STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

ELECTRIC ENERGY PLAYS

INVEST IN THE COMPANIES POWERING OUR FUTURE

DEAL TIME AGAIN FOR BIG MINERS?

NEW COMPANY ACCOUNTING RULE EXPLAINED

SPECIAL RETIREMENT SERIES STARTS THIS WEEK

When will it be deal time again for the big miners?

It feels like we are approaching another turning point in the industry

Large cap mining companies have been great performers this year with an average gain of 15.3% versus 7.2% from the FTSE All-Share.

Commodity prices have been picking up in general, there is increasing optimism that US/China trade talks will reach an amicable conclusion, and China's latest stimulus measure is giving hope to the market that the country's ferocious appetite for commodities will continue.

Against this backdrop we have an interesting situation bubbling away with some of the biggest players. Both **Glencore (GLEN)** and **BHP (BHP)** missed earnings forecasts with their latest half-year results and it is no surprise that their share prices are the laggards relative to the sector.

Glencore has a cocktail of problems to overcome, namely a US Department of Justice probe into money laundering and unfavourable changes to mining laws in the Democratic Republic of Congo which is pushing up royalty rates, imposing new taxes and introducing policies that will restrict the repatriation of profits.

Its decision to limit coal activities may pacify some investors who had environmental concerns about its involvement with the commodity, yet it does not get over the fact that Glencore is still a major producer of coal.

BHP needs to show that recent operational issues were one-offs and that it is capable of producing much-promised productivity gains.

ARE WE AT A TURNING POINT?

Both miners are profitable and arguably have debt under control, yet they don't appear to be companies at the top of their game. And this is where it is interesting. It feels like we're at a turning point in the industry cycle and investors might soon get a bit twitchy over where companies go next.

Miners shackled by their own problems run the risk of being left behind, or making the wrong decisions, if there is another growth wave in the sector.

Seven years ago the commodities bull market reached its peak and miners started to go through a long period of turmoil. They had to write down the value of assets – the punishment for having previously overpaid for acquisitions. Operations were either trimmed or sold and reduced cash flow had to go towards debt repayments first and foremost.

Miners became leaner entities and emerged in a better state once commodity prices started to pick up. Investors have enjoyed very generous dividends and the benefits of share buybacks over the past few years and that trend is still in play today.

Capital returns from asset sales and cost savings from mine restructuring will only go so far towards appeasing investors. It feels like the market could soon place a greater focus on the future and demand miners present clear strategic plans for growth.

But who would be bold enough to make the first move with a chunky acquisition? After all, some investors may have reservations about aggressive growth sprees given the mistakes made last time round.

Being cautious may prevail in the near-term which means investors can expect a continuation of the strong dividends and buybacks. Yet this tune can't play forever and at some point the growth cycle will start again.

LARGE CAP MINERS: PERFORMANCE YEAR TO DATE	
ANTOFAGASTA	+21%
RIO TINTO	+20%
ANGLO AMERICAN	+18%
FRESNILLO	+16%
BHP	+11%
GLENCORE	+6%

Source: SharePad

By **Daniel Coatsworth** Editor

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CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

Will there be a supermarket sweep for Sainsbury's and Asda?

The grocery firms look vulnerable to third party bids

Both **Sainsbury's (SBRY)** and Asda could be vulnerable to takeovers as negative remarks from the competition watchdog appear to leave their merger dead in the water.

The Competition and Markets Authority's (CMA) latest comments imply little chance of the supermarket merger happening, leaving Sainsbury's looking weak as a standalone player and Asda looking a target for private equity as its parent company Walmart no longer seems interested in the UK.

Shore Capital analyst Clive Black suggests Walmart might consider floating Asda on the stock market instead and suggests bargain-basement retailer **B&M European Value Retail (BME)** could be a wildcard candidate to try and buy it.

Black adds that a further deterioration in

Sainsbury's share price, already down 19.3% to 232.4p since the CMA's announcement on 20 February, could lead private equity to 'run the slide rule' over the group. He also flags that Sainsbury's might return to the acquisition front itself as in his view the core business appears to be 'ex-growth'.

By **Tom Sieber** Deputy Editor

Barclays' beat puts activist Bramson on the back foot

There is growing opposition to Sherborne Investors meddling with the bank's strategy

Barclays (BARC) surprised the market last week by beating earnings forecasts after riding out the trading slump which hammered its rivals late last year.

Most investment banks including the big Wall Street banks had a terrible last quarter of 2018 but Barclays saw a mere 6% drop in trading income which suggests it continues to grow market share.

Chief executive Jes Staley believes he can turn Barclays into a genuine 'bulge-bracket' investment bank, a position fiercely opposed by activist investor Edward Bramson.

Bramson, whose company Sherborne Investors holds more than 5% of Barclays' shares, wants a seat on the board and has called for the investment bank to be scaled back.

However the latest financial results are 'supportive of the bank's strategy' says Staley, who questions Bramson's need to be on the board.

'The sense we are getting from shareholders is that they want stability in the boardroom and for management to continue to execute our strategy,' he adds.

Key Barclays investors like **Aviva (AV.)** are turning away from Bramson with the insurer commenting that his pursuit of a board seat has 'no merit' any more.

All eyes will now be on Barclays' investment bankers to make sure that last quarter's results weren't a fluke.

By **Ian Conway** Senior Reporter

Uber Eats could bid for Just Eat, says analyst

The highly competitive industry looks primed for consolidation as players battle for market share

Online delivery platform **Just Eat (JE.)** could be a takeover target for rival Uber Eats as the latter tries to boost market share, says Liberum analyst Ian Whittaker.

Shares in Just Eat fell by nearly 7% on 21 February after Uber Eats revealed it was cutting fees paid by restaurants from 35% to 30% of the order value and that it would target firms which want to deliver themselves.

Whittaker argues the move implies that Uber Eats' business model is not working, increasing the likelihood of a potential bid for Just Eat.

Just Eat is enjoying strong growth in Canada, which is a key strategic target for its rival, and has a lock on the market in smaller towns, which Uber Eats would struggle to challenge.

'We cannot see restaurants switching out of Just Eat into Uber Eats – the risk would be too great that the restaurant would lose customer orders,' comments Whittaker.

Shares in Just Eat have fallen by 17% since last July as the market didn't like investment plans and competition intensified.

The company has also been openly criticised by US shareholder Cat Rock Capital which recently demanded Just Eat start merger talks with an industry peer to make it 'dramatically more formidable' against rivals.

By **Lisa-Marie Janes** Reporter

Are shareholders being short-changed by private equity deals?

Report implies firms are better selling to industry buyers

On 25 February Glasgow engineer **Weir Group (WEIR)** became the latest company to do a deal with private equity, selling its flow control business to First Reserve for £275m.

However new research suggests companies that sell unwanted parts of their business are likely to get a better price on average when an industry peer is the buyer.

This is the finding of a study by corporate advisor Willis Towers Watson, which chewed through global data of more than 5,500 deals struck since 2010.

The research concludes that a company's unique insight into the assets it is selling gives them an advantage that they do not always get when negotiating a sale to a private equity investor.

In contrast, doing deals is part of the bread and butter of private equity firms, which typically have buyout teams with deeper experience and M&A expertise, allowing them to 'negotiate harder in order to optimise value'.

But while divestitures are seen as crucial to the long-term strategy and value creation of many companies, most still get it wrong.

'Our data shows sellers continuing to struggle to create shareholder value from deals, as investors punish companies whose strategies and execution they disapprove of,' says Willis Towers Watson.

By **Steven Frazer** News Editor

Don't chase Acacia in hope of Tanzania resolution

There are still considerable risks to the gold miner's investment case

Shares in gold producer **Acacia Mining (ACA)** have shot up over the past week to hit 256.6p thanks to market anticipation it could resolve a long-standing problem in Tanzania.

Several analysts say investors shouldn't rush to buy following the rally as the stock is starting to look fully valued.

Tanzania imposed a ban in March 2017 on exports of gold/copper concentrate which impacted around half of Acacia's combined production at its Bulyanhulu and Buzwagi mines. That led Acacia to close Bulyanhulu and change the set-up at Buzwagi to solely produce doré (rough, unrefined gold).

Barrick Gold, which owns 63.9% of Acacia, last week detailed a proposal to settle Acacia's disputes with the Tanzanian government, including a $300m payment to resolve tax claims in the country.

Investment bank Berenberg believes Acacia could pay the $300m in tranches over a five year period. It estimates the miner has a stockpile of concentrate with a contained metal value of $260m, the proceeds of which could help fund the government settlement and restart Bulyanhulu.

Uncertainty over future tax treatment would suggest Acacia still has negative issues to stomach.

'The Tanzanian government is taking a hard-line approach on VAT,' says Berenberg. 'Mining used to be an exempt industry, meaning that companies paid VAT and then claimed a cash rebate, or used the VAT receivable to offset corporate tax. Since July 2017, the government has stated that producers of unfinished goods will not be entitled to VAT rebates. The government now classes doré as an unfinished good.'

Acacia argues that doré should be classified as a finished good and has submitted claims for $76m of VAT accruals. Failure to get the VAT rebates on future production means it will incur an additional $4m cost per month while it is operating Buzwagi and its North Mara mines, rising by $2m once Bulyanhulu restarts and Buzwagi closes in 2020.

'The failure to be able to recoup future VAT payments results in a 95p drop in our net asset value, which singlehandedly wipes out the investment case,' says Berenberg.

Stockbroker Numis has a 'hold' rating and says the shares are worth 1.2 times net asset value which equates to 250p per share – the stock currently trades at 230.5p. It believes Acacia's assets don't fit into Barrick's longer term plan and so the latter may get rid of its shareholding.

Barrick recently merged with former FTSE 100 miner Randgold Resources and earlier this week launched a hostile $18bn all-share offer for Newmont Mining. Newmont itself is trying to buy Canadian miner Goldcorp.

By **Daniel Coatsworth** Editor

Snap up services group UDG before the market spots recovery signs

It is gaining momentum in the US and benefiting from strategic acquisitions

The market has been too pessimistic towards drug services group **UDG Healthcare (UDG)**, giving you an opportunity to pick up shares in a decent business while the market is disinterested.

The share price was hammered last year following earnings downgrades linked to part of its business which accounts for less than a quarter of group profit.

A trading update in January implies the affected business – called Ashfield Commercial and Clinical (C&C) – has not only stabilised but also sooner than analysts had expected.

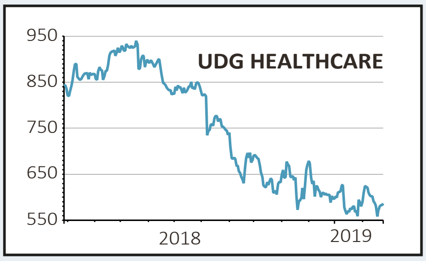
The rest of the business is generally doing fine, including a stellar performance in its first quarter from Sharp which provides clinical trial management and contract packaging to the pharmaceutical and life science industries.

While Sharp has struggled in Europe due to lower activity levels from clients, demand should improve as the European Union has brought in new serialisation rules to prevent the sale of counterfeit medicines.

Liberum analyst Graham Doyle argues UDG's share price has been unfairly punished by downgrades, flagging its shares have plummeted by 40% since June despite earnings downgrades of approximately 8%.

UDG HEALTHCARE
BUY
(UDG) 585p
Stop loss: 468p

Market cap: £1.4bn



Doyle says management have been 'extra cautious' due to the impact of downgrades on the share price.

The firm's decision to sell pharmaceutical products distributor Aquilant to H2 Equity last year for up to €23m is positive as it means the company can focus on the higher margin Ashfield and Sharp divisions.

UDG is enjoying a strong start to its financial year as pre-tax profit in the quarter to 31 December is expected to be 'well ahead' compared to the same period last year thanks to good underlying growth, partially aided by M&A.

In 2018, UDG acquired communications agency Create

NYC and consulting business SmartAnalyst for up to $82.4m to help shift Ashfield's capabilities towards higher value services.

Pre-tax profit at UDG is forecast to rise from £105.4m in the year to 30 September 2018 to £139.2m in 2019 and £152.9m in 2020.

The shares should be treated as higher-risk until there is further evidence that C&C's trading improvement can be sustained.

That said, we are encouraged by several directors regularly buying shares since last summer.

While the company pays a small dividend – currently yielding 2.3% based on 2019's forecasts – investors should expect the bulk of their returns to come from an increase in the value of their shares.

By **Lisa-Marie Janes**
Reporter

ADVERTORIAL

Schroders

Sue Noffke, Fund Manager, Schroder Income Growth Fund

- The possibility of a "no deal" Brexit has created uncertainty
- Stock selection will remain key
- The longevity of the current bull market is a potential source of concern

Sue Noffke

More often than not, global developments set the tone for UK equities and the market gyrations seen in the fourth quarter of 2018 are a timely reminder of this. The major domestic issue of Brexit has taken a back seat. Instead, the driving forces are international; including US-China trade tensions, European political uncertainty, and the end of quantitative easing/rising interest rates.

Global trends like these will continue to be crucial. But so will Brexit, with many potential pitfalls in the run up to and beyond the UK's scheduled departure from the EU on 29 March 2019. The UK government has negotiated a "withdrawal agreement" with the EU. However, if parliament rejects the deal, and a delayed Brexit is not agreed the UK will be leaving the EU on 29 March 2019 without a deal, with the risk of a UK recession. As a consequence of Brexit, UK domestic-focused companies have significantly underperformed those companies which generate their earnings overseas in 2018. Sterling weakness has been a major driver of this as overseas earnings become more valuable when brought back to the UK when the pound is weak. However, the underperformance has also been in large part due to UK domestic companies suffering a "de-rating" (see below for explanation) amid fears the UK economy would grow at a lower rate outside the EU.

