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Watch out for companies with dominant shareholders

...as they may take control of a company and leave minority shareholders out in the cold

The perils of having dominant shareholders have come to the forefront once again with various small cap companies on the UK market. Minority shareholders have effectively been shunted to one side and in one case not given a fair say in important matters which is unjust.

For example, several companies say they will leave the stock market and in doing so will leave investors owning shares they cannot sell.

Another example has seen two shareholders accounting for 47% of **Quarto's (QRT)** stock manage to get themselves and two other individuals elected as directors at the book seller's recent AGM without having made a proposal in advance of the meeting.

They side-stepped the normal requisition process because Quarto is registered as a Delaware company and is subject to different rules than UK-registered firms.

The two shareholders simply had the resolutions to appoint themselves and two other individuals added to the schedule at the start of the AGM.

It meant that anyone who couldn't attend the meeting and who was reliant on a proxy vote by post didn't know about the motion to replace four non-executive directors and so couldn't vote on the matter. What's also odd is that the two shareholders holding 47% of the stock were allowed to vote for their election.

MAKING A REAPPEARANCE

The aforementioned shareholders are Laurence Orbach who was ousted as Quarto's chief executive in 2012 by then-29% shareholder Harwood Capital; and Chuk Kin Lau who is a big Quarto customer.

Fifteen years ago Orbach fought a battle with asset manager JO Hambro which put in a tender offer to take its stake from 26% to 51% after losing faith with management. Quarto's Delaware company status meant JO Hambro didn't have to make a full takeover bid.

In a twist of irony given the latest events, Quarto at the time said the tender offer violated fundamental principles of the Takeover Code (which does not apply to Quarto as a Delaware corporation) by 'failing to treat all shareholders equally'.

Fund manager Paul Mumford of Cavendish Asset Management is one of the annoyed shareholders who has come forward to complain about the latest events. He is also frustrated by the way Quarto last year failed to put a takeover approach to shareholder vote.

'This represents an egregious case of minority shareholder interests being steamrollered on the sly. A cynical person would look at this and call it a takeover on the cheap, with an in-built conflict of interest as the cherry on the cake,' says Mumford.

'Looking at the new board makeup, it seems inevitable that minority shareholders will now find their interests sidelined. On the other hand given that the company's performance is less than stellar, it is good to see some shareholders playing an active role.'

MORALLY WRONG

One could argue that Orbach's latest move was the fastest way to regain a seat at the table of the business he clearly loves, having spent 36 years in charge. But morally it doesn't seem right. It comes across as self-serving and not in the spirit of good corporate governance.

While there is clearly more of this story to be told, it doesn't excuse the poor manner in how minority shareholders have been treated now and in the past. (DC)

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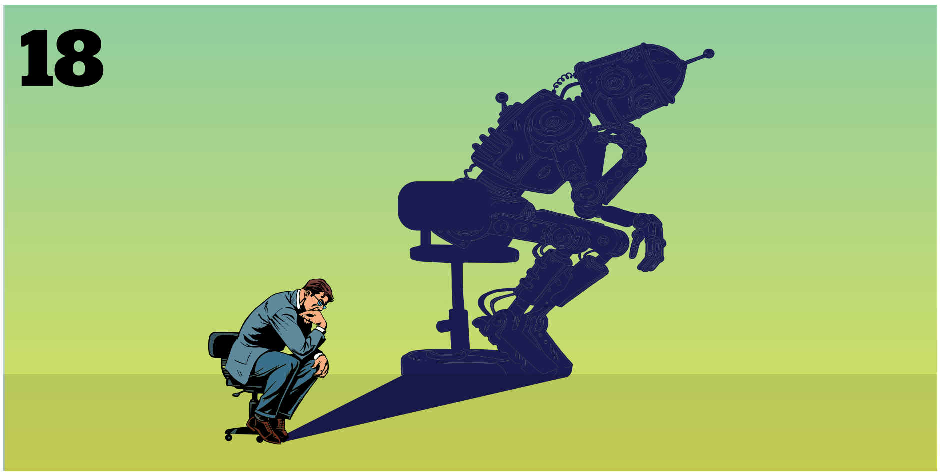

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BROKER RATINGS EXPLAINED:

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.

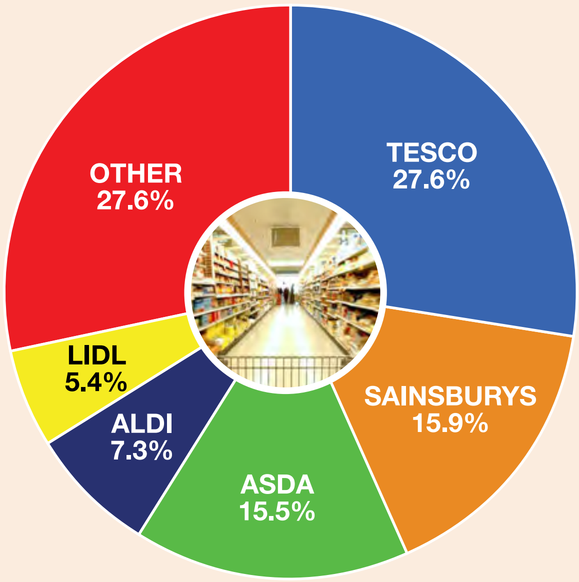
Rumours of Lidl going online is bad for Tesco and Sainsbury's

Supermarkets need to prepare themselves for the latest competitive threat

Lidl may be planning to enter the online grocery delivery market in a fresh assault against the UK's largest supermarket chains, according to media reports. The German discounter has registered the name 'Lidl Digital Logistics' at Companies House and could be targeting the grocery deliveries arena.

Because they operate a low cost model, discount companies such as Lidl have hitherto avoided e-commerce, preferring to invest in keeping prices low in store rather than incurring the added costs of picking, packing and delivering products to customers.

MARKET SHARE



Source: Kantar Worldpanel (1 May), covering the 12 weeks to 22 April

However, the rise in third party delivery services is opening doors for more supermarkets, enabling them to cater to growing demand for online grocery without the need for heavy investment in systems and infrastructure.

This is the first time Lidl has signalled an interest in moving online and the move would represent a significant new threat to the growing online operations of **Tesco (TSCO)** and **J Sainsbury (SBRY)**.

Retail industry watchers were left stunned by the news in April that J Sainsbury and Asda wanted to combine forces in a supermarkets super-merger. Against a backdrop of the relentless rise of online shopping and Amazon, and the threat from Lidl and Aldi, J Sainsbury plans to acquire Asda from Walmart in a deal that will see the US retail behemoth become the enlarged entity's biggest shareholder with a 42% stake.

The latest grocery market share figures from Kantar Worldpanel (1 May), covering the 12 weeks to 22 April, showed disruptors Aldi and Lidl growing their market shares to 7.3% and 5.4% respectively.

The data revealed market shares of 15.9% and 15.5% for J Sainsbury and Asda respectively, both down year-on-year, while Tesco maintained its market leadership at 27.6%.

In the sector's other major development, shares in online grocer and e-commerce technology licensor **Ocado (OCDO)** have soared after securing a partnership deal with US grocer Kroger, giving it a foothold in the vast American groceries market.

Following on from similar deals to provide the Ocado Smart Platform to Canada's Sobey's, France's Groupe Casino and Sweden's ICA, Ocado will license out its technology for Kroger's exclusive use in the US, where it is a market leader with sales of $122bn in fiscal 2017.

Ocado, which powers **Morrison's (MRW)** online delivery service in the UK, believes Kroger is the company best positioned to win in US grocery and having inked this deal, it will now call off talks with other US-based retailers. (JC)

Entertainment One and Bloomsbury are scooping up the cash from big franchises

The ongoing appeal of Peppa Pig, Harry Potter and other big titles keeps the income flowing for two media groups

The benefits of having successful franchises are made crystal clear in the latest results from **Entertainment One (ETO)** and **Bloomsbury Publishing (BMY)**.

Both companies are riding high thanks to ongoing sales from certain titles which have the hallmarks of being evergreen brands, potentially giving them longevity as new generations discover their appeal in years to come.

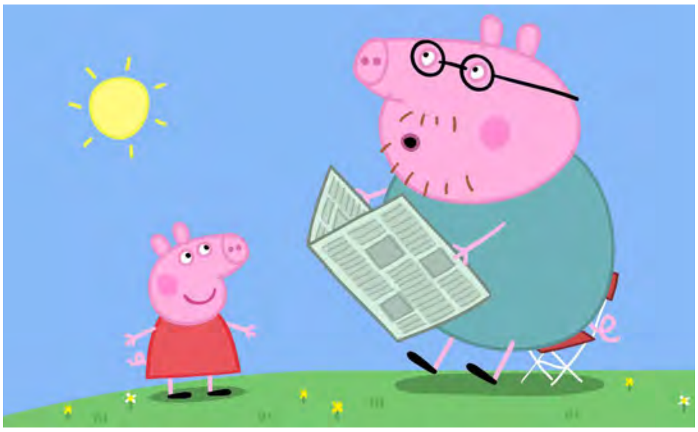
Peppa Pig generated $1.3bn in retail sales in the year to 31 March 2018, providing £84.7m revenue to majority brand owner Entertainment One as its cut from merchandise agreements. It makes additional licensing money from TV and digital platform broadcasting although the exact amount isn't disclosed as the income is lumped in with Entertainment One's overall Family division.

Chief executive Darren Throop says *Peppa Pig* is still growing in both emerging and mature markets and that there is much further growth to come. Broadening the opportunity for future income will be more immersive experiences such as new *Peppa Pig* theme parks and live shows.

Bloomsbury says sales of its *Harry Potter* series grew by 31% in the year to 28 February 2018 – a remarkable feat given that the franchise launched 21 years ago. It says 'every year these classics reach a new generation of readers'. The publisher continues to find new ways to monetise the wizard story including illustrated editions.

Entertainment One isn't solely reliant on *Peppa Pig* as it boasts multiple franchises in its portfolio. For example, *PJ Masks* is proving to be another big hit and achieved $1bn retail sales in the past financial year, resulting in £48.8m revenue for Entertainment One which shares ownership of the brand with Disney and other undisclosed parties.

Exploiting successful franchises is also a key part



of Entertainment One's TV business where it owns titles such as *The Walking Dead* and *Ray Donovan*. Throop says the company likes to focus on popular shows and to keep making more of them.

It also makes sure ongoing success doesn't come at a cost to the business, such as actors and crew commanding higher salaries as shows increase in popularity. 'Some of our deals have ratchet agreements whereby the broadcasters pay more for each subsequent series,' explains Throop.

The acquisition in January of the remaining 49% stake in The Mark Gordon Company it didn't already own means Entertainment One now boasts popular medical drama *Grey's Anatomy* in its portfolio. The television show has been renewed for its fifteenth season, making it the longest running scripted prime-time show currently airing on the ABC network in the US.

Entertainment One's content library is currently valued at $1.7bn, however that figure is considerably out of date given the valuation was done in March 2017 and it has produced and acquired a considerable amount of content in the subsequent period.

A new library valuation will be published alongside the company's half year results in November. (DC)

Shock management departures could pave way for KCOM break-up

Years of poor financials and stagnant share price spark rethink

The shock departure of senior management at **KCOM (KCOM)** has started tongues wagging that a break-up of the group is on the cards.

Chief finance officer Jane Aikman resigned on 17 May, hot on the heels of chief executive Bill Halbert's decision to stand down after an 11-year run with the company. Both are staying on until replacements are found.

These announcements caught the market by surprise, coming just weeks after KCOM's capital markets education day for analysts and investors. It is believed that no hint of the impending departures was given at the event on 1 February.

Speculation is now circling that a management overhaul has taken place designed to arrest years of poor financial performance and a share price that has stagnated for five years.

KCOM is a mishmash of communication network, infrastructure service and enterprise software businesses. It is best-known for running the Hull and East Yorkshire communications network that provides calls and broadband internet to around 200,000 local residents and businesses.

This part of the business provides the meat of KCOM's profit and cash flow. Transitioning more customers to its fibre-to-the-premises network could drive incremental price increases if customers up their broadband data usage, potentially creating cost savings by switching off the copper connections.

For years KCOM has retained the faith of income investors thanks to the reliable cash flows from its Hull and East Yorkshire network providing the backing for attractive dividends even in the face of pension scheme funding requirements.

But dividend growth is coming under increasing threat amid attempts to grow its enterprise and service businesses. Offloading those parts to concentrate on its Hull and East Yorkshire network could therefore make sense, potentially easing cash pressures and releasing value for shareholders. (SF)

Shares in Brewin Dolphin up by nearly 80% in two years

The wealth manager is expected to keep growing earnings at an impressive rate

WEALTH MANAGER **Brewin Dolphin (BRW)** is forecast by analysts to increase pre-tax profit by nearly 12% this year to £78.1m and by a further 13% in 2019 to £88.2m.

