STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

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THIS WEEK'S BIG NEWS:
- WEATHER DISRUPTION
- LOOMING TRADE WAR?
- HOUSEBUILDER BOOST

ARTICLES ON:
EVENLODE GLOBAL INCOME FUND
EDINBURGH WORLDWIDE TRUST
MICRO FOCUS, JUST EAT & MORE

THE MARKET SELL-OFF: WILL IT PROMPT A RENEWED SHIFT TO VALUE INVESTING AGAIN?

Trade war fears spark another bout of market volatility

Donald Trump is to blame for causing share prices to fall in various markets

Donald Trump's tariffs on steel and aluminium imported to the US, as well a threat to tax car imports from the European Union, have given investors something new to worry about.

The prospect of a trade war has triggered weakness in many stock markets around the world, particularly those like Europe and Japan whose economies are built on exports.

On a stock-specific basis, **Rio Tinto (RIO)** took a share price hit as it has considerable smelting operations in Canada and is a major supplier of aluminium to the US.

Shares in carmakers have been particularly weak including a decline in the value of General Motors and Toyota.

In contrast, assets considered to be lower risk have attracted investors' attention since Trump's trade war spat began on 1 March. For example, gold, the yen and German bonds have been in particular demand in recent days.

WHAT'S DRIVEN THE LATEST MARKET WOBBLE?

President Trump has outlined plans to impose a 25% tariff on US steel imports and 10% on aluminium, which would be bad for major suppliers Canada and the EU. He also threatened to apply a tax on cars supplied by the EU to the US.

Reports suggest EU trade chiefs are considering 25% tariffs on imports from the US such as Levi's jeans, Harley-Davidson motorbikes and Bourbon whisky.

The US is the largest export market for EU cars and Germany is responsible for just over half of the EU's car exports.

Trump's tariff announcement effectively makes imports more expensive in the hope that US companies will switch to domestic supplies of goods. The tariffs could encourage affected industries in the US to increase production and use idle capacity, as well as creating more jobs.

However, that is a risky move as it could push up costs which ultimately get passed on to the consumer and cause rising inflation. This is relevant as fears over inflation were behind February's global stock market sell-off.

WHAT DOES THIS MEAN FOR INVESTORS?

Markets are now concerned that the EU won't be the only region to retaliate with their own tariffs on US goods. The worst case scenario would be reduced expectations for global economic growth which threatens to have a negative impact on investor sentiment and ultimately cause another ripple in the stock market.

No one knows if that situation is going to play out. For now, it is important that investors understand the forces that are moving markets. Some will ultimately turn out to just be 'noise' that goes away; others could be more serious.

At time of writing on 5 March, the S&P 500 had registered three straight days of declines in excess of 1%. *Financial Times* says is the first hat-trick of such daily losses for more than two years.

Investing is a long game and comes with both ups and downs. The best strategy is to keep feeding your ISA or SIPP (self-invested personal pension) on a monthly basis if you are comfortable with the associated risks. You buy fewer shares or fund units when prices are high and more when prices are low.

Drip feeding money ultimately means you aren't trying to time the markets. That could potentially make you a calmer investor and not one spooked by certain events, although you should never ignore what's happening in the world. (DC)

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SENECA
INVESTMENT MANAGERS

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The Seneca Global Income and Growth Trust plc is designed for investors seeking a quarterly income with long- term capital growth and low volatility.

The Trust employs a proprietary Multi-Asset Value Investing approach. The core principle of value investing, buying good quality assets when they are low is traditionally associated with equities. We apply a value approach to everything we do. Led by Peter Elston, the Investment Team manages the Trust through in-depth research into asset allocation and the various asset classes we invest in.

In the UK, we focus on mid-cap equities. For overseas equities and fixed income, we use third party funds which share our value style. Elsewhere, we focus on property, infrastructure, specialist finance and private equity which we call specialist assets. Each area contributes both to the capital return and the income generation of the Trust.

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- The Trust pays quarterly dividends, offering a current yield of circa 3.6%[1]. Over its last four financial years to April 2017 the Trust has grown its dividend at a compound rate of 4% per annum, ahead of CPI every year.**
- Over a typical investment cycle[2], we aim for the Trust to achieve a total return of at least CPI plus 6% after costs, with low volatility. In addition, we aim to grow aggregate dividends at least in line with inflation.
- Over the five years to end January 2018, the Trust delivered an NAV return of +58.1% with volatility close to half that of the major equity indices[3]. Details of the Trust's returns can be found in the performance tables below.

Cumulative performance (%)	3 months	6 months	1 year	3 years	5 years
Trust share price	-0.4	2.1	14.0	45.6	77.7
Trust NAV	-0.03	1.7	12.6	34.4	58.1
Benchmark	1.7	4.2	6.0	13.7	21.9

Discrete annual performance (%)	31 Jan 2018	31 Jan 2017	31 Jan 2016	31 Jan 2015	31 Jan 2014
Trust share price	14.0	18.2	8.1	7.1	13.09
Trust NAV	12.6	19.2	0.2	7.9	9.0
Benchmark	6.0	3.5	3.6	3.6	3.5

Find out more about Seneca Investment Managers at senecaim.com or call us on 0151 906 2450

Things To Be Aware Of

[1]Current yield: the yield calculation is based on the latest quarterly dividend, annualised, compared against the month end share price.

[2]Seneca Investment Managers Ltd define a typical investment cycle as one which spans 5-10 years, and in which returns from various asset classes are generally in line with their very long term averages. There is no guarantee that a positive return will be achieved over this or any other period.

[3]Annualised volatility of returns over five years versus FTSE World ex-UK, FTSE UK Private Investor Balanced, AIC Flexible Investment Sector, FTSE All Share and Investment Association Mixed 40-85% shares.

* The Trust has outperformed its benchmark over each of the last five years. It has grown its dividends in excess of inflation over each of the last four finanicial years. It has delivered these returns with materially lower volatility than equity markets over the last five years.

** There is no guarantee that dividends will continue to increase or grow ahead of CPI.

Performance and dividend data sources: Seneca Investment Managers Ltd, Bloomberg & Morningstar. Share prices calculated on a total return basis with net dividends reinvested. NAV returns based on NAVs excluding income and with debt valued at par. Returns do not include current year revenue. Benchmark: LIBOR GBP 3 Months +3% to 06.07.17 thereafter CPI +6% after costs. Past performance should not be seen as an indication of future performance. The information in this article is as at 31.01.2018 unless otherwise stated. The value of investments and any income from them will fluctuate, and investors may not get back the full amount invested.

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All calls are recorded. FP18 073

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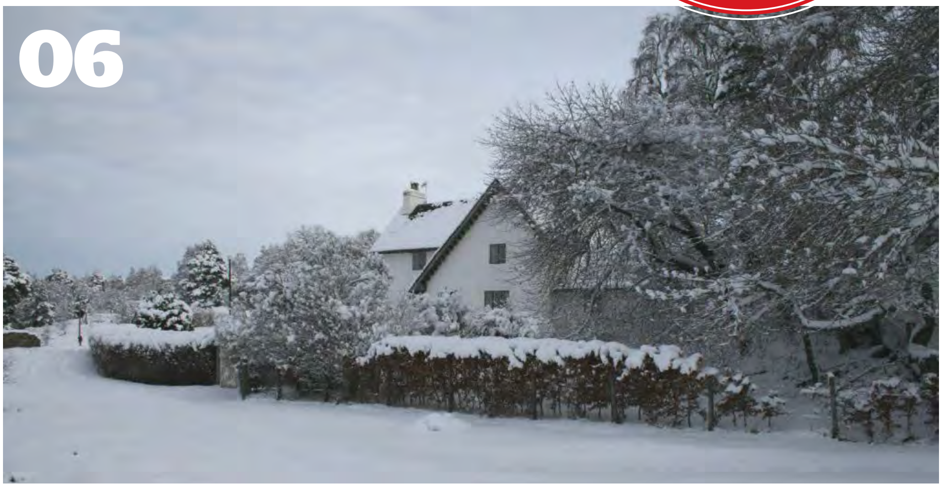

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BROKER RATINGS EXPLAINED:

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

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

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

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

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

Brace yourselves for the big weather fall-out

Poor weather conditions won't have helped retailers, leisure groups and transport operators

Consumer-facing stocks are expected to bemoan the impact of the 'Beast from the East' and Storm Emma when issuing updates over the coming weeks and months.

Snow and strong winds disrupted deliveries and left high streets, retail parks and shopping centres eerily quiet with footfall likely to have been dramatically lower year-on-year.

This will have proved distinctly unhelpful for several firms ranging from struggling department store **Debenhams (DEB)** and baker **Greggs (GRG)** to Argos-owner **Sainsbury's (SBRY)** and even **CVS (CVSG:AIM)**, if the heavy snow prevented people from ferrying beloved furry friends to its veterinary practices. Pubs and restaurants will also have been affected.

Shore Capital analysts Clive Black and Darren Shirley comment: 'We expect the inclement weather witnessed in the UK and Ireland to be reflected in forthcoming secondary market data with references no doubt too in some company statements.

'Footfall is bound to be negatively impacted, so hitting retail sales, whilst the cost of fulfilment for grocers and online retailers is likely to be heightened.'

Dire weather coincided with a doom-laden week for the retail sector, already facing online channel shift, squeezed consumer spend, rising wages, rents and rates. This not only included news of the administrations of *Maplin* and *Toys R Us*, but also saw embattled **Carpetright (CPR)** and **Mothercare (MTC)** issue new profit warnings and flag crunch talks with their respective lenders.

The prevailing challenge for non-food retailers is highlighted by the latest (6 Mar) BRC-KPMG Retail Sales Monitor (RSM), showing in-store sales of non-food items down 3.3% on a like-for-like basis for the three months to February.

Back to the bad weather, Shore Capital adds 'no doubt online orders also surged but whether or not deliveries were successfully made and at what cost to the retailer/delivery company, remains to be seen.' And yet, 'a balmy April and May can extinguish much of the cold memory of the chill and disruption of Emma and her mates,' it continues.

'However, warm spring-like weather likely to stir life in the dahlias feels a bit away as global warming seems to be distinctly somewhere else at this time.

'British retail will be hoping that climate change does yield something more favourable and soon. For now though keep Storm Emma in mind as something non-recurring and exceptional when near data-points start to emerge.' (JC)

Businesses are looking for Brexit transition deal

Theresa May's speech gets thumbs down in foreign exchange markets

Prime Minister Theresa May's latest speech on Brexit (2 Mar) may initially have calmed tensions within her party but it is receiving a lukewarm reaction from the European Union and currency traders.

Sterling traded lower in the aftermath of the address as May acknowledged that leaving the single market will reduce access for British companies to EU markets and failed to deliver resolution on the Irish border issue.

Capital Economics senior UK economist Paul Hollingsworth comments: 'Theresa May's speech rounded off a week of important Brexit developments.

'Labour leader Jeremy Corbyn's speech on Monday confirmed the party's change in Brexit policy, to favour staying in "a" customs union.

'This is important for two reasons; first, it puts some fresh air between Labour and the Conservatives on this issue. And second, it means there is now no clear majority in Parliament for

leaving the customs union, and makes it more likely that the Government will be defeated on the Customs Bill.'

As we went to press the European Commission was poised to publish proposals for the EU's future relationship with the UK.

Business leaders, desperate for clarity, will be looking for a transition agreement to be more or less in place in time for a meeting of the European Council on 22 March. (TS)

What the Government's housebuilding plans mean for the sector

Consumers are growing wary of big purchases amid new housing proposals

GOVERNMENT PLANS TO address the housing crisis are providing a boost to shares in housebuilders despite the threat to strip planning permission from developers which hoard land.

The proposals, announced in an address from Prime Minister Theresa May on 5 March, also include potential sanctions for local councils which fail to draw up plans to address local housing shortages.

This could include removing their right to decide where properties are built and could make it easier for housebuilders to get planning permission.

Most industry figures point to this as among the biggest constraint on their ability to build more homes.

This helps explain why shares in the big operators in this space like **Barratt Developments (BDEV)** and **Persimmon (PSN)** traded higher on the news.

