may prove more relaxed about some of the lower yield stocks in the portfolio because they are on faster growth trajectories.

This younger investor demographic may also chime with Brunner's forward-thinking attitude of embracing of environmental, ethical and socially responsible policy.

'ESG is firmly integrated into all of our investment processes,' Macdonald says of the environmental, social and governance thinking that is increasingly becoming a standard in the investment industry.

Competitive ongoing charges of 0.79% and no performance related management fees add to the Brunner Investment Trust's transparency appeal. (SF)

| BRUNNER: TOP 10 HOLDINGS | |
|---|---|
| Royal Dutch Shell (Energy) | 3.1% |
| Microsoft (Computing) | 3.0% |
| AbbVie (Healthcare) | 3.0% |
| UnitedHealth (Healthcare) | 2.9% |
| BP (Energy) | 2.2% |
| UBS (Banking) | 2.1% |
| Muenchener Rueckver (Insurance) | 2.1% |
| Estee Lauder (Cosmetics) | 2.0% |
| Visa (Payments) | 2.0% |
| Charles Schwab (Investment) | 2.0% |

Want to know more about Brunner? Come to *Shares'* investment trust event in London on 15 March where fund manager Lucy Macdonald will be giving a presentation.

Register for free tickets: **www.sharesmagazine.co.uk/events**

# Welcome to the 'fundraising' fund which invests when companies need cash

MFM UK Primary Opportunities offers retail investors a way into many cut-price fundraisings

Have you ever been frustrated at not being able to participate in discounted share placings or IPOs (initial public offerings)? If so, we've spotted a potential solution in the form of a UK equity fund which only makes investments in these circumstances. The fund in question is **MFM UK Primary Opportunities Fund (GB00B8HGN522)**.

Being able to buy discounted shares doesn't necessarily mean each opportunity is a good investment. Using the services of a fund manager can have an advantage as you benefit from their skills and experience in being able to spot the best and avoid the worst opportunities.

However, fund managers don't always get it right and as such you should never assume their decisions will always result in a profit.

So has MFM UK Primary Opportunities delivered decent returns? Its performance has been getting better since 2015, beating the FTSE All-Share in two out of the past three years.

It generated 7.6% total return in 2015 (FTSE All-Share: 1%) and 19.4% in 2017 (FTSE All-Share: 13.1%). Even the 'lagging' year was still a success in investment terms, delivering 14% return in 2016, just shy of the FTSE All-Share's 16.8% gain.

So far in 2018 it is outperforming the market, up 0.6% to 31 January versus a 1.9% decline in the benchmark index. We'll take a closer look at the portfolio later in the article. First it is worth discussing the retail investor's position in the world of fundraising.

## HOW CAN RETAIL INVESTORS PARTICIPATE IN FUNDRAISINGS?

The most well-known methods for you to take part in a fundraise are rights issues and open offers, although there aren't that many events in a typical year compared to the frequency of share placings. The latter are generally restricted to institutional investors – more on this in a minute.

Rights issues are restricted to existing shareholders and generally give you the chance to buy shares at a steep discount. Open offers are open to anyone and you'll probably have a smaller discount.

A select few companies offer the public the chance to participate in an IPO, buying shares at the IPO offer price.

PrimaryBid is among the service providers which let retail investors take part in share placings, although these tend to only be offers involving small companies.

Members of the public classified as 'sophisticated investors' are sometimes invited to take part in placings or a broader range of IPOs.

## INSTITUTIONAL INVESTORS' ADVANTAGE

Fund managers, pension funds and other institutional investors often have an advantage over retail investors in being able to buy cut-price shares in companies. This generally involves a company 'placing' new shares with investors in exchange for cash.

This typically happens when companies want money principally for acquisitions or to strengthen their balance sheet.

Share placings tend to be priced at a small discount to the market value, to give the investors the incentive to hand over potentially large sums of money.

Most placings tend to be done in private and are only announced once the money is raised. Corporate financiers find it easier to call their network of institutional investor contacts to raise money rather than go to the effort of involving the general public.

Institutional investors occasionally have the chance to buy discounted shares when a company director or an existing shareholder wants to offload a large chunk of stock.