The company is on a roll, judging by its latest half year results which showed net new inflows in discretionary funds under management growing at an annualised rate of 7.7%.

The £1bn wealth manager is busy consolidating a highly fragmented market having bought the financial planning and investment assets of Dundee-based Clark Thomson MortgageFinders earlier this week.

The move will add 150 new clients to Brewin Dophin and is part of the company's aim to broaden its financial planning and investment management arm.

Shares in the business have been rallying since summer 2016, rising by nearly 80% to 386p. (DS)

TESLA MARGIN CRITICISM IS WRONG, SAYS INVESTMENT BANK

TESLA HAS AS many critics as it does fans and many commentators have been quick to shoot down the company, saying it is burning through cash and has a boss in Elon Musk who isn't behaving in the manner appropriate to being the chief executive of a quoted business.

Drilling down into more specifics, many commentators say Tesla won't make as much money as the company thinks it will. In particular, critics say Tesla won't make 25% gross margins on its Model 3 vehicle.

Having undertaken detailed analysis, investment bank Berenberg says this criticism is wrong and that the margin target is 'reality and not a hope'.

'Substantial gains from lower labour content, as well as capital and material use efficiencies, should allow Tesla to comfortably achieve a margin above 25% throughout the product cycle,' it says.

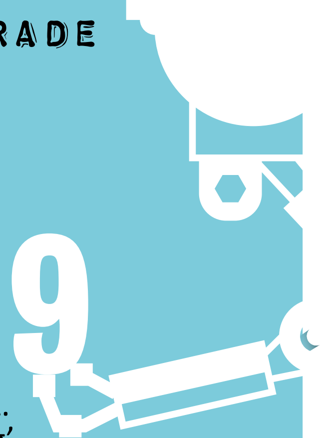
WEBIS NOW UP MORE THAN 580% ON US GAMBLING SECTOR HOPE

THE POTENTIAL opening up of the US sports betting industry has breathed new life into micro-cap gambling company **Webis (WEB:AIM)** and made its shares the second best performing stock year-to-date with a 584% gain.

Webis conducts live pari-mutuel racing and online wagering services through its WatchandWager brand and has a licence to accept wagers from residents in various US states.

It is now seeking partnerships with gaming software and other operators in the hope that individual state legislation for sports betting will be approved.

NINE GROWTH UPGRADE AND COUNTING AT BLUE PRISM



ANOTHER TRADING update from **Blue Prism (PRSM:AIM)** and another growth guidance upgrade. That's the ninth in little more than two years since its IPO brought the stock to AIM at 78p per share. The shares now change hands at £16.32.

'Blue Prism just can't stop growing' is how one software industry analyst sums up the situation.

The robotic process automation solutions 'poster child' is seeing growth opportunities emerge at such a pace that forecasters have struggled to keep up.

Investec, Blue Prism's own broker, has had to rip up forecasts and start again so many times that investors might wonder whether shares in Tippex might have been a similarly good investment.

Following Blue Prism's latest update on 16 May Investec raised its 2018 and 2019 revenue forecasts by 11% and 17% respectively. That implies revenue will more than double this year to £50m, from last year's £24.5m. Estimates for 2018 published in January 2017 were looking for revenue of £17.3m, which puts the company's forecast-busting progress into perspective.

Analysing drug data could be very lucrative for this little-known business

Profits from small cap stock Ergomed are forecast to soar over the next two years

A company which provides important services to pharmaceutical companies has the potential to become a much bigger name in the future, thanks to the way the drugs industry is going.

Ergomed (ERGO:AIM) may only be worth £102m at the moment, yet a recent strategy shift places the company in a much stronger position and analysts certainly believe earnings are going to explode over the coming years.

Having made a loss in 2017, Ergomed is now forecast to make £1m pre-tax profit this year and see that figure increase by nearly eight-fold to £7.9m in two years' time, according to estimates from research group Equity Development.

WHAT DOES IT DO?

Ergomed hopes to become the leading global provider of pharmacovigilance services by 2020. It offers outsourced services to the pharmaceutical sector by managing clinical trials and helping these companies develop drugs.

ERGOMED ↗ BUY
(ERGO:AIM) 227p
Stop loss: 165p

Market value: £102m

Approved drugs are then monitored after entering the market to explore any potential side effects.

Historically the group has also had a co-development business where it partners with pharma and biotech firms and offers its drug development services for a cut of future royalties, if successful. Ergomed has decided to stop expanding this business.

At the moment the co-development operation only contains six partnerships, including one struck with **Allergy Therapeutics (AGY: AIM)** in December 2017.

We believe Ergomed's strategic shift is the right move as it focuses the business on a fast-growing market with recurring contracts and loyal clients eager to outsource services to meet regulatory hurdles.

$8BN OPPORTUNITY

Chief executive officer (CEO) Stephen Stamp says the services division is being prioritised over co-development partnerships as pharmacovigilance benefits from more stable cash flow and no UK-listed rivals.

Pharmacovigilance involves a huge collection of data from various sources on potential side effects, which is then aggregated and analysed to determine any risks.

It could be potentially lucrative for Ergomed as the pharmacovigilance market is expected to be worth over

ERGOMED'S FINANCIAL OVERVIEW

	2017a	2018e	2019e	2020e
Sales	£47.6m	£55.7m	£62.4m	£68.7m
Pre-tax profit	(£4.4m)	£1.0m	£5.9m	£7.9m

Source: Equity Development

$8bn by 2024.

Using data and sophisticated statistics, Ergomed can determine if any there are any side effects or potential drug interactions, possibly leading to drug relabelling.

The outcome could even lead to a recommended withdrawal of a product if it is deemed to be unsafe.

FUND MANAGER FANS

Investment trust **Strategic Equity Capital (SEC)** holds Ergomed in its portfolio. Fund manager Jeff Harris believes the company's new strategy is a step in the right direction as pharma firms are outsourcing more work to meet increasing regulatory hurdles.

Harris flags that Ergomed's chairman Peter George used to be CEO at successful services group **Clinigen (CLIN: AIM)**, another stock in his portfolio.

Ergomed also features in **Livingbridge UK Micro Cap Fund's (GB00B55S9X98)** portfolio. Fund manager Ken Wotton says Ergomed is a hidden gem as its buy and build strategy and focus on pharmacovigilance could be a recipe for success.

Wotton believes if the company continues to gain critical mass it could potentially benefit from a re-rating and be seen as a strategic asset in the sector over time.

Savvy investors have started to become aware of Ergomed's potential with the shares having recently hit an all-time high of 228p (21 May).

ERGOMED'S LARGEST SHAREHOLDERS

Miroslav Reljanovic (Founder/Executive Vice-Chairman)	24.84%
Slater Investments	9.97%
Octopus Investments	6.81%
Strategic Equity Capital	5.24%
Harwood Capital	3.88%

Source: Reuters

ERGOMED'S CASH FLOW PROFILE

	2017a	2018e	2019e	2020e
Total	£1.3m	£3.8m	£8.7m	£10.8m
Working capital movement	(£1.0m)	(£1.7m)	(£1.4m)	(£1.3m)
Operating cash flow	£0.4m	£2.1m	£7.3m	£9.5m
Tax	(£0.4m)	(£0.1m)	(£0.5m)	(£1.2m)
Interest	£0.0m	(£0.3m)	£0.0m	£0.0m
Cash flow from operations	£0.0m	£1.8m	£6.8m	£8.3m
Cash flow from investing	(£3.9m)	(£0.7m)	(£0.7m)	(£0.7m)
Cash flow from financing	£2.7m	£3.9m	£0.0m	£0.0m
Net Increase In Cash	(£1.2m)	£4.9m	£6.1m	£7.5m
Overall cash flow	(£1.2m)	£4.9m	£6.1m	£7.5m
Year-end cash/(debt)	£3.2m	£8.1m	£14.2m	£21.8m

Source: Equity Development

LEVERS FOR GROWTH

Looking ahead, Ergomed aims to grow organically and possibly through future acquisitions which could help it build on existing services or enter new territories.

In late 2017, the company acquired contract research organisation PSR for up to €5.7m, a business which specialises in the development of orphan drugs for rare diseases.

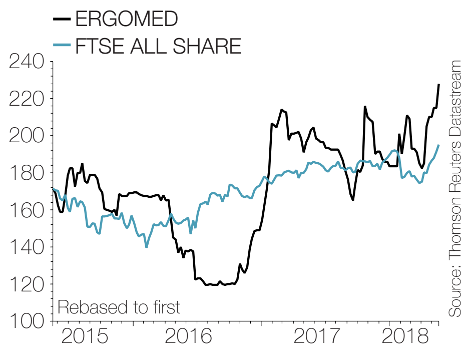
The orphan drug market is forecast to grow at a compound annual growth rate of 11% from 2017 to hit an anticipated $200bn in market sales by 2022.

Ergomed is also anticipating growth through its acquired business PharmacoVigilance, a medical information service provider.

Equity Development analyst Elizabeth Klein says growth in PharmacoVigilance is likely to be supported by M&A, while its automation services should lift margins and expand premium activities.

According to Ergomed, automation is likely to complete 80% of manual case processing by 2020, helping the company compete with low-cost providers of pharmacovigilance services. (LMJ)

BROKER SAYS: 2 0 0



This investment trust has been reborn and is ready to strike back

British Empire Trust has addressed issues that weighed on performance

Investors seeking a fund flush with bargain stocks and upside catalysts should buy **British Empire Trust (BTEM)**. It aims to achieve long-term absolute returns by investing in undervalued assets.

It offers shareholders value within the portfolio's underlying assets and the share price also trades at a discount to the trust's own net asset value (currently 9.4%).

Investment bank Jefferies argues: 'Having addressed many of the issues that previously dogged the fund, namely too little focus within the portfolio and holding too much cash, we see British Empire as a resurgent proposition.

'Although the fund has been swimming against the tide of growth favoured markets, underlying portfolio returns are attractive, with potentially even more value now embedded within the portfolio than has been the case historically.'

BAUERNFREUND'S BEST IDEAS

Since his 2015 appointment, fund manager Joe Bauernfreund has modified the investment process. The manager is more focused on a core universe of around 350 stocks made up of investment or holding companies including conglomerates, real estate companies and private equity portfolios.

BRITISH EMPIRE TRUST BUY
(BTEM) 758p
Stop loss: 606.4p

Market value: £865m

There is also increased conviction within the portfolio with larger holdings increased in size to reflect Bauernfreund's 'best ideas'. As British Empire often takes an activist stance in order to create valuation catalysts, larger position sizes and greater voting power are advantageous.

Throughout much of the trust's recent history, 'value' as a style has underperformed, creating a performance headwind and partially explaining the discount to net asset value.

Compelling catalysts would include a market shift to favour 'value' over 'growth', as well as the possible upside as catalysts on individual portfolio holdings come to fruition through valuation uplifts, returns of capital or wind-ups.

Key risks to consider include the presence of two layers of discount risk, a style bias to 'value' and currency risk arising from a predominantly non-sterling portfolio.

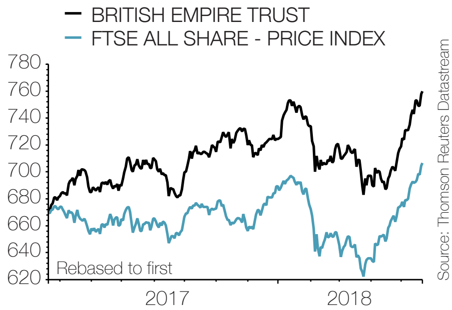
WHAT'S UNDER THE HOOD?

As at 30 April 2018, top holdings included Japan Special Situations, a basket of 17 Japanese stocks with a significant proportion of their market cap in net cash.

It also invests in Swiss-listed holding company Pargesa, jointly controlled by the Frère and Desmarais families and whose only asset is its 50% stake in Groupe Bruxelles Lambert, a Belgian-listed holding company with stakes in Adidas and Pernod Ricard among others.