The dividend yield of the UK stock market is at an equivalent level to that seen before and after the peak of the global financial crisis (GFC) in 2008/09. However, I don't believe we are likely to see a recession in the order of magnitude experienced following the GFC. If we do see a recession, I would expect it to be local to the UK (possibly the result of a "no deal" Brexit), rather than global, albeit world economic growth looks set to moderate in 2019. This gives me a degree of comfort that this elevated yield is sustainable (rather than a signal of impending distress) as the large majority of UK stock market dividends derive from overseas.

Past performance is not a guide to future performance

The extreme level of pessimism towards the UK stock market also becomes apparent when you study the dividend yield gap between UK and global equities. The UK stock market has historically offered a higher yield than other regions, however the premium is now at its most elevated in almost 20 years, at a level not seen since the 1999/00 dotcom bubble.

As 2018 comes to a close many market commentators are rightly drawing parallels to previous occasions when the market cycle and "business cycle" (the period of time in which an economy moves from a state of expansion to one of contraction, before expanding again) were in more advanced stages. The pick-up in volatility certainty reflects a growing nervousness around the outlook.

Again, however, I take some comfort in the fundamentals. The short-term outlook for underlying UK dividend growth (excluding both special dividends and exchange rate movements) has improved, due to the strengthened pay-out ratios resulting from rising commodity and oil producer profits. Meanwhile, that other big driver of UK dividends, the banking sector, is finally returning to form 10 years after the GFC.

Should a "no deal" Brexit be averted, there would likely be an upwards movement in sterling and a re-rating of the market. This would be particularly beneficial to those UK domestic companies that have suffered a severe de-rating over the last two and a half years (The rating of a sector or an area of a stock market is a measure of how highly, or lowly, investors value it. It can be expressed by a variety of valuation metrics, such as the price-to earnings (P/E) ratio. The P/E of a sector/area is its current level divided by its expected aggregate future earnings – when the P/E falls, the sector/area is said to have suffered a de-rating). UK-focused banks, property companies, house builders, consumer discretionary areas (general retailers and leisure companies), food retailers, media agencies and utilities are all trading on depressed ratings. This is clearly seen in a range of valuation metrics, including price-to-earnings (P/E) ratios, which for some of these sectors are now in single digits.

DISCRETE YEARLY PERFORMANCE (%)

	Q4/2017 – Q4/2018	Q4/2016 – Q4/2017	Q4/2015 – Q4/2016	Q4/2014 – Q4/2015	Q4/2013 – Q4/2014
Share price	-10.2	10.1	13.4	0.1	4.9
Net Asset Value	-11.8	12.6	11.7	5.6	4.5
FTSE All Share Total Return	-9.5	13.1	16.8	1.0	1.2

Some performance differences between the fund and the reference index may arise because the fund performance is calculated at a different valuation point from the reference index. Source: Schroders, with net income reinvested, net of the ongoing charges and portfolio costs and, where applicable, performance fees, in GBP as at 30 September 2018.

The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. Forecasts and assumptions may be affected by external economic or other factors.

What are the risks?

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

Companies that invest in a smaller number of stocks carry more risk than funds spread across a larger number of companies.

The Company will invest solely in the companies of one country or region. This can carry more risk than investments spread over a number of countries or regions.

As a result of the fees and finance costs being charged partially to capital, the distributable income of the Company may be higher, but the capital value of the Company may be eroded.

The Company may borrow money to invest in further investments, this is known as gearing. Gearing will increase returns if the value of the investments purchased increase in value by more than the cost of borrowing, or reduce returns if they fail to do so.

Murray vies to become core holding for income investors

Tanqueray's owner Diageo is Murray Income Trust's largest holding

The investment trust has stakes in quality companies and big names going cheap

We think the generous and growing income on offer from **Murray Income Trust (MUT)** coupled with its focus on quality companies at an attractive price will prove a winner with investors.

The investment trust offers a dividend yield of 4.3% and has grown its dividend in every one of the last 45 years. Like all closed-end funds, Murray can hold back cash to act as a buffer if its underlying investments cut their own payouts. It has around 98% of the total annual dividends paid in the last financial year in reserve.

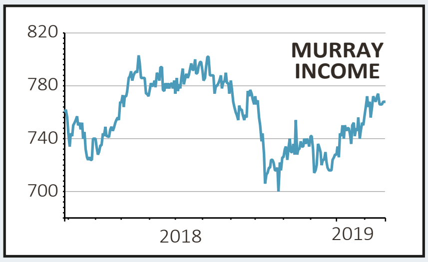
Canaccord Genuity analyst Alan Brierley notes that over three years the trust ranks tenth out of 104 funds by net asset value (NAV) total return within an UK equity income investment trust and mutual fund peer group.

Brierley adds: 'We are encouraged by the sharp recovery in performance in recent months, although the key for the company now is to build on these foundations and re-establish itself as a core holding for UK equity investors.'

Increasing its status among the peer group could help narrow the current discount to NAV which stands at 7.8%.

MURRAY INCOME TRUST ↗ BUY
(MUT) 768p
Stop loss: 614.4p

Total assets: £594.8m



A REINFORCED TEAM

Murray's chairman Neil Rogan noted alongside results for the six months to 31 December 2018 that the Aberdeen Asset Management-run trust's performance has benefited from the merger of the asset managers.

He says: 'As a board, we believe that the merger between Aberdeen Asset Management and Standard Life has resulted in a strengthened investment team for the company and an improved investment process.

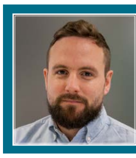
'This would have helped performance but so would the tailwind of falling and volatile markets and a bursting of the tech bubble, which has brought the old Aberdeen quality style back into fashion. It is not possible to quantify these impacts but we can confidently say it has been an encouraging first year post-merger.'

The trust recently increased its weighting towards UK stocks recognising the more appealing valuations on offer.

Additions to the portfolio in the first half included paving stones specialist **Marshalls (MSLH)**, housebuilder **Countryside (CSP)**, auto dealer **Inchcape (INCH)**, **London Stock Exchange (LSE)** and emerging markets asset manager **Ashmore (ASHM)**.

The trust also has positions in **Associated British Foods (ABF)**, **Rentokil (RTO)**, **National Grid (NG.)**, **Telecom Plus (TEP)** and **RELX (REL)**, among others.

Among its divestments in the second half of 2018 were engineering firms **Rolls-Royce (RR.)** and **Rotork (ROR)** while it trimmed its exposure to, among others, **British American Tobacco (BATS)** and **Vodafone (VOD)**.



By **Tom Sieber**
Deputy Editor

To know local companies, keep local company.

LET'S TALK HOW.

FIDELITY CHINA SPECIAL SITUATIONS PLC

China is changing, presenting significant investment opportunities for those who know where to look.

Why? Well, the spending power of a growing and affluent middle class is increasingly driving the economy. And government reforms support this shift to a focus on the new consumer.

In such a vast and complex market, you need on-the-ground expertise to take full advantage of these changes and the resulting undervaluations, particularly of small and medium-sized companies, which can occur.

That's why Dale Nicholls, manager of Fidelity China Special Situations, and his team of researchers are based in Hong Kong and Shanghai. Their local knowledge and connections make them well-placed to identify and benefit from valuation anomalies as they arise.

So, if you're looking for local knowledge-based investment in a market that's too big to ignore, take a closer look at the UK's largest China investment trust.

MONEY OBSERVER RATED FUND 2018

ELITE FUND rated by FundCalibre.com

PAST PERFORMANCE

	Oct 13 – Oct 14	Oct 14 – Oct 15	Oct 15 – Oct 16	Oct 16 – Oct 17	Oct 17 – Oct 18
Fidelity China Special Situations Net Asset Value	**26.5%**	**13.4%**	**42.1%**	**22.5%**	**-19.2%**
Fidelity China Special Situations Share Price	**20.2%**	**12.1%**	**43.0%**	**24.2%**	**-17.8%**
MSCI China	**6.9%**	**2.9%**	**28.5%**	**29.7%**	**-13.5%**

Past performance is not a reliable indicator of future returns. Source: Morningstar as at 31.10.18, bid-bid, net income reinvested. ©2018 Morningstar Inc. All Rights Reserved. The comparative index of the Investment Trust is MSCI China.

Past performance is not a reliable indicator of future returns. The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in small and emerging markets can be more volatile than other overseas markets. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. This trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies.

To find out more, go to fidelity.co.uk/china or speak to your adviser.

Fidelity™ INTERNATIONAL

RELX

(REL) £17.40

Gain to date: 16%

Original entry point:

Buy at £15, 1 March 2018

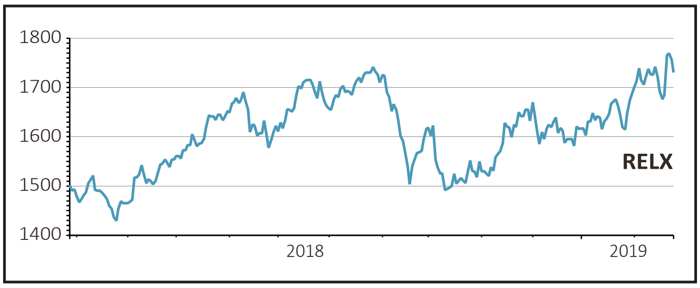
RELX (REL) has delivered a decent return over the past year in line with its steady financial and operational performance.

This consistency was on show again in its latest set of full year results with revenue growth in line with the long-term trend of 4% and guidance for more of the same in 2019. News of a 7% increase in the dividend and a £600m share buyback were a bonus.

One of the sticking points for prospective investors in the stock has been the threat from open access – giving away state-funded peer-reviewed research for free online – but it reassured on this front as it said the environment for its scientific journals arm was unchanged.

RELX's reliability is underpinned by a subscription-based model with professionals in the legal, scientific and insurance communities seeing the tools and data provided by the company as central to doing their jobs.

The one slight fly in the ointment was a hit for its events division linked to the Tokyo Olympics in 2020 limiting exhibition space.



SHARES SAYS:

RELX remains a quality business and a good holding for long-term investors.

MCBRIDE

(MCB) 96.8p

Loss to date: 20% (stopped out)

Original entry point:

Buy at 139.4p, 26 July 2018

SADLY WE ARE pulling the plug on private label product-maker **McBride (MCB)** after it broke below our 100p stop loss last week.

In an unscheduled trading update the group warned that this year's pre-tax profit would be 10% to 15% below last year, sending the shares tumbling.

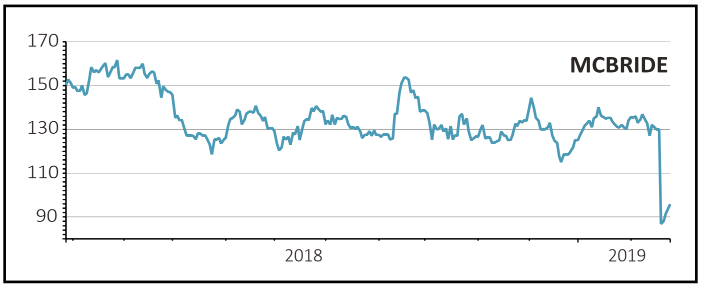
The firm's previous guidance was for profit to rise by 10% to 15% on the back of strong sales growth.

While sales are up over 10% at the half year stage, in line with guidance, margins have been flushed away by higher than expected costs for raw materials and distribution.

McBride supplies private-label toiletries and household products to big retailers and supermarkets in the UK and Europe, putting it in competition with global giants such as Proctor & Gamble, **Reckitt Benckiser (RB.)** and **Unilever (ULVR)**.

The costs of making, transporting and warehousing its products have risen much more sharply than anticipated and while it can claw back some of the lost margin through price increases it is nowhere near enough to prevent profits from falling this year.

It also faces complications due to Brexit with some of its products imported from the EU and sold in the UK so the outlook is set to become even more uncertain next quarter.



SHARES SAYS:

Time to cut your losses.

BAE SYSTEMS
(BA.) 476.3p

Loss to date: 5.3%
Original entry point: 503p, 17 January 2019

OUR POSITIVE CALL on defence firm **BAE Systems (BA.)** is off to a bad start after it warned that a German ban on arms exports to Saudi Arabia could put the multi-billion-pound sale of Eurofighter Typhoon jets to the Middle East country in jeopardy.

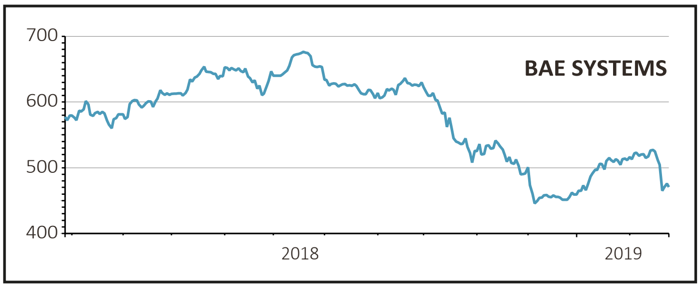
Germany is part of the four-country consortium behind the Eurofighter and its position could threaten a pending £10bn deal to sell 48 new jets to the Saudis.

The company is hoping these issues can be resolved by politicians. Chief executive Charles Woodburn says: 'This is a political issue to be resolved at a political level.'

We flagged this issue as a key uncertainty

when we analysed the investment case in our original article.

Arguably these attractions were evident in 2018 results showing operating profit up 14.3% to £1.6bn and order intake up to a record £28.3bn. The company also pointed to 'mid-single digit' growth in earnings in 2019.



SHARES SAYS: ↗
We will keep a close eye on how the Saudi Arabian situation plays out but we remain positive for now.