## WELCOME TO THE FUNDRAISING FUND

So how does MFM UK Primary Opportunities Fund fit into the equation? It is classified as an institutional investor. Fund manager Oliver Brown looks to buy companies below fair value or the prevailing market price.

For example, it recently bought shares in e-commerce specialist **Clipper Logistics (CLG)** at a 7% discount to the market price when the executive chairman sold a chunk of his personal holding. And the fund also invested in **Duke Royalty (DUKE:AIM)** at a near-5% discount as part of a £20m placing to raise new cash to make royalty investments.

Brown believes investing in IPOs could potentially deliver 10% to 20% return in the first year; other situations are less predictable.

The point at which he sells an investment depends on a range of different factors. He may reduce the holding as the share price moves up on subsequent news events or he may start selling if it achieves new share price highs.

Finding new opportunities also encourages the fund manager to review the portfolio regularly to see which holdings could be reduced or sold outright to create cash to fund new investments.

## HIGHER RISK TRADES

Recent purchases include **TalkTalk (TALK)** as part of a £200m share placing. 'It's not the highest quality company, yet the new money will help to reduce debt and fund infrastructure investment,' says Brown. 'The company also cut its dividend which will save some money.'

Coinciding with the fundraising was a trading update so Brown says he was able to make a decision about the placing knowing the latest facts about the business. 'We're buying into a company in a better financial position.'

TalkTalk has been a serial disappointment to investors and has a tendency to miss expectations. As such, Brown believes it would only have to deliver an 'in line with expectations' statement at the next trading update in order for the share price to see 'a decent bounce'. He says that's the point

MFM UK Primary Opportunities recently bought shares in Duke Royalty as part of a fundraising to make new investments. One potential deal for Duke Royalty is a £9m financing agreement with a supplier of industrial coatings to major brands including Caterpillar.

at which he may consider selling.

Such an approach may come across as short-term trading, yet the fund manager insists his strategy isn't only about getting in low and getting out fast.

### SOLID BACKBONE

Part of the portfolio contains stakes in large companies such as **HSBC (HSBA)** and **Royal Dutch Shell (RDSB)**. He says these positions provide stability and income to the portfolio.

The HSBC stake was acquired in 2009 when it undertook a £12.5bn rights issue at 254p. Today the bank's shares trade three times higher at 760.5p.

Interestingly, the fund doesn't take part in rights issues at the placing price. Instead, it picks up some of the 'rump', being shares not taken up by qualifying shareholders.

It is rare for 100% of a rights issue to be fully taken up by shareholders. A company would normally have an investment bank underwrite the fundraising, agreeing to take any shares left over. In this case, the latter may subcontract the likes of MFM UK Primary Opportunities Fund to buy some of the rump and pay it a small fee to take the shares.

> **The shares had been weak following the announcement of the rights issue so it was a classic situation for us with our primary opportunities investment approach to buy in where the shares had been depressed by the sheer size of the rights issue**

Last week Brown bought some stock from the rump of **Cineworld's (CINE)** £1.7bn rights issue. 'There were around 40m shares placed to institutional investors including ourselves. Ultimately we believe the company has strong management who we are confident can turn around its acquistion (Regal Entertainment) and have also put £400m of their own money into the deal,' he comments.

'The shares had been weak following the announcement of the rights issue so it was a classic situation for us with our primary opportunities investment approach to buy in where the shares had been depressed by the sheer size of the rights issue.'

The fund has taken a stake in cinema operator Cineworld

### BUYING SHARES ON THE OPEN MARKET

Occasionally the fund manager will go into the open market to make investments if there is a sudden fall in valuation for a particular company. He recently bought some shares in **Vodafone (VOD)** following a negative response to its latest trading statement and the subsequent wider stock market sell-off.

Such trades don't always offer immediate payback, as illustrated by Brown's decision to buy stock in **British American Tobacco (BATS)** last year on the open market following issues in the tobacco industry which pushed down the stock's valuation. The shares are currently trading even lower than his purchase price.

### INVESTING IN SELECT IPOS

A lot of stocks in his current portfolio originated from IPO investments. Brown's normal process is to talk to an analyst at a company's broker prior to a stock market listing to better understand the story. If it sounds good he will then seek a meeting with the company's management.