Other leading British Empire positions include the US hedge funds **Pershing Square (PSH)** and **Third Point Offshore (TPOU)** and within the listed private equity space, a holding in **Riverstone Energy (RSE)**, an exemplar of a portfolio holding, trading at a wide discount to asset value and with hidden value under the hood. (JC)

BROKER SAYS: N/A



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

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

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

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

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

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

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

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

Event details

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

Registration contact

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020 7378 4406

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Attend the event on 03 July 2018 and you will be entered into a prize draw to win a **Fortnum & Mason Wayfarer Hamper worth £150** which will be presented on the night (Terms and Conditions apply)

EVENT CHAIR

Tom Sieber
Deputy editor
– Shares Magazine

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

AVIVA

(AV.) 550P

Gain to date: 8.1%

Original entry point:

Buy at 510.5p, 14 Dec 2017

LIFE INSURANCE giant **Aviva (AV.)** has an advantage when it comes to rivals in the purchasing of large books of annuity business. Given the company is a conglomerate; it already has relationships with some of its targets.

For example, take the recent headline-grabbing £925m purchase of **Marks & Spencer's (MKS)** bulk annuity, a deal more than 50% larger than its next biggest transaction, the Pearson Pension Plan which cost £600m last October.

Aviva already provided health and general insurance cover for M&S employees, as well as travel insurance to M&S Bank's retail customers.

Credit quality is paramount for annuity deals, as any mischief when it comes to pensions brings the wrath of the Government and the media alike. This is an area in which Aviva shines, having an AA credit rating.

This makes a huge difference when it comes to persuading the pension trustees as to which institution is the most financially sound to handle the assets. Peter Kett, analyst at investment bank Jefferies, says this status gives Aviva an advantage over its unrated and unlisted peers Rothesay and PIC.

SHARES SAYS: ↗

Keep buying these shares as the market for bulk annuities is still largely untapped with Aviva looking to gain a real foothold in it. (DS)

BROKER SAYS: 14 5 1

CINEWORLD

(CINE) 267p

Gain to date: 1%

Original entry point:

Buy at 264.4p, 3 May 2018

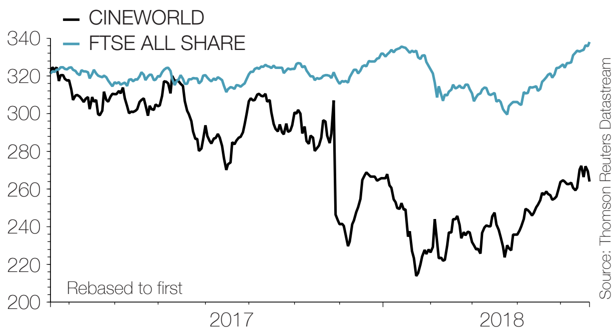
A DECENT trading update on 16 May helps to put our trade on **Cineworld (CINE)** in the right direction. It reported 6.7% rise in group revenue at constant currencies. The US was the best performer with a 10.2% rise, while the UK fell 2.1% and Central Eastern Europe/Israel slipped by 2.4%.

It is worth noting the reporting period (1 Jan to 13 May) had very tough comparative figures to beat on a year-on-year basis for Europe as last year's period was boosted by the massive success of *Beauty and the Beast* and *The Fate of the Furious*.

'The (latest) results largely reflect the volatility in the film slate, where a meaningful trend is difficult to establish at this point of the year,' says UBS analyst Heidi Richardson.

We're more interested in Cineworld's performance over the next 12 months as successful integration of the newly-acquired US operations will be key in silencing the critics who say the business shouldn't have bought Regal Entertainment and taken on so much debt.

The film slate for the rest of 2018 looks really good and we don't believe the World Cup football will cause too much of a dip in earnings should consumers become distracted by the sporting event. Analysts should have already factored in some disruption in their forecasts.



SHARES SAYS: ↗

Keep buying. (DC)

BROKER SAYS: 12 1 0

SUPERB STOCKS FOR 2018 UPDATE

FUTURE

(FUTR) 520p

Gain to date: 31.7%

Original entry point:

Buy at 394.88p, 21 Dec 2017

THE CONTINUING transformation of specialist media outfit **Future (FUTR)** is reflected in an impressive set of first half results (17 May).

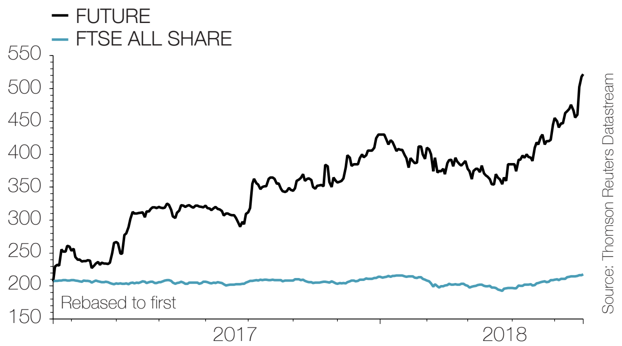
Well-known titles in Future's portfolio include *Techradar* and *Total Film*. Having developed a transferable platform, the company's strategy under chief executive Zillah Byng-Thorne has been to monetise its specialist content through e-commerce, licensing and digital advertising.

The company is looking to make acquisitions of other publishing assets which can be fed into this model.

Revenue in the Media division was up 62% to £26.2m, taking it to over 50% of total group revenue.

Research group Edison says Future's opportunity for growth in the US is 'particularly attractive'. It adds: 'Monetisation of the US audience is improving, but is still a long way below that of the UK. (The recent acquisition of) Newbay Media adds further diversification of the revenue base, introducing B2B opportunities in information and events.'

Finance director Penny Ladkin-Brand confirmed to *Shares* that the business will still consider a dividend payment for the September 2018 financial year.



SHARES SAYS: ↗

We continue to like the story and are not put off by a September 2019 price-to-earnings ratio of 19.7 times based on Numis forecasts given the positive momentum in the business at present.

BROKER SAYS: 1 0 0

SIGMAROC

(SRC:AIM) 38.8p

Loss to date: 10%

Original entry point:

Buy at 43.25p, 26 Oct 2017

YOU'RE GOING to need a bit more patience with heavy construction products firm **SigmaRoc (SRC:AIM)**. We think it is worth sticking with the shares.

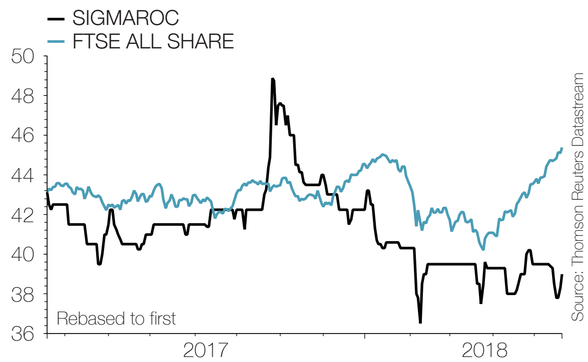
Full results on 21 May highlighted the company's ability to squeeze more out of the assets it has already acquired. The numbers show the Ronez and SigmaGsy operations saw combined sales improve to £27m, with earnings of £5.5m.

Ronez is a hard rock quarry operator and construction materials producer based in Guernsey and Jersey. SigmaGsy is a bulk shipping outfit.

With a large number of independent operators still active in its market, chief executive Max Vermorken tells *Shares* there are plenty of M&A opportunities available to the company.

With full integration of the businesses it has already acquired expected in the first half of 2018 the company can turn to further deals.

Investment bank Berenberg comments: 'With estimated group gearing at 1.1x 2018E net debt/EBITDA, we believe the balance sheet offers capacity for further value-creating transactions; while management is pleased with the progress made towards delivering on the pipeline this year.'



SHARES SAYS: ↗

We remain fans despite the indifferent performance of the shares. (TS)

BROKER SAYS: 1 0 0

ARTIFICIAL INTELLIGENCE

OVER-HYPED OR FUTURE MEGATREND?

Artificial intelligence (AI) has been around for decades but it has only recently exploded into the everyday vernacular. At a simplistic level AI is a set of computer science techniques that give your software super powers.

AI has the capacity to create new businesses and opportunities, make our lives safer, and add massive growth to the global economy. It may also hold the threat of destroying jobs, spreading computer viruses and worse.

How to channel AI to deliver the former and avoid the latter is a hot topic of discussion among heads of state, technology developers and others.

And how to realise and access this potentially vast new source of profit tends to be where the conversations head in company boardrooms, at fund management meetings and among ordinary savers and investors.

While sceptics may accuse AI of being no more than the latest investment fad, experts unequivocally see AI as a genuine long-run wealth creation opportunity with the scope to enrich all of our lives in multiple ways (and even in ways we haven't even thought of yet).

Keep reading to learn more about AI and the funds and investment trusts to play the theme.

WHY ALL THE EXCITEMENT?

'The disruption of an ever-greater number of industry verticals has arguably never been higher due to the growing influence of both cloud computing and the rise or early adoption of artificial intelligence,' says Polar Capital fund manager Ben Rogoff.

'Every industry that mankind created will be redefined,' is how Masayoshi Son, the CEO of Japan's Softbank, describes AI.

'Just as 100 years ago electricity transformed industry after industry, AI will now do the same,' believes Andrew Ng, an AI network pioneer and the former leader of the technology's development at both Google and Baidu, the Chinese internet business.

Ng is putting his money where his mouth is, and earlier this year unveiled the US-based AI Fund, raising $175m to invest in new AI start-ups.

WHAT IS AI?

AI is the concept of machines accomplishing tasks which have historically required human intellectual input. It is the computer-powered capacity to perform functions such as logic, reasoning, planning, learning and perception; all very human qualities.

Or as boffins at Imperial College London put it, 'AI now encompasses the whole conceptualisation of a machine that is intelligent in terms of both operational and social consequences.'

People have relied on machines to increasingly

$39 BILLION

Estimated company AI investment in 2016, most of it by tech giants such as Google and Baidu

Source: McKinsey & Co

> **Just as 100 years ago electricity transformed industry after industry, AI will now do the same**
>
> Andrew Ng, AI expert and founder of Google Brain

HOW AI THINKS LIKE A HUMAN

Consider a basic AI system. Let's say it has three levers to pull (neurons) to come up with a yes or no answer – or in binary-speak, a 1 or 0. The AI system wants to determine if a photo is an image of an apple or a banana. It might establish certain facts:

1) Is the object in the picture round?
2) Is the object in the picture yellow?
3) Does the object in the picture have a separate stem?

If the photo was of a banana the AI system would respond with no, yes, no. If the photo is an apple it would answer yes, no, yes. In the binary language of digital communications this would translate as 010 for the banana, and 101 for an apple.

AI systems can be exponentially more complex than this example. Extrapolate this concept across thousands, millions or billions of yes/no questions and you have the basis for a super smart AI system capable of learning to predict customer preferences, detect fraud, fight computer viruses, conduct life-saving diagnoses, and recognise handwriting.

do muscle work since the industrial revolution allowed steam and electricity to replace oxen, horse and our own physical strength.

But the coming transformation, sometimes called the digital revolution, will see computer algorithms take the strain for much of the brain work too.

AI IN ACTION TODAY

A good example of AI is the defeat at chess of grandmaster Garry Kasparov by IBM's *Deep Blue* super computer in 1997. More current uses for AI come in emerging applications such as whizzing from place to place in self-driving cars or quick diagnosis and prescriptions from automated GPs.

Recent studies estimate that two-thirds of us have little or no idea that we are using AI technology every day. AI is far more ubiquitous than you may appreciate.

Have you bought an item recommended by Amazon lately? Logged on to Facebook or 'Googled' something on the internet? Then you've used AI.

It is this emerging technology that ensures the products, services and adverts presented to you are as relevant as possible. The algorithm used to serve up Google search results also learns which pages are the most relevant to users using AI.

It's similar AI behind Netflix recommendations or ones that automatically suggests who to tag when you post a photo on social media sites. Smartphone assistants like Apple's Siri, Google Assistant and Cortana by Microsoft are also powered by AI.

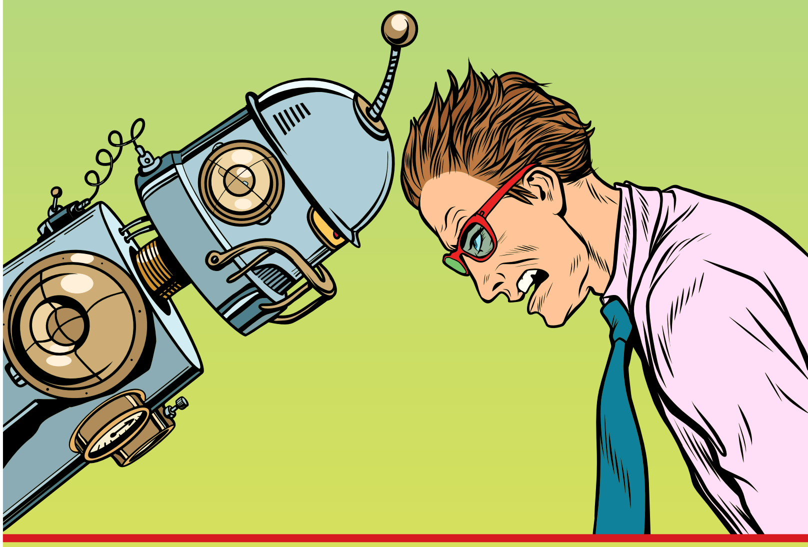
> **Every industry that mankind created will be redefined**
>
> Masayoshi Son, CEO Softbank

1956 Artificial intelligence is coined as a term by John McCarthy of Dartmouth Workshop and marks its beginning as an academic discipline

1997 IBM's Deep Blue computer beats Russian chess grandmaster Garry Kasparov

2011 IBM's Watson computer system beats human players on US game show Jeopardy

2016 Google's AlphaGo computer program beats board game Go grandmaster Lee Sedol



ESCALATION OF AI ACCESS

AI is an increasingly busy investment space and there are more ways for ordinary investors to get involved than ever before.