However, this share price strength could be short lived. GfK's recent consumer confidence survey asked respondents if now was good to make a large purchase. The reading dropped to zero in February, having been as high as five a year ago. (TS)

Why restaurant closures are healthy for the sector's longer term future

The sector is currently paying the price for expanding too fast

Rising costs, intense competition and a squeeze on disposable income is a toxic combination for restaurants chains, but we believe an acceleration of restaurant closures is good for the sector's health in the future, helping to resolve previous oversupply issues.

Thirty five of the UK's top 100 restaurant groups are now loss making, up from 20 last year, according to accountant UHY Hacker Young.

Byron, Jamie's Italian and Prezzo are just some of the well-known chains closing restaurants.

UK-listed restaurateurs are also experiencing problems, although much of the bad news has already been factored into their share prices. They include Frankie & Benny's owner **Restaurant Group (RTN)** and Franco Manco owner **Fulham Shore (FUL:AIM)**.

Delayed planned openings by up to six months

Fulham Shore warned in September that earnings before interest, tax, depreciation and amortisation (EBITDA) in 2018 will be less than expected and it has delayed planned openings by up to six months.

Restaurant Group has been cutting prices and re-engineering its menu after losing custom to more trendy rivals.

Overall the industry has been too aggressive with expansion plans and further site closures will be required to help return the sector to better health. The journey has already begun but we're not there yet. (LMJ)

Tesco-Booker deal gets final sign-off

THE £4BN TAKEOVER of wholesaler Booker by supermarket **Tesco (TSCO)** is complete.

The deal, first announced in May 2017, received court approval on 2 March having already received the backing of both sets of shareholders and been signed off by competition authorities.

The new merged entity has a market value equivalent to that of **Sainsbury's (SBRY)**, **WM Morrison Supermarkets (MRW)**, **Marks & Spencer (MKS)** and **Ocado (OCDO)** put together. (TS)

Beaufort Securities collapse affects 14,000 clients

THE COLLAPSE OF stockbroker Beaufort Securities has resulted in a significant fall-out for UK small caps and affected 14,000 clients.

Several smaller firms are left with a pressing need to secure new brokers in order to avoid their shares being suspended from trading on AIM.

Accountancy firm PWC has set up a helpline for Beaufort customers on 0800 063 9283 or +44 (0)20 7293 0227 for individuals based overseas. Further information can be found at **www.pwc.co.uk/beaufort**. (TS)

Ex-Melrose experts float new buy, fix and sell firm Stirling

FORMER DIVISIONAL MANAGERS of industrial buyout firm **Melrose (MRO)** are heading up a new cash shell which hopes to buy underperforming industrial firms worth up to £750m, fix them and sell them.

Stirling Industries' (STRL:AIM) business model is very similar to Melrose, although it is tiny in scale at present.

Directors Blair Illingworth and Simon Thomas used to work for Brush, a subsidiary of Melrose. Illingworth has also worked for Tarmac, **Polypipe (PLP)** and **Marshalls (MSLH)**. (TS)

Just Eat's big strategic change will weigh on earnings growth in 2018

The company plans to invest in brands, developing markets and delivery services

A £50m investment by food ordering expert **Just Eat (JE.)** will restrict earnings growth in 2018.

The company says underlying earnings before interest, tax, depreciation and amortisation (EBITDA) in 2018 will be between £165m and £185m, which is 'materially below' analyst expectation of £226m.

That implies a mere 7% EBITDA growth in the current year, considerably less than the 42% growth rate achieved in 2017.

The reduction in earnings guidance reflects investment in brands, developing markets and delivery services, which will also hike costs for Just Eat for staff and transportation.

Investing in delivery will be focused on the UK, Canada, Australia, New Zealand, as well as developing markets to tap into significant growth potential.

Rival operator Deliveroo used to have a competitive advantage over Just Eat because it was able to deliver food to customers' homes. Just Eat has historically only been an ordering website; now it plans to add delivery to be more in line with rivals.

'When facing a growing consumer choice, a business has three options: 1) increase marketing to defeat the competition; 2) acquire the competition; or 3) invest in new IP and assets within the business to generate benefits in perpetuity. We prefer door #3,' says stockbroker Peel Hunt. (LMJ)

Miton to launch US small cap fund

ASSET MANAGER MITON is poised to launch a new fund targeting smaller companies across the Atlantic.

The new vehicle will be managed by Nick Ford and Hugh Grieves who look after the top performing **Miton US Opportunities (GB00B6Z0P562)** fund.

The plan is to invest in 70 to 100 companies with market caps of between $100m and $6bn. Around half the initial portfolio will be equally weighted between the IT and financial sectors. (TS)

Unexpected fall in UK house prices

AGAINST EXPECTATIONS FOR a 0.2% increase in UK house prices during February, mortgage lender Nationwide says the figure has turned out to be a 0.8% fall.

Chief executive of property lender Octane Capital, Jonathan Samuels, comments: 'While weak supply and very low borrowing costs will prevent a collapse in prices, it's hard to see 2018 delivering anything other than very low single digit growth.

'February could go down as the month the big freeze on prices took hold.' (TS)

Smurfit Kappa bid approach lifts packaging sector

THE PACKAGING SPACE is in a buoyant mood after a takeover approach for **Smurfit Kappa (SKG)** from US rival International Paper.

While there were no details on the value of the approach, the news was taken as positive for Smurfit and UK-listed peers like **Mondi (MNDI)** and **DS Smith (SMDS)**.

Smurfit's board has rejected the approach on the basis the valuation is not up to the mark. (TS)

£5.11bn

More than £5bn worth of sales were made in the UK's gaming sector in 2017

Gaming remains a bright spot in the struggling world of retail. The UK games market achieved more than £5bn worth of sales in 2017, up 12.4% on the previous year according to figures from trade body UK Interactive Entertainment.

Most of the sales came from game software, helped by the launch of Nintendo's Switch console. Strength in this market is relevant to three UK-quoted companies: **Keywords Studios (KWS:AIM)**, **Sumo (SUMO:AIM)** and **Game Digital (GMD)**.

The first two companies assist in the development of games through the provision of various services. Game Digital sells the products.

Video games publisher Codemasters is rumoured to be heading for the UK stock market in the very near future.

Carpetright's five embarrasing profit warnings

RETAILER **CARPETRIGHT (CPR)** has issued an incredible five profit warnings in less than a year. It says trading was poor over Christmas and stayed this way into the start of 2018.

Sellers of big-ticket items are coming under pressure, with items like carpets and beds usually the first to go on the back burner when consumer incomes are squeezed.

Worryingly for shareholders, Carpetright's cash flows and balance sheet are feeling the strain and a breach of banking covenants looks possible if trading fails to improve.

SAGE RELYING MORE ON TECHNICAL STAFF TO BOOST PRODUCTIVITY

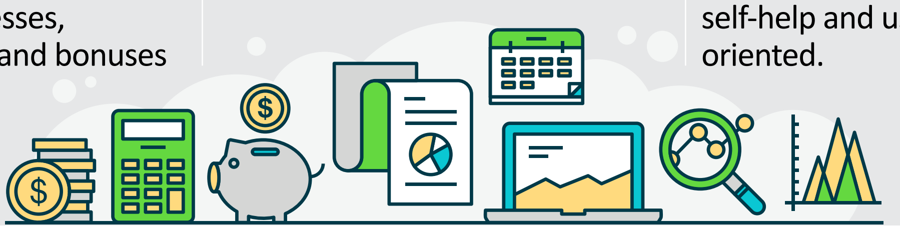
STAFF COSTS PER head rose 17% for accounting software supplier **Sage (SGE)** in its 2017 financial year despite employing just 54 more people.

It is concentrating on more technical stuff capable of boosting productivity and revenue per employee.

Like most businesses, employee salaries and bonuses are Sage's biggest single expense at £671.5m last year. That's about 53% of its total £1.26bn selling, general and administration costs in 2017.

Over the past three years Sage has transformed its product suite to the digital, cloud computing age. Likewise, the company's staff roster is also going up the value chain and becoming more technically minded.

Fewer customer service staff are required in call centres as contact points increasingly become more automated and self-help and user community oriented.



Micro Focus is a quality stock going cheap

Its share price fell for good reason earlier this year but has it now fallen too far?

We believe there is a clear investment opportunity at **Micro Focus (MCRO)**, the UK's largest listed software company.

The share price is drifting around the £20 mark, down 25% on November's record highs and down 21% since half year results at the start of January.

The shares look oversold following weak figures in January. There is a clear path to turning round the operational and share price performance.

MICRO FOCUS
BUY
(MCRO) £20.48
Stop loss: £16.38

Market value: £8.92bn

WHAT DOES IT DO?

Micro Focus provides software modernisation products and functionality to legacy IT systems. Many large organisations have years of investment stacked up in their IT systems, so ripping them out and starting again is out of the question.

Micro Focus uses its years of expertise in core computing languages, such as COBOL, Linux and the open source SUSE suite. This is applied to creaking client IT infrastructure to make it fit for the modern age of cloud computing, e-commerce, and mobile applications.

Management have years of experience in squeezing maximum value from older infrastructure, making 40%-plus operating profit margins in the process. Extracting this sort of performance from its $8.8bn HPES acquisition is the key to future returns.

VALUE EXTRACTION

HPES has now been fully integrated into the Micro Focus family for five or six months and has been firmly focused on core functions, such as IT security, application delivery, modernisation and connectivity.

The recent half year results were the first to include a contribution from the HPES. The contribution from the acquired assets and performance from older products was disappointing, hence the share price decline. Micro Focus needs to prove that was a one-off setback.

Standardising systems, functions and office locations are the next step in value extraction, plus a new combined go-to-market model. We expect underperforming parts of its business to face the axe.

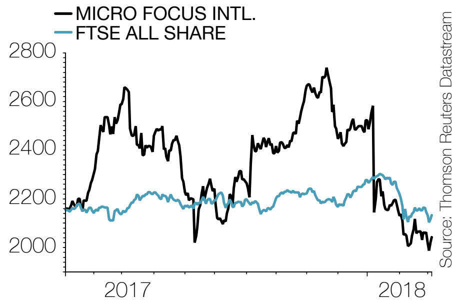
Longer-term, the company has exciting operational leverage potential, essentially meaning it should be able to grow sales faster than costs. This helps underpin the investment attractions if revenue trends stabilise and profit quality improves.

These positive drivers translate into targeted annual returns of around 15% to 20%, impressive for such a large and mature business. This ambition which is backed by a strong historic track record.

It is forecast to pay $1.05 in dividends for the year to 31 October 2018, implying a 3.7% income yield. Expect double-digit payout growth in the future.

This trade is not without risk for shareholders but a full year 2019 price to earnings multiple of 11.8 means the balance between risk and reward looks very attractive. (SF)

BROKER SAYS: 5 4 3



OneSavings Bank looks interesting as share overhang is nearly removed

The challenger bank is capitalising on a shift in the buy-to-let market

Challenger bank **OneSavings Bank (OSB)** may have seen its share price lose momentum since last summer but we believe this company is ultimately going to reward shareholders.

Its share price has been held back over the last nine months by 38% of its issued share capital being sold in four chunks. Private equity owner JC Flowers has been selling down its position and now only holds 9.7% of the business.

JC Flowers is free to sell another chunk of shares any time after 15 March, which is also the day when OneSavings' full year results are published.

WHAT HAPPENS NEXT?

We believe the private equity group will seek to exit its remaining stake fairly swiftly this year, thereby removing a major share overhang. That should also allow the market to shift its focus back on OneSavings' core business.

Investec analyst Ian Gordon says once this 'transitory blockage' is removed, he expects to see a resumption of strong share price performance to more closely track 'the outstanding operational story'.

This 'outstanding' story is due in part to the bank's savvy use of the Bank of England's Term Funding Scheme (TFS).

Although the scheme is now closed, it allowed banks to borrow money close to the Bank of England's lower interest rate. This helped OneSavings by allowing it to fund higher proportions of its loan book with cheap TFS at the same time gaining a much wider spread between TFS costs and average retail funding costs.

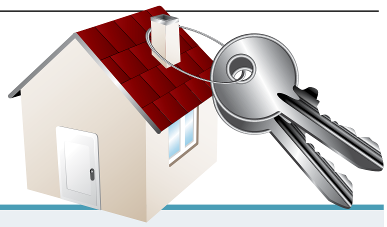
OneSavings Bank has been making good use of TFS, drawing a further £449m in the final quarter of 2017 while paying back the final tranche of its Funding for Lending Scheme (FLS) borrowings, which were more expensive.