Many companies don't get past the first round of his process such as recent IPO, property portal **OnTheMarket (OTMP:AIM)**. 'I didn't buy the story. It is only number three in the market and doesn't make any money.

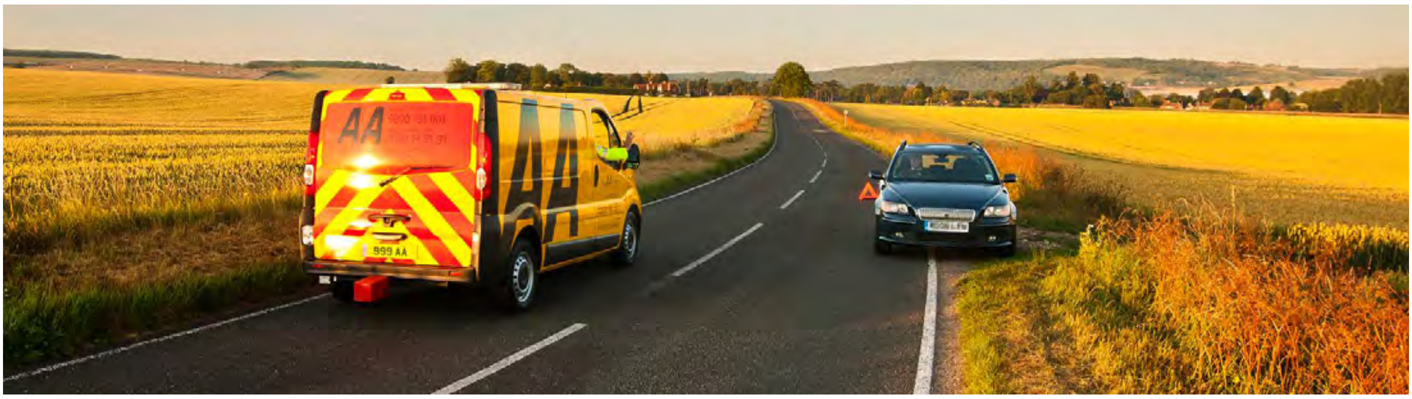
The fund wasn't interested in OnTheMarket's IPO

'If OnTheMarket is successful then I will have an opportunity in the future to buy shares when it next needs cash. If it is not successful, the business will go bust. It was too binary at the IPO – risk losing all my money versus risk making something like 30%.'

The fund manager has got his eye on the forthcoming stock market listing of financial adviser platform **IntegraFin**, hinting he may take part in the IPO offer. 'That's the type of company you'd look to buy and hold. It is in a growth industry.' (DC)

# All change for AA as dividends are cut and new strategic plan announced

It is looking for a fresh start after disappointing investors since floating in 2014



Roadside assistance specialist **AA (AA.)** has decided to enter into a brave new world, led by an energetic new CEO Simon Breakwell.

Rather than just providing roadside recovery once a car's broken down, the AA wants to develop systems that can spot when an engine is heading into trouble. The company also wants to invest heavily into its insurance businesses.

While this is very interesting, the investment case continues to be depressed by AA's £2.7bn net debt position.

Shareholders may be wary of a company that has seen its share price plummet from over 400p in 2015 to 87p today.

The decision to launch a strategy that would mean less profit for three years and a sharp reduction in its dividend from 9p to 2p is certainly brave.

However, major shareholders have given Breakwell their blessing. Its largest investor Neil Woodford has increased his stake in the business to 15.03% following the company's strategy update on 21 February which also contained a profit warning.

The AA wants to target younger customers to its roadside membership scheme through new products and services. Joe Brent, an analyst at broker Liberum, warns 'breakdowns are double edged – they cost money but they validate the model, increase future retention (if handled well) and increase pay-on-use revenue'.

Breakwell wants to create 65 new roadside patrols and 200 new call centre agents. Cutting the dividend will help free up cash that can be diverted to fund investments.

For Calum Battersby, an analyst at investment bank Berenberg, the previous plan of the AA to sort out its debt problems has failed.