EUROMONEY
(ERM) £12.84

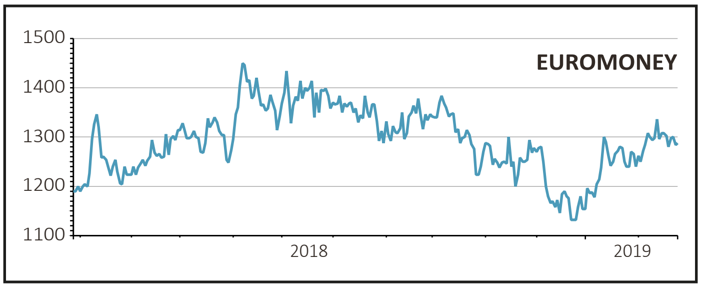
Gain to date: 9.6%
Original entry point: £11.72, 20 December 2018

Daily Mail & General Trust (DMGT) has confirmed that it is reviewing the future of its 49% stake in publisher and data services business **Euromoney (ERM)**. The latter company, one of our key selections for 2019, has dipped a little from its recent highs above £13 but remains in positive territory for the year to date.

DMGT says it is weighing up its options but confirms it is not currently in discussions over a sale of the shares.

On 14 February Euromoney completed the acquisitions of BoardEx and TheDeal for a combined $87.3m, first announced in December. These deals fit neatly with the strategy of shifting towards data-led subscription-based services which is a big reason why we are fans of the investment case.

A trading update on 1 February suggested the asset management-based division continues to struggle but this is being offset by the higher quality pricing, data and intelligence division. The company will announce its first half results on 16 May.



SHARES SAYS:
We continue to be big fans of the business, notwithstanding the overhang created by the Daily Mail stake.

DEVRO
(DVO) 181.4p

Loss to date: 5.3%
Original entry point: 191.5p, 6 Septmeber 2018

Food products company **Devro (DVO)** has repaid our faith with full year results showing significant progress on a number of fronts.

Revenue was essentially flat at £253m even though there was an improvement in pricing to its customers, the big food companies, and in the product mix.

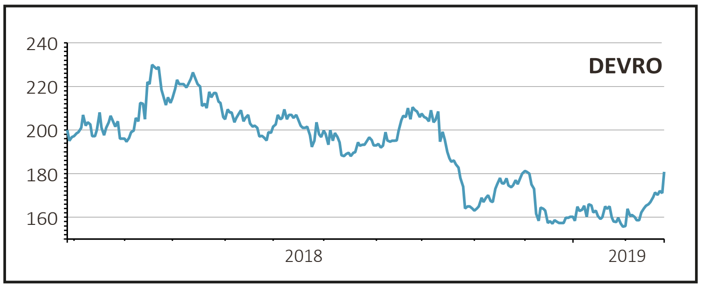
Volumes were up in the key North American, Latin American and South East Asian markets. But China revenue was down 8% because it discontinued imports of legacy products. Russia and Japan were particularly bad regions for the company in 2018.

There were improvements in manufacturing across all the firm's sites but in particular the US where production yields are now among the highest in the group.

Sales this year are likely to be weighted towards the second half and volumes are expected to show a marked increase as the new 'Fine Ultra' product platform goes live in Europe, Japan and South East Asia.

Meanwhile continued crunching of costs should be enough to offset rising raw material, salary and energy prices and the firm reckons it is 'well placed to make good progress in 2019'.

The company's twin aims this year are to keep delivering on margin expansion and to generate enough free cash flow to pay down some of the additional debt it took on last year to finance its working capital.



SHARES SAYS:
Keep buying.

New accounting rule could have a big impact on corporate net debt levels

We explain what the change means for certain sectors including supermarkets and pubs

There hasn't been any fanfare or special announcement, but 1 January saw the introduction of one of the biggest changes in corporate accounting for decades.

While analysts and investors will be busy poring over 2018's results for many weeks to come, for most firms the impact of the new regulations won't become clear until they start reporting interim 2019 numbers much later this year.

WHY DOES THE NEW RULE MATTER?

The new rule is International Financial Reporting Standard (IFRS) 16 and it brings radical changes to the way corporate results account for operating leases.

Under the old International Accounting Standard (IAS) 17 which dates back 30 years, operating and finance leases were treated differently with operating leases allowed to be kept 'off the books'.

This wrinkle allowed many companies to hide the extent of their lease obligations and flatter their results, while other companies which paid for assets through debt rather than leasing them saw their earnings depressed.

From 1 January operating and finance leases will be treated as one and the same thing and will be accounted for on-balance-sheet, with companies recognising an asset and a liability together

EXPECT THE FOLLOWING TO HAPPEN:

- Companies with a December year end will likely restate their 2018 earnings on an IFRS 16 basis as well as their 2019 earnings to compare apples with apples.
- Some companies with different financial year ends have already restated their 2017 earnings so that 2018 earnings are comparable.
- The biggest change to the profit and loss account is a reduction in operating costs and an increase in earnings before interest, tax, depreciation and amortisation (EBITDA). However under IFRS 16 firms will have to increase their interest and depreciation charges so for many of them pre-tax earnings may be negatively affected by the changes.
- Valuation models which use EBITDA as a measure of profitability (EV/EBITDA for example) or financial health (net debt-to-EBITDA) will need to be rethought. Even models using earnings per share will need to be rethought including the most basic measure of valuation, the PE (price-to-earnings) ratio.
- The inclusion of operating leases in a company's total debt affects the net debt-to-EBITDA ratio which in many cases forms part of the banking covenants. Lenders are unlikely to insist on redrafting their agreements purely on a change in the accounting rules.
- As always, some companies may be more 'creative' with their accounting so it will pay to be vigilant.

Tesco will be among the companies affected by the accounting changes

with a finance charge and a depreciation charge.

WHAT IT MEANS FOR YOUR INVESTMENTS

The sectors which make the most use of operating leases and therefore are going to have to make the biggest changes to their reports and accounts are retail, travel and leisure, transportation, distribution and healthcare.

The effect on their profit and loss accounts will be to increase earnings before interest, tax, depreciation and amortisation (EBITDA) but also to increase finance costs, while on the balance sheet financial liabilities will rise as will net debt.

For some companies the increase in EBITDA will make them look cheaper or more profitable than they actually are, but the resulting increase in net debt could be an issue if they are already operating close to their target level of net debt-to-EBITDA.

Also a company may turn out to have much greater financial liabilities than previously estimated, which could affect the way investors and business counterparties view it in future.

WHERE THE RULES MIGHT THROW UP BIG SURPRISES

Airlines are big users of lease finance but the extent of their off-balance sheet exposure has been reasonably well understood for many years so there are unlikely to be too many surprises when they report.

However retailers such as **Tesco (TSCO)** and **Sainsbury (SBRY)** which lease some stores instead of owning them directly will see a big change in the accounting treatment of their leases, leading to an increase in their liabilities and their net debt positions.

'We predict the newly recognised lease liabilities will often be large,' says Dylan Whitfield, head of forensic accounting at HSBC. 'For example, we estimate that net debt will quadruple for Tesco and double for **Morrison (MRW)**, and calculated earnings per share will decrease. Their operating lease commitments may also be bigger than previously disclosed. Income statements could also become more volatile.'

Tesco took the initiative by briefing analysts earlier this month on the introduction of IFRS 16 and the differences it would make to the firm's financial statements and performance measures.

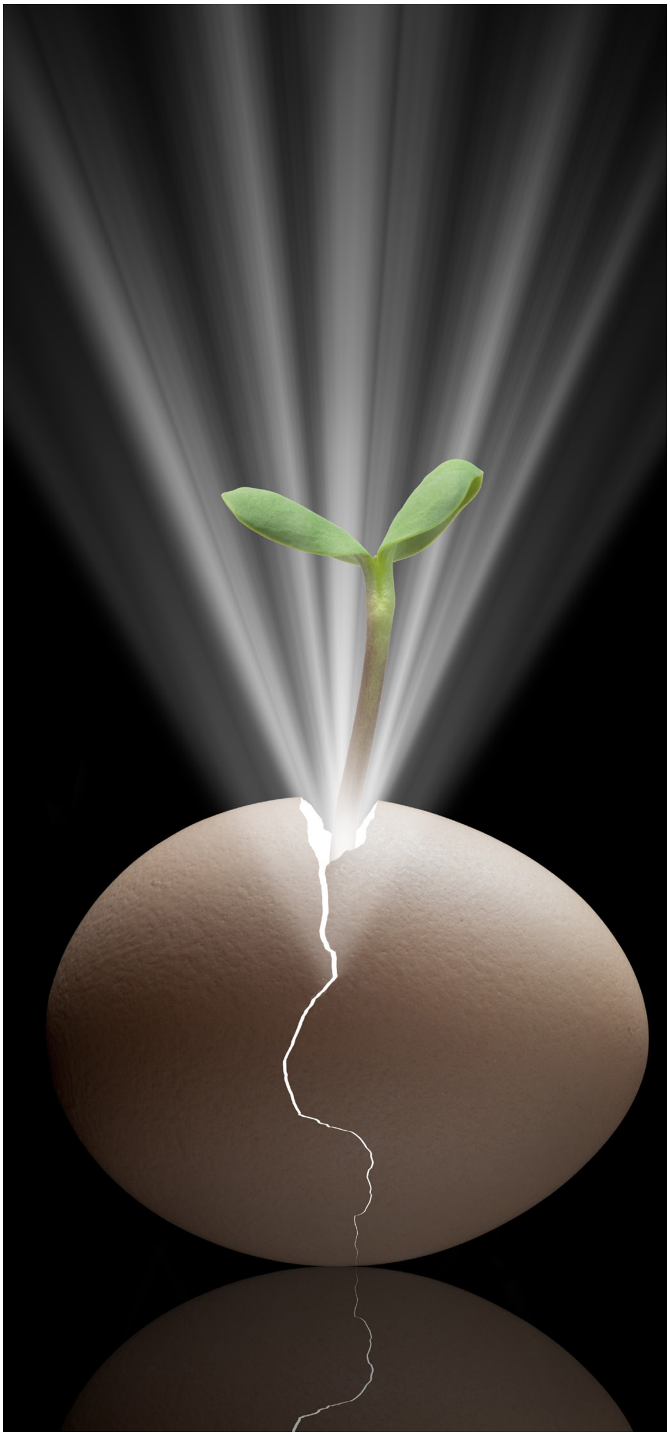
As the company rightly says, the new accounting rule has no economic impact on its business nor does it change the way the business is run, but it has a significant impact on the way assets and liabilities are classified and the classification of cash flows.

Using its first half 2018-19 financial statements, under IFRS 16 Tesco showed a 20% increase in operating profit as rent was removed from its costs, but a 14% decrease in pre-tax profit due to higher interest costs and depreciation.

The swings were almost as big on the balance sheet with a 10% reduction in net assets and a 25% increase in total debt due to the reclassification of lease liabilities.

By **Ian Conway**
Senior Reporter

PROSPERING FROM CHANGE



Understanding how companies are turning around their fortunes through self-help measures is an approach that can work regardless of the economic weather, says Alex Savvides, manager of the **J O Hambro Capital Management (JOHCM) UK Dynamic Fund.**

The stock market often misunderstands or overlooks changes going on at companies. This presents opportunity for the unemotional investor prepared to do their homework and exercise patience. Investors are quick to include known or quantifiable threats in their analysis of a company, but they are often very slow to identify and assess how company management teams are responding to these threats and tackling issues in their businesses. Not only do investors invariably shun companies operating at these more challenging points in their history, they also often saddle themselves with excessively low future expectations for such stocks. This can result in a share price that materially understates what a company is really worth.

That's where our opportunity resides as long-term investors prepared to back companies for a number of years. We scour the UK stock market for mispriced or undervalued companies that are making positive changes to transform their businesses, usually either in the form of new management teams, new business strategies, or invariably both. Often these companies are going through or have recently gone through difficult or uncertain times.

It is easiest to illustrate our process by using an example, namely Morrison's. We established a position in the supermarket group in 2014. At that point, it was an unloved stock in the UK food retail sector, an area of the stock market that itself had been out of favour because of intense pricing pressure, in part due to the inroads being made by Aldi and Lidl. Morrison's had been struggling for a number of years in this highly competitive environment. A new, highly experienced (predominantly ex Tesco) management team and board were installed who implemented a more competitive strategy. This focused on broadening Morrisons' reach through expanded wholesaling partnerships whilst giving customers better value, both in terms of price and quality, by using Morrisons' unique position as one of the UK's largest fresh food producers. The stock represented a compelling opportunity, supported by a well-developed brand and 90% ownership of its store base, compared to its peers with largely leasehold estates.

This has been a positive change story that has now moved beyond recovery and, in our view, into a growth phase.

Of course, we don't always get it right. Some changes don't restore a company's fortunes, while other times it takes longer than we would like for these changes to bear fruit, or for the stock market to appreciate the positive changes made. However, we think this is a long-term approach to investing which can work, even in times of economic uncertainty like today. Meanwhile, our insistence that every stock held in the portfolio pays a dividend or is expected to do so in the next 12 months gives the fund a yield that might be attractive to investors also keen on income.