FLS was a precursor to TFS and was intended to encourage banks to loan to small businesses.

WHAT DOES ONESAVINGS DO?

The Kent-based lender focuses on the professional landlord market which is growing in providence since tax and regulatory changes negatively impacted private investors in the buy-to-let market.

Private investors historically had a large chunk of the market and their loss is most definitely OneSavings' gain.



ONESAVINGS BANK
BUY
(OSB) 408.6p
Stop loss: 325p

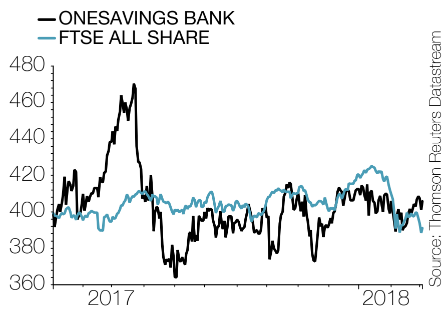
Market value: £986m

The bank's success may have been signposted for some time. In November last year it updated its loan book forecast for its year-end from 'at least high teens' to a resolute 20%.

Investec's Gordon adds 50 basis points to that prediction, estimating growth of 20.5% in 2017.

The company's year-on-year loan origination was up 33% in the third quarter of 2017, a sign that its key market of professional landlords is thriving. (DS)

BROKER SAYS: 12 2 1



WPP

(WPP) £12.50

Loss to date: 11.7%

Original entry point:
Buy at £14.16, 31 August 2017

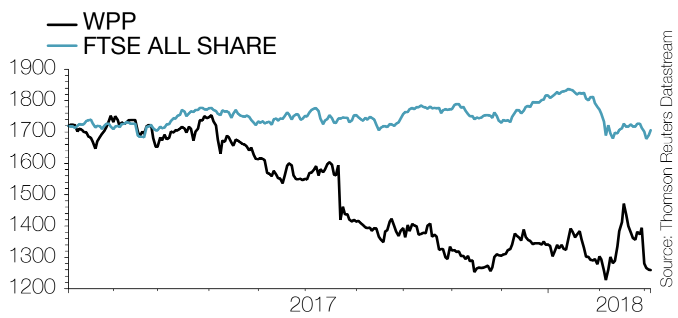
A FRAGILE RECOVERY in global advertising agency **WPP's (WPP)** shares has been shattered after the company downgraded earnings guidance alongside its worst full year results since the financial crisis (1 Mar).

Chief executive Martin Sorrell admits 2017 was 'not pretty' and 2018 does not look too much better with no sales growth expected. This is disappointing given the FIFA World Cup this year should in theory provide a boost to advertising spend.

The company is planning to merge individual agencies to offer a more straightforward proposition to prospective clients.

Taking a longer term view on the shares means deciding if its recent problems are cyclical and therefore temporary, as WPP insists; or structural as advertisers shun WPP to deal with social media platforms like Facebook and Google directly.

Liberum analyst Ian Whittaker says 'structural concerns are overdone' but in order to convince investors this is the case, WPP needs to return to growth.



SHARES SAYS: ↗
With the shares already pricing in poor performance, we will keep the faith for now but will be closely scrutinising a first quarter trading update next month and interim results at the end of August. If there are no signs of a recovery by that point we may be tempted to cut our losses. (TS)

BROKER SAYS: 11 14 4

LAIRD

(LRD) 202p

Gain to date: 69.3%

Original entry point:
Buy at 119.3p, 8 February 2018

THE PRIVATE EQUITY analysts at US firm Advent International clearly agree with our assessment that **Laird (LRD)** was too cheap given the recovery potential.

In true Victor Kiam style, they liked it so much they're buying the company, tabling a 200p per share, near-£1bn offer that was immediately recommended by the Laird board.

We note the share price has nudged beyond the 200p offer price, suggesting modest hopes that a rival offer could yet emerge although *Shares* believes this is unlikely. We suggest you sit tight and wait for events to unfold. (SF)

BROKER SAYS: 4 3 0

VINACAPITAL VIETNAM OPPORTUNITY FUND

(VOF) 362p

Gain to date: 28.4%

Original entry point: Buy at 282p, 30 March 2017

OUR ADVENTUROUS 'BUY' call on **VinaCapital Vietnam Opportunity Fund (VOF)** has paid off. A share price surge has taken the fund into the ranks of the FTSE 250 and our trade is 28.4% in the money.

The rise and rise of VinaCapital-managed 'VOF', which focuses on the booming South East Asian economy, reflects its strong performance.

Recent investments include Ba Huan JSC, Vietnam's largest poultry company, as well as HDBank, one of the country's fastest growing retail banks.

SHARES SAYS: ↗
This fund is a compelling play on Vietnam. We believe the shares have further to rise. (JC)

BROKER SAYS: 1 0 0

K3 CAPITAL
(K3C:AIM) 267p

Gain to date: 19.2%
Original entry point:
Buy at 224p, 1 February 2018

WE LIKE ADVISORY firm **K3 Capital (K3C:AIM)** for the complete package it delivers for small cap M&A deals and it seems the market has caught on.

A trading update on 1 March says the company is trading 'substantially ahead' of management's expectations for the year to 31 May 2018.

FinnCap analyst Jeremy Grime says: 'The private equity space sees K3 as a good source of buying opportunities and this has driven 2018 year end revenue up 20% to £16.2m from our previous estimate of £13.5m'.

He's upgraded forecast earnings before interest, tax, depreciation and amortisation (EBITDA) by 27% to £7m.

The good trading update helped to drive up the share price, meaning our *Great Idea* is now up by nearly 20% in a single month.

'While the timing of transactions completing is unpredictable, K3's direct marketing model has resulted in a more significant pipeline going forwards,' adds Grime.

'Their "bigger and better" strategy of moving up the value chain has resulted in 50% revenue growth in the current year, we estimate. The power of market leadership gives this business the ability to be a large quoted company.'

SHARES SAYS: ↗
Keep buying. (DS)

BROKER SAYS: 1 0 0

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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.

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Europe is seen by many market commentators as a region that offers some compelling investment opportunities that have been overlooked by many investors. The Henderson EuroTrust, now in its 26th year, aims to deliver a superior total return from a portfolio of high quality European (excluding the UK) investments.

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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.

FRIDAY 9 MARCH

FINALS	
GVC	GVC
INDEPENDENT NEWS & MEDIA	INM
INMARSAT	ISAT
SIG	SHI

MONDAY 12 MARCH

FINALS	
CLARKSON	CKN
EVE SLEEP	EVE
HUTCHISON CHINA MEDITECH	HCM
MEDICA	MGP
PENNANT	PEN
POLYPIPE	PLP
INTERIMS	
DIURNAL	DNL
SEEING MACHINES	SEE

TUESDAY 13 MARCH

FINALS	
ANTOFAGASTA	ANTO
APPLEGREEN	APGN
BRADY	BRY
COMPUTACENTER	CCC
CAIRN ENERGY	CNE
CROSSRIDER	CROS
FRENCH CONNECTION	FCCN
GRESHAM TECHNOLOGIES	GHT
GOALS SOCCER CENTRES	GOAL
STADIUM	SDM
SURGICAL INNOVATIONS	SUN
TP ICAP	TCAP
ZOTEFOAMS	ZTF

WEDNESDAY 14 MARCH

FINALS	
ADVANCED MEDICAL SOLUTIONS	AMS
BALFOUR BEATTY	BBY
BURFORD CAPITAL	BUR
DIGNITY	DTY
EKF DIAGNOSTICS	EKF
EMPRESARIA	EMR
FUTURA MEDICAL	FUM
HIKMA PHARMACEUTICALS	HIK
INTERQUEST	ITQ
WM MORRISON SUPERMARKETS	MRW
MARSHALLS	MSLH
PRUDENTIAL	PRU
STATPRO	SOG
AGMS	
MAJESTIC WINE	WINE

THURSDAY 15 MARCH

FINALS		
JUST GROUP	JUST	
OLD MUTUAL	OML	
SPIRAX-SARCO ENGINEERING	SPX	
TMT INVESTMENTS	TMT	
INTERIMS		
LONMIN	MI	
OXFORD BIODYNAMICS	OBD	
EX-DIVIDEND		
SCOTTISH AMERICAN INVESTMENT COMPANY	SCAM	4P
3I INFRASTRUCTURE	3IN	41.4P
ANGLO AMERICAN	AAL	\$0.54
ADEPT TELECOM	ADT	4.25P
ACORN INCOME FUND	AIF	4.95P
CREST NICHOLSON	CRST	21.8P
GALLIFORD TRY	GFRD	28P
GLANBIA	GLB	€0.16
HAYNES PUBLISHING	HYNS	3.5P
LONDON FINANCE & INVESTMENT	LFI	0.55P
MUCKLOW	MKLW	5.09P
MILLENNIUM & COPTHORNE HOTELS	MLC	4.42P
PCF	PCF	0.19P
RM	RM.	4.95P
SSP	SSPG	4.9P
TRIFAST	TRI	1.1P

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www.sharesmagazine.co.uk/market-diary

LAST YEAR was a difficult one for Hikma Pharmaceuticals (HIK) after it was forced to cut its sales guidance three times amid competitive challenges in its US generics business.

When Hikma reports 2017 full year results on 14 March, investors should look for details on how bad price and volume erosion for its generic drugs is expected to be in 2018.

The market should also dive into the results for updates on Hikma's delayed launch of VR315, a generic version of GlaxoSmithKline's (GSK) asthma treatment.

INVESTORS ARE EAGERLY awaiting Dignity's (DTY) full year results on 14 March as it provides the first opportunity for the company to comment on the implementation of its new pricing strategy which triggered a major profit warning in January.

However, it may be too early to get any solid feedback, particularly as Dignity said in January that it expected to give a proper update on progress and sales volumes at the half year results in August.

LIFE INSURANCE behemoth Prudential (PRU) is to publish its full year results on Wednesday 14 March.

The company's half year results showed profit growth in Asia and the US while the UK's pre-tax profit only improved by 1%.

An update on plans to hive off parts of its business will be expected by the market.

ADAPT OR DIE

THE COMPANIES FORCED TO TRANSFORM AS TECHNOLOGY AND MARKETS EVOLVE

Nothing stays the same forever and the best companies are those which are flexible and innovative enough to adapt.

Without this capacity they risk becoming obsolete and are likely to face a steady decline in profit and cash flow until they eventually go bust or the remaining viable bits of the business are broken up and sold.

The guiding motto of Andrew Grove, the man behind the rise of US micro chip titan Intel was 'only the paranoid survive'.

As an investor, you should look for management to remain alive to shifting patterns in their industry, so they are positioned to mitigate their impact or even benefit from them.

Some innovators may even be at the forefront of change by disrupting a cosy sector which had become stuck in the mud.

In this article we will meet the transformers; businesses which have successfully adapted to changes in the past, sectors which are facing significant upheaval and the constituents best placed to meet the resulting challenges. We also look at companies which are in the process of driving innovation themselves.

WHAT DRIVES CHANGE?

There are several potential catalysts which can shake up a sector or industry. These factors are often interlinked.

- **Regulatory**

Sometimes change is enforced by new rules or legislation. The energy sector, including names like **Centrica (CNA)** and **SSE (SSE)**, has lost its reputation for solid reliable performance in part thanks to regulator Ofgem speeding up the process of switching providers and ahead of potential new legislation which would place strict caps on energy pricing.

- **Societal or structural shifts**

Fresh regulation is often driven by the concerns of voters, so the increasingly stringent rules on the marketing of tobacco have followed smoking becoming less socially acceptable amid growing concerns over its health impact.

The increasingly dominant role played by the internet across any number of industries is linked to consumers becoming increasingly internet savvy. According to the Office for National Statistics in 2002 just 48% of adults in Great Britain had used the internet. That figure had increased to 89% in the last three months of 2017.

- **New innovative rival**

In recent years the power of the web has been harnessed by brands such as Uber and Airbnb to disrupt the taxi and holiday accommodation sectors respectively. Traditional rivals have attempted to respond by upping the convenience and ease of use of their own services. This disruption is also happening across many other sectors.