For example, it's worth looking at the world of robotics even though it is slightly different to AI. Robotics is a branch of technology which deals with robots – but AI can feature if the robots are required to 'think' and make decisions.

The ROBO Global Robotics & Automation Index is the first benchmark index to track the global robotics and automation market (including AI companies). Its constituents have enjoyed soaring demand for things like 3D printing, track and trace distribution technologies and automated surgery systems.

Richard Lightbound, head of index provider ROBO Global's Europe and Asia operations, says 88% of the index members beat consensus sales estimates in the last quarter of 2017.

The ROBO index was set up for the ETF market and is the backbone behind **ROBO Global Robotics and Automation ETF (ROBG)**, one of *Shares*' running *Great Ideas*.

FUNDS PROVIDING EXPOSURE TO AI

Traditional funds are also being established to capture AI and other technology-specific trends. For example, **Polar Capital Automation & Artificial Intelligence Fund (IE00BF0GL543)** launched last year with AI one of three core investment themes at its heart (industrial automation and robotics being the other two).

Smith & Williamson, the investment management firm, has even set up a dedicated AI fund called **Smith & Williamson Artificial Intelligence Fund (IE00BYPF2Z68)**.

'We seek to invest in companies that offer what we regard as purity of AI revenue; companies which are able to demonstrate revenue growth that is being driven by the development or application of AI,' say fund managers Chris Ford and Tim Day.

Pictet Robotics (LU1316549283), **AXA Framlington Global Technology (GB0006598998)**, **Polar Capital Global Technology (IE00B42W4J83)** and **Neptune Global Technology (GB00BYXZ5N79)** are other fund options with a firm eye on AI development and potential returns.

Among the investment trust community,

$15.7 TRILLION

The amount AI will add to the world economy by 2030

Source: PwC

HOW AI COULD CHANGE VARIOUS INDUSTRIES	
Automation	Self-driving cars, Advanced Driver Assistance Systems (ADAS), factory of the future
Banking	Automated trading, fraud detection, natural language processing, robo-advisors
Education	Adaptive learning programmes, skill upgrade teaching
Entertainment/ Media	Advertising, interactive gaming, video analytics, voice-based commerce
Government	Smart surveillance, threat detection, transport simulations
Healthcare	Digital health, diagnostics, drug discovery, predictive analytics
Natural Resources	Agtech, aquaculture, bioscience, seed genetics
Retail	Customer analytics, supply chain management, sensor intelligence
Technology	AR/VR, cyber security, chatbots, enterprise software, industrial robots

Source: LGIM

> **"No sector or business is in any way immune from the impact of AI"**
>
> Gerard Verweij, PwC global data & analytics leader

we'd highlight these three products as having AI-related investments: **Allianz Technology Trust (ATT)**, **Polar Capital Technology Trust (PCT)** and **Scottish Mortgage Investment Trust (SMT)**.

COMPANIES BEHIND THE AI REALITY

While there may be a lot of hype around the topic right now, 'there are enough real life examples underway to indicate that AI will be a significant investment theme in the next decade,' says Nick Hartley, co-head of active equities at Legal & General Investment Management (LGIM).

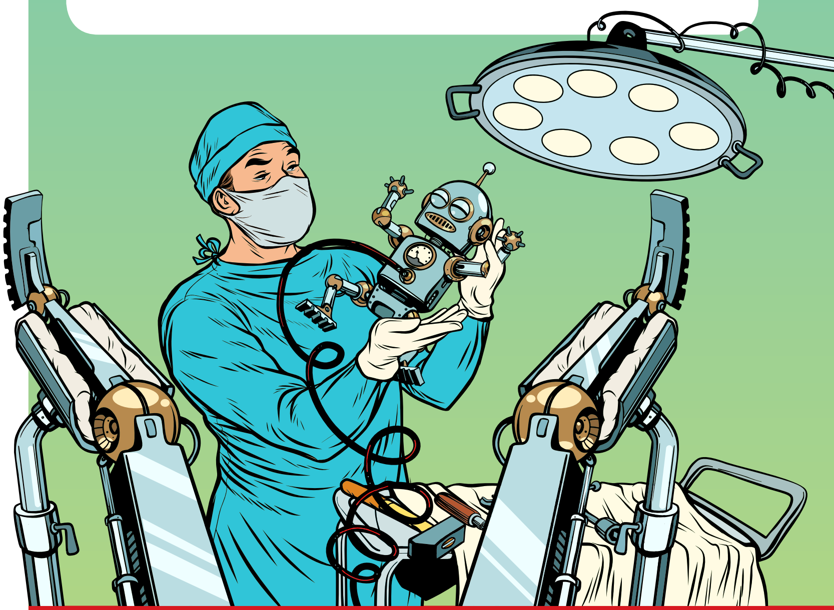
One of the challenges facing investors and AI is that there is 'little real world evidence of success, especially on a commercial scale,' he remarks.

He believes there are three crucial components that make or break any AI enterprise from a financial perspective, the ultimate barometer of success for investors.

- Technical development capability
- Access to large scale volumes of data from which AI can learn
- Ability to successfully deploy AI applications at scale and keep improving

Hartley uses European travel ecosystem software supplier Amadeus as a good example, a company LGIM's active funds have owned for some time and which is also a large holding for **Fundsmith Equity (GB00B41YBW71)** and **Jupiter European Opportunities Trust (JEO)**.

> **The development of full artificial intelligence could spell the end of the human race**
>
> Stephen Hawking, visionary physicist



AJ BELL TO LAUNCH NEW FUND WITH A TECH ELEMENT

Investment platform AJ Bell is launching a Global Growth Fund designed to take advantage of the world's demographic, technological and economic changes.

The fund aims to take advantage of existing and emerging trends that will power improved prosperity for a large number of people, particularly the 6bn or so living in emerging or developing economies.

This will include dynamics such as smartphone and cloud computing proliferation plus nascent opportunities in robotics, AI, health applications, space travel and others.

The fund hopes to spread risk by investing in a basket of companies set to benefit from the aforementioned trends.

Around 8% of the fund is likely to be invested in technology specific areas, with substantial exposure to developed regions including Europe, North America, Asia and the UK.

'Amadeus processed 595m bookings in 2017 involving 1.3bn passengers,' says Hartley. That involves juggling thousands of live route and fare combinations; volumes of data it would be simply impossible for an army of humans to process.

Another popular AI-related holding among certain funds is US customer engagement platform Pegasystems. The company says: 'If you've driven a car, used a credit card, called a company for service, opened an account, flown on a plane, submitted a claim, or performed countless other everyday tasks, chances are you've interacted with Pega,' referring to its platform product.

Pegasystems' AI-powered applications are part of the reason why Neptune fund manager Ali Unwin is such a big fan. The stock is one of Neptune Global Technology Fund's bigger holdings alongside some better-known companies such as Facebook, Apple and Visa.

TODAY'S OPPORTUNITIES

Right now most fund managers would probably look to traditional technology names to play the AI theme. FANG stocks (Facebook, Amazon, Google, Netflix) would be a good a place to start partly because their vast cash hoards means they can buy up the most interesting start-ups.

Imperial College London research suggests the aforementioned FANG companies, plus IBM, Microsoft, Apple and Yahoo, spent more than $5bn between them on AI start-ups in 2015 and 2016 alone.

In 2014 Google spent $500m on buying DeepMind, the AI developer founded by neuroscientist Demis Hassabis who is widely considered to be one of the leading AI experts in the world.

It highly likely that the big public cloud platforms will be the easiest way to get AI-based applications widely distributed.

Amazon Web Services, Microsoft's Azure and Google Cloud are likely to provide clients with bolt-on and upsell AI tools and applications, all connected over the internet. IBM, Oracle, China's Alibaba and Baidu may follow similar paths.

FAR-REACHING POTENTIAL

AI has such far-reaching potential that it is tough to envisage any industry that will not be somehow shaken up by emerging AI applications, especially now that data collection is becoming so easy and useful.

For example, oil giant **Royal Dutch Shell (RDSB)** is reported to be very enthusiastic about AI technology, saying sensors are cheap and can be used to monitor performance.

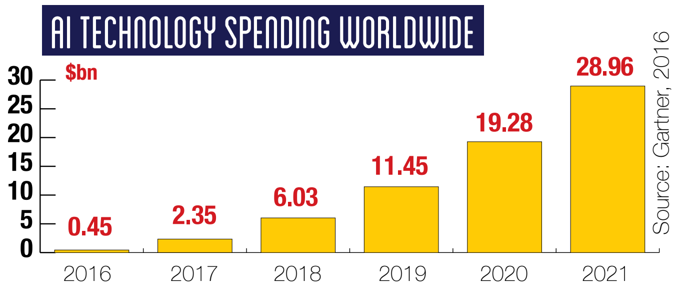
UK companies such as aero-engineer **Rolls-Royce (RR.)**, pharma giant **GlaxoSmithKline (GSK)**, UK-listed miners, banks and energy suppliers are also obvious potential beneficiaries of AI applications.

This may suggest that the best investment returns won't necessarily come from AI application designers, but from those companies able to use them to their advantage. (SF)

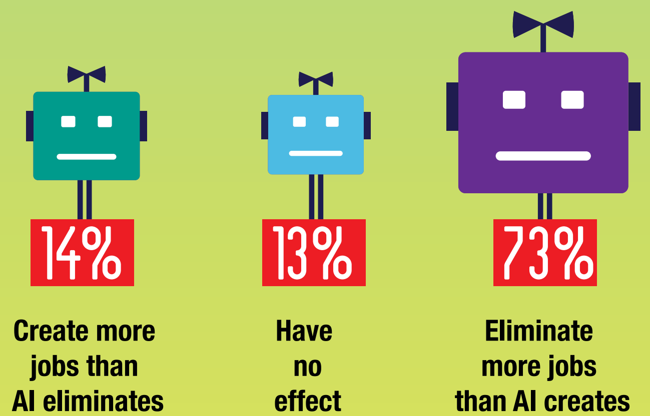
DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Fundsmith referenced in this article

140+

Number of academia standard research papers produced by DeepMind AI since 2012, including four published in scientific journal Nature



WHAT WILL AI DO TO THE HUMAN WORKFORCE?



Source: Gallup, Northeastern University, Jan 2018

MITON GLOBAL OPPORTUNITIES: BARGAIN HUNTING IN THE INVESTMENT TRUST SECTOR

SEEKING EMBEDDED VALUE IN ALTERNATIVE AREAS

In order to generate returns, we believe investors will increasingly need to look for alternative investments, away from funds, which invest in company shares and **bonds**[1]. One such area is the investment trust sector, where there are an increasing number of investment opportunities following a series of significant structural changes.

We have been in an environment where very low interest rates have triggered rising asset prices through a lack of alternative options. We believe the high valuations on which global company shares currently trade are a direct result of the very low returns available from bonds. As we have seen **bond yields**[2] rise, stockmarkets have been undermined. Moving on from a period of unconventional monetary policy would be healthy in the long term; however, share prices are likely to continue to undergo a period of turmoil whilst investors adapt to the new reality. Investors are able to obtain measurable income from conventional sources such as bonds, and will become less inclined to own "income manufacturing" trusts such as those which invest in aircraft leasing or infrastructure funds. The damage to the share prices will be from a change in demand patterns rather than from significant damage at a portfolio level.

Consolidation process

Since 2000, those investment companies that traditionally bought investment trusts have undergone a process of consolidation. Consequently, many companies have merged to form vast wealth management chains. The impact of this consolidation has meant that a large proportion of the investment trust sector has become effectively off limits to such firms as they are unable to cope with the huge capacity and liquidity levels required by these new mega-chains whose assets under management number in the billions.