Alex Savvides, manager of the JOHCM UK Dynamic Fund

RETURN HISTORY (%) – TO 31.01.2019

	1 yr	3yrs	5yrs	10 yrs	Since launch	Annualised*
JOHCM UK Dynamic Fund (A Acc GBP)	**-4.31**	**40.89**	**39.77**	**259.24**	**188.94**	**10.49**
FTSE All-Share TR Index (12pm adjusted)	-4.03	30.59	32.72	163.31	89.82	6.21
Quartile ranking**	2	1	1	1	1	

DISCRETE 12-MONTH PERFORMANCE (%)

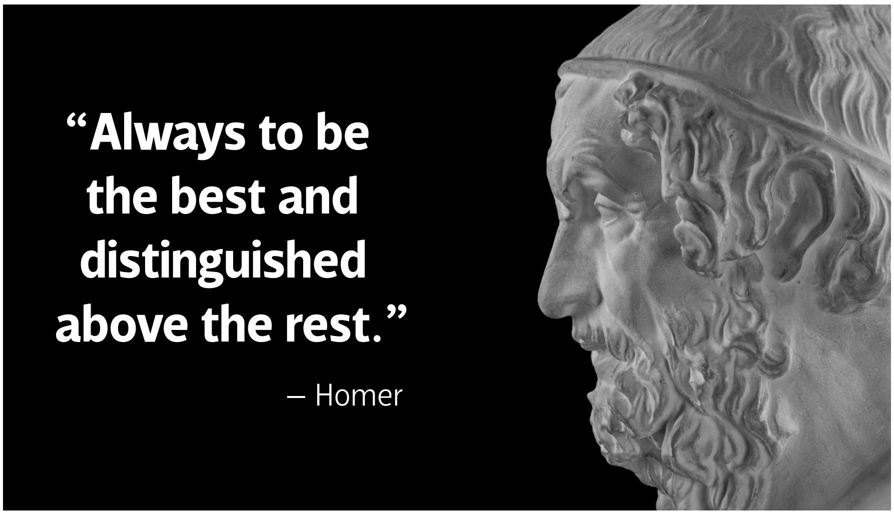
	31.01.2019	31.01.2018	31.01.2017	31.01.2016	31.01.2015
JOHCM UK Dynamic Fund (A Acc GBP)	**-4.31**	**13.87**	**29.30**	**-6.96**	**6.63**

Past performance is no guarantee of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation. The Fund's investment include shares in small-cap companies and these tend to be traded less frequently and in lower volumes than larger companies making them potentially less liquid and more volatile. The annual management charge is deducted from the capital of the Fund. This will increase the income from the Fund but may constrain or erode potential for capital growth. We recommend that you read the Prospectus and Key Investor Information Document available from the address below or from our website www.johcm.com. Source: JOHCM/FTSE International/Bloomberg, NAV of Share Class A in GBP, net income reinvested, net of fees. The A Acc GBP class was launched on 23 October 2009. During the period 16 June 2008 to 23 October 2009 the performance record is based on the pre-existing share class that had a higher management fee. Benchmark: FTSE All-Share TR (12pm adjusted). Performance data for the period 16 June 2008 to 22 October 2009 is for Ryder Court UK Dynamic Fund. From 23 October 2009 onwards, the Fund converted to the JOHCM UK Dynamic Fund. Performance of other share classes may vary and is available on request. *Annualised since launch. **Sector quartile ranking: IA UK All Companies.

EDISTON PROPERTY INVESTMENT COMPANY

ASSET MANAGEMENT: ADDING VALUE EVERY STEP OF THE WAY

We know the UK property market inside out. And we're confident that our understanding of the intricacies of property investment is second to none. So when we manage property assets, we aim to add value every step of the way.



Sweating the small stuff

We don't just live and breathe property – we sweat it too. That's because we know that sustainable returns depend on us getting the little things right. It could be getting the right tenants in a certain section of a retail park – perhaps combining two units to allow them to achieve the size of shop they want. Or it could be repurposing a building to allow it to benefit from changing market conditions. Whatever's required, we ensure it gets done.

Keeping ahead of the curve

We always try to anticipate changes in the economy, the market and the requirements of our tenants. We like to think that we know what our tenants need before they do. By anticipating and meeting their requirements, we seek to maximise income and capital growth for our investors.

Ultimately, we aim to develop, nurture or even create assets that will be attractive to institutional investors in the long term. And we apply our energies to all of the assets in our portfolio and all of the units within a given property. We aren't interested in merely polishing the 'jewels in the crown'. Instead, we aim to create a portfolio that has quality all the way through.

Unlocking latent value

All of that involves hard work and attention to detail. It's a painstaking process, and it's one that is never complete. The requirements of tenants change, as do conditions in the local and national market. But our team's long experience in property investment and management allows us to keep ahead of these changes and gives us a considerable competitive edge.

This competitive edge allows us to unlock the latent value in our portfolio. Maximising that value ensures greater satisfaction among our tenants and, therefore, stronger and more sustainable income streams for our investors.

ediston

Working with the best

Our small size and individual expertise allow us to be nimble in a way that big institutional investors can't be. In managing the investment and upkeep of our portfolio properties, we draw on our local knowledge to ensure that we always work with the best people for the job and the best people for the asset in question – whether that's a one-man outfit or a sizeable company. Where possible, we cut out the middlemen, ensuring better value for tenants and investors alike.

Our principle of working with the best applies to our own team too. With an average of over 20 years' experience in UK property, each member of our veteran team is energetic, painstaking and tenacious. Our collective knowledge covers all sectors of the property market in depth, and we work together to make that accumulated expertise count for our clients. ■

EDISTON PROPERTY INVESTMENT COMPANY ('EDISTON') IS A UK-LISTED REAL ESTATE INVESTMENT TRUST (REIT) INVESTING IN COMMERCIAL PROPERTY THROUGHOUT THE UK WWW.EPIC-REIT.COM

ELECTRIC ENERGY PLAYS

INVEST IN THE COMPANIES POWERING OUR FUTURE

Meeting global energy demand will be a key challenge in the decades ahead but it should also create opportunities for investors.

In this article we will discuss how you could benefit from some of the long-term trends in the power generation market through both funds and individual stocks.

Global energy demand will rise by at least 30% until 2040, according to investment bank UBS.

The need to produce more energy must also be balanced against the need to address climate change concerns with **Glencore (GLEN)** recently announcing plans to cap coal production amid pressure from shareholders regarding environmental, social and governance (ESG) issues.

UBS suggests an energy strategy employing a mix of renewable and non-renewable sources will be required, adding: 'We believe there are investment opportunities across the entire energy sector.

'We recommend that long-term energy investors consider providers of all energy sources (oil, natural gas, wind, solar) as well as companies that are advancing technologies for a more efficient and diverse energy future.'

The UK plans to end coal-fired electricity by 2025

Taking inspiration from this approach, and recognising that a lot of traditional energy funds are over-exposed to a utilities sector facing significant structural challenges, we have highlighted prospective investments which span a variety of different elements of the energy market.

A POST-COAL FUTURE: THE CONTRIBUTION OF COAL TO UK ELECTRICITY GENERATION DROPPED FROM NEARLY 30% IN THE FIRST QUARTER OF 2015 TO 2.3% IN THE THIRD QUARTER OF 2018.

Source: Department for BEIS

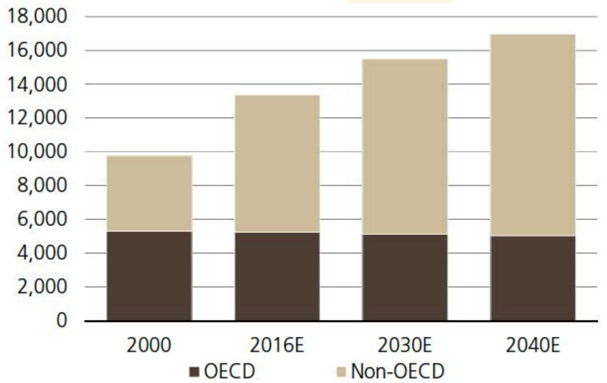
MAJOR THEMES

There are several big themes at play in the energy sector at present. The urbanisation process in major emerging markets India and China, and to a lesser extent Africa, is driving energy demand as more households join the grid and as power is required to heat and cool buildings, and for construction, manufacturing and transportation.

Emerging economies have already overtaken demand from developed countries in the last decade thanks in large part to rapid growth in China.

Emerging economies now consume the majority of the world's energy

The shift only occurred in the last decade; values are in million tons of oil equivalent



Source: International Energy Agency 2017 World Energy Outlook, UBS, as of December 2018; Note: The OECD (Organization for Economic Cooperation and Development) is composed mostly of nations with developed economies.

A big chunk of this extra energy requirement is expected to be met by renewables, though there will be a challenge in delivering the required infrastructure.

Energy consultant Wood Mackenzie recently cast doubt over India achieving its target of 100-gigawatt solar electricity capacity by 2022.

The transformation in how vehicles are powered is another key trend. The electrification of cars, trains and other forms of transport is reducing demand for petrol (and its feedstock crude oil). It is also increasing consumption of electricity as well materials such as nickel, cobalt and lithium that are used in the batteries which power electric vehicles.

UBS believes fuel efficiency in petrol and diesel cars is likely to make a larger contribution to moderating demand for petrol. Its forecasts suggest fuel efficiency gains could reduce oil demand by 17m barrels of oil per day (bopd) by 2040 compared with a 2.5m bopd impact from growth in electric vehicles.

AROUND 300M INDIAN HOUSEHOLDS REMAIN WITHOUT ELECTRICITY

Source: OPG Power Ventures

The need for support from global governments

The International Energy Agency estimates that of the rough-$2tn required investment in energy each year to meet future energy demand, approximately 70% will be derived from governments or dictated by regulatory requirements.

This is a risk for investors in the energy sector to consider given the lack of enthusiasm from the Trump administration in the US for cleaner energy solutions.

ELECTRIFICATION

Electrification across key end uses, particularly in areas like buildings and transport, will lead to a doubling of electricity demand by 2050, forecasts US research firm McKinsey.

Several major car manufacturers are committed to phasing out petrol and diesel models and replacing them with electric vehicle alternatives amid pressure from global governments to reduce carbon emissions.

One potential obstacle to more widespread adoption of electric vehicles is the availability of the metals used to produce their batteries.

Bank of America Merrill Lynch says: 'Electric vehicle batteries require a lot of metals, including nickel, lithium and cobalt. In particular, cobalt is where we believe the key risk lies due to the huge supply concentration in Congo, which produces 62% of the world's output. The DRC just underwent a tumultuous election season.

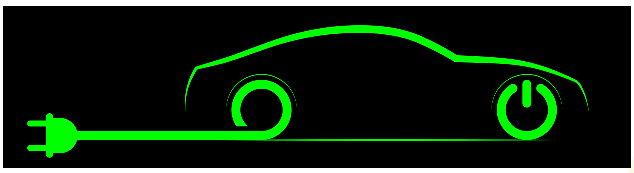
'Although the transfer of power has been peaceful so far, the country has a long history of civilian unrest and corruption. Any major disruption to cobalt today would likely curb electric vehicle proliferation in the early 2020s, in turn supporting long dated crude oil prices.

'Car producers may gradually substitute from cobalt to nickel over the next two decades. In turn, this shift may lead to soaring demand for nickel, creating another supply squeeze as mine expansion plans are limited.'

RENEWABLE ENERGY EXPANSION

McKinsey expects a big expansion in renewables to be central in accommodating the extra demand for electricity. It forecasts that solar and wind will become cheaper than fossil fuels in most parts of the world within the next decade.

The idea that China and India will be enthusiastic adopters of renewable energy might not tally with the impression of smog-choked and pollution-filled cities we sometimes have in the West. Yet while coal still accounts for a big chunk of power generation in both countries, China is already the leading country in terms of electricity production from renewable energy sources.



James Smith, manager of **Premier Global Infrastructure Trust (PGIT)**, says: 'I am excited by the opportunities available in Asia. As a European, it is clear to see the direction of travel including more renewable energy, cleaner disposal of waste, more sophisticated and efficient ports, as well as better, more numerous and safer roads.'

HOW TO INVEST IN THIS THEME

Shares has consistently championed car testing specialist **AB Dynamics (ABDP:AIM)**, which has gone up by more than 18-fold in value since joining the stock market in 2013. We see potential for further gains with its services in big demand from an automotive industry undergoing a period of significant change including the transition to electric vehicles.

The best performing renewables investment trust, based on total returns over five years, is **Greencoat UK Wind (UKW)**. It exclusively invests in operating onshore and offshore UK wind farms. Like the rest of its peer group, whose uncorrelated returns are in demand with investors, Greencoat trades at a material premium (12.4%) to net asset value at the current 136.4p price.

That looks too high to justify at present, so wait for the premium to reduce before considering an investment. For now, a better alternative might be **iShares Global Clean Energy (INRG)** which for an ongoing charge of 0.65% offers exposure to a collection of 30 global stocks active in the clean energy space including operators of wind and solar assets and providers of ancillary services.

GAS

According to McKinsey gas will be the only fossil fuel to grow its share of global energy demand until 2035. It believes this will be principally driven by industrial demand, particularly as China looks to wean itself off coal.

McKinsey's analysis suggests gas demand growth from China will be greater than the next 10 largest growth countries combined and will represent nearly 50% of demand growth over the next 15 years or so.

Technologies such as gas-to-liquids (GTL), liquefied natural gas (LNG) and compressed natural gas (CNG) have made gas more transportable and versatile.

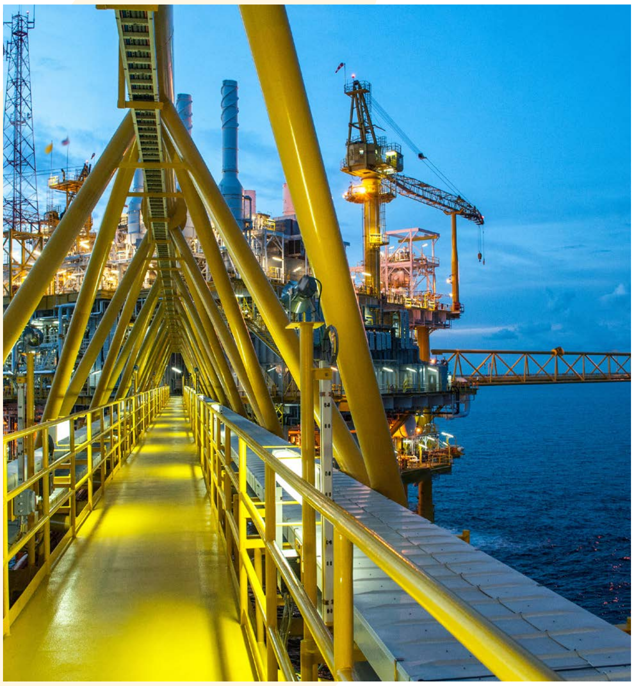
Gas has traditionally been used to heat and light homes and businesses, as well as to power industries. Other markets are opening up, including the use of LNG as an alternative to diesel and heavy fuel oil in transport.