SUCCESSFULLY ADAPTING TO CHANGE

AutoTrader (AUTO) 371.5p

Despite being in existence in one form or another since 1977, **AutoTrader (AUTO)** is now very much 'new media'. The slightly dog-eared looking print product for which it was famous was discontinued in 2013 leaving the group 100% digital.

Its main area of business involves persuading car retailers to take out subscriptions on selling, buying and marketing services.

Its site has the most inventories and is therefore the one which prospective car buyers will go to when looking for their next vehicle. This reinforces its position as a must-have product for dealerships and gives it significant pricing power when it comes to securing subscriptions.

Average revenue per retailer was up nearly 10% year-on-year in the six months to 30 September 2017.

The company remains innovative and, alongside its advertising packages, Auto Trader continues to develop its 'managing' products i-Control and Retail Check which help retailers source the most desirable cars, price them correctly and manage stock effectively and therefore boost profitability. (TS)

Coral Products (CRU:AIM) 10.8p

The firm used to be a big name in the manufacture of CD, DVD and video cases. Sadly technological advancements in how we consume films and music left the company in a pickle.

Fortunately Coral had the sense to foresee significant change in the media industry and worked hard to diversify its interests, venturing into food container production and automotive components, as well as products for the recycling, telecoms and rail industries.

Admittedly the business isn't

AutoTrader has successfully transformed into a 100% digital group exactly flourishing with recent results showing a drop in pre-tax profit. However, it is a good example of a company which found a way to adapt to market changes rather than cling on to the hope its legacy markets wouldn't die completely. (DC)

Johnson Matthey (JMAT) £30.34

We believe **Johnson Matthey (JMAT)** could be at the forefront of the electric vehicle revolution with its potentially disruptive enhanced lithium nickel oxide (eLNO) cathode battery material.

Johnson Matthey's eLNO material offers more energy density while using less cobalt. Cobalt prices are anticipated to rise on a predicted shortfall in supply, making Johnson Matthey's material desirable for vehicle manufacturers hoping to keep costs low.

It is still early days. The company has patented the technology behind eLNO and is currently building a pilot plant.

Berenberg analyst Sebastian Bray says the new product could capture 10% of the electric vehicle cathode market by 2025, which is worth approximately £600m.

We believe that eLNO will help Johnson Matthey expand beyond its catalysts business, which generated approximately 60% of group sales in 2017.

Catalysts are used in diesel cars to reduce the number of pollutants but falling diesel car demand and a growing shift to electric cars has prompted fears the company will struggle.

We think investors are overreacting to this threat as auto catalyst sales are expected to keep growing for at least 10 years, according to investment bank Morgan Stanley. (LMJ)

EVEN BIG BRANDS UNDERGO CHANGE

The concept of reinventing a business can range from reallocating where money is spent to more radical overhaul of a company's interests.

There have been plenty of examples over the years of businesses trying to make a name for themselves in the world and hitting a stumbling block. This might have been competition, low or negative profit margins, or pursuing a business interest that wouldn't result in desired scale.

For example, American businessman Ray Kroc opened the first franchised McDonald's site, having persuaded the original founders of the fast food business, the McDonald brothers, to let him replicate the model used to run the founding site in California.

Kroc then recruited franchisees to run more restaurants under the McDonald's brand. He soon realised that a 1.4% royalty on a 15c hamburger wasn't enough to cover his salary and provide money to fund field inspectors to ensure quality standards were maintained.

The solution was to set up a real estate business, owning land for future restaurants and insisting new franchisees had to lease this land for their business. That provided higher returns and gave an element of control as the lease could be cancelled if the McDonald's franchisee didn't maintain quality standards.

OTHER EXAMPLES

Once a computer business, Apple reinvented itself as a consumer electronics company and introduced a series of highly disruptive products such as the iPod and iPad. Apple arguably must reinvent itself again as its core products are now seen as commoditised items.

Fifteen years ago Lego was heavily in debt and sales were falling fast. It underwent a massive transformation, introducing Lego-themed movies, rolling out theme parks, opening retail stores and ensuring all the major blockbuster films had Lego-themed products on the toy shop shelves.

Even Netflix has undergone major change, even though the business is only 20 years old. It started out renting DVDs to customers but is now best known as an online business, streaming media content to customers and being an expert in data analytics. Interestingly, you can still rent physical DVDs from Netflix if you are a customer in the US although we imagine that service won't be around for too long. (DC)

SECTOR IN FLUX – MEDIA

The media sector is yet to fully come to terms with the impact of the internet more than two decades on from its widespread adoption.

In publishing, print media operators have struggled to find a web-based model which can replace the declining revenue from print advertising.

The response in most cases has been to seek efficiencies and merge with rivals to drive down costs. **Trinity Mirror (TNI)**, the company behind the *Daily Mirror*, recently agreed the £126.7m takeover of the *Express* and *Star* titles.

The fact the company is targeting substantial cost savings on titles which have arguably already been starved of investment is not necessarily encouraging for the long-term future of the enlarged entity.

The risk is that by stripping costs out the company undermines the quality of its key brands. If a publisher is not producing quality content then it will struggle to hang on to readers and ultimately advertisers whether this content is being accessed online, or through a physical product. This truth is reflected in Trinity's ultra-low forward price to earnings ratio of 2.2 times.

PAYING FOR CONTENT

Some media companies have erected paywalls on their websites, meaning you have to pay to read certain content, typically via a subscription rather than paying for individual articles. The evidence suggests paywalls are an easier sell for providers of specialist content than generic news sites.

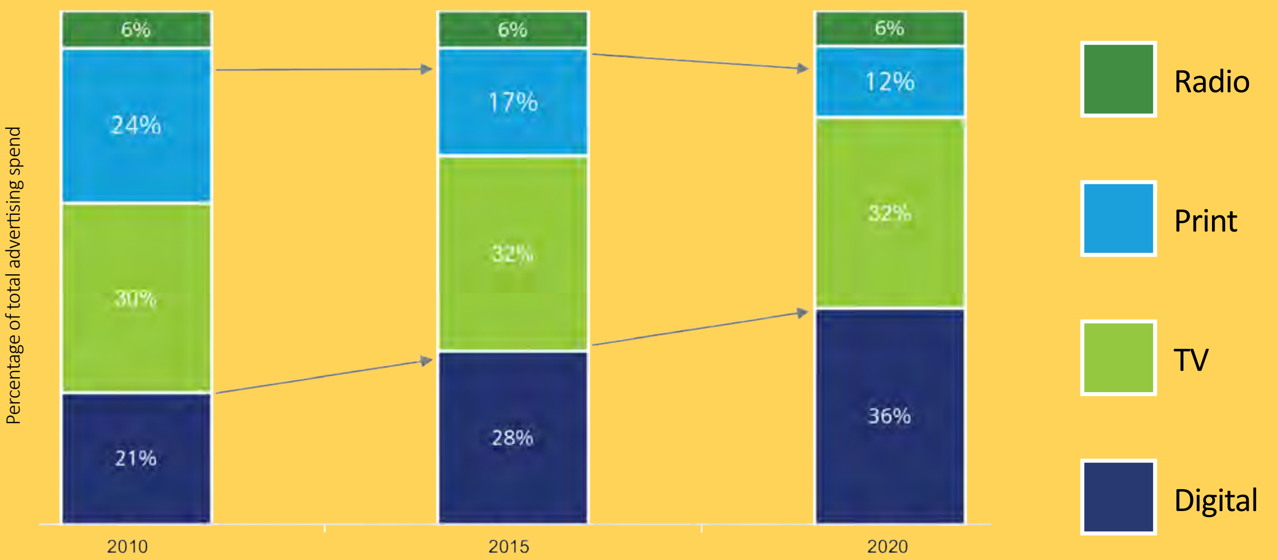
On the broadcast side, traditional broadcasters like **ITV (ITV)** and its Scottish cousin **STV (STVG)** are also seeing their share of the advertising pie shrink. The shifts in the advertising market have also beset advertising agencies themselves.

Global leader **WPP (WPP)** announced the latest in a series of disappointing updates on 1 March. Chief executive Martin Sorrell admitted 2017 was 'not pretty' but WPP is arguing that the problems it faces are cyclical and relate to ad hoc project work rather than reflecting a structural shift in its industry.

The recent share price action suggests the market is not convinced by this argument and fears advertisers will increasingly cut out middlemen like WPP to deal directly with social media platforms such as Google and Facebook.

Better positioned are those companies which have been plugged into the new media landscape since their inception like online property portal **Rightmove (RMV)** or companies which have successfully pivoted from traditional publishing activities to push into data analytics like recent addition to our *Great Ideas* portfolio, **RELX (REL)**. (TS)

CHANGE IN GLOBAL ADVERTISING MEDIA SPEND



Source: Deloitte analysis

SECTOR IN FLUX – OIL & GAS

BP (BP.) believes demand for oil will peak in the late 2030s amid restrictions on the use of plastic and more widespread global adoption of electric vehicles. Under BP's projected scenario renewable sources of energy are expected to see significant growth in the coming decades.

Where does this leave traditional fossil fuel operators like BP and its counterpart **Royal Dutch Shell (RDSB)**?

It is important to note that BP's forecasts are not for oil demand to collapse but rather stagnate. It will likely take several generations for the world to wean itself off what remains a finite resource.

GOING GREEN

Both companies could be included in a list of the largest global investors in renewables in the eighties, nineties and early noughties.

Arguably this 'greener' trend reached its zenith with BP's 'Beyond Petroleum' public relations campaign which launched in July 2000.

While both companies paid lip service to the need to progress to more sustainable sources of energy they continued to invest a much greater proportion of their cash in hydrocarbons.

More recently the renewables strategy was largely abandoned by BP and Shell. However, shortly before Christmas BP announced a $200m investment in Europe's largest solar power developer as it returns to a space it exited six years ago.

The UK energy firm is set to buy a 43% stake in London-based Lightsource which is developing solar projects in the US, Europe and Asia. It follows Shell's October purchase of European electric vehicle charging business NewMotion and French counterpart Total's September €237.5m deal for a 23% holding in French renewables specialist Eren.

These are modest investments in the context of the billions these companies spend every year but are interesting in terms of the wider context as they suggest they are thinking about a post-fossil fuel future again.

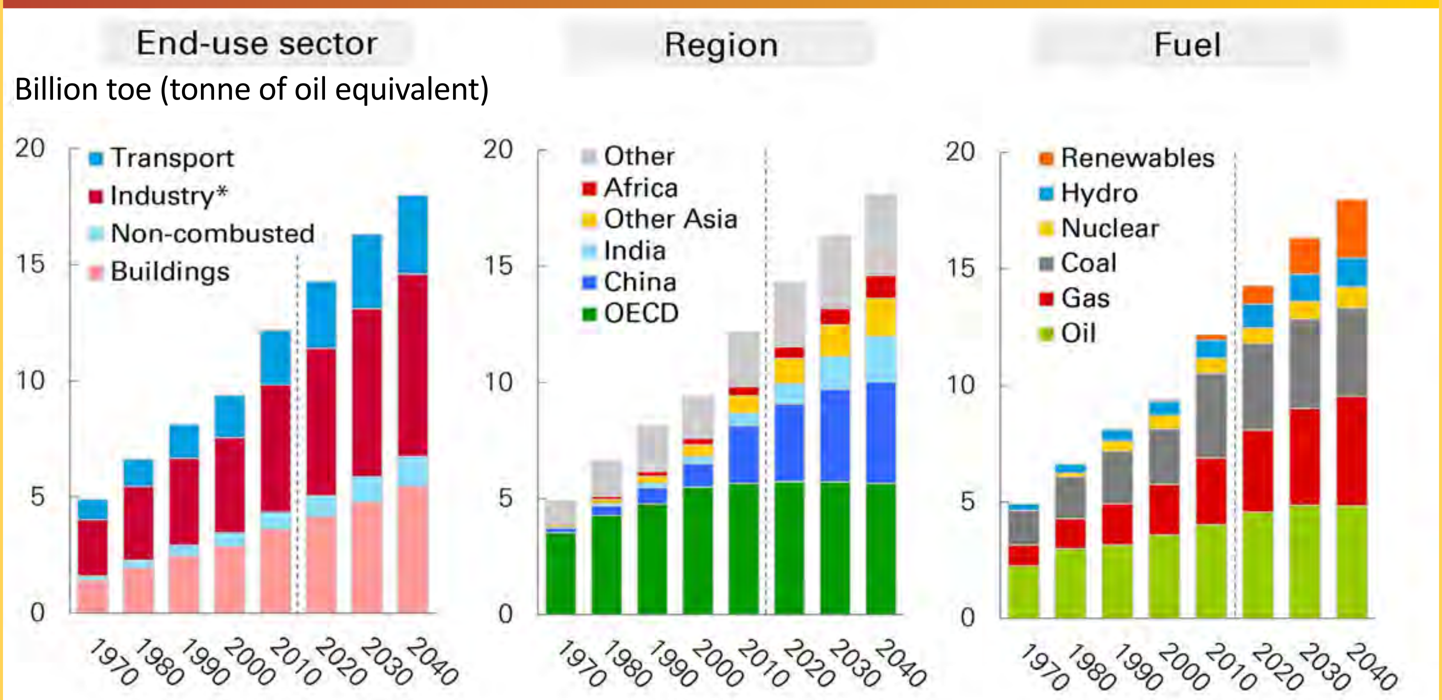
WHAT IS SHELL DOING?