This dynamic has in effect served to 'orphan' hundreds of investment trusts, many of whom are now underresearched and increasingly illiquid as demand has naturally slowed, despite there being no critical issue with the trusts, assets or their overall strategies. Without demand, the share prices of these investment trusts have slowly drifted lower than the value of their underlying assets creating a significant opportunity for the diligent and specialist investor to buy.

Miton Global Opportunities Trust plc (MIGO) is, we believe, a unique investment proposition that specifically seeks to exploit opportunities in this part of the investment trust sector. MIGO's patient investment approach allows it to extract the embedded value in those investment trusts that are trading at a lower price to the value of the underlying assets in order to realise gains over the medium to long term. The key driver is the fact that in the current climate, investors are being paid royally for accepting **liquidity risk**[3]. The fact that we enjoy closed ended protection (investment trusts have a fixed number of shares) is crucial in allowing us to fish away from the crowds. It allows us to take patient decisions knowing that there is no risk of having to meet short term redemption requests.

To provide an idea of the scale of MIGO's investment universe, there are currently over 400 investment trusts listed on the London Stock Exchange with an aggregate value of over £130 billion. Over 300 of these investment trusts are currently less than £400 million in size, and offer exposure to a broad range of alternative asset classes from the likes of property to natural resources. MIGO is therefore able to offer significant diversification across this pool of potential opportunities.

We expect the continued consolidation of the wider investment community to precipitate further structural change for investment trusts under £250 million in size. Furthermore, there appears to be no let-up in the growth of alternative asset classes creating future opportunities, many with an income bias. This development should lead to an increasing supply of future opportunities going forward.

In summary, we are focused on extracting embedded value, which already exists, not trying to generate returns from trying to second guess unpredictable future share price or market movements. We believe there is good scope for this latent value to be realised. We are excited by the opportunities and believe MIGO's research-led approach has the ability to make gains over the longterm, in a significant but under exploited segment of the UK market.

Useful diversification

In addition to the natural defensive buffer created by owning deeply discounted assets, owning shares in MIGO offers useful diversification given some of the current themes. Specific opportunities in the Indian stockmarket, residential property in Berlin and Forestry all feature prominently in the portfolio. Miton does not give investment advice, so if you are unsure of the suitability of this investment you should speak to a financial adviser.

Miton

RISKS

Forecasts are not reliable indicators of future returns.

The value of investments can fall as well as rise and investors may not get back the full amount invested.

Miton Global Opportunities plc may borrow money which can then be used to make further investments (gearing). In a rising market, this 'gearing' can magnify the gains or losses on your investment.

DEFINITIONS

[1]**Bond** – A loan in the form of a security, either issued by a UK or overseas government (government bonds) or company (corporate bonds), which pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

[2]**Bond yield** – The interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

[3]**Liquidity risk** – The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss.

WHERE TO INVEST YOUR SIPP CASH

Many individuals with SIPPs (self-invested personal pensions) are likely to enjoy a cash windfall in late May as tax relief from HMRC relating to the previous tax year is paid into their account.

In this article we will examine why many investors will see cash drop into their account now and offer some suggestions for how you may consider allocating this cash in the markets.

HOW DOES THE SYSTEM WORK?

When you make contributions to a personal pension the administrator of your pension scheme, typically your pension provider, will claim basic rate (20%) tax relief on your behalf.

Taxpayers in the higher (40%) and additional (45%) rate tax brackets must claim their own extra relief personally through their tax return.

With some providers, often big insurance firms, you receive your tax relief immediately because they have sufficient capital to pre-fund these sums before they receive the cash from the taxman.

However, outside the biggest firms pre-funding isn't the norm, so you only receive the relevant relief once it has been paid by HMRC.

WHEN DOES THE CASH ARRIVE?

Your SIPP provider collates the details of all those customers who have made a personal contribution in a tax month and then gives HMRC a single figure for all the contributions received.

HMRC in turn sends the tax relief to your provider for all those customers in a single payment. After this process is complete the funds are paid to customers' accounts.

For a variety of reasons many of us wait until the final month of the tax year, running from 6 March to 5 April, to make contributions to our personal pensions.

This could be due to a natural tendency to leave things to the last minute or because we are waiting for clarity on our earnings and tax position.

If you contribute in this period, then your scheme administrator has until 30 April to make the claim to HMRC for the relief, which is then paid on 21 May and will usually appear in customer accounts a day or two later.

So what should you do with this extra cash? Let's now look at five investment ideas spread across funds, investment trusts and stocks. As always; our ideas are designed to give you inspiration and a platform for you to go off and do further research. They may not be suitable for everyone due to different investment time horizons and risk appetite.

TWO FUND IDEAS

ROYAL LONDON UK EQUITY INCOME (GB00B8Y4ZB91) BUY

Figures from Seven Investment Management show that so far in the 21st Century the FTSE 100 has delivered a return of 12% without dividends but once dividends are reinvested this return is almost 10 times as large at 114%.

For long-term investors it therefore makes sense to have an income-focused fund in your portfolio and to buy the 'acc' version which rolls up dividend payments so you own more fund units.

Royal London UK Equity Income, which trades on an historic yield of 3.9%, has been managed by Martin Cholwill since 2005. It is a top quartile performer on a three and five-year view. Cholwill focuses on companies with robust balance sheets which are sufficiently out of favour to enable them to be bought at a higher yield than that offered by the wider market.

Royal Dutch Shell is Royal London UK Equity Income's top holding

BAILLIE GIFFORD JAPANESE (GB0006011133) BUY

There may have been a recent pause for breath in Japan's strong growth run but Japanese companies are becoming more shareholder-friendly and this bodes well for the long-term returns for those funds which invest in this market.

Managed by a strong team, Baillie Gifford Japanese invests in a focused portfolio of between 45 and 65 names and adopts a patient, low turnover approach.

Included are a diverse collection of names which typically stray a long way from the benchmark. This fund has consistently delivered top quartile performance. More prominent names in the portfolio include tech firm Softbank and car maker Toyota.


Toyota is one of the more prominent names in the portfolio

TWO INVESTMENT TRUST IDEAS

ABERDEEN DIVERSIFIED INCOME & GROWTH TRUST (ADIG) 121.4P BUY

Although historic performance has been patchy this trust has performed better of late under co-managers Mike Brooks and Tony Foster.

They took the helm in February 2017 with a long-term approach based on investing in a diverse collection of assets including private equity, listed equities, emerging market debt, property and infrastructure through to insurance-linked assets and special opportunities such as healthcare royalties and aircraft leasing.

Brooks and Foster tend to avoid commodities as an asset class thanks to their volatility and lack of income.

MURRAY INTERNATIONAL (MYI) £11.86 BUY

This trust has been managed by Bruce Stout with a worldwide remit since 2004. Stout is supported in his decision making by 10 global equity specialists and invests for the long-term with limited turnover in the fund.

The top 20 equity holdings account for more than half the portfolio. Also investing in bonds, it aims to beat the income available from the market and offers a dividend yield of around 4%.

The manager tends to take a cautious approach. Top holdings include microchip manufacturer Taiwan Semiconductor Manufacturing; Groupo Asur, the Mexican airports operator; and it recently added Poland's Bank Pekao to the portfolio.

AND A BONUS STOCK IDEA

WATKIN JONES (WJG:AIM) 207P BUY

This student accommodation provider looks an attractive proposition on a long-term view. The shares currently trade on an undemanding price-to-earnings ratio of 13.4-times and yield an attractive 3.7%.

As an asset class student accommodation typically has quite limited volatility and does not react in the same way as commercial property to the economic cycle.

Watkin Jones also has interests in the build-to-rent sector which is increasingly looking attractive as so many people can't afford to buy their own home.

It recently struck a deal with M&G and Lochailort to deliver a build-to-rent scheme in Reading.

Unite's (UTG) property director Richard Simpson will become chief executive of Watkin Jones in January 2019 and is a well-known and highly rated individual in the property sector. (TS)

Watkin Jones looks an attractive proposition

Is a fund manager lazy if they rarely change their portfolio?

Finsbury Growth & Income has only added three new names to its portfolio since 2011

Would you be happy if the manager of a fund in which you had a personal investment had only found three new investment ideas in the past seven years? That's exactly the situation at **Finsbury Growth & Income (FGT)**, one of the best known investment trusts on the market.

In such a situation, you are paying a fund manager to actively manage a portfolio and with that you'd expect them to be bursting with great ideas to make you money.

While doing little to nothing may sound lazy, some of the best investors are the ones who don't constantly flip in and out of holdings. Investing is a long-term game and patience is very important.

The fund manager should regularly check existing holdings aren't slipping out of line with their strategy and checking that they still deserve a place in the portfolio.

That can be equally as time consuming as finding new investment ideas, hence why their fund management fees are still justified (assuming they are working hard in the background).

The investment trust has a stake in Unilever which owns food and drink brands including Lipton, Flora and Cornetto

HOPING TO SCORE WITH NEW HOLDING

Finsbury Growth & Income's investment into football club Manchester United in 2017 was only its third new position in the portfolio since 2011.

'I continue to believe the lack of change is one of the most remarkable characteristics of Finsbury Growth & Income,' says fund manager Nick Train, appearing at the Frostrow Capital investor event on 16 May.

He recalls a comment by Jessie Livermore, one of the world's most iconic and influential traders of all time. 'It was never my thinking that made big money for me. It was always sitting. Got that? My sitting tight.' This is one of Livermore's famous quotes.

'Sitting tight is not easy to do,' remarks Train. 'We've had to work hard to learn how to do this well.'

Lindsell Train-managed Finsbury Growth & Income has achieved 15.3% annualised total return over the past 10 years versus 6.6% from its benchmark. This superior track record is one of the reasons why we highly rate the investment trust and believe it should be a core holding for investors.

Even its bad years in the decade under analysis were still considerably better than the broader market – apart from 2008 when all fund managers can be excused for delivering a bad performance (amid the global financial crisis).

THE APPEAL OF UNILEVER

Unilever (ULVR) is a good example of stock where Train has displayed considerable patience. It has been in Finsbury Growth & Income's portfolio for 14 years and the fund manager says he's never sold a single share in that period.

Interestingly, asset manager Lindsell Train has more than £1bn of clients' money in Unilever across all of its managed funds including Finsbury Growth & Income. 'We bought more Unilever stock in mid-May,' says Train who calls it 'a truly exceptional company'.

A superior dividend growth record is one of the principal reasons why the fund manager loves the stock. Unilever has increased its dividend by 8% a year for the past 55 years. 'That dividend growth has created incredible value for shareholders. Excluding the dividend, Unilever's share price has gone up by nearly seven-fold in the past 25 years and the FTSE All-Share hasn't even trebled.'

Approximately 3.5% of the trust's net asset value is accounted by its holding in technology group **Fidessa (FDSA)** which is in a takeover situation, so too is Dr Pepper Snapple which accounts for 2.4% of the trust's NAV.

Assuming those takeovers complete, Train will have a large amount of cash to either add the fourth new holding since 2011 or top up existing holdings.

The investment trust has the flexibility to hold up to 20% of its assets outside of the UK, a figure that currently stands at 16%. 'I have a number of "what if" or "maybe" ideas,' he says, adding that they are a mixture of UK and non UK businesses.

Train also revealed that he would like to increase Finsbury Growth & Income's stake in Manchester United from 1.6% of NAV to 2-2.5% 'before the stock trebles in value'.

EXPECTING BIG GAINS

The fund manager is confident that Manchester United's share price could be three times higher in the near future. 'Houston Rockets (basketball team) was sold last year for $2.25bn which is nine times sales. We bought into Manchester United when it was trading at three times sales.'

He says there will be 'the mother of all battles' between today's global internet giants to ensure people are attracted to their devices, apps and services and not those of their rivals. He adds: 'It will make the ITV/Sky battle in the 1990s look like a playground tiff.'

As part of that industry battle, Train believes the value of sports franchises will continue to rise as quality of content is extremely important in trying to attract and retain viewers. (DC)

FINSBURY GROWTH & INCOME: ANNUAL RETURNS

	Benchmark	Price
2008	-29.9%	-29.6%
2009	30.1%	33.7%
2010	14.5%	34.7%
2011	-3.5%	4.1%
2012	12.3%	25.4%
2013	20.8%	35.1%
2014	1.2%	5.9%
2015	1.0%	12.4%
2016	16.8%	12.6%
2017	13.1%	21.5%
2018*	-0.9%	-0.5%

*to 30 April 2018
Source: Morningstar
Benchmark: FTSE All Share TR GBP

> There will be 'the mother of all battles' between today's global internet giants to ensure people are attracted to their devices, apps and services and not those of their rivals
>
> It will make the ITV/Sky battle in the 1990s look like a playground tiff

Janus Henderson INVESTORS

Europe stakes its claim as the default diversifier to UK portfolios

Tim Stevenson, Fund Manager of Henderson EuroTrust, discusses Europe's credentials as a diversifier to UK portfolios

The investment landscape is more uncertain than this time last year and for some time we have felt that world markets needed to curb their enthusiasm. Donald Trump's protectionist policies are likely to have a ripple effect on world trade, while the weight of ETFs has pushed valuations in the US higher.