The main pricing benchmark for natural gas in the US is Henry Hub. It has come under pressure in recent years thanks to the major new source of supply provided by the successful exploitation of shale gas. However, the price could gain some support going forward as the US ramps up its exports of gas.

Historically it could only serve a local market where supplies were plentiful. Opening up its sales distribution to other countries could, in theory, make the gas price stronger as there would be a wider field of buyers.

The first US exports of LNG were made in February 2016 and according to the US Energy Information Administration the US LNG export capacity is expected to increase from 4.9bn cubic feet per day (bcfpd) at the end of 2018 to 8.9 bcfpd by the end of 2019 as new export terminals come online. This would give the US the third largest capacity globally after Australia and Qatar.

An increase in LNG exports could help rebalance supply and demand and drive the Henry Hub benchmark higher – it already hit a four-and-a-half year high in November 2018 of $4.93 per million British thermal units (mmBtu), though the price has subsequently settled lower.



HOW TO INVEST IN THIS THEME

Integrated oil and gas firm **Royal Dutch Shell (RDSB)** has made natural gas a key plank of its long-term strategy. A big part of the rationale for the £47bn acquisition of BG Group in 2015 was the latter company's leading position in LNG.

In October 2018 Shell sanctioned a $12bn investment in a Canadian LNG project citing the fact that the world's appetite for LNG had exceeded expectations and made the project viable. Patient investors who believe this big bet on natural gas can pay off would currently enjoy a dividend yield of 5.9% at the current share price of £24.20. We think Shell deserves a place in a diversified portfolio.

More direct access to natural gas prices is possible through exchange-traded product (ETP) **ETFS Natural Gas (NGSP)**. For an ongoing charge of 0.49% the ETP tracks the Bloomberg Natural Gas Subindex which is designed to reflect movements in the price of natural gas futures contracts.

ENERGY EFFICIENCY

Significant improvements in energy efficiency in buildings and transportation infrastructure will be an important part of confronting the global energy challenge. Without these UBS believes the increase in demand could be twice its projected level of 30% out to 2040.

Smarter buildings will have to be designed and built with elements such as smart meters, better insulation and LED lights, more fuel-efficient cars and higher efficiency new appliances such as fridge-freezers and washing machines.

In December 2018 **SDCL Energy Efficiency Income Trust (SEIT)** was floated in London by specialist asset manager SDCL raising £100m to invest in several energy efficiency projects. It is looking to achieve a total return of between 7% and 8% per year.

While investors may want to see more of a track record before investing in the trust, which currently trades at a 3.1% premium to net asset value at 101p, examining the areas it is focusing on offers some useful insights into where improvements in energy efficiency are being targeted.

Included among its projects are the installation of LED lighting in Spanish banking group Santander's UK offices and branches, and CCHP (combined cooling, heat and power) equipment at St Bartholomew hospital in London and a Citibank data centre.

CCHP units reduce organisations' reliance on the national grid and they combine power generation, heating and cooling systems – effectively putting the waste heat from generating electricity to good use.

SDCL Chief executive Jonathan Maxwell told *Shares* ahead of the float that energy efficiency vehicles would be part of a third wave of infrastructure-linked investments following larger broad-based infrastructure plays like **HICL (HICL)** and funds which invest in renewable energy assets.

HOW TO INVEST IN THIS THEME

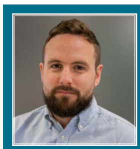
Irish building materials firm **Kingspan (KGP)** was founded more than 50 years ago as a small engineering and contracting business. Its recent strategy has focused heavily on the energy efficiency theme.

Kingspan is a global leader in high performance insulation and so-called 'building envelope' solutions. The building envelope refers to the walls, floor, roof, windows and doors which form the physical separation between the interior and exterior of a building.

For example, it provided raised access flooring and insulation products on Microsoft's Dublin-based headquarters which opened in February 2018.

Kingspan's profit growth has averaged almost 30% per year in the last five years, says stockbroker Davy, and this stellar growth has been reflected by a total return for investors of 197% over that period.

At €38.94 the shares trade on more than 18 times Berenberg's forecast earnings per share for 2019 but we think this premium valuation, broadly in line with the recent average, is justified with the company returning to expansion mode after focusing on the integration of some material acquisitions.



By **Tom Sieber** Deputy Editor

ADVERTORIAL

URBANISATION: THE SMART INVESTMENT OPPORTUNITY

IVO WEINOEHRL, SENIOR INVESTMENT MANAGER, PICTET ASSET MANAGEMENT

Cities may occupy just 2 per cent of the earth's land surface, but they are home to more than half of the world's population and generate 80 per cent of all economic output.[1] And their dominance is growing: by 2045, an extra 2 billion people will live in urban areas. The expansion of urban centres is sure to put pressure on infrastructure, resources and the environment.

Encouragingly, those responsible for planning and building the cities of the future are up to the challenge. Worldwide, authorities are working ever more closely with the private sector in an effort to make our cities safer, more sustainable and better connected.

That's good news for the planet.

It's also good news for investors. That's because the emergence of smart cities should promise to create important business opportunities for a wide range of companies that contribute to urban development.

Indeed, while the world economy is expanding by just 3 per cent a year, there is the potential for urbanisation-related firms to grow their revenues by more than 15 per cent per annum.[2]

Policy is also increasingly supportive of the move to smart cities. For example, one of United Nations' Sustainable Development Goals (SDGs) calls for additional urban investments through to 2030 to "make cities inclusive, safe, resilient and sustainable".[3] According to Citigroup, that alone would necessitate some USD2.1 trillion of annual investment across infrastructure, housing, education, health, recreation and buildings.[4]

It is in response to these trends that we, at Pictet Asset Management, developed SmartCity, a strategy with the objective of investing in companies which we believe will ride the wave of urbanisation.

The investment opportunities we see emerging can be split across three broad areas of activity: building the city, running the city and living in the city.

More people need more buildings: houses, offices, schools, leisure centres. The challenge is to design, plan, construct and finance these buildings in an efficient and sustainable fashion.

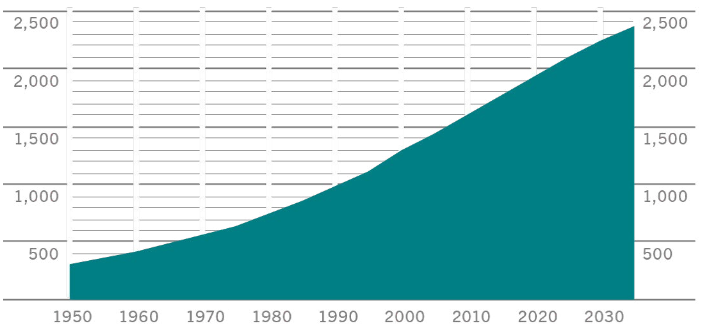
To run efficiently, urban areas also require better transport, water, energy and waste management infrastructure, logistics facilities and public services from healthcare to education. Combatting poor air quality is also a priority – especially in China – as is waste disposal and treatment.

How we live and work within the cities is changing too. Growth areas include healthier convenience food, smart offices, accommodation designed for single living and new childcare solutions.

At their smartest, cities will combine what is good for the planet with what is good for the economy. Companies which can tap into these trends should do well. There clearly is, therefore, a sizeable investment opportunity with superior growth prospects. Investors can benefit from it by helping to shape the smart cities of the future.

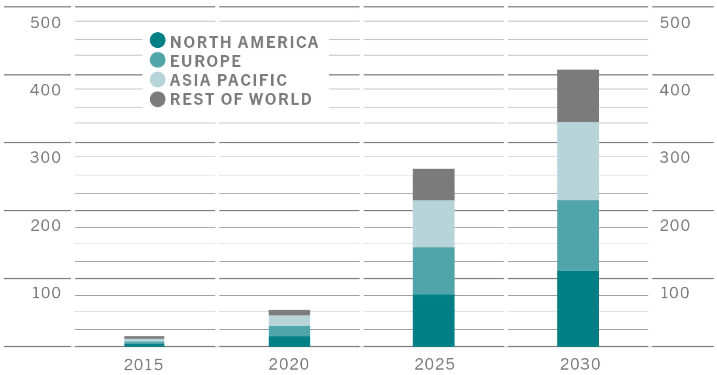
[1] World Bank, "Urban development overview", June 2018
[2] Arthur D Little, "Smart cities – turning challenge into opportunity", 2016
[3] UN, 2015
[4] Citigroup, 2018

City Boom
Number of urban settlements globally



Source: United Nations; urban settlements defined as settlements with population of 300,00 or more

Clever House
Global smart home market size (USD bn)



Source: A.T. Kearney

THE ESSENTIAL GUIDE TO MONEY IN RETIREMENT

WELCOME TO OUR TWO-PART SERIES AIMED AT HELPING INDIVIDUALS TO BE FINANCIALLY FIT IN LATER LIFE.

Across seven articles we explain how much to save for retirement, how the tax rules work and how to manage your money in your golden years.

THIS WEEK: Preparing for retirement

- How much do you need to save?
- How do SIPPs work and are they right for you?
- A simple guide to pension tax rules

NEXT WEEK (7 March): Managing your money in retirement

- Generating an income and managing your portfolio
- Guaranteed income choices
- Tax-free cash: the rules and what to do with the money
- Inheritance planning

HOW MUCH DO YOU NEED TO SAVE FOR A GOOD RETIREMENT?

WE RUN THROUGH DIFFERENT SCENARIOS AND REVEAL HOW INDIVIDUALS ARE INVESTING THEIR PENSION MONEY

People work all their lives to be able to retire comfortably, so when you come to hand in your work pass and say goodbye to your desk you want to make sure you've saved enough to enjoy retirement.

Some people worry that they have left their pension saving too late, and so bury their heads in the sand. But even latecomers can build up a decent size pot to live off in retirement if they follow a few golden rules.

THREE GOLDEN RULES:

1. Make use of free money from your employer

Make sure you use all the employer contributions you're offered. Many companies will pay a certain amount into your pot depending on how much you put in; for example, they may match your contribution up to 5%. This means if you're only paying in 3% of your salary you're missing out on an extra 2% from your employer.

2. Check if you need to claim back your tax relief

You'll get automatic tax relief at 20% from the Government, but if you're a higher or additional-rate taxpayer (meaning you pay 40% or 45% tax) you might need to claim back some extra money, depending on how your scheme is set up.

If you contribute to your pension through salary sacrifice you won't need to do anything, but if you pay into your own SIPP you'll likely need to claim back the extra money through your annual tax return.

Annoyingly for some, you'll end up getting that tax back as a rebate, and so will need to then pay that into your pension if you want it added to your pot.

3. Check what you're invested in

Most people pay their money into their pension but don't ever look at what they're invested in.

Research from 2017 by the Pensions Policy Institute found that 94% of people were in their pension provider's default fund.

To maximise your returns and take control of your cash you need to log in to your company pension system and check where you money is being allocated. That way you can pick your investments and adjust them according to your stage of life, risk level and views of the investment outlook.

HOW MUCH DO YOU NEED TO SAVE TO BUILD A PENSION POT?

There is a limit on how much you can save into your pension each year and over your lifetime and still get the Government's pension tax relief.

For most people the limit each year is £40,000 or up to 100% of their income in the year, depending on which is smaller.

There is an overall limit of £1.03m, which is the maximum you can save in your pension over your lifetime without facing a tax charge, although this is increasing in April this year to £1.055m. This valuation is determined when you come to use your pension pot, either to take money out or buy an annuity, or when you reach the age of 75.

Obviously most people don't reach a pension pot of more than £1m. A 25-year-old starting out with their pension savings would need to put away £1,000 a month to reach their lifetime allowance by the age of 55, assuming basic-rate tax relief and annual growth of 5% after any charges have been taken off.

If you assume that they save until the age of 65 – so 40 years of pension savings – they would have £1.9m if they contributed £12,000 every year.

Saving £200 a month into a pension would be a great start for a 25-year-old

For many 25-year-olds it's not realistic to put away £1,000 a month. Instead, if we assume they start with £200 a month until they reach the age of 35, and then increase it to £400 a month until the age of 50 before increasing it to £600 a month until the age of 65, they would have a pot worth almost £737,000.

If that same 25-year-old started with £500 a month until they reach the age of 35, and then increased the contribution to £750 a month until the age of 50, before ramping it up again to £1,000 a month for the final 15 years of their employment, they would have a pot worth £1.3m – far in excess of the lifetime allowance.

Our examples involve starting early, paying in consistently and not taking any career breaks – which is not realistic for most individuals.

Many people will end up with breaks in their pension savings, such as when they move jobs, take a career break or move to being self-employed. However, it's worth noting that the figures in our earlier examples don't include any employer contributions – meaning anything your company pays into your pension is on top of these calculations.

STARTING A PENSION IN YOUR THIRTIES OR FORTIES

Let's assume someone isn't such an early starter and instead only starts a pension when they are 35 years old, assuming the same basic-rate tax relief and 5% a year investment growth.

If they paid in £500 a month until they reach the age of 45, and then pay in £750 a month until they reach the age of 60, before ramping up to £1,000 a month for the final five years before retirement, they will have just over £675,000 in their pension pot at age 65 – a very respectable amount.