Shell's response has been to target natural gas.

In a June 2015 speech Shell chief executive Ben van Beurden said of natural gas: 'It is flexible. Its supply is abundant and diverse. Its range of uses is still expanding. It is a low-carbon, clean-burning ally to renewables such as solar and wind. And it makes economic sense.'

Gas accounts for more than half the company's production and it is active in areas like gas-to-liquids and liquefied natural gas – expanding in this area was a key rationale behind its £36bn merger with BG in 2016. (TS)

PRIMARY ENERGY DEMAND



Source: 2018 BP Energy Outlook
* Industry excludes non-combusted use of fuels

SECTOR IN FLUX – RETAIL

The internet and portable devices like mobile phones and tablets have changed the way consumers buy goods. Many traditional retailers now have multiple sales channels rather than just physical shops, and they've had to become better at managing returns sent by post and in-store.

This radical shift in the industry has encouraged new entrants to be online-only operators, putting more pressure on the traditional retailers.

Consumers have become more demanding in wanting rapid service and the ability to send back anything they don't want. In the fashion space, many consumers are now buying multiple sizes of clothing and sending back the ones that don't fit, creating extra costs for retailers. Traditionally they would have tried on clothes in a store.

Retailers stuck with long-term leases lack the flexibility to adapt to the ever-changing marketplace. And even online-only operators aren't guaranteed success because of significant levels of competition.

BooHoo.com is a good example of a company able to react quickly to changing fashions

HOW ARE COMPANIES ADAPTING?

BooHoo.com (BOO:AIM) and **ASOS (ASC:AIM)** have pioneered the 'test and repeat' model. Most low-cost retailers source their clothes from low-cost producing countries and typically must place a large order to make it cost efficient to import. In contrast, Boohoo and ASOS can get a small run of clothing very quickly via local manufacturers. They design something, get it made on a limited run and put it up for sale online.

If it sells ok, they place a big order, otherwise they scrap the product. It means they don't have the stock obsolescence problem facing other retailers. Traditional retailers often must order clothes many months in advance and they are stuck with stock if it doesn't prove popular or the weather doesn't match the style of clothes.

Among the examples of traditional retailers adapting to market developments is **Next (NXT)** which launched a mail order catalogue called Directory in 1988. It introduced online shopping in 1999 and the entire catalogue became available via the internet.

Prior to its takeover by **Sainsbury's (SBRY)**, fellow web/physical store catalogue operator Argos struck a deal with eBay so the latter's customers could collect orders from Argos stores. These are the types of initiatives you're now seeing as retailers strike deals with third parties to try and encourage more people to visit their stores. (DC)

SECTOR IN FLUX – TOBACCO

The developed world has seen a significant decline in smoking as governments have cracked down on the way cigarettes are marketed and sold. Awareness of health risks has also spread.

In the last decade, e-cigarettes or vaping products have begun to take market share from traditional cigarettes.

The response of big tobacco companies, including UK-listed names like **Imperial Brands (IMB)** and **British American Tobacco (BATS)**, has largely been to shift to developing countries where a growing middle class have more cash to spend on cigarettes and where legislation is less restrictive.

This has enabled these companies to deliver healthy revenue, profit and cash flow and enabled them to pay generous dividends.

British American alone is expected to contribute 5% of the dividends from the FTSE 100 in 2018.

As such tobacco companies have become a staple holding for many income funds. Their challenges are therefore worth following for large numbers of investors, not just those who are directly invested in the sector.

HOW IS BATS COPING?

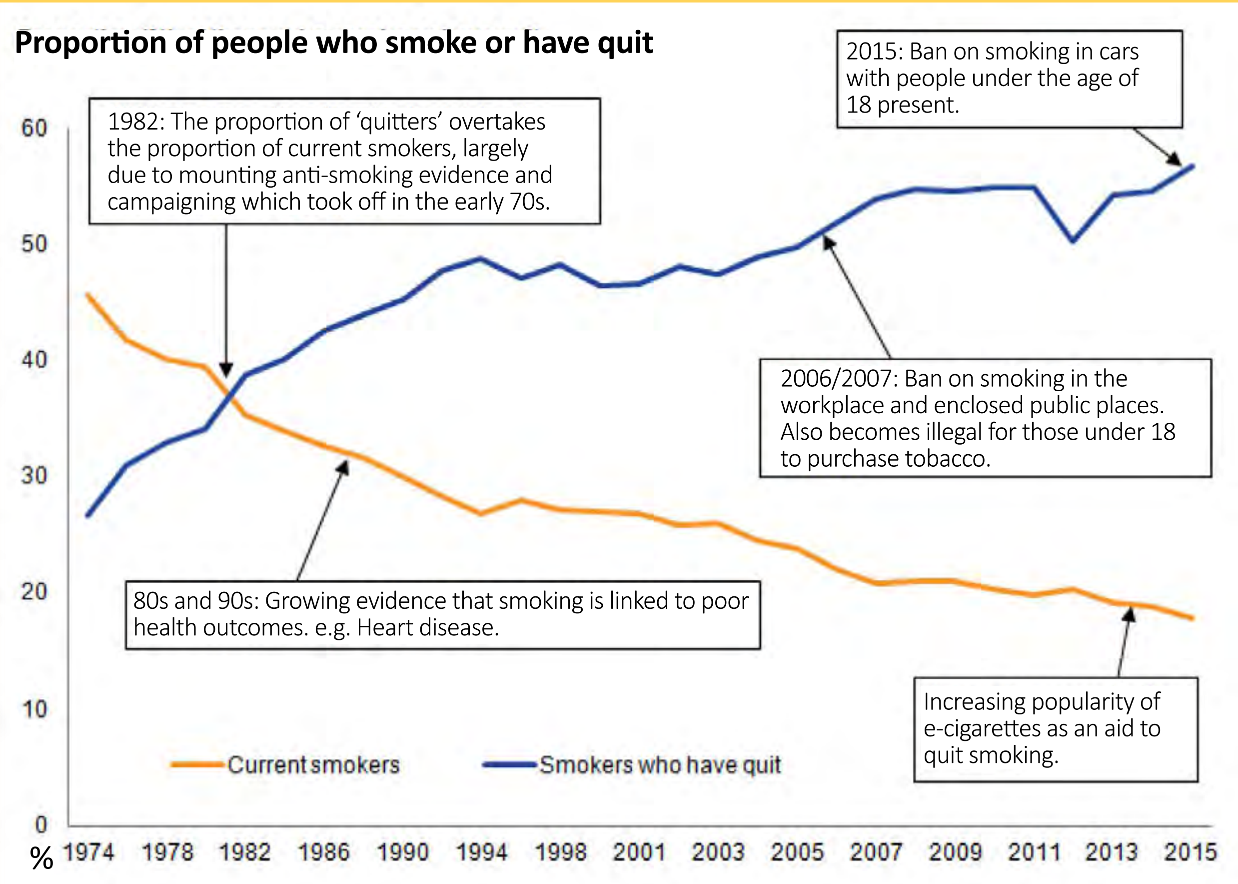
Alongside its full year results on 22 February, British American Tobacco signalled how it is responding to the pressures on its industry. The company, which completed a $49bn merger with US rival Reynolds in 2017, says the combined entity has spent $2.5bn on so-called next generation products or NGPs – essentially vapour and tobacco heating products, since 2012.

British American Tobacco says it is confident of leading this category. In 2017 it generated revenue of £397m from NGPs. It expects this figure to hit £1bn in 2018 and £5bn by 2022. However, to place this in perspective group revenue in 2017 was £20.2bn.

Imperial Brands is gearing up for new NGP launches in 2018. Investec thinks 'these will remain focused on e-vapour and the *blu* brand, but the company could yet surprise with launches in other areas'.

'We think Imperial, if it so wished, could launch a heat-not-burn product within one year and at an easily manageable cost,' it adds.

Recent share price performance implies the market is sceptical on both companies' ability to make the transition. In the last 12 months Imperial Brands is down 30% and British American is down 19%. (TS)



In Great Britain, 2015 saw the highest proportion of quitters in over 40 years

Source: Office for National Statistics

TRANSFORMING BACK OFFICE FUNCTIONS

Few consumers enjoy contacting a customer service centre. Nobody sets out their day with plans to ring up and spend 20 to 30 minutes of their day hearing a flute solo only to know that the call has been connected to the wrong department. It's where many big brands fall down.

The big outsourcing switch overseas (typically to India) may have saved organisations hard cash but it didn't always improve the customer experience.

Industries where customers can freely and easily take their business elsewhere (energy suppliers or phone companies spring to mind) have felt the pinch more than most, hence the transformation in this back-office function.

And the UK market has a couple of quality players; **Eckoh (ECK:AIM)** and **Netcall (NET:AIM)**. While neither is very large (£101m and £71m respectively) the pair have developed their own smart and automated solutions that please both operators and users.

These customer contact solutions enable enquiries and transactions to be performed on whatever device the customer chooses, allowing organisations to increase efficiency, lower operational costs and provide a truly multi-channel experience.

They also bring something unique to the party too. In Eckoh's case, that's an automated phone payments system. Netcall, in contrast, has developed a very handy business process management system called *Liberty*, allowing clients to engage with their customers via social networks, webchat and outbound messaging.

Eckoh has added 'live' web help since 2016's acquisition of Kick2Contact and is now pursuing growth opportunities in the US.

Robotic process automation is another emerging area to shake up how organisations do simple administration, freeing up more time for staff to add value elsewhere. It's a theme that has rapidly turned expert **Blue Prism (PRSM:AIM)** into an AIM sensation, with its share price soaring close on 2,000% since joining the stock market at 78p in March 2016. (SF)

THE DISRUPTORS – LEADING INDUSTRY CHANGE

ACCESSO (ACSO:AIM) £23.05

You may remember those warm summer family days out at a theme park. You'd start off at the back of a seemingly endless queue to get in, join more long lines for the premium rides, another to get your lunchtime burger or hot dog, only to do it all over again in the gift shop to buy the kids their day-out memento.

Accesso (ACSO:AIM) is one of the market leaders looking to address this logjam through the clever application of technology solutions, from buying tickets, queue-busting, merchandise purchasing and more. For a fee, the aforementioned bumps can be smoothed, making the experience far more fun and customers far more likely to come back in the future. That's great for attraction operators.

With some very big-name clients including **Merlin (MERL)** and Six Flags, Accesso is applying its tried and tested solutions to theme parks, sporting events, music gigs, ski resorts, museums and theatres, of which there are thousands of potential new operators and venues. (SF)

Accesso helps consumers avoid delays at leisure attractions

KAINOS (KNOS) 352.6p

Large public sector organisations are not known for their sparkling efficiency but partnering with electronic transformation expert **Kainos (KNOS)** is helping drag many parts of local and central government into the 21st Century digital age.

By migrating paper-based systems and transactions online, high volume processes and transactions can be handled faster, more efficiently and with extra convenience, saving money at the same time. For example, Kainos was responsible for replacing paper car tax discs with an online-only solution for the DVLA and is helping the Cabinet Office develop internet voting systems. It has also developed *Evolve*, a digital patient journey platform designed to introduce automated and speedier service in the NHS.

Kainos also provides digital solutions to business using the Workday enterprise resource planning platform, with customers including Netflix, Primark and **Diageo (DGE)**.