Other parts of the post-IPO plan such as increasing membership have gone sideways. Since the company floated in June 2014, paid personal members have fallen by 8%.

Earnings estimates going beyond 2018 have been revised downwards by Liberum. For 2019, EBITDA and earnings per share forecasts have been dialled down by 16% and 38% respectively.

Liberum's Brent is slightly more upbeat on the AA's debt than Berenberg's Battersby.

While Brent says 'there is no silver bullet for the debt' he adds that with better earnings momentum and growth the market might 'become a little more forgiving on the debt'.

Battersby is unflinching, saying: 'There is no quick fix for the AA's substantial leverage, which we expect to remain a concern for several more years.' (DS)

# Logistics group Xpediator enjoys 81% share price rise in six months

The freight management firm is benefiting from organic and acquisitive growth

Strong freight demand in Central and Eastern Europe is expected to drive growth at logistics business **Xpediator (XPD: AIM)** alongside three acquisitions made in 2017.

Xpediator arranges the import and export of products and offers logistics and warehousing services under the Delamode and Easy Managed Transport brands.

The company also specialises in pallet distribution services under Pall-Ex and transport services via its Affinity Transport Solutions division.

Xpediator joined AIM on 11 August 2017 and its shares have since rallied by 81% to 43.5p.

Last week (22 Feb) its shares jumped 7.1% after revealing strong trading and an upbeat outlook. Profit for 2017 is anticipated to be significantly ahead compared to the previous year despite investing in staffing and IT to deal with demand.

## ACQUISITION STRATEGY REAPING REWARDS

Xpediator last year acquired EMT Logistics, Benfleet Forwarding and Regional Express, which collectively contributed £10m in sales. It has guided for £116m revenue on a group basis for 2017 (2016: £72.8m).

In November, Xpediator raised £2.8m to fund further acquisitions in the fragmented logistics sector.

While M&A is a vital part of Xpediator's strategy, the company also generates organic growth. In the year to 31 December, revenue rose 59% to £116m with approximately three-quarters of this from organic growth.

## EUROPEAN ROAD TRANSPORTATION SET TO RISE

In 2018, Xpediator expects to take advantage of more road transportation across Europe thanks to strong economic conditions.

Xpediator offers logistics and warehousing services under brands including Delamode

The rise in online shopping is another factor set to increase demand for the transportation of products.

However, one of the future risks to consider is demand for logistics services turning about to be weaker than expected and that higher costs cannot be passed through price hikes.

Xpediator's pre-tax profit is forecast to be £3.76m in 2017 before nearly doubling to £6.21m in 2018, according to the market consensus forecast. In 2019, pre-tax profit is expected to hit £7.06m.

At 43.5p, the shares currently offer a 3.8% prospective dividend yield for 2018. Xpediator is trading on 11.7 times forecast earnings per share (EPS) for 2018 compared to 12.7 times EPS for the UK logistics sector and 22.2 for the global peer group, according to Cantor analyst Robin Byde.

'Despite a strong debut the stock is still good value and offers attractive growth,' he comments.

The £51m business is forecast to have ended 2017 with £1.37m net debt and for that figure to rise to £2.67m at the end of 2018. (LMJ)

# Asset manager Phoenix to put its stamp on Stanley Gibbons

Value-focused fund manager throws rare coins-to-stamps retailer a lifeline

Bombed-out stamps-to-rare coins dealer **Stanley Gibbons (SGI:AIM)** saw its share price rally on news (23 Feb) that fund manager Phoenix will invest up to £19.45m for a controlling 58.09% stake.

The lifeline should help Stanley Gibbons emerge from a challenging period, to quote Phoenix founder Gary Channon, 'bought on by questionable acquisitions and poor management decisions' under previous leadership.

The proposed deal will see Phoenix become Stanley Gibbons' primary creditor, dramatically reduce the AIM company's debt and boosting its cash resources.

Over the past two years, struggling Stanley Gibbons has been restructured, a new management team hiving off or closing businesses, cutting costs and re-focusing the British heritage brand on serving the global philatelic and numismatic collectibles market.