The big difference with saving earlier is that you have far more time for the money you put away in the early years to benefit from investment growth and from the magic of compounding – which effectively gives you returns on top of your returns.

If you wait until the age of 40 before you open your pension, and put £500 a month in until you turn 50 and then up it to £750 a month until you reach 65, you'll have a pot worth almost £461,000 by retirement, assuming basic-rate tax relief and 5% annual growth.

YOUR TAX BAND MATTERS

Higher and additional-rate taxpayers will find they can hit a larger pension pot quicker as they'll benefit from a larger slug of Government tax relief. While basic-rate taxpayers get a 20% boost to their money, higher-rate payers get a 40% boost and additional-rate payers a 45% boost.

In the same example of someone starting a pension at 35 and paying in the same monthly amounts as above, if they were a higher-rate taxpayer they'd see that £675,000 pot at age 65 become £1.06m. This is because their pot has effectively got a 20% additional boost each year.

There are two ways you can access this additional tax relief: either your company uses a salary sacrifice for you contributions, meaning your pension payment comes out before tax is charged, or you can reclaim the additional tax relief through your annual tax return.

If you do the latter you'll need to pay that tax rebate into your pension pot for your figures to tally with the above calculations.

You can start a pension in your 40s but you'll need to put aside a decent amount to enjoy a comfortable retirement

WHAT DO PEOPLE INVEST IN?

The most popular funds in AJ Bell Youinvest's self-invested personal pensions (SIPPs) are a spread across global stock market funds and a few more specialist areas.

Popular funds such as **Fundsmith Equity (B41YBW7)** and **Lindsell Train Global Equity (B3NS4D2)** feature heavily in customer SIPP accounts. Also popular are Vanguard's LifeStrategy funds, which are multi-asset funds that invest across a range of different asset classes and countries, with each fund having a different

MOST POPULAR INVESTMENTS IN AJ BELL YOUINVEST'S SIPP ACCOUNTS

Funds	Shares
Fundsmith Equity Acc	GlaxoSmithKline
Lindsell Train UK Equity	National Grid
Lindsell Train Global Equity Inc	Vodafone
Vanguard Lifestrategy 60%	Lloyds
Jupiter European Acc	AJ Bell
Liontrust Special Situations Inc	Royal Mail
Vanguard Lifestrategy 80%	Imperial Brands
Baillie Gifford Japanese Acc	Metro Bank
Stewart Investors Asia Pacific Leaders Acc	Royal Dutch Shell
Vanguard FTSE UK Equity Index Acc	Aviva
Merian North America Equity Acc	British American Tobacco

Source: AJ Bell

amount in the stock market.

For funds more focused on specific areas stalwart funds such as **Stewart Investment Asia Pacific Leaders (3387476)** and **Liontrust Special Situations (B57H4F1)** feature in many portfolios.

The most popular investment trusts are also globally-focused including **Scottish Mortgage (SMT)**. And SIPP customers have been drawn to blue chip shares including **Royal Dutch Shell (RDSB)**.

HOW SHOULD YOUR INVESTMENT STRATEGY CHANGE AS YOU NEAR RETIREMENT?

Previously most people had to use their pension pot to buy an annuity – which is an insurance contract that secures you a set income for life. However, new rules in 2015 meant that people were no longer obliged to buy an annuity and pensions were more flexible. They could keep the money invested and draw an income off it every year, or take a lump sum as and when they needed the money.

This meant that the previous investment strategy for pensions was turned on its head.

For those building up to buy an annuity at age 65, for example, historically most would gradually dial down the risk of their pension pot as they neared this date. They would gradually move from a portfolio heavily focused on shares to one more focused on bonds and cash.

The intention was that by moving out of stock market investments, which can be more volatile, those nearing retirement would avoid a large stock market fall wiping out a large chunk of their pension pot just as they were coming to retire.

By moving into bonds and cash you were less likely to see this volatility and so you weren't at the mercy of large market movements.

MOST POPULAR INVESTMENTS IN AJ BELL YOUINVEST'S SIPP ACCOUNTS

Investment Trusts	ETFs
Scottish Mortgage	iShares Core FTSE 100 ETF
Finsbury Growth & Income	Vanguard FTSE 100 ETF
City of London Investment Trust	Vanguard FTSE All-World ETF
TR Property	iShares FTSE 250 ETF
Templeton Emerging Markets	iShares UK Dividend ETF
British Empire Trust	Vanguard FTSE 250 ETF
Caledonia Investments	Vanguard FTSE Japan ETF
F&C Investment Trust	Vanguard FTSE Emerging Markets ETF
Murray International	Vanguard FTSE All World High Dividend Yield ETF
Edinburgh Investment Trust	iShares MSCI World ETF
Witan	ETFS Physical Gold

Source: AJ Bell

LIFESTYLING YOUR PORTFOLIO
This approach led to the launch of a number of so-called 'target date' funds. These pinpoint the year that you plan to retire and automatically dial down the risk level of your pension pot as you come nearer to retirement.

Typically these funds switch from higher risk investments, such as emerging market stocks, into developed country's stock markets. Then they sell stock market investments for bonds, cash and maybe gold. Taking this approach is still sensible if you plan to buy an annuity with your pension pot.

However, now many people keep their money invested and move into drawdown, they don't necessarily need to reduce the risk to such an extent in their pension portfolio.

STAYING INVESTED IN RETIREMENT
If you're planning to draw an income off your pension pot throughout your retirement, it could be left invested for another 20 or even 30 years. This means you need your pot to continue growing, and so you'll likely want to keep it invested in stock markets and higher risk assets.

However, because you're focused on drawing an income off your pot you may want to switch your investments into ones focused on generating yield, rather than just on capital growth.

For some funds this might simply be a case of switching from the 'accumulation' share class into the 'income' share class, which will automatically pay out any income rather than reinvesting it. Otherwise you might need to reassess what you're invested in and focus on income-generating stocks and funds.

EIGHT PENSION RULES

1. If you're a UK resident under the age of 75, you can contribute to your pension as much as you earn and you will receive tax relief on your contributions.

2. Even if you don't earn any money in a year you can contribute £3,600, including tax relief, each year. This means children can have pensions too.

3. Higher and top-rate taxpayers can claim back the additional tax they have paid through their tax return.

4. A pension annual allowance applies. For most people this is £40,000 but if you have income over £150,000 your annual allowance is tapered down from £40,000. Once you access your pension your annual allowance may drop to £4,000.

5. If your total pension contributions, including any contributions your employer makes, exceed your annual allowance you will be subject to a tax charge, known as the annual allowance charge.

6. The lifetime allowance for 2018/19 is £1,030,000. When you access your pension, you 'crystallise' a portion of it – the amount you crystallise is deducted from your remaining lifetime allowance. If you reach age 75 and haven't accessed all of your pension, the amount you are yet to access will be tested against your remaining lifetime allowance. If it's more than £1,030,000, you will face the lifetime allowance charge. The charge is 55% if you take the excess as a lump sum or 25% if you take it as income.

7. You can use all or part of your pot to buy a lifetime annuity, which is a type of insurance contract that will pay an income until the day you die. You choose whether the level of payment will stay the same, rise with inflation, or drop at a later point in time, and you can also have an annuity that will pay your spouse an income after you die if you wish.

8. Drawdown is where your pension remains invested while you take an income from it. With flexi-access drawdown you are able to take as much income as you want, so you can choose to take payments monthly, quarterly, bi-annually or annually, or you can take a one-off payment.

By **Laura Suter**
AJ Bell Personal Finance Analyst

DISCLAIMER:
AJ Bell is referenced in this article as being one of the most popular holdings among AJ Bell Youinvest's SIPP customers. AJ Bell is the owner and publisher of Shares. *Laura Suter and Daniel Coatsworth (who wrote and edited this article, respectively) own shares in AJ Bell.*

Laura Suter also has a personal investment in Fundsmith Equity, Vanguard Life Strategy, Scottish Mortgage, Caledonia, Lloyds and Vanguard FTSE 250 ETF and Daniel Coatsworth has a personal investment in Fundsmith Equity referenced in this article.

HOW DO SIPPS WORK AND ARE THEY RIGHT FOR ME?

WE EXPLAIN WHY YOU MAY WISH TO RUN YOUR OWN PENSION POT AND HOW TO DO IT

A self-invested personal pension (SIPP) is an effective low-cost way for DIY investors to save for retirement – but they are not the right choice for everyone.

SIPPs became more popular in 2015 when new rules made pensions more flexible to manage. At this point, savers were no longer to obliged to buy an annuity with their pension pot when they reached retirement. Instead, individuals are now able to continue to invest and manage their own money even after they stop working.

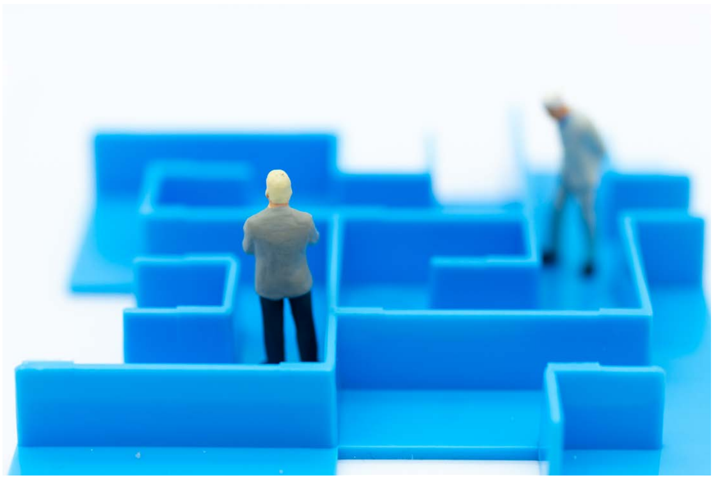
Investors have more freedom with SIPPs such as being able to choose their own investments from across the market like their favourite funds or investments trusts. Quite often someone taking out a pension scheme with one of the big pension providers will only have access to a limited range of funds run by the pension companies themselves.

Tom Selby, senior analyst at AJ Bell, says: 'The combination of upfront tax relief and 25% tax-free withdrawals from age 55 are probably the two biggest draws of a SIPP for most people. For a basic-rate taxpayer, an £80 pension contribution will automatically become £100 in their SIPP.'

THE BENEFITS OF A SIPP

SIPPs have a great number of benefits, not least their low cost, which is often a fraction of what big legacy pension schemes charge or what you might pay if you invest through an adviser.

With AJ Bell Youinvest, for example, there is no fee for setting up an account and investors are charged 0.25% a year of the value of their assets up to £250,000.



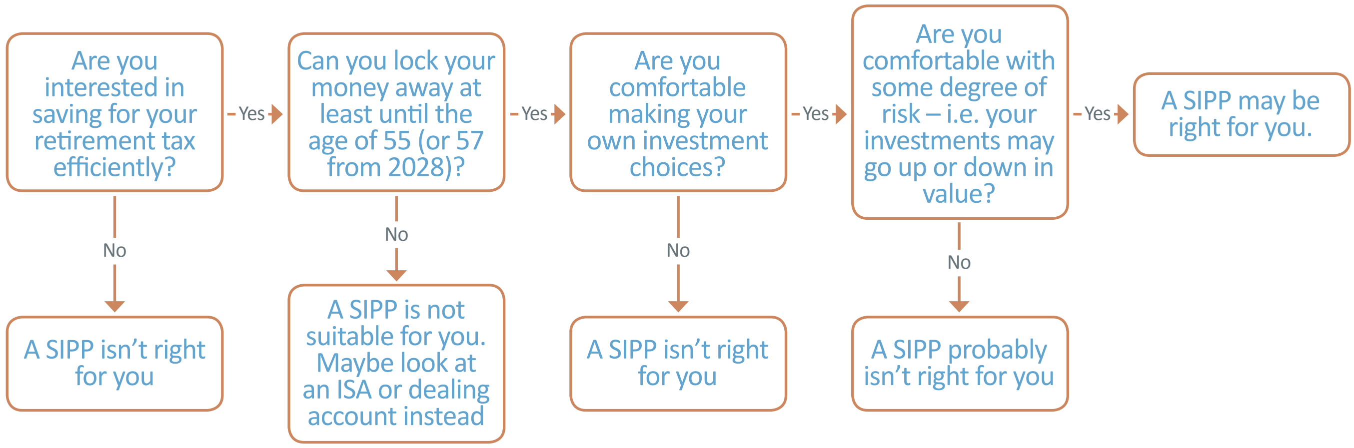
HOW DO I CHOOSE A SIPP?

Which provider you choose will depend on the amount of assets you have and how often you trade.

Some fund supermarkets charge a flat annual fee for having an account while others charge a percentage of assets, which tapers down depending on how much you have invested.

Usually, if you set up a regular investment plan – meaning you arrange a direct debit to contribute a certain amount to the SIPP each month – there is no minimum amount required by a provider to set up a SIPP. If you are setting up the account with a single lump sum, you will typically need at least £1,000 to invest.

Many providers will also accept transfers in if you already have pension savings elsewhere. It is



important to check these factors with a provider before you open an account.

HOW MUCH CAN YOU SAVE INTO A SIPP?

Another major attraction of SIPPs is that they allow you to start saving early. Parents and grandparents, for example, can open a SIPP for a child from the moment they are born.

Money saved into a child's pension receives tax relief just as adult pension contributions too, making them an incredibly tax efficient way for relatives to save. Parents can save up to £2,880 a year into a Junior SIPP, which is topped up to £3,600 through tax relief.

Up to £40,000 a year can be put into an adult pension, according to rules for the 2018/19 tax year. This is subject to tax relief, so basic rate taxpayers can contribute £32,000 and higher rate taxpayers £24,000 to achieve the maximum annual contribution.