There's plenty of opportunity in the UK alone but Kainos has already expanded in parts of the EU (Netherlands, Poland) and the US and today counts 30m end users worldwide. (SF)

PURPLEBRICKS (PURP:AIM) 424.8p

Purplebrick's (PURP:AIM) business model is easy to understand. It charges an upfront fee to market a house for sale. Unlike traditional estate agents it does not have expensive high street branches to maintain or lots of salaried staff. It instead uses an online platform backed by a fleet of representatives it calls 'local property experts'.

These 'experts' earn commission for each new instruction they win and take a share of ancillary revenue from services including introducing clients to mortgage brokers and offering access to premium property listings.

Its apparently successful disruption of this market helped the shares increase five-fold between its December 2015 stock market debut and July 2017.

Purplebricks' emergence has forced incumbent operators like leading outfit **Countrywide (CWD)** to offer their own online-focused services. However, while they are shuttering branches, they are still burdened with costs which Purplebricks doesn't face.

Of late some of the sheen has come off Purplebricks' investment case. Critics point out the company remains loss-making despite big increases in revenue.

Jefferies analyst Anthony Codling recently produced research which suggested only 50% of the company's customers in November 2016 sold their homes within 10 months against company-quoted success rates of 80%.

Codling also reckons the company may have overstated revenue. These criticisms have been 'firmly' refuted by Purplebricks.

Fans of the company would point to its ability to disrupt the potentially huge US market after an initial launch in 2017. (TS)

Purplebrick's successful disruption of the market helped push its share price up


F&C Investment Trust
150th
anniversary
Tax year end deadline: 5 April

Edinburgh Worldwide proves you don't have to rely on dividends to capture investors' attention

Investment trust enjoys strong re-rating and moves from a long-standing discount to NAV to a premium

Investors regularly assume that all investment trusts pay a dividend because they benefit from having a diverse range of assets in their portfolios.

In reality 61 investment trusts don't pay anything to shareholders at all. You simply own these types of trusts for capital gains.

Failure to pay a dividend should not be a reflection of a poor quality investment portfolio. It may simply be a result of investing in companies or assets which do not generate any income, such as small companies which are still growing and do not pay a dividend.

Baillie Gifford-managed **Edinburgh Worldwide Investment Trust (EWI)** is a great example. It aims to achieve long-term capital growth through investing in equities.

The investment trust did pay regular dividends up until 2015, upon which the net revenue return was in deficit, so it temporarily stopped returning cash to shareholders. It doesn't like to dip into its revenue reserve to pay or maintain dividends.

The most recent set of full year results, published in December 2017, showed that Edinburgh Worldwide generated £1.268m income, mostly from dividends paid by its underlying portfolio and £0.1m interest from cash in the bank. It also had a £0.2m overseas tax repayment.

However, the revenue account for 2017 was running at a deficit after the deduction of operating expenses, hence why there is no dividend again.

You shouldn't judge an investment trust purely on its dividend capability. You really need to look at net asset value (NAV) to see how the trust has managed to grow its portfolio.

In Edinburgh Worldwide's case for its 2017 financial year, its net assets grew by 31.6% and its share price grew by 43%.

As for why the share price return is greater than the net asset value, you have to remember that investment trusts' share prices don't always move in line with NAV.

The shares can trade at a premium or discount to NAV; in Edinburgh's case, a narrowing of its discount resulted in the share price return exceeding NAV.

The portfolio includes Ocado whose share price has risen 87% since October 2017

Edinburgh Worldwide's discount to NAV averaged 7.9% in the 2017 financial year and ended the period at 3.9%.

MOVING TO A PREMIUM

Its shares now trade on a 1.6% premium to NAV. Investors' willingness to pay more for the shares than the value of the underlying assets (when also factoring in cash and debt) would suggest that the investment trust's strategy is seen as attractive in the current environment.

Kieran Drake, an analyst at financial services group Winterflood, views the investment trust as an 'attractive way' to access global growth over the long-term. However, he says if there is an equity market downturn he would expect Edinburgh Worldwide to be vulnerable to underpeformance.

'In the event of such a downturn we also believe that the fund would be exposed to downside discount risk, given its strong recent re-rating and the lack of a fixed discount target or history of share buybacks,' adds Drake.

Unless the fund is running an ultra-cautious capital preservation strategy, a portfolio heavily populated with listed equities like Edinburgh Worldwide's is always going to be susceptible to any market sell-off. That's the risk you take from investing in the stock market.

Even capital preservation funds won't be entirely immune from a downturn in the markets.

PORTFOLIO PERFORMERS

So why is Edinburgh Worldwide currently capturing investors' attention? Net asset value has increased by 6.4% since the end of its 2017 financial year (31 October). In contrast, the FTSE All-Share has fallen by 4% over the same period.

Notable positive share price movements in its portfolio include **Ocado (OCDO)** whose share price has risen by 87% since the end of October 2017, thanks to striking international partnership deals in France and Canada. Ocado is one of the biggest holdings in the Edinburgh Worldwide portfolio.

Its third largest holding, LendingTree, has also enjoyed a share price rally, up 31% over the same period. LendingTree is a broker, acting as an online lending exchange that connects consumers with multiple lenders, banks and credit partners who compete for business.

'Edinburgh's managers look for companies that are innovating to solve large problems and reshape their industry,' says Drake at Winterflood. He says Edinburgh Worldwide desires management who have a clear strategy for growth with requisite skills and vision.

He also says the trust's fund managers want companies with an emerging competitive advantage with limited direct peers; and a business model with inherent scalability.

'Edinburgh Worldwide Investment Trust has undergone a radical transformation since the appointment of Douglas Brodie and John MacDougall, who took control in January 2014 after responsibility for the trust was handed to Baillie Gifford's Global Discovery small-caps team, which they lead,' commented research group Kepler last year.

MacDougall has since left the trust due to increased responsibilities within Baillie Gifford's Long Term Global Growth team which manages investment trust **Scottish Mortgage (SMT)**. (DC)

DISCLAIMER: The author owns shares in Scottish Mortgage referenced in this article

Alnylam Pharmaceuticals makes up 5.4% of Edinburgh Worldwide's portfolio

Edinburgh Worldwide will be presenting at *Shares*' investment trust event in London on 15 March. If you would like to come along, please register for a free ticket at **www.sharesmagazine.co.uk/events**

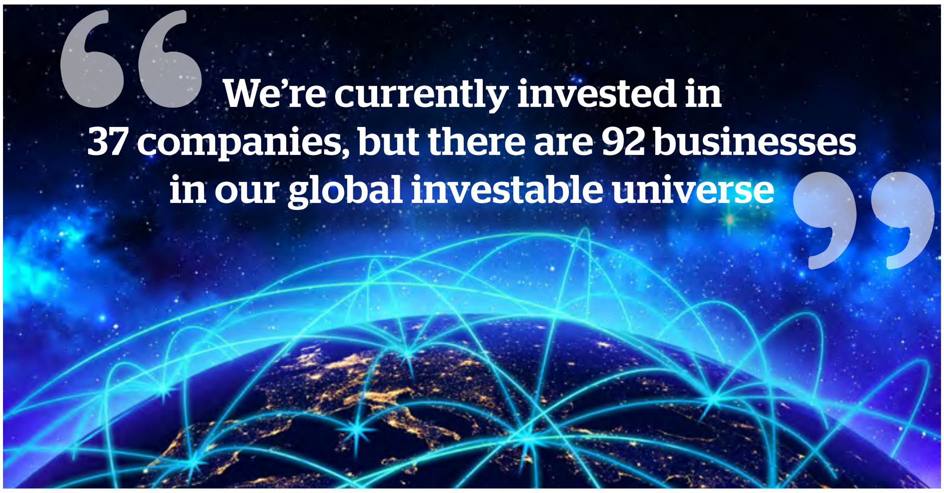
Quality seeker Evenlode goes global with its second fund

The asset manager is replicating a proven strategy in the search for top investments

Cotswolds-based Evenlode Investment is an interesting name in the asset management world and one that investors are increasingly eager to follow.

Evenlode isn't a household name, yet its flagship fund **TB Evenlode Income (GB00BD0B7914)** has proved to be very popular, growing to nearly £2bn in size since its 2009 launch.

Having shown the investment community that it has a knack of picking good stocks and succesfully managing a portfolio which has a minimum of 80% in UK shares, the asset manager is now making waves with a second fund that has a global remit.



GLOBAL SEARCH FOR EQUITIES

TB Evenlode Global Income Fund (GB00BF1QMV61) launched in November 2017 with the intention of replicating the asset manager's existing investment process across a broader universe of equity opportunities.

It is run by Evenlode co-founder Ben Peters and co-manager Chris Elliott who are putting money to work in a select group of global companies with the aim of delivering an attractive yield today, combined with sustainable real dividend growth over time.

The global fund consists of a diverse range of companies generating cash flows from differing industries across varied geographies.

TWO FUNDS, SINGLE STYLE

Peters explains the global fund was developed in response to strong feedback from clients eager to access the Evenlode investment process applied to a broader range of investment opportunities.

The portfolio has the same approach as the original fund, whose investment process emphasises the quality of investable businesses.

Peters and Elliott have a focus on larger companies, while the fund will have a low portfolio turnover with long term holding periods.

By investing for the long term at attractive valuations, they argue the approach allows the microeconomics of underlying holdings to play out over time and for fundamental free cash flow growth and dividend growth to drive returns.

CASTING THE NET WIDE

Peters and Elliott insist there is a broad range of high quality businesses available, operating in sectors that are under-represented in the UK, businesses that also offer investors portfolio diversification of cash flows by currency and geography.

Building on the success of the first fund, permitted to invest up to 20% of its assets in non-UK listed companies, Peters explains that Evenlode deliberately went out and built this wider investment universe.

'We're currently invested in

37 companies, but there are 92 businesses in our global investable universe, so we've certainly got a high quality list.'

They'll look to insulate the Evenlode Global Income portfolio by investing in companies with strong competitive positions, good balance sheets and high levels of free cash flow, carefully selecting names from a universe of 'household names' and 'hidden champions'.

Evenlode's strategy is to own quality companies and the firm has a specific definition of quality; 'Sustainable growth with limited need for capital reinvestment'.

Companies considered for inclusion share three key characteristics: asset light business models, strong economic moats and high barriers to entry, and their customers' purchase decisions are not predominately based on price. A good example of the latter is tech titan Microsoft which dominates the market for office software.

Peters and Elliott insist these characteristics often lead to consistent cash generation, which pays for dividends that rise into the future.

'We're forecasting a yield of a little less than 3%, but with good prospects for growth,' adds Peters, whose investment process has a natural bias towards sectors such as consumer goods, healthcare, consumer services and technology.

EXAMPLES OF PORTFOLIO HOLDINGS

Although the fund has yet to publish a factsheet, we're told early portfolio positions include consumer goods colossus

It took us five years to have a takeover in Evenlode Income and in just three months, we've already had two takeovers and two large pieces of M&A with Evenlode Global Income

Unilever (ULVR); Cisco Systems, the world's biggest producer of vital data connectors such as routers and switches; and healthcare conglomerate Johnson & Johnson.

The fund also has positions in German fashion house Hugo Boss and off-road vehicles manufacturer Polaris Industries.

Peters and Elliott are convinced of the long-term payout generating potential of Wolters Kluwer, a Dutch digital information and services conglomerate Peters claims is 'very high quality', boasts 'very stable cash flows' and has leading niche market positions.

Wolters Kluwer has moved away from print publishing and into digital content and digital services and has a high degree of customer integration – 'it is embedded in the user's workflow and increasingly driven by a subscription model'.

Also passing muster with the pair is global food and beverage powerhouse PepsiCo. Elliott makes the point that its online market share is greater than its offline share.

'Perhaps contrary to expectations, consumers actually search less widely for alternative products online than they do in physical stores,' says Elliott.

'In a traditional store, the physical shelf displays products they either haven't heard of previously or thought of recently, with prices highly visible and comparable.

'Online they are more likely to search for a brand, e.g. "Pepsi-Max" or "Coca Cola Zero", providing less chance for the consumer to encounter alternatives or compare prices.'