Funds injected by Phoenix, also the controlling shareholder in troubled toy-to-hobby products business **Hornby (HRN:AIM)**, will be used to invest in new stamp and coin stock and digitise Stanley Gibbons' intellectual property.

Channon says Stanley Gibbons incorporates 'some of the strongest brands in the fields of philately and numismatics'.

He adds: 'We look forward to helping the company rebuild and fulfil its potential as a truly great business and will do so with a long-term approach, consistent with how we have always invested.' (JC)

## Tlou Energy enjoys big Botswana resource boost

### Company outlines ambitious targets for the remainder of 2018

COAL BED methane (CBM) play **Tlou Energy (TLOU:AIM)** has reported a big upgrade to the estimated resources attached to its assets in Botswana.

The news may help to win back the market's interest. Market sentiment was hit earlier in February by authorities in Botswana asking for a re-tender on its bid to develop a CBM-based gas-to-power project.

House broker Shore Capital sees this as a 'mild frustration' but points to the big increase in reserves as the more significant news.

Proved and probable or 2P reserves for its Lesedi and Mamba developments increased 944% to 40.8 billion cubic feet in an independent report released on 20 February.

The next step for the company is to develop these resources and alongside its first half results on 22 February the firm outlined several targets for 2018. These include:

- Commencing initial development drilling
- Potential purchase of drilling rigs to provide more operational control
- A new seismic survey
- Securing a power purchase agreement
- Approval for connecting its gas up to the electricity grid

This is an ambitious set of targets, particularly given the current net cash position of $7.45m. (TS)

# Is it worth moving SIPP provider and how long does it take?

Switching isn't easy but it could result in a more fruitful investment experience


If you're unhappy with the fees or customer service at your current SIPP (self-invested personal pension) provider then it could be worth transferring to a new provider.

SIPPs vary significantly in what they offer, so you need to do your homework when deciding with whom to place your hard-earned pension money.

### WHY SHOULD I THINK ABOUT TRANSFERRING?

It's easy to accept the status quo and not bother changing providers, but you could lose out in the long run.

Excessive SIPP fees will eat into your returns.

'The power of compounding means that transferring to a lower-cost SIPP provider can give a huge boost to the value of your SIPP over time as you get to keep more of your investment returns,' explains Charlene Young, technical resources consultant at SIPP provider AJ Bell.

You might also be disappointed with the range of investments you're able to access though your SIPP or fed up with bad customer service. Poor technical support, errors and a slow response to questions can be a major irritant.

### HOW LONG DOES A SIPP TRANSFER TAKE?

Transferring a SIPP is easy in theory – you just need to contact your new provider and they'll start the process. Unfortunately, the time it takes to transfer can vary enormously.

A 'cash only' transfer should take a couple of weeks, although it'll be slower if both providers aren't signed up to a transfer platform like Origo Options.

Some industry experts

estimate it should take three to four weeks, although it can be faster or much slower.

If you choose to transfer 'in-specie' – where your investments are maintained and transferred to the new provider – it can take around two to three months for the process to complete.

## HOW MUCH DOES A SIPP TRANSFER COST?

Your current SIPP provider is likely to charge you an exit fee when you transfer out – typically around £100.

If you transfer in-specie, you'll also have to pay for each individual investment holding to be transferred over. The average is £25 per holding, meaning you'd pay an additional £250 for a portfolio of 10 investments.

Similarly, selling individual equity holdings in order to facilitate a cash transfer can cost between £10 and £25 per line of stock.

The advantage of transferring your investments in-specie is that it protects you from market movements. With a cash transfer you have to buy your investments back again – potentially at a higher price.

Jeff Steedman from pensions administration firm Xafinity says transfer fees can often act as a barrier to people switching provider, even when they're unhappy.

'A SIPP is for life and, if you're not happy with your provider, it is often worth putting in the energy and dealing with any costs to move – to ensure you're in the hands of a provider that will genuinely look after you in the long-term,' he says.

## WHAT SHOULD I LOOK OUT FOR WHEN COMPARING PROVIDERS?

It's extremely important to compare the different fees charged by SIPP providers.

The main one to look at is the 'custody' or 'administration' fee. This will be charged on either a fixed-fee basis or as a percentage of your portfolio.