Although the amount you can pay into a pension is limited by your earnings, any UK resident under the age of 75 can put at least £3,600 into their SIPP each year, whether they're working or not. This would be a contribution of £2,880 with tax relief at 20%, bringing the total contribution to £3,600 a year.

Selby adds: 'SIPPs are also increasingly used as inheritance tax planning vehicles by savvy investors. Savers who die before age 75 can pass on their entire fund tax-free to their beneficiaries. After age 75 the money is taxed in the same way as income, but only when it is withdrawn from the account.'

CAN I HAVE A SIPP AND A WORKPLACE PENSION?

Because SIPPs are personal pension plans they are unlikely to benefit from workplace pension contributions.

This means they may be a sensible choice for a self-employed worker but potentially not for someone who would otherwise be missing out on valuable contributions from their employer.

You are allowed to have both types of account, but often it is better to prioritise a workplace scheme if you can only afford to contribute to one, so that you don't miss out on your employer's contributions.

Under auto-enrolment, all employers must automatically put workers into a pension scheme with 2% of an employee's qualifying earnings paid in by the employer and 3% by the employee.

These contribution levels will rise to a minimum of 3% and 5% respectively in April 2019. For this reason, a SIPP is often used as a top-up to a workplace scheme or as a vehicle to allow you to take an income in retirement in a flexible way.

You can also transfer existing pensions into a SIPP but make sure you consider whether you're giving up any guarantees under your current scheme.

WHEN CAN I WITHDRAW MONEY FROM A SIPP?

Money saved into a SIPP cannot be accessed until you reach age 55 but you can continue paying into an account until age 75.

The flexibility of a SIPP means that you can invest the money in a wide range of assets and also withdraw the money in a number of ways. But this freedom may also be a drawback for those who are less confident in managing their money.

Selby says: 'If you are using a SIPP to take an income through drawdown, for example, you need to manage your withdrawals and investment strategy to ensure you don't run out of money before you die.'

By **Holly Black**

A SIMPLE GUIDE TO PENSION TAX RULES

EVERYTHING YOU NEED TO KNOW ABOUT PUTTING MONEY IN AND TAKING MONEY OUT OF RETIREMENT SAVINGS

There is a myth that pensions always have to be complicated. In fact, 17% of AJ Bell Youinvest customers said understanding tax was the most complicated thing about retirement investing, while almost one in six said simplification of pension rules would encourage them to save more.

For the vast majority of people, the retirement savings rules are actually relatively simple although there are a few bear traps you need to watch.

This straightforward guide aims to equip you with the knowledge to navigate the pension tax landscape as things stand at the moment. These rules are always subject to the whims of Government and so are likely to change over time.

TAX RELIEF WHEN YOU PAY MONEY IN

One of the main benefits of saving in a pension is tax relief on the money you pay in. The simplest way is to think of it as a bonus in exchange for you locking away your funds until you reach age 55.

The amount of bonus you get depends on the tax band you fall under. If you're a basic-rate taxpayer, you're entitled to 20% tax relief – equivalent to a 25% bonus. So if you pay £80 into a pension, that will automatically be topped up to £100 through tax relief.

Because tax relief is granted at your 'marginal rate' – essentially making your contribution tax-free

– higher-rate taxpayers are entitled to a further 20% tax relief, while additional-rate taxpayers can claim 25%. This means a higher-rate taxpayer's £100 pension contribution would cost just £60, while for an additional-rate taxpayer it costs just £55.

However, don't assume this will happen automatically – in most cases higher and additional-rate taxpayers will need to fill out a self-assessment return in order to claim their extra pension saving bonus.

If you don't pay any income tax at all you are still entitled to basic-rate tax relief (i.e. 20%), although the total amount you can save in a pension each year is capped at £3,600.

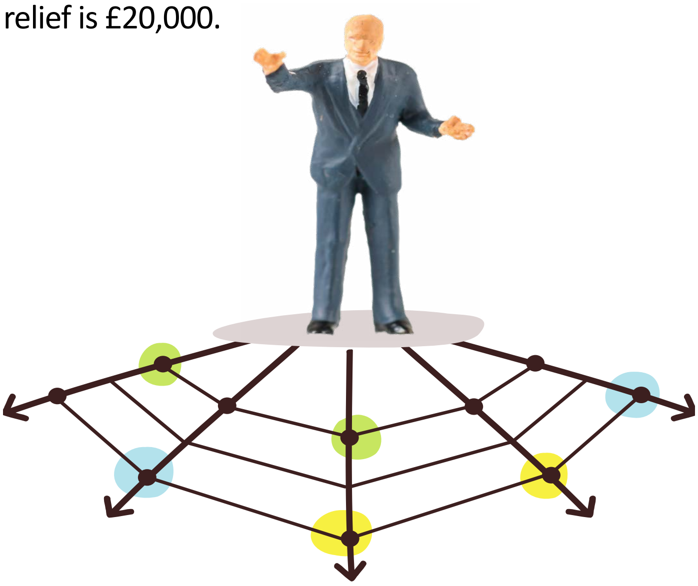
If you're a Scottish taxpayer, please note the amount of pension tax relief you are entitled to might be slightly different following the revision of income tax bands north of the border. You can find details of how this works here.

This brings us neatly onto pension savings allowances. There are two main allowances that apply to most people – the £40,000 annual allowance and the £1,030,000 lifetime allowance (due to rise to £1,055,000 from April 2019).

ANNUAL ALLOWANCE

The annual allowance is fairly straightforward. It's inclusive of the tax relief that goes directly into your pension, meaning you can save £32,000 every year and have that topped up with £8,000 in tax relief (i.e. a 25% bonus).

The amount of money you can pay into a pension each year in order to continue to receive tax relief is also restricted to 100% of your earnings. For example, if you earned £20,000 in 2018/19 the most you could pay into a pension and receive tax relief is £20,000.



– If you are 55 or over and take taxable income from your pension – that is over and above the 25% tax-free cash you're entitled to – your annual allowance will drop from £40,000 to just £4,000.

– If you earn more than £150,000 you might be subject to the annual allowance 'taper'. This reduces your annual allowance entitlement by £1 for every £2 of 'adjusted income' above £150,000, to a minimum of £10,000 for those with 'adjusted income' above £210,000.

'Adjusted income' is a bit of jargon coined by HMRC to determine who is caught by the taper. The calculation includes all income subject to income tax – so not just salary but also things like investment income – and any money your employer pays into your pension.

Your personal pension contributions are not counted, while any lump sum death benefits to which you're entitled will also be deducted to come up with the final figure. If it's above £150,000 you might have a reduced annual allowance – although this will depend on your 'threshold income'.

The 'threshold income' test was designed to protect those with spikes in earnings. Broadly speaking, if your net income – that is your total income minus any personal pension contributions that are entitled to tax relief – is less than £110,000, the taper won't kick in. It's worth noting that any salary sacrifice arrangements you have set up on or after 9 July 2015 will also be included in this calculation.

If you think you might be affected you should speak to a regulated financial adviser to help navigate this particular minefield. You can also find more information here.

LIFETIME ALLOWANCE

The lifetime allowance does what it says on the tin, capping the amount of money you can save tax-free in a pension over your lifetime.

You use up your lifetime allowance when you 'crystallise' your benefits – this just means when you take it out of the pension or turn it into a retirement income. For example, if you take £25,000 tax-free and put £75,000 into drawdown, you will have used 9.70% of your £1,030,000 lifetime allowance.

In addition, a lifetime allowance 'test' is applied to your entire remaining fund at age 75.

There is a lifetime allowance tax charge if you use more than 100%. The level of the charge depends on whether the excess remains within the pension or is taken out. The former results in a 25% tax charge, while the latter creates a 55% penalty.

There are also numerous lifetime allowance 'protections' created by the Government to shield people from being unfairly penalised by historic cuts to the limit.

You can find more details on these protections and the rules governing them here.

TAKING MONEY OUT

When you come to withdraw money from your pension from age 55 you'll get 25% tax-free. You can choose to take this all at once or receive chunks of money, with 25% of each chunk free of tax (this latter option is referred to in the jargon as 'UFPLS').

The remaining 75% of your fund is taxed in the same way as income, so it's worth bearing this in mind when you decide how much you're withdrawing.

If you are taking a regular income through drawdown this shouldn't be a problem as your tax will be reduced on subsequent payments to make up for it. However, if you take a single withdrawal then you'll almost certainly be overtaxed and will need to fill out one of three official reclaim forms to get your money back within 30 days. You can find the relevant forms here.

Alternatively you can wait for HMRC to sort your tax position out for you, although there are no guarantees as to when this will happen.

TAX ON DEATH

Although death may be the final frontier, your pension can live on. Under rules introduced alongside the retirement freedoms in April 2015, anyone who dies before age 75 is able to pass on their pension tax-free.

If you die after age 75 your pension will be taxed in the same way as income – but only once it is withdrawn by the recipient. Any money they haven't drawn can then be passed on in the same way, meaning wealth can be cascaded down the generations via pensions.

There are a couple of important things to consider. First, you need to make sure you nominate your beneficiary so the right person receives your pension after you die.

And second, the money needs to be transferred into your beneficiaries' names ('designated' in the jargon) within two years of your death.

The first flexible withdrawal from your pension will be taxed on an emergency 'Month 1' basis, which can result in you paying more tax than you should do. Unfortunately there is no way to avoid this.

By **Tom Selby**
Tom Selby AJ Bell Senior Analyst

Should you buy investment trusts with high charges?

We compare the performance of two parts of the market

Is it worth putting money into investment trusts with high fees? Historical performance data would suggest higher-cost trusts *are* worth exploring although you cannot draw any firm conclusions from the data.

Three of the most expensive trusts in the UK All Companies sector, as measured by ongoing charges, delivered some of the best returns on a five-year total return basis. These were **Fidelity Special Values (FSV)** at 47.9%, **Crystal Amber (CRS:AIM)** at 55.8% and **Manchester & London (MNL)** at 98.6%. All three trusts have an ongoing charge in excess of 1%, according to data from the Association of Investment Companies (AIC).

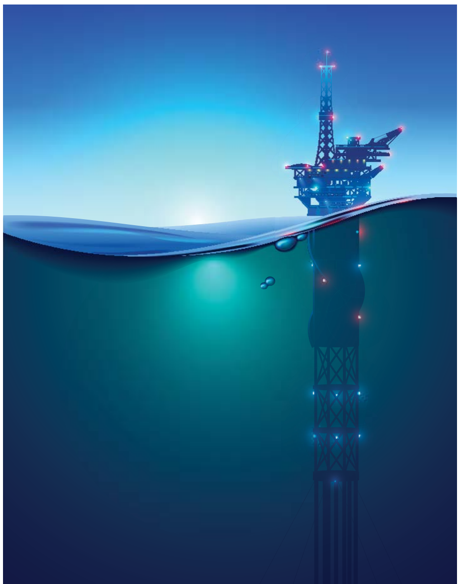
Crystal Amber is an activist investor and its investment trust provides the general public with access to a small number of scenarios where it is pushing for change. For example, the current portfolio includes stakes in oil and gas firm **Hurricane Energy (HUR:AIM)**, currency provider **FairFX (FFX:AIM)** and van hire group **Northgate (NTG)**.

Activist investing can be a lengthy process, particularly if management oppose any of the proposals for change. As a result, Crystal Amber's returns can be lumpy.

UK EQUITY INCOME PERFORMANCE

The best returns from the UK Equity Income sector came from trusts with ongoing charges in the middle of the range, again on a five-year total return basis.

The average ongoing charge is 1.02% for the sector although this is skewed by the highest two trusts having significantly greater charges: **British & American (BAF)** at 4.18% and **Investment Company (INV)** at 2.67%. These trusts delivered a -12% and 4.2% total return respectively over five years.



Crystal Amber has a stake in Hurricane Energy

UK EQUITY INCOME

HIGHEST ONGOING CHARGE

Investment Trust	Ongoing charge (%)	5 year share price total return (%)*
British & American	4.18	-12.0
Investment Company	2.67	4.2
Value and Income	1.46	17.6

LOWEST ONGOING CHARGE

Investment Trust	Ongoing charge (%)	5 year share price total return (%)*
City of London	0.41	31.3
Temple Bar	0.49	22.8
Lowland	0.56	16.7

Source: AIC/Morningstar. *To 31 Jan 2019

Autolus Therapeutics features in Woodford Patient Capital's portfolio

The best performers were trusts which charge between 0.67% and 0.99%. The former applies to **Finsbury Growth & Income (FGT)** which was the top performer with 69.6% total return over five years. Other strong performers included **Troy Income & Growth (TIGT)** which returned 46.6% and has a 0.9% ongoing charge.

TRUSTS WITH LOWEST CHARGES

The lowest charge in the UK Equity Income sector can be found with **City of London (CTY)** at 0.41%. It has returned 31.3% over the past five years.

Fund manager Job Curtis says being invested in housebuilders has helped the trust's returns over this period, although they detracted from performance in 2018.

Woodford Patient Capital (WPCT) has the lowest charge for the UK All Companies sector at 0.18%. It doesn't have a long enough history to produce five-year returns data. The next cheapest is **Mercantile (MRC)** at 0.47%, which has returned 41.7% over five years.

Mercantile portfolio manager Guy Anderson says the trust's decision to gain more exposure to smaller firms in 1994 has paid off by driving stronger returns. The trust targets UK companies outside the FTSE 100 which offer considerable growth prospects.

FEES CAN RELATE TO SKILLSET

Fees can vary among investment trusts depending on the size and style of their portfolio. Investment trusts with large assets under management can benefit from economies of scale; others benefit if the trust is part of a portfolio of trusts with the same people working across all the products.