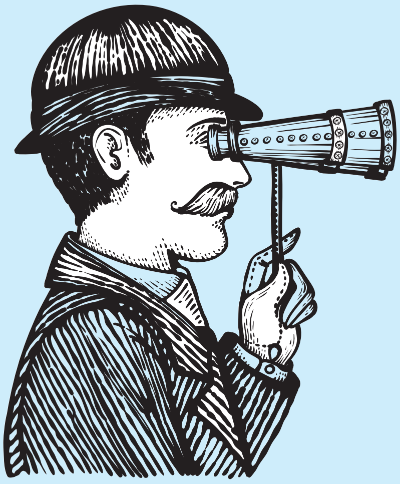
TB EVENLODE INCOME	
3 years annualised return	9.1%
5 years annualised return	11.3%
Source: Morningstar	

EARLY BOOST FROM M&A

Peters says it has been an interesting start for the second fund thanks to takeover activity. 'It took us five years to have a takeover in Evenlode Income and in just three months, we've already had two takeovers and two large pieces of M&A with Evenlode Global Income'.

Portfolio holding Dr Pepper Snapple is being scooped up by JAB Holding's Keurig Green Mountain for more than $21bn and media group **UBM (UBM)** is being bought by media rival **Informa (INF)**. (JC)

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in both Evenlode funds referenced in this article



WILL THE MARKET SELL-OFF PROMPT INVESTORS TO LOOK AT VALUE INVESTING AGAIN?

The loss of momentum in the UK stock market could prompt investors to reappraise their view of highly-rated stocks

Does the end of momentum in the UK stock market since February's sell-off suggest investors may become less willing to pay high ratings for growth and instead look more closely at value plays?

It's an interesting thought and one that's likely to become a key talking point among the investment community over the coming weeks.

The past few years have seen many investors eager to buy shares with fast earnings growth, with no regard to valuation. This 'growth at any price' mantra was fine while the market was trending upward. Investors may need to rethink their strategy now momentum has stalled.

REAPPRAISING RATINGS

Many small caps trading on high price to earnings ratios have fallen in value since the global market sell-off last month – and they've generally not raced back upwards since the sell-off stabilised.

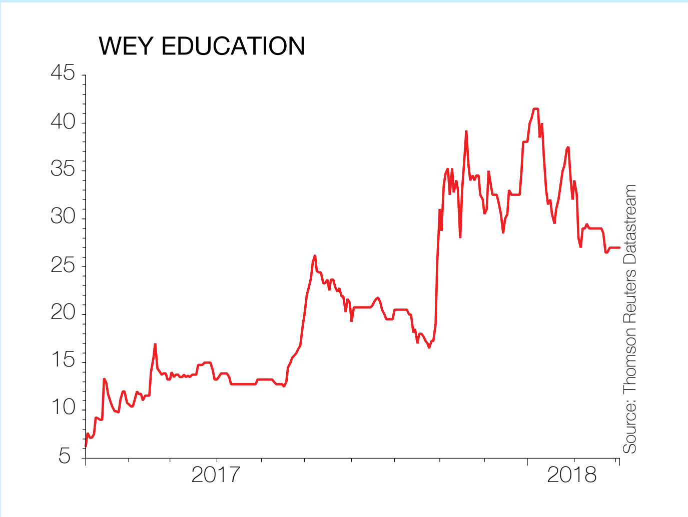
That potentially tells you one thing: that many investors are no longer prepared to pay high multiples to access high levels of growth.

As for large caps, many investors have been paying a steep price for predictability, as evidenced by the high ratings on which many defensive companies have traded over the last few years.

Highly rated companies are at risk of a de-rating if they cannot deliver decent earnings growth and live up to market expectations.

We're now seeing numerous companies disappoint the market with their latest earnings announcements and their share prices have been punished.

For example, shares in consumer goods giant **Reckitt Benckiser (RB.)** last month hit a two-year



Momentum has faded in Wey Education's share price – an example of a highly rated small cap whose share price has recently struggled

low after investors questioned whether it was still at risk of falling short on sales targets after a tough year for the firm.

WILL VALUE INVESTING COME BACK INTO FASHION SOON?

Value as an investing style has been out of fashion for some time. However, the UK market is full of value opportunities, particularly domestic-facing stocks which have been partially marked down because of the Brexit risk to the UK economy and the near-term prospects for these businesses.

Simon McGarry, senior equity analyst at Canaccord Genuity Wealth Management, believes 2018 could be the year when international investors become more interested in UK stocks.

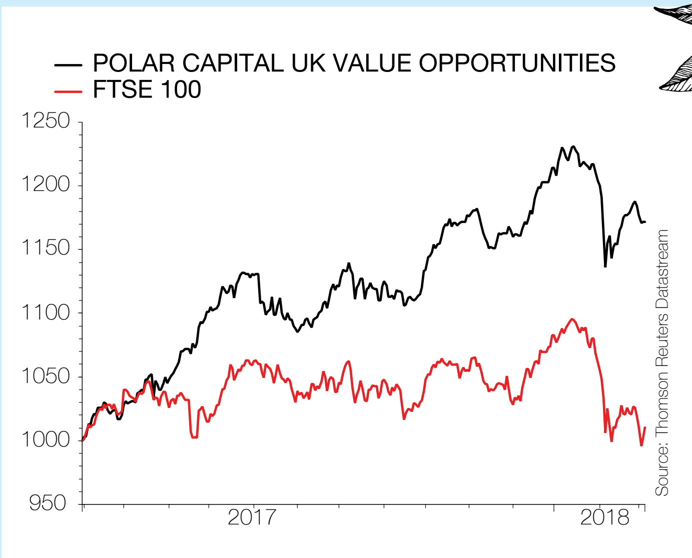
He says there is already evidence of this happening with well-known value investors taking stakes in UK-listed companies.

'Just look at Harris Associates; it has the best track record of any value manager in the US, and it is now looking at UK businesses,' says McGarry, referring to the fact that Harris recently took a stake in funeral services provider **Dignity (DTY)** following a major profit warning in January.

'ValueAct is another example; it has just taken a stake in **Merlin Entertainments (MERL)**,' adds McGarry.

George Godber, co-fund manager of **Polar Capital UK Value Opportunities Fund (IE00BD81XW84)**, thinks he is in a great position to take advantage of value opportunities in UK equities. He says: 'Not many people are doing value in the UK which is great for us'.

Godber's fund has returned 14% in a year.



Polar Capital UK Value Opportunities Fund has significantly outperformed the FTSE 100 since launch in January 2017

IS THERE AN OBVIOUS NEXT STEP?

So should you now prioritise investing in value stocks or funds? We believe it is certainly an area worth investigating, however you should also have some understanding of the catalysts that are required to drive a re-rating of a stock and ultimately take it from being cheap to fair value.

McGarry at Canaccord suggests that investors shouldn't purely follow one style of investing. 'It's better to have a blend,' he says.

Dan Brocklebank, a director at asset manager Orbis, says it would be wrong to adopt a 'naive value strategy', namely only buying stocks that are trading on low price to earnings (PE) ratios.

'You could end up investing in a value trap,' he says. 'Stocks can look attractive on a PE valuation metric but they can also be terrible investments.

'You need a selective approach. Stock picking skills are essential,' adds Brocklebank.

Investors can either research stocks themselves to ascertain if certain value opportunities are worth pursuing, or they can use the services of a fund manager who has a value tilt.

FUNDS TO PLAY THE VALUE THEME

Examples of funds and investment trusts focusing on the value end of the market include **Schroder Income Fund (GB00B5WJCB41)** and **Fidelity Special Values (FSV)**.

Run by fund manager Alex Wright, Fidelity Special Values has beaten its benchmark out of four of the last six years, a period where value has mostly been out of favour. That highlights the power of a successful fund manager in being able to pick the best stocks.

Elsewhere, Orbis is considered to be a value-focused asset manager, although by its own admission its funds such as **Orbis OEIC Global Equity (GB00BH6XLH54)** don't always hold companies which would sit under a standard value definition.

FTSE 100 is trading on 13.5 times forward earnings

'The distinction between value and growth stocks is meaningless,' says Orbis' Brocklebank. 'Every business has a value and a growth rate. It is a dramatic over-simplification putting something into one camp.'

Orbis looks to invest in companies it believes are worth a lot more than their current share price.

'We start by asking a relatively straightforward question: "How much would a rational buyer pay to own the entire business?" The answer is what we call the "intrinsic value". This is basically an estimate of how much a business is worth today, based on its earnings and potential for growth in the future,' says the asset manager.

'We take a long, hard look at the fundamentals of a business, its structure, market, competitors, and the way it is managed in order to assess its

FIDELITY SPECIAL VALUES

ANNUAL RETURNS						
	2012	2013	2014	2015	2016	2017
PRICE	30.97%	55.26%	-4.57%	18.62%	15.99%	13.94%
NAV	27.22%	44.75%	-1.24%	12.29%	15.41%	16.96%
BENCHMARK*	12.30%	20.81%	1.18%	0.98%	16.75%	13.10%

Source: Morningstar. *FTSE All Shares TR intrinsic value.

'Over the short term we think a company's share price can be a pretty poor indicator of its intrinsic value. This is because share prices tend to be influenced by the human emotions of greed and fear, and as such their value can vary considerably over the short term.

'We look to buy shares when they're trading well below our assessment of intrinsic value, which often tends to be when they're out of favour with other investors.'

VALUE IN THE BANKING SECTOR?

Phil Hoffman, head of UK, Middle East and Africa for Pzena Investment Management, likes stocks that have been out of favour. He says 'we like them as long as we think the problems they've faced can be fixed'.

In the banking sector, he owns **Barclays (BARC)** and **Royal Bank of Scotland (RBS)**. Hoffman believes that value stocks tend to do better when economies are growing, especially true of cyclical stocks such as banks.

He says during downturns, when central banks intervene by lowering interest rates and flooding the market with liquidity using quantitative easing, investors focus on growth stocks.

When interest rates are rising this hurts growth stocks and investors look more at value plays. While the spread between growth and value stocks may be wide in the US, value is not actually doing terribly says Hoffman.

Moreover, it's the dominance of the tech growth powerhouses such as Facebook, Amazon and Apple which skews the market away from potential value stocks.

EXCHANGE TRADED FUNDS TO PLAY THE VALUE THEME

Value investing is picking up in the passive space as well. Anthony Kruger, a smart beta specialist at ETF provider iShares, says his firm's **iShares Edge MSCI Europe Value Factor ETF (IEVL)** is enjoying good inflows.

The product tracks the MSCI Europe Enhanced Value index. iShares use various screens to avoid value traps, such as forward price to earnings and enterprise value to free cash flow.

Kruger also says it's important to compare stocks within in a sector to find true value.

For instance sectors like utilities will tend to be on a low PE rating but that doesn't necessarily mean they are under-valued or mispriced.

FINDING GOOD VALUE EQUITIES

For choosing value stocks, Godber at Polar Capital's starting point is the price to book (PB) of a stock, generally going with those with a multiple of less than 1.0.

He won't automatically dismiss those companies whose PB ratio is above 1.0 although companies above 1.0 have to contain 'great attributes'.

Pzena's Hoffman says that UK stocks are cheap in a global context due to Brexit and the resulting weakness in sterling.

While investors were willing to pay very high multiples for bond proxies in the consumer staples space – this is when investors use equities to get bond-like yields – this arguably has started to end as bond yields rise.

With global growth on the rise, fundamentals are back in favour and so it seems may be value investing. (DS/DC)

How could a slowdown in life expectancy growth impact your retirement planning?

We look at two pieces of research and why their findings are relevant for your finances in later life

It has become accepted wisdom that life expectancy in the UK will continue its unstoppable march upwards. However, two reports published within the last 12 months have caused some to question this assumption.

The first, produced by influential academic Michael Marmot in July 2017, argued that life expectancy improvements have 'ground to a halt' since 2010.

The second, a more recent study by the Continuous Mortality Institute, supports these findings and suggests we are moving into a new era of less rapid life expectancy improvements.

> **Over the last century improvements in healthcare and lifestyle have seen average life expectancy increase by about 12 months every 3.5 years for men. For women, the increase has been about 12 months every five years**

BY HOW MUCH HAS LIFE EXPECTANCY INCREASED?

It would be easy to see these statistics and jump to the conclusion that we aren't all getting older – or that life expectancy is about to head into reverse.