Coming off the back of the strongest period of synchronised global growth since the financial crisis, market optimism has been understandable, but the reality is that we are still in a low growth world and volatility is creeping back in to global markets. It is all too easy to get carried away with the recent growth story, but it's important not to extrapolate this as the new normal. At Henderson EuroTrust, we are putting more and more emphasis on total return as global growth cools back to familiar levels.

Europe's performance during the recent boom is something to take note of, however. Last year saw the Eurozone post its best annual growth rate since 2007, outperforming the UK for the first time since 2010 – and by some distance. The Eurozone's annual GDP growth rate in 2017 came in at 2.5%, while the UK only managed 1.8% — and it even beat the US, which grew at 2.3% last year. It's a testament to the region's recovery and it's fair to say Europe is in its best shape since the crisis and lays a strong claim to be the default diversifier to UK portfolios.

EUROPE'S LONG-TERM FOCUS

Looking over at the UK, it would be easy to pick on its troubled political landscape, but global politics is in such a state you could find problems just about anywhere, after all – politics is a useful distraction to the underlying problems, anywhere in the world. From an investor's perspective, my concern would be more towards short-termism in the UK, which completely undermines sustainable long-term growth. This point was outlined well in an article by the Financial Times recently (08/04/2018), titled “Lazy fund managers lead to lousy returns” by Tom Brown.

UK equities are seen by some as good value at present, with the worst of Brexit seemingly priced in. Although this might sound like good news for Brexit optimists, a concern would be the potential for hostile takeovers – as seen with industrial manufacturer GKN – and opportunistic investors keen to raise the share price and make a quick profit. I remain of the view that Brexit is a monumental wrong step by the UK, which will not solve any of the UK’s underlying problems.

It is much more difficult for such short-termism to prevail in Europe, where many countries have a long term shareholder in a foundation or family, such as Arnaud in France and the Quandt family in Germany, for example. This allows companies to take a far longer investment time horizon and in most cases long term financing is cheaper anyway. As a result, European companies, by and large, have a greater focus on long-term sustainable growth than their UK peers.

European markets have not followed through on a positive sentiment which was evident in early 2017, even though the economic and political environment has improved, more so in the case of economies perhaps than politics. Recently, the region seems to have taken the brunt of investors’ wrath, even though valuations, interest rates and the region’s high-paying dividends season all should be supportive. Most companies in the region pay one lump-sum dividend between March and the end of June, and with strong earnings growth in Europe, Henderson EuroTrust has been a beneficiary.

The Trust has a strong dividend paying history – last year we paid an annual dividend of 25p per share and have increased the dividends for 13 consecutive years. We aim to continue this trend and I’m confident that the recent dividends paying season in Europe will help us achieve that this year, although nothing is guaranteed.

CYCLICALS LOOK EXPENSIVE

In terms of stock selection, we are looking for companies with strong and sustainable growth potential. Generally speaking, we think valuations on economically sensitive stocks – ‘cyclicals’ – are stretched compared to more defensive stocks. This is based on current price-to-book ratios, which we think are more useful than price-to-earnings ratios at this point in time, owing to the fact that many cyclical companies are showing above-average and potentially unsustainable margins. It’s an interesting point because it’s only the second time that cyclicals have been more expensive relative to defensives since 1995.

We are therefore avoiding cyclical stocks and topping up on companies that have sustainable businesses with room for growth. For example, French cosmetics company L’Oréal is a stock we like – not because it is a defensive stock but rather it has a solid business that we think can grow in a low growth environment.

The Trust’s gearing facility was recently increased to £25 million, which would represent about 10% of the portfolio if we utilised all of it. At the same time, the Trust’s portfolio list is at its shortest for some time at around 45 stocks – down from 58 in April 2017. The portfolio is also much more weighted towards our top 10 holdings – 35% compared to less than 30% in December 2016.

We intend to use the gearing facility prudently and we have been using market weakness in February and March to top up on existing positions, such as Deutsche Post, Geberit, and Amundi amongst other.

We have also topped up on Europe’s unsung tech heroes, namely Spanish IT group

Janus Henderson INVESTORS

Amadeus and German business intelligence software provider SAP. Contrary to the general consensus, Europe's tech leads the world in some areas. We have held SAP and Amadeus each for a long time and have been beneficiaries of their growth.

At the end of March, Henderson EuroTrust shares were trading at a discount to the underlying NAV of about 7.5% and although that may well narrow over the coming months, it also has potential to widen if sentiment towards European equity markets deteriorates further. But as a snapshot, an investment trust trading at a higher than usual discount compared with what has been the case in recent years might from time to time offer a good opportunity for a long term investor.

Looking at the wider picture, world economic growth might just be at that "as good as it gets" moment. GDP growth rates are slowing down but Europe's emphasis on long-termism and innovation is a combination we think will lead to sustainable growth. Strategically, we think Europe will be one of the more fruitful areas for growth investors.

GLOSSARY

Volatility: The rate and extent at which the price of a portfolio, security or index, moves up and down. If the price swings up and down with large movements, it has high volatility. If the price moves more slowly and to a lesser extent, it has lower volatility. It is used as a measure of the riskiness of an investment.

Total return: The return on an investment, including income from dividends and interest, as well as appreciation or depreciation in the price of the security, over a given time period, usually a year.

Price-to-earnings ratio (P/E ratio): A popular ratio used to value a company's shares. It is calculated by dividing the current share price by its earnings per share. In general, a high P/E ratio indicates that investors expect strong earnings growth in the future, although a (temporary) collapse in earnings can also lead to a high P/E ratio.

Price-to-book ratio: The price-to-book ratio (P/B Ratio) is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. Also known as the price-equity ratio.

Gearing: A measure of a company's leverage that shows how far its operations are funded by lenders versus shareholders. It is a measure of the debt level of a company. Within investment trusts it refers to how much money the trust borrows for investment purposes.

Will absolute return funds become fashionable again?

Many have lagged in the recent bull-run but will they shine if markets start to fall?

The return of market volatility and the end of loose monetary policy in parts of the world has led several market commentators to suggest that absolute return funds could become more interesting if markets start to pull back.

Absolute return funds are designed to provide a positive return over rolling 12-month periods in *all* market conditions, although this is never guaranteed.

Within the open-ended funds (OEICs/unit trusts) universe, examples of absolute return funds include **JPM Global Macro Opportunities (GB00B4WKYF80)**, **Schroder UK Dynamic Absolute Return (GB00B3N53472)**, **7IM Real Return (GB00B75MS619)**, **Threadneedle UK Absolute Alpha (GB00B8BX5538)** and **Jupiter Absolute Return (GB00B6Q84T67)**.

Also in this peer group is **BlackRock UK Absolute Alpha (GB00B5ZNQ990)** which has achieved annualised returns of 2.26%, 4.47% and 1.81% on a 10, five and three-year basis respectively, according to Morningstar.

Although those levels of returns are significantly less than the broader market – and other absolute return funds have produced similarly low returns – they could still appeal to a more cautious investor who wants to avoid a large capital loss in the future.

Tesco is a key holding in BlackRock UK Absolute Alpha fund

RISK VERSUS REWARD

BlackRock UK Absolute Alpha is co-managed by Nick Osborne and Nigel Ridge who tap into significant in-house research and support at BlackRock.

'We're trying to deliver positive absolute returns at substantially reduced levels of risk,' explains Osborne. 'It takes out the challenge that many of our clients feel around market timing, which evidence suggests is hard.'

Osborne says the absolute return universe straddles many different asset classes and in some instances different geographies. 'Although the funds all call themselves absolute return, many have different return ambitions and risk tolerance.'

He says any good fund should take advantage of their differentiated expertise. 'Ours is a great heritage and a wonderful franchise in investing in UK equities,' enthuses the BlackRock fund manager.

He primarily puts money to work in the FTSE 100 and top end of the FTSE 250. Top 10 'long' positions (as at 30 April) included grocery giant **Tesco (TSCO)**, cruise operator **Carnival (CCL)**, media business **RELX (REL)** and banking behemoth **HSBC (HSBA)**.

Yet as Osborne explains: 'Not only can we profit from shares that we think are going to rise in value, but we can also generate returns through having positions in shares which we think are going to fall in value (known as 'shorting'). Our short ideas also help to hedge risk and reduce overall portfolio volatility.'

Osborne won't divulge current short positions and points out that shorting is often misrepresented in the media. 'It is portrayed as speculation. Actually, what shorting always did historically, and how we use it as a tool, is to take out risk,' he says.

In falling markets, the fund manager says he is able to exercise his ability to introduce shorts to support the fund's asset value, to take out volatility and to therefore reduce risk.

'And whereas most fund returns are determined by the beta component, in our fund, returns are predominantly determined by alpha. Therefore it matters much less what the market does, because our shorts reduce our net market exposure.'

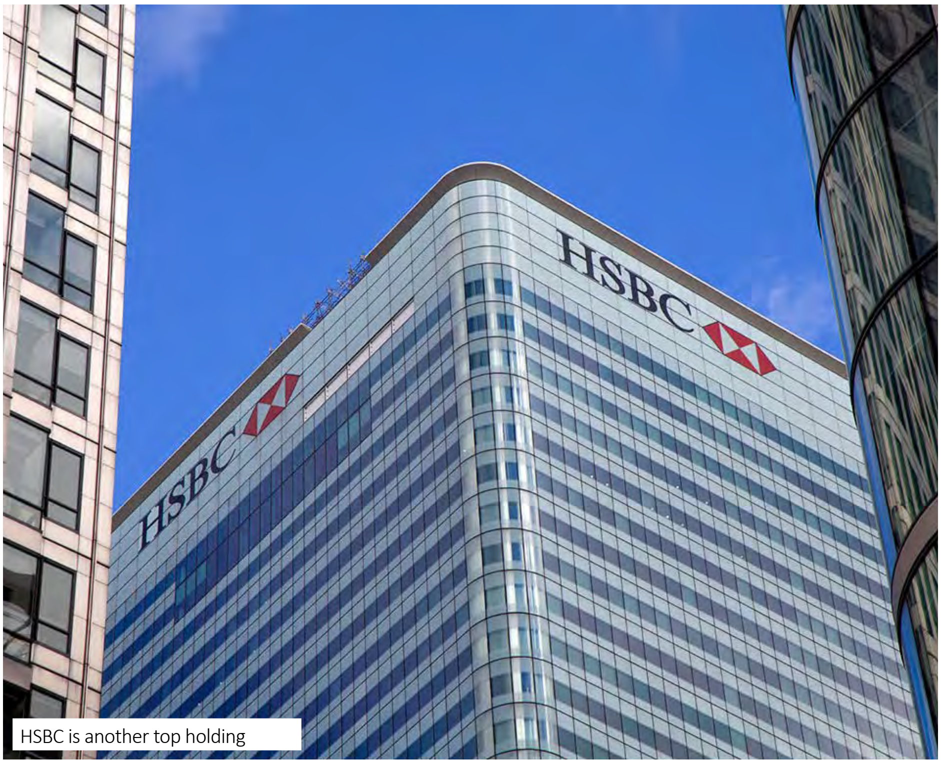
Beta is a measure of a stock's volatility compared to the overall market. Alpha is how much extra return an investor or fund manager has achieved versus a benchmark index.

USING PAIR TRADES

The BlackRock fund also uses pair trades, which you can think of as relative value trades.

'Pair trading is an opportunity where we see two companies that have similar operating characteristics, are almost always exposed to the same sector, but we think will have different return profiles.

'The key output is that the fund's market exposure is much more modest and as a consequence of that lower market exposure, volatility is considerably lower as we can use our shorts to hedge out risks and to protect the fund in times of market stress.'



HSBC is another top holding

Osborne believes the current benign global growth outlook will support company earnings, though he cautions the withdrawal of stimulus and consequences for rates will be depressive for equity markets, with valuations likely to fall from elevated levels over the next few years.

Accordingly, he says: 'We do like attractively valued cyclical shares that are likely to benefit from that growth backdrop and we can play that across a range of sectors – the UK market is incredibly international with around only 30% of the revenue exposure of the UK stock market generated domestically.