According to Steven Nelson, head of research at The Lang Cat, a financial consultancy, once you have a portfolio worth in excess of £100,000 then a fixed fee platform will start to work out cheaper.

Platforms also levy trading fees, so it's worth thinking about how often you buy and sell investments when choosing a SIPP.

Trading equities (shares, investment trusts and exchange-traded funds) is usually more expensive than trading funds, although the custody fees for equity-based investments are often capped.

Fees aren't the be-all and end-all. Nelson says one of the biggest factors to consider is how much help you need picking investments.

'Platforms vary significantly from those that simply present an open choice of thousands of investments to those that give you a hand choosing. This can be a suggested list of "best buy" investments or a range of investment funds by risk profile,' he adds.

## INVESTMENT RANGE

As well as 'platform' SIPPs, there are also 'full' SIPPs available. Full SIPPs enable you to invest in non-standard investments, the most common of which is commercial property.

Full SIPPs tend to be more expensive, so there is little point in paying for one if you only need access to a small range of funds.

However, it's important to ensure your new SIPP offers all of the investment options you need, as they can vary.

This is particularly the case if you opt for an in-specie transfer – it's worth double-checking that your new provider can hold your existing investments before you start the process. (EP)

# Scottish income tax overhaul – how will it affect your pension?

We look at the changes facing Scottish taxpayers from April

If you're a Scottish taxpayer, big changes are just around the corner. From April this year some people north of the border will pay a different rate of income tax to their counterparts in the rest of the UK.

It is the first time the Scottish Government has used powers that allow it to set additional income tax rates from the rest of the UK. Two new tax bands ('starter rate' and 'intermediate rate') will be established, while the higher and additional income tax rates will also be increased (see table for details).

The move will have a knock-on impact on pension savers in Scotland who currently receive pension tax relief at their marginal rate. HMRC has now confirmed details of how this will work.

## RELIEF AT SOURCE

Members of schemes which apply tax relief after they have paid income tax – known in the jargon as 'relief at source' – will be affected in different ways.

Savers will still receive tax relief automatically at the basic rate of 20%, meaning those falling into the starter rate (£11,850 - £13,850) and basic rate (£13,850 - £24,000) bands won't have to do anything in order to receive the tax relief they are due. HMRC will not recover the difference between the Scottish starter and Scottish basic rate.

However, anyone who falls into the new 21% intermediate band (£24,000 - £43,430) will need to tell HMRC in order to get the extra 1% of tax relief they are entitled to. Many of these people will never have filled out a tax return before and may well question whether it's worth the hassle.

Someone who earns £30,000 and contributes 10% of their salary would pay in £2,400 over the course of a year, receive tax relief at source of £600 and can then reclaim an extra £30. While this might not sound like a lot, over the course of a lifetime that could add up to thousands of pounds.

Higher and additional-rate taxpayers will continue to apply for their tax relief through self-assessment, as they do at the moment. People in these tax brackets will have an extra reason to save in a pension though as they get an additional 1% in tax relief under the new framework.

## NET PAY

Some pension schemes operate pension tax relief on a 'net pay' basis. This simply means pension contributions are deducted before income tax is applied to their pay. These arrangements have caused controversy in the rest of the UK because people who pay no income tax do not receive a pension tax relief top-up automatically.

HMRC has confirmed these schemes will continue to operate in the same way for residents north of the border as they do now under the new tax regime.

Tom Selby, senior analyst, AJ Bell

**SCOTTISH INCOME TAX**
THE NEW BANDS FOR 2018/19

| BANDS | BAND NAME | RATES (%) |
|---|---|---|
| Over £11,850 - £13,850* | Starter Rate | 19 |
| Over £13,850 - £24,000 | Basic Rate | 20 |
| Over £24,000 - £43,430 | Intermediate Rate | 21 |
| Over £43,430 - £150,000** | Higher Rate | 41 |
| Above £150,000** | Top Rate | 46 |

*Assumes person is in receipt of the Standard UK Personal Allowance
**Personal Allowance is reduced by £1 for every £2 earned over £100,000

# INDEX



**KEY**

- Main Market
- AIM
- Fund
- Investment Trust
- IPO coming soon