Context is important when considering these relatively short-term trends. According to Marmot, over the last century improvements in healthcare and lifestyle have seen average life expectancy increase by about 12 months every 3.5 years for men. For women, the increase has been about 12 months every five years.

Or to put it another way, male life expectancy has risen nearly seven hours every 24 hours. When you think of it like that, the long-term shift has been truly remarkable.

WHY IS THIS RELEVANT TO PENSIONS?

But what does all this mean for you and your savings plans? Let's look at the two main bits – what you'll get from the state, and what you'll provide for yourself.

• State pension

The new single-tier state pension introduced in 2016 is worth just shy of £160 a week. To qualify for the full state pension you'll need 35 years of National Insurance (NI) contributions.

Those with less than 35 years of NI contributions but more than 10 years will still get the state pension, but at a reduced rate.

In response to long-term life expectancy increases, the age at which people receive the state pension is on the rise.

The age at which men and women receive their state pension will be equalised at 65 by 2018, before increasing to 66 by 2020. The Government has also set out plans to raise this to 67 by 2028, and then to 68 by 2039.

Whether this happens could depend on the outcome of the next general election. Labour has said it will halt planned increases beyond age 66 and instigate a review of the system, specifically aimed at making the system fairer for those with 'arduous' jobs.

However, when it comes to planning for retirement you should assume the proposed increases will go ahead. Indeed, for those in their 20s and 30s, it wouldn't be surprising to see the state pension age pushed back to 70 and beyond.

• Your own pension prospects

The big conundrum for retirement investors is making sure their pension lasts as long as they do.

For those who choose to buy a guaranteed income stream from an insurer, known as an annuity, rising life expectancy has played a part in declining rates over recent years. Persistently low gilt yields – which are used to set annuity prices – have also been a big factor.

If gilt yields rise and life expectancy projections are revised down, it is possible annuity rates will begin to trend upwards.

If you're keeping your retirement money invested through drawdown, news that life expectancy improvements are slowing down might tempt you to take more money out of your pension today.

However, the key thing to remember here is that these are just average figures. In reality, none of us know exactly how long we are going to live for, so a sensible retirement income strategy needs to take into account the possibility you will live way beyond the average.

SCENARIO PLANNING

According to the latest ONS projections, the chances of living to 100 will double in the next 50 years – so if you're healthy, this is the sort of scenario you need to plan for.

As a guide, experts reckon a 65-year-old can withdraw between 3% and 4% of their initial pot value at age 65 and be reasonably confident their money won't run out.

You could also adopt a 'natural income' strategy and live off the dividends your underlying investments produce, thus leaving your capital untouched and allowing it to grow. This only works if your investments deliver enough money for you to live on.

However, the key to making drawdown work for you is to stay engaged. That means keeping track of your investments, knowing how much you're taking out and reviewing regularly (at least once a year).

Tom Selby, senior analyst, AJ Bell

Why you should think about trimming large holdings in your investment portfolio

Successful investments can skew your portfolio and may attract a large tax bill

It is really gratifying when an investment performs better than expected, but if a holding gets too big as a proportion of your portfolio it can cause problems in the long run.

When a share or fund increases significantly in value, its weighting in your overall portfolio increases. This can make your portfolio too heavily exposed to one type of asset class or sector.

HOW TO AVOID 'PORTFOLIO DRIFT'

Imagine you constructed a portfolio with a 60% weighting to equities and a 40% weighting to bonds. If equities perform strongly, the weightings could drift to 80% equities and 20% bonds, making the portfolio riskier.

'Many investors are over-exposed to a particular asset class, investment fund or individual share and should take action to address this,' says Patrick Connolly, certified financial planner at Chase de Vere, an independent financial adviser.

'With regard to shares, this is often because they have worked for that company and perhaps acquired the shares through an employee share scheme, or because the share has performed particularly well and they perceive it to be a safe investment.'

It might feel counter-intuitive to sell down shares in a stock that is performing well and boosting your overall investment portfolio. But even seemingly strong and secure companies can get into difficulties.

'For most people the best approach is to hold a balanced and diversified investment portfolio and this simply cannot be achieved if you have too much of your money reliant on the performance of just one company,' says Connolly.

MINIMISING LARGE TAX BILLS

Another potential issue with large investment holdings is that you could get stung with a hefty capital gains tax (CGT) bill when you come to sell the investment in the future, assuming it is not held inside a tax wrapper such as an ISA.

CGT is payable on the money you make from selling assets, including shares and funds. You pay CGT on gains above your tax-free allowance, which is currently £11,300. Basic-rate taxpayers pay tax at 10% and higher-rate taxpayers pay tax at 20%.

There is no CGT payable on assets held within an ISA. Adrian Lowcock, investment director at investment company Architas, says if you've got a large holding outside of an ISA you could sell a bit of it each year, ensuring you remain within the CGT allowance, and then move the proceeds into an ISA.

You could also transfer part of

the holding to your spouse to take advantage of their tax-free allowance. Assets sold or gifted to a spouse are exempt from CGT.

In some instances it's possible to carry forward a capital loss from less successful investments to offset capital gains.

However, Russ Mould, investment director at AJ Bell, says basing your investment strategy solely around tax is rarely a good idea.

'That is really letting the tail wag the dog and in an ideal world you would keep portfolio churn to a minimum, so as to avoid commissions, dealing costs, spreads, stamp duty and the other frictional costs which can be incurred and erode total returns from your portfolio,' he says.

WHAT COUNTS AS A LARGE HOLDING?

Having more than 10% of your portfolio in one share should be a cause for concern.

Mould says any type of holding above 10% requires careful monitoring at the very least, in the context of your overall investment strategy, target returns, time horizon and appetite for risk.

When it comes to tax, the size of the gain is the most important factor.

'A holding worth £100,000 might be easy to reduce if the gain is only £5,000, but will be harder to sell without paying tax if the gain is £95,000. Given the personal CGT allowance is £11,300, it would take a number of years to exit the holding in order to avoid paying tax,' says Lowcock.

WHAT SHOULD I DO WITH THE PROCEEDS?

Putting the proceeds into an ISA is a good starting point. Which investments you choose will depend on your rationale behind trimming the holding.

'If it is sold purely on the basis of reducing a specific position that has become too large, but the sector as a whole retains attractions, you should invest in something similar,' suggests Andrew Herberts, head of private investment management at Thomas Miller Investment.

If you trimmed the holding because your portfolio became too exposed to a particular sector, then you shouldn't buy a similar investment to the one you sold.

Many experts advise putting the proceeds of investments that have performed well into those that have done less well. This

> WHEN IT COMES TO TAX, THE SIZE OF THE GAIN IS THE MOST IMPORTANT FACTOR

puts the weight of each asset class back to its original state.

'For those who are concerned about achieving adequate diversification in their portfolio, it could be sensible to consider buying investment funds rather than individual shares,' says Connolly.

IS THERE A GOOD TIME TO TRIM LARGE HOLDINGS?

It would be preferable to trim a big position after it has done well, rather than after it has had a tumble. But timing the markets is extremely difficult – even professional investors get it wrong.

Lowcock says it's important to remember you're only trimming the holding so you will still have exposure to any longer term recovery in the investment.

'In the grand scheme of things, even trimming after a fall is unlikely to have much impact. Large falls are likely to be replicated across the market – so it means you can buy other stocks cheaper as well,' he explains.

Timing sales to mitigate CGT liability is a sensible move, as is ensuring you don't miss out on valuable dividend or coupon payments. (EP)

Dalata Hotels to start paying dividends in 2018

Buy-and-build group is in a position to start handing cash back to shareholders

Ireland's largest hotel operator **Dalata Hotels (DAL)** plans to reward shareholders with a dividend from 2018 following strong full year results in 2017.

Dalata operates the Maldron Hotel and Clayton Hotel brands in Ireland and the UK, and manages a portfolio of partner hotels.

The £1bn company says the dividend payout will be based on a percentage of profit after tax, which is anticipated to be between 20% and 30%.

Investment bank Berenberg forecasts 10c dividend in 2018, 11.3c in 2019 and 12.3c in 2020. The 2018 figure implies a 1.6% yield based on the latest share price of 542p.

We note that Investec had previously forecast Dalata to pay a maiden dividend at the end of the 2017 financial year. It now says that forecast was issued in error, blaming a technical issue with its research note template.

HOW HAS THE COMPANY PERFORMED?

Pre-tax profit in 2017 grew by 75.3% to €77.3m and sales jumped 19.9% to €348.5m.

Revenue per available room (RevPAR) rose 10.4% to €88.51.

The company has a pipeline of 2,200 rooms which will be achieved through new hotel openings and extensions, as well as lease agreements.

Dalata has its sights set on the UK for further growth and is currently hunting for new sites in 20 undisclosed target cities. It hopes to launch an extra 1,200 rooms every year.

Investec analyst Ronan Dunphy says Edinburgh, Manchester, Glasgow, Brighton and Bristol are among the top targets, speculating 8,000 rooms could be opened over the next five to seven years.

STRONG CASH FLOW

We believe Dalata is in a good position to take advantage of the fragmented UK hotel market thanks to its strong operating cash flow, which is

anticipated to increase in the future.

Operating cash flow is useful for investors by revealing whether a company has enough cash to grow its operations without having to raise new money or rack up debt.

In 2018, Dalata's operating cash flow is expected to rise from €95m to €106m before jumping to €122m in 2019, according to Berenberg forecasts.

The investment bank expects Dalata's net debt to fall over the next few years from €244m in 2017 to €236m in 2018 and €144m in 2019.

Ned Hammond, an analyst at Berenberg, is optimistic about Dalata's outlook, highlighting a strong hotel market in Ireland and an improvement in the UK.

He believes the hotel operator will generate strong RevPAR growth across the business throughout 2018.

SHARES SAYS: ↗

Dalata was one of our picks of the year in 2016, having said to buy at 367.5p. The shares have since risen by nearly 50%. We see further upside and believe Dalata is very attractive to investors wanting exposure to the hotels industry. Buy at 542p. (LMJ)

BROKER SAYS: 3 1 0

STV starts strategic review as ITV bid rumours swirl

Advertising revenue recovers in the first quarter of 2018 after a difficult 2017

The next key catalyst for Scottish broadcaster **STV (STVG)** is likely to be a second quarter update on a strategic review being conducted by new chief executive Simon Pitts.

That's unless speculation proves accurate that **ITV (ITV)** is going to make a takeover bid for the small cap.

STV's 2017 results showed national airtime revenues, which the company earns from advertising on the ITV network, down 7% at £74.3m. Regional airtime revenues fell 2% due to the deferral of several campaigns.

Regional and national advertising have bounced back in the first quarter of 2018 and should be further supported by the FIFA World Cup this summer.

Pitts would not be drawn on the future of STV2, an amalgamation of the company's city-based channels, which posted an unchanged annual loss of £0.8m last year.

He is positive about the outlook for the production business despite revenue down 20% to £10.4m thanks to lower commissions – pointing to the upcoming Edinburgh-set *The Victim* drama series it is producing for the BBC.

The company's confidence was reflected in a 13% increase in the full year dividend to 17p. Its share price has risen by 10.8% to 360p so far this year. (TS)

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Companies presenting

ThinCats **Stewart Cazier, Head of Retail**

ThinCats is one of the pioneers of the peer-to-peer business lending industry; specialising in loans with security and linking retail and institutional investors directly with established business borrowers to provide an alternative to high street banks.

The company was founded in the aftermath of the global financial crisis, with the aim of offering loans to UK businesses struggling to access funding through traditional channels, whilst providing investors with attractive rates of interest unavailable through many conventional investment portfolios.

A key element of the ThinCats' ethos has always been to avoid the algorithm-led decision making often used by banks; the founders were keen to hear the stories behind the borrowers' investment needs, and assess each one based on its merits. The company continues to work in this way, harnessing the knowledge of financial experts to assess each loan application, thereby encouraging growth, development and innovation in UK business.

Trafalgar New Homes **Speaker TBC**

Trafalgar New Homes is a public limited company whose shares are quoted on the London Stock Exchange AIM Market.

Combe Bank Homes Ltd is a wholly owned trading subsidiary, which was established in 2006, and is a successful regional property developer based in Kent.

Its management has a track record of many years experience in undertaking new and refurbished residential property projects in South East England.

Follow this link www.sharesmagazine.co.uk/events for full details.

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