'We've sought companies with US exposure because the trading backdrop is positive but also there's been a benefit from fiscal changes which will further accelerate earnings growth.' (JC)

TOP TEN HOLDINGS (LONG POSITIONS) – AS AT 30/04/2018

Company	% Holding
Tesco	5.36%
Carnival	4.90%
British American Tobacco	4.81%
RELX	4.77%
CRH	4.66%
HSBC	4.29%
Ferguson	3.84%
Rentokil Initial	3.76%
Standard Chartered	3.66%
Shire	3.58%
Total of portfolio	**43.63%**

Source: BlackRock

Back in black: why banks are investable once more

Scottish Investment Trust fund manager Alasdair McKinnon on why part of the financial sector is starting to look interesting again

Ten years ago, many of the world's banks were essentially bust. The global financial crisis was in full swing, and banks were facing their comeuppance for employing huge amounts of leverage to boost returns. This practice worked for a while but such precarious methods never end well.

The crisis exposed banks' capital buffers as dangerously thin. It effectively wiped out their equity when unfeasibly optimistic asset prices were forced to match reality.

Such was the anxiety over the banks' solvency that UK politicians seriously contemplated putting troops on the street, if banks were unable to dispense cash, to quell an understandably angry population. Consequently, the banks were entirely uninvestable.

We have since come a long way. European and US banks have been heavily punished, with regulators collecting hundreds of billions of dollars in fines. The Dodd-Frank Act in the US brought far-reaching reforms, with tighter rules governing the amount and quality of capital to ward off a future crisis.

LET LOOSE FROM THE NOOSE

The period of punishment is now ending. The regulatory environment is more settled, with much stricter oversight. After considerable delay, one of the final planks of global bank governance was agreed in December – the so-called Basel 4 rules.

The new environment necessarily constrains banks' activities but with the rules of the game largely agreed, the banks can plan accordingly.

> Banks are now in much better shape

Banks are now in much better shape. Over the past decade, they have recapitalised to insulate against further crises.

With bad debts largely written down or disposed of, their balance sheets are also much cleaner.

Admittedly, returns on equity are lower today than they were before the crisis. But that's because banks must carry more equity and forego the returns of the more speculative parts of their business. Overall, the outlook for cash returns from bank stocks has improved.

INTEREST RATE BOOST

The macroeconomic

environment is also more favourable. Following the crisis, interest rates were cut to historic lows to prop up the economy and asset prices. Now they are rising again – allowing banks to widen margins on lending.

After six rate rises, the US is well on its way – and where the US goes, the world often follows.

Europe could be next, and even the Bank of Japan may look at moving away from negative interest rates. Rates are still very low in a historical context but banks are not sitting on their hands. Instead, most are focusing on cost-cutting to improve profitability.

The political backdrop is helping too. Populist governments are willing to spend money, which should be good for banks' profits. In the US, president Trump has cut taxes heavily. This should not only fatten bank profits but also put more money into consumers' pockets, which in turn helps the banks.

ROOM FOR RECOVERY

In the US, much of this has been acknowledged in share prices. After rallying in anticipation of the spoils of a Trump presidency, US bank shares are close to their pre-crisis highs. But not all banks have recovered as much.

The MSCI Europe Banks Index is still more than 60% below its 2007 pinnacle, potentially a sizeable opportunity. Banks are traditionally the largest part of the stock market but have been playing second fiddle to tech stocks in recent years, leaving plenty of room to catch up.

FOUR BANKS IN FOCUS

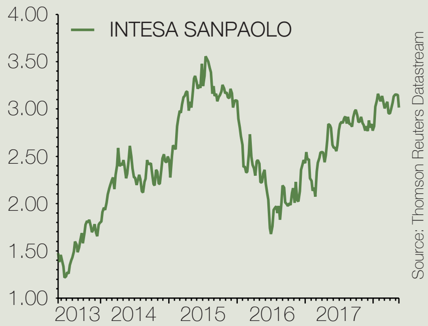
- **Royal Bank of Scotland**
- **Sumitomo Mitsui Financial Group**
- **Intesa Sanpaolo**
- **Citizens Financial**

So where do we see opportunities in the banking sector? Well, one is perhaps the most infamous name of the financial crisis. After expanding aggressively at the peak of the market, **Royal Bank of Scotland (RBS)** became the poster child for banking failure. But the company is now on its way to putting the crisis behind it.

RBS has succeeded in deleveraging its balance sheet and refocusing on its core UK market and is close to settling one of its last major fines. That clears the way for the company to restart dividends.

Its latest results showed a tripling of profits, suggesting real progress. We categorise the company as an 'ugly duckling' – a stock whose transformation could take the market by surprise.

Another 'ugly duckling' is Sumitomo Mitsui Financial Group. Japan's banks went through their own crisis in the 1990s, but are in much better shape today. They remain out of favour with investors because of Japan's negative interest rates. But with change afoot in Japan, any improvement in the economy is likely to benefit its cheaply valued banks.



Some of **Scottish Investment Trust's (SCIN)** other banking holdings have more immediate attractions. Intesa Sanpaolo suffered during Italy's bad-debt crisis but its well-capitalised balance sheet allowed it to navigate the crisis safely. Intesa has successfully offloaded many of its non-performing loans and has improved its cost efficiency to protect profits and its attractive dividend.

Finally, Citizens Financial is a US bank that regained independence when former parent company RBS retreated to the UK. Given RBS's numerous preoccupations closer to home, its US operation was not efficiently run. The spin-off created an opportunity to run the business more effectively; and Citizens is performing well as it steadily improves its profitability.

Four links in the global financial market chain have weakened: which is next?

What can investors learn from recent market movements?

This week's column is indebted to two charts from Fidelity's vastly experienced fund manager Ian Spreadbury at a recent conference. This is not to put words into Mr Spreadbury's mouth – he needs no help on that front – and any views expressed here are strictly those of this column, but credit must be given where credit is due.

The first chart shows the yield on the benchmark 10-year US Treasury (US government bond) which could be seen as a decisive break-out above the 3.05% level.

HAS THE YIELD ON 10-YEAR US TREASURIES DECISIVELY BROKEN OUT TO THE UPSIDE?

Source: Thomson Reuters Datastream

There are three possible explanations for this apparent shift in bond market momentum:

- Fixed-income investors are still wary of the potential for inflation to surprise to the upside, especially as oil prices march higher.

- An annual US budget deficit that is expected to reach $804bn in the year to September 2018 and $981bn to September 2019, compared to $665bn in 2017. The US Government has to sell more bonds to fill the gap and greater supply means it may have to offer a higher coupon to tempt buyers.

- The US Federal Reserve's switch from quantitative easing (QE) to quantitative tightening (QT). The Fed will reduce QE by $30bn a month this quarter, $40bn a month from July and $50bn a month from September. The end of QE removes a huge buyer from the bond market just when supply is going up.

Where US 10-year yields end up remain to be seen. Yet it may not be a coincidence that certain riskier and more speculative areas of the financial markets appear to be coming under duress just as the returns from a purportedly safe asset (and one priced in the globe's reserve currency for good measure) start to look more tempting.

FOUR QUICK HITS

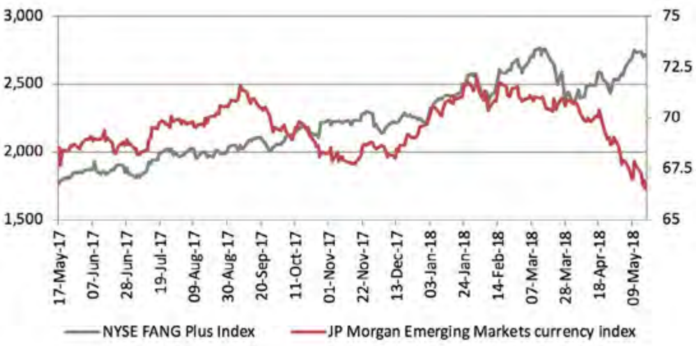
In quick succession, bitcoin, low-volatility trading strategies, high-flying technology stocks and now emerging markets (and especially emerging market currencies) have at least stumbled or in some cases been routed.

BITCOIN HAS TUMBLED AND LOW-VOLATILITY STRATEGIES HAVE BEEN CAUGHT OUT

Source: Thomson Reuters Datastream

The sudden reversals in the Turkish lira, Indonesian rupiah, Mexican peso and Argentine peso all suggest investors are, slowly, starting to become more risk averse, especially after their experiences with bitcoin and trading the VIX index and an initial wobble in tech.

TECH STOCKS ARE TRYING TO RECOVER THEIR POISE AND EMERGING MARKET CURRENCIES ARE COMING UNDER THE COSH



Source: Thomson Reuters Datastream

Any chain is only as strong as its weakest link. Whether this is a warning of further trouble to come in more mainstream assets, such as UK and US stocks, remains an open question. Yet no-one could have imagined that a downturn in Florida's housing market and the collapse of two obscure hedge funds in 2007 would be the first stages of a two-year financial panic and bear market in share prices.

DOMINO EFFECT

None of this mean indices like the S&P 500 and FTSE 100 are destined to plunge soon but the combination of low volatility, lofty valuations (especially in the US), and rising interest rates (at least in the US) is a potentially tricky one.

The good news is that earnings forecasts are still being met or exceeded, so estimates are rising.

Real, near-term trouble for equity investors could come in the form of a global economic slowdown – or even an actual downturn – as that would hit corporate profits.

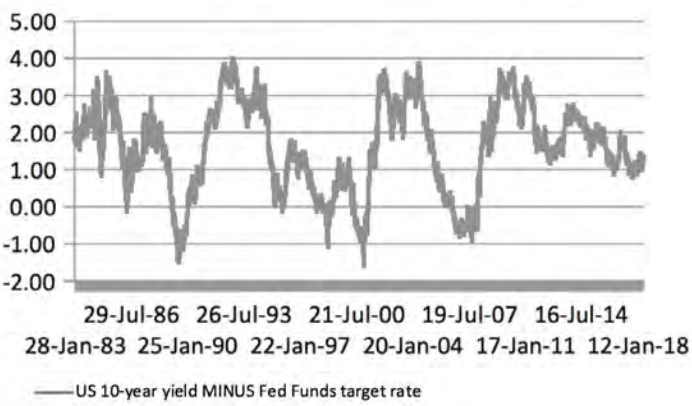
That in turn would leave valuations looking too rich, based largely as they are on the assumption that record corporate profit margins will stay high or go higher, and also potentially expose dividends to cuts as companies see their earnings and cash flows start to diminish.

And this is where Mr. Spreadbury's second chart comes in. It shows the US 10-year Treasury yield minus the Fed Funds rate.

On the three occasions when the Fed's target rate has exceeded the 10-year Treasury yield since 1990, a US recession quickly followed, in 1990-91, 2001-02 and 2007-08.

This indicator also proved accurate with the double-dip downturn of 1979-1982 but the chart below does not go back that far.

IF THE FED'S TARGET POLICY RATE EXCEEDS THE 10-YEAR TREASURY YIELD THEN HISTORY SUGGESTS THE US ECONOMY COULD STUMBLE



Source: Thomson Reuters Datastream

This is not a prediction for 2018 and the good news is that the US 10-year yield of 3.11% still comfortably exceeds the 1.75% Fed target rate.

But if the Fed sticks to its script with two or three more increases this year then investors need to keep a very close eye on both the Fed and the US bond market as the year develops.

WHY IS THIS COLUMN CALLED AEQUITAS?

It is the Latin word for equity and the origin of the modern word in both senses – fairness and the value of a company's shares.

By Russ Mould, investment director, AJ Bell

Why you should avoid 'lifestyle inflation'

Investing rather than spending extra cash could help you achieve your financial goals

We've all read stories about people who earn triple figure salaries yet still moan about the difficulty of paying bills or saving up for the future.

If you're not lucky enough to be a high earner, you might wonder how this could possibly happen.

A large part of it is down to something called 'lifestyle inflation'. As people earn more money they tend to buy more expensive things, rather than saving the extra cash for life's emergencies or their retirement.

It's a trap that results in people struggling to pay off debts and failing to reach their financial goals as soon as they hoped.

'Many people base their lifestyle and the level of their spending around their income. They spend whatever they earn and, quite often, go into debt and end up spending more than they earn,' says Patrick Connolly, certified financial planner at Chase de Vere.

'It is understandable that those who have income in excess of their basic living costs want to spend money and enjoy their lifestyle today. However, in the words of John F Kennedy, "The time to repair the roof is when the sun is shining".'

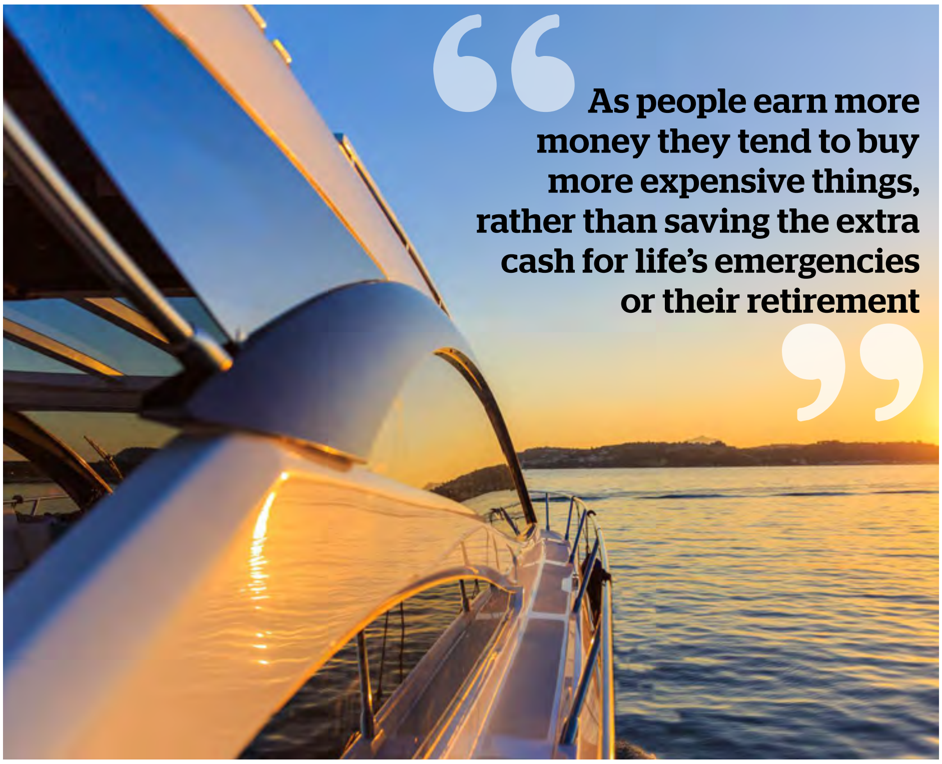
IS IT REALLY THAT WRONG TO ENJOY MY NEWFOUND WEALTH?

You might think it's pretty boring to squirrel away every extra pound you earn when your wages increase, but it's really important to try to balance your long-term saving goals with spending money today.

Although you may have excess income now, this may not always be the case. 'You need to be prepared for when your income falls, perhaps if you lose your job or when you retire, or if your expenditure increases after buying a house, having children or getting divorced,' explains Connolly.

By enjoying today as well as planning for tomorrow, you can have more confidence that your future will be financially secure.

Research suggests that to generate a modest annual retirement income of £10,000 above the state pension, you need to have saved around £250,000 – and possibly more to be on the safe side.



"As people earn more money they tend to buy more expensive things, rather than saving the extra cash for life's emergencies or their retirement"

HOW DO I AVOID LIFESTYLE INFLATION?

Experts reckon everyone should build up a savings pot that will cover four to six months of essential outgoings. This should be kept in an accessible savings account so you can withdraw it in the case of a short-term emergency.

You should also be putting money away for your longer-term financial needs – whether that's buying a home, paying your children's university fees or preparing for retirement.

Setting up a direct debt into an ISA and joining your workplace pension scheme will ensure the money is diverted into investment vehicles before you have a chance to spend it.

Tom Selby, senior analyst at AJ Bell, suggests splitting your money into different pots: those for short-term spending and those for longer-term spending.

'By doing this you can avoid seeing it disappear into the pockets of high street retailers or your local pub,' he says.

'Luckily there are loads of handy apps and online tools to help you budget effectively. It's also worth spending a bit of time thinking about your goals today and for retirement, and seeing how much money you'll need to enjoy both.'

Sophie Kilvert, a relationship manager at Seven Investment Management, suggests reviewing your budget at least once a year to work out how much you're spending and what you can cut back on. For example, you might have subscriptions you don't use anymore or be able to switch to cheaper insurance policies.

'See where your money is going and where there are areas that you can make sensible cuts – like cutting out some of the takeaways,' Kilvert says.

WHERE SHOULD I INVEST MY PAY RISE?

If you get a pay rise your first step should be to pay off any expensive debts. You should then look to build up emergency cash savings, and beyond this invest in longer-term vehicles such as stocks and shares ISAs, Lifetime ISAs and pensions.

There are huge incentives in place to encourage you to save for your future and it is well worth making the most of them.

Pensions offer a bonus through tax relief of at least 25% on the money you pay in, while a quarter of the money you take out after age 55 is tax-free.

Money in pensions grows free from tax, meaning you have the opportunity to combat the ravages of inflation and boost the value of your pot over time.

ISAs also offer tax-free growth and you can withdraw money tax-free if you need to pay for any unexpected outgoings.

For short-term financial goals, like buying a house in three years' time, it is usually better to put money into a cash savings account. You don't want to risk your money being depleted by a stock market tumble just before you withdraw it.

For longer-term goals, such as retirement planning, you can probably afford to take on more risk by investing in stocks and shares.

HOW MUCH SHOULD I INVEST?

It's a good idea to aim to invest a certain percentage of your salary each month as opposed to a fixed amount. This is because as your earnings rise, so does the amount you pay into your savings pot.

'You could go further and increase the percentage amount you save each time you get a pay rise,' says Selby. (EP)

THREE GOLDEN RULES

1

HAVE SOME CASH FOR EMERGENCIES

2

TRY TO AVOID INCREASING YOUR SPENDING HABITS IN LINE WITH PAY RISES

3

PRIORITISE DEBT REPAYMENTS WHEN YOU GET A PAY RISE

> **"Setting up a direct debt into an ISA and joining your workplace pension scheme will ensure money is diverted into investment vehicles before you have a chance to spend it"**

Euromoney is reinventing itself as a data services group

The company has the balance sheet to transform its business profile with M&A

A strong balance sheet offers business-to-business publisher **Euromoney Institutional Investor (ERM)** the opportunity to continue its shift towards fast growing data services and away from its traditional asset management base.

In the six months to 31 March the £1.45bn company enjoyed 10% revenue growth in its pricing, data and market intelligence arm and 15% revenue growth for its events. However, its asset management business, split evenly between *Institutional Investor* magazine and its various offshoots and its BCA investment research outfit, saw revenue slip by 5%.

BCA, in particular, has been affected by cost cutting in the asset management industry and finance director Colin Jones tells *Shares* the new Mifid II rules aimed at increasing transparency in the financial sector have merely accelerated this process.

Through a series of acquisitions and disposals, the company has reduced debt to just £37m and the sale of its Global Markets Intelligence unit, which completed in April, is expected to push the company to a net cash position of £103m.

This cash strength provides the firepower to continue remodelling the company including a desire to grow on the pricing and data side. Euromoney provides prices for opaque markets using traditional journalism to find out what parties are paying for different commodities, for example.

Jones says: 'In a portfolio business you will always have assets which overperform and underperform. While with asset management we are waiting on a recovery, the growth on the pricing side is something we can control.'

There are a couple of issues which cloud the investment case. Firstly, **Daily Mail & General Trust (DMGT)** still has a 49% stake and has previously sold shares. This overhang could weigh on the shares until it is resolved one way or another.

The recent first half results guided for an increased tax rate. This relates to the recent US tax reforms which as well as cutting the headline rate of corporation tax also reduced the deductions available on the cost of acquisitions, something from which Euromoney has historically benefited.

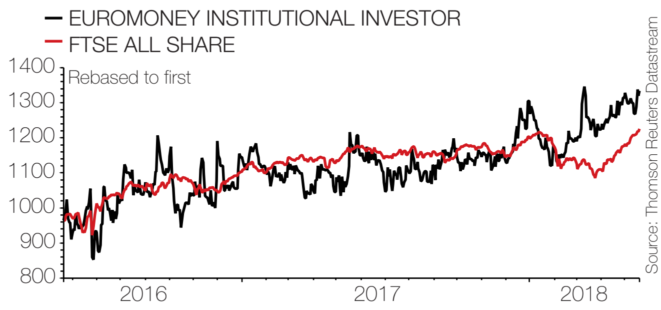
At £13.22 the shares trade on 17.7 times consensus September 2019 earnings per share. Analyst Fiona Orford-Williams from research group Edison says Euromoney trades on an approximate 5% discount to peers, reflecting concerns over the outlook for the asset management sector.

'However, the group has strong cash flow characteristics and capacity for earnings-enhancing M&A,' she adds. (TS)

EUROMONEY: FINANCIAL PROFILE

	REVENUE	PRE-TAX PROFIT
2017a	£428.4m	£106.5m
2018e	£410.4m	£103.3m
2019e	£404.6m	£103.3m
2020e	£419.1m	£109.5m

Source: Consensus forecasts/Reuters. (2017 actual figures) Note that Euromoney has been selling assets which partly explains why earnings are expected to slip in 2018



LoopUp hopes to enjoy network effect boost with £61m acquisition

Remote conferencing tie-up promises faster growth

Remote meetings platform provider **LoopUp (LOOP:AIM)** has laid out rampant growth ambitions with a potentially transformational acquisition.

The company has struck a deal to buy private equity-backed peer MeetingZone for £61.4m cash.

The acquisition, if approved by shareholders in a vote on 1 June, will more than double Loop-Up's annual revenues to greater than £40m as well as accelerate organic growth down the line.

It believes the acquisition will give it greater buying power with suppliers and enhance the network effect of the LoopUp product.

The latter is a phenomenon where increased numbers of people using a service will improve its value to them and to the network owner.

For example, the network effect is clearly evident with taxi service Uber, auction site Ebay and property portal **Rightmove (RMV)** all thriving as more people use their services.

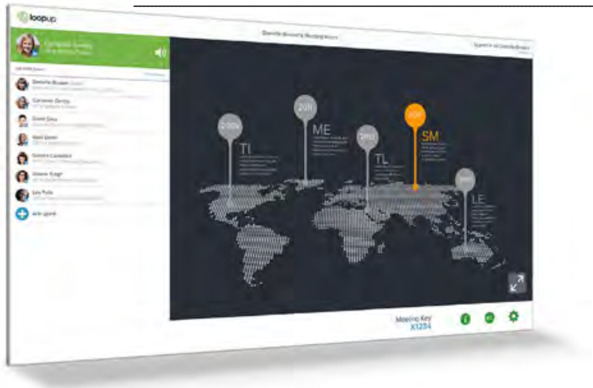
LoopUp plans to raise £50m of equity funding from investors to help pay for the deal, with the new shares to be issued at 400p.

This is clever leveraging of the company's premium rated stock on the back of a very strong stock market performance during the past eight months.

Support for the acquisition from investors has been very strong. In the handful of days since the deal was announced on 16 May the LoopUp share price has rallied 14% to 490p.

LoopUp's patented and cloud-based remote meetings software is designed to drag audio conferencing into the 21st Century.

This is a competitive space stalked by deep pocketed rivals, such as Microsoft's Skype for Business, Google Hangouts, Cisco's WebEx, Adobe, AT&T plus more recent start-ups such as GoToMeeting, JoinMe and the UK's Powwownow.



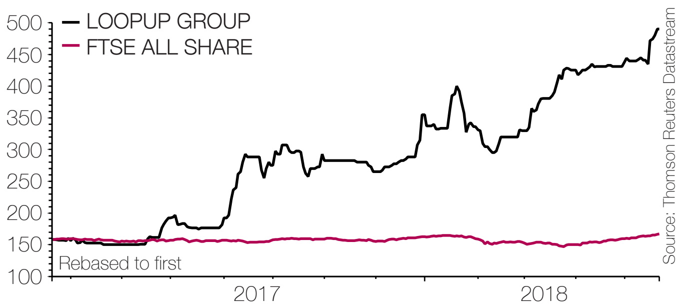
LoopUp's key advantage is a streamlined service for both hosts and participants that not only works well but is intuitive and easy to use.

The company has an enterprise focus with over 2,000 customers, including money transfer business Travelex and drinks maker **AG Barr (BAG)**.

This client list will be bolstered by the likes of **EasyJet (EZJ)**, **Debenhams (DEB)** and accounting firm BDO which are current MeetingZone users.

LoopUp joined AIM on 24 August 2016, raising gross proceeds of £8.5m at 100p per share. This growth funding was earmarked for product upgrades and building a new online sales channel. The company was worth around £40m at the time of listing and is now valued at £206m.

Full year results for 2017 showed revenue up 29% to £17.5m and earnings before interest, tax, depreciation and amortisation (EBITDA) up 161% to £3.5m. These figures exclude a discontinued BT technology licensing business. (SF)



KEY

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