Some trusts justify higher charges if they are providing a specialist skill such as access to private equity investments. Crystal Amber would probably justify its higher ongoing charges because of its hands-on activist investing approach. It proactively helps companies rather than simply buying their shares.

It is unclear why British & American feels it can justify a 4.18% ongoing charge. It invests in other investment trusts and individual companies to achieve a balance of income and growth.

UK ALL COMPANIES

HIGHEST ONGOING CHARGE

Investment Trust	Ongoing charge (%)	5 year share price total return (%)*
Crystal Amber	2.02	55.8
Jupiter UK Growth	1.48	7.0
Sanditon Investment	1.26	n/a

LOWEST ONGOING CHARGE

Investment Trust	Ongoing charge (%)	5 year share price total return (%)*
Woodford Patient Capital	0.18	n/a
Mercantile	0.47	41.7
Aurora	0.54	27.6

Source: AIC/Morningstar. *To 31 Jan 2019

By **Lisa-Marie Janes**
Reporter

Frontier Developments' shares have halved: is it now time to buy?

Struggles with several gaming companies have depressed the sector

Shares in **Frontier Developments (FDEV:AIM)** have fallen from June 2018's £18.25 peak to 849.4p amid a broader de-rating of the global gaming sector and as the hype dies down over its *Jurassic World: Evolution* game despite it being a monster hit.

Perhaps investors want to see a broader roster of games from Frontier, and some may not like the lumpiness of its earnings.

A ban on new video games in China has started to be lifted, but this excludes its biggest player, Tencent.

In 2017, Tencent made a £17.7m strategic investment in Frontier for a 9% stake to help scale up the business and accelerate growth in the key Chinese market.

Video game publisher Take-Two Interactive Software recently joined rival Electronic Arts in forecasting sales below Wall Street estimates, only adding to fears competition from free-to-play 'battle royale' games such as Fortnite and PUBG is eating into sales from traditional players.

Activision Blizzard's weak outlook statement also soured sentiment towards the sector. Yet the global games industry backdrop is only strengthening and readers might be wondering whether Frontier's share price correction is a waving red flag or an attractive new entry point?

Jurassic World Evolution has been a success for Frontier Developments

WHAT DOES FRONTIER DO?

Founded in 1994 by CEO David Braben, co-author of the seminal *Elite* game, Cambridge-based Frontier Developments makes and publishes video games for PCs and consoles.

It has successfully shifted from a 'work-for-hire' developer to a higher margin self-publisher and launched three successful games franchises, *Elite Dangerous*, *Planet Coaster* and *Jurassic World Evolution*. All three are performing well in an increasingly competitive market.

Frontier's fourth game franchise, based on the company's own unannounced intellectual property, should be released later this year. It also has many other projects in various stages of development; franchises will be a mix of licensed and original intellectual property.

THE BULL AND BEAR CASE

Bull points include a management team with a gaming sector track record and there is exciting growth potential as the game industry moves to cloud delivery.

Liberum Capital says the games release cycle could accelerate and also believes streaming could provide new monetisation possibilities.

It says: 'There have been a number of public comments from the major platform providers (Sony, Microsoft, etc.) and possible new entrants to the gaming sector about the potential to launch new delivery and monetisation models, which could accelerate growth for the whole computer gaming sector including Frontier.

'Google is already testing a streaming service (Google Project Stream), which is expected to be launched later this year and there has been speculation that tech and telecom giants such as Amazon and Verizon could also be preparing to announce new platforms,' says the broker.

Bear points include a competitive market, limited earnings visibility, the risk new games are duds as well as staffing recruitment challenges.

CONTENT OPPORTUNITIES

Frontier's strategy of providing updates alongside the creation of a paid downloadable content business is proving successful and extending the longevity of its titles.

It is releasing new content for its games, meaning there is a tail of content and revenue to come from each franchise which investors shouldn't underestimate. It will build on this base with further games releases, smoothing out what is currently a lumpy portfolio.

Rather than the traditional model of hit-driven disc sales, Braben informs *Shares* that digital has become the dominant force. 'That is great for a company like us because we can go directly to customers now, whether it is through our own store, through STEAM, through Microsoft or the PlayStation store.'

FRONTIER DEVELOPMENTS' EARNINGS PROFILE

Year to May	Sales (£m)	Pre-tax profit (£m)	Earnings per share (p)	PE ratio
2018 (A)	34.2	2.7	9.1	93.3
2019 (E)	79.4	17.8	38.1	22.3
2020 (E)	70.9	9.5	20.7	41.0
2021 (E)	91.2	19.1	41.3	20.6

Source: Company accounts/Peel Hunt estimates

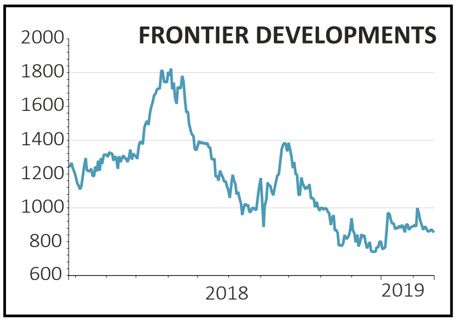
POSITIVE OUTLOOK

Stockbroker Peel Hunt says Frontier is well positioned with a strong franchise portfolio, plenty of cash and upcoming franchises in the works. Investment bank Jefferies argues that the prospect of the next franchise being unveiled and released during the current calendar year should generate 'renewed excitement if not the over-exuberance of *Jurassic World Evolution*'.

Half year results published on 6 February showed operating profit shooting up from £3m to £17.2m, year-on-year. 'We made more profit in that six month period than in the whole of the previous six years,' says chief financial officer Alex Bevis.

Armed with £39.5m net cash, Frontier has the firepower for potential acquisitions to supplement what thus far been an organic growth story.

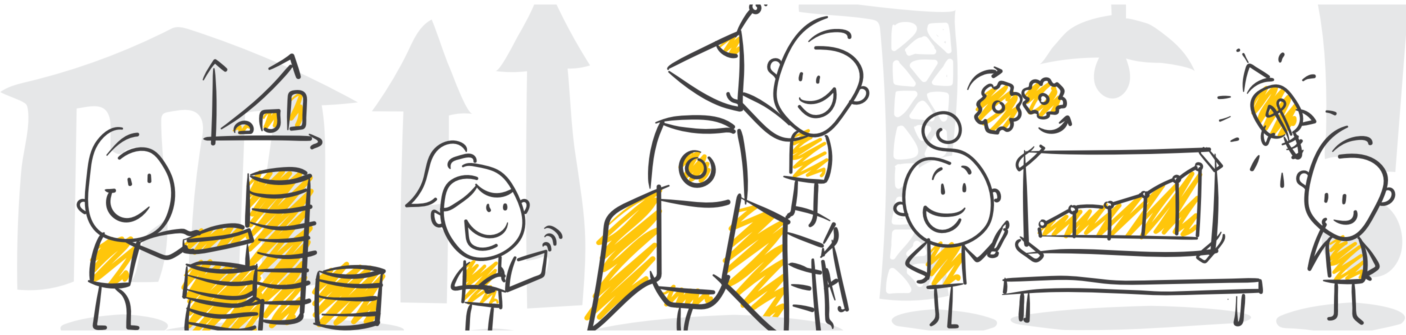
We see merit in owning the shares at the current price given how a lot of fears about the industry have already been priced in. However, this is a high-risk investment so only put up money you can afford to lose. You will also need to be patient as there may not be a re-rating catalyst for the share price until the next franchise is launched.



By **James Crux**
Funds and Investment Trusts Editor

Everything you need to know about modern monetary theory

Investors would be wise to swot up on what it could mean for portfolios



After the global growth scare of 2018 financial markets appear to be regaining their nerve and verve, at least if global equities are any guide, for three possible reasons.

First, US president Donald Trump continues to dangle the prospect of a trade agreement with China.

Second, the prospect of tighter monetary policy and less liquidity is receding fast. The US Federal Reserve appears to be backing away from further interest rate increases in 2019 and even hinting that it may stop shrinking its balance sheet by the end of this year.

Meanwhile the European Central Bank is publicly debating the merits of further cheap funding for banks, the Bank of England is still studiously inactive and the Bank of Japan continues to keep headline interest rates anchored below zero.

Third, the political shift toward ending austerity is gathering pace. Italy, Spain and France are all edging toward more expansive spending policies, in the wake of public demands for action on growth and jobs, for example, but America is leading the way, with its debate over what is now known as modern monetary theory.

Investors may start to hear a lot more about modern monetary theory, especially as the race for the Democratic Party nomination and then the White House itself heats up in 2020. Now therefore seems like a good time to do some research on what it is and what it could mean for portfolios.

DEMAND-SIDE POLICY

Modern monetary theory throws out the supply-side economic orthodoxy ushered in by the Thatcher and Reagan administrations some 40 years ago in the UK, whereby lower taxes and less regulation were seen as spurs to increased supply, more jobs, lower prices and faster growth.

Instead, modern monetary theory focuses on demand-side economics, increasing employment, at least partly through Government spending, to boost aggregate demand that creates further jobs and the virtuous circle of a multiplier effect.

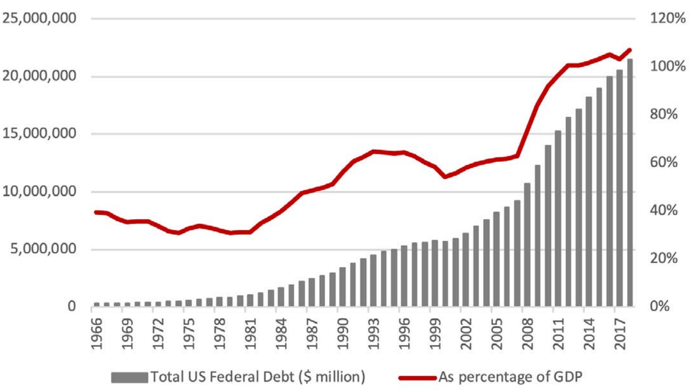
The gathering mantra within the Democratic Party in the US is that the biggest barriers to growth are unnecessary worry about deficits and the Federal Reserve's control of the supply of dollars.

Adherents to modern monetary theory argue that deficits do not matter, because interest rates are low and that if there is a problem, America's independent central bank can simply create more dollars to cover the interest payments and debt repayments that would result from the issuance of more debt.

The borrowing can then be used to invest in infrastructure and offer enhanced welfare payments and social support.

At a time when we are 10 years into what still seems like a fragile recovery, wage growth remains weak and concern over public services is running high, this will look like good politics and good economics to many. Even Warren Buffett, a man who pays no heed to macroeconomics at all when it comes to his investment portfolio, dismisses concern over spiralling government deficits in his latest shareholder letter on behalf of Berkshire Hathaway, pointing out how a 400-fold surge in the US national debt since 1942 has done little to dent American growth, the progress of the S&P 500 or appetite for the dollar.

US GOVERNMENT DEBT HAS MUSHROOMED SINCE THE 1940S



Source: FRED - St. Louis Federal Reserve database, www.usgovernmentspending.com

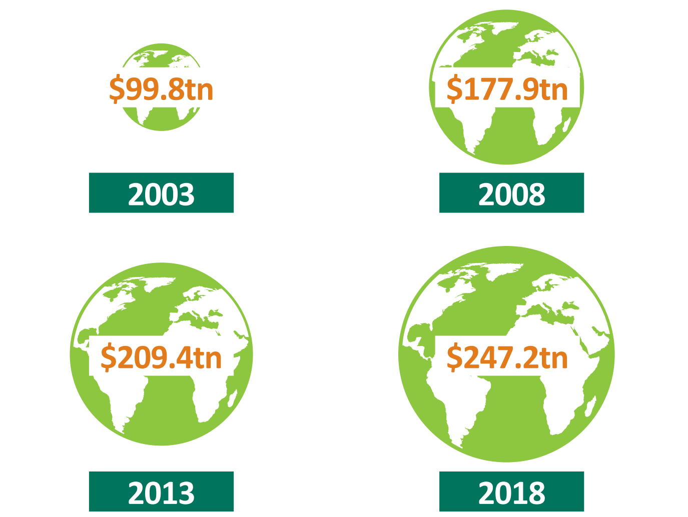
THE CASE AGAINST

Not everyone will buy into this view. Sceptics will counter by arguing that if money printing solved everything then everyone would be at it – and the experiences of those who have tried it, from John Law in eighteenth-century France to Rudolf Havenstein and the Reichsbank in 1920s Germany to Robert Mugabe's Zimbabwe this century have shown that there is no such thing as a free lunch, paid for by newly-printed cash.

In addition, many will argue that the surge in global debt even since the global financial crisis in 2018 means the recovery has been tepid and the risk of a fresh collapse increased, with artificially-low interest rates providing a necessary prop.

Adherents of modern monetary theory and its critics both know there is one big impediment – inflation. Print enough cash and faith in a currency will eventually ebb and then plunge, as Zimbabwe found out, forcing the production of ever-greater

GLOBAL DEBT PILE HAS RISEN BY 40% SINCE 2008



Source: Institute of International Finance

amounts of cash. Modern monetary theory supporters say they will get the balance right. Sceptics will express concern.

PORTFOLIO OPTIONS

Where investors sit in this debate is up to them. But they will need to at least think about it, especially if the Democratic Party starts to go down this path and looks like it might unseat President Trump in November 2020.

But whether modern monetary theory prevails politically, the move toward less fiscal austerity and keeping monetary policy looser for longer seems set for now.

This may be why equities and gold are currently doing well, although the bond market seems unconcerned, judging by how yields are refusing to go higher.

This may reflect the ongoing influence of central banks' policies, lingering growth worries and also the fact that the Democrats are far from certain to win next year, as if to remind investors of the need for a balanced portfolio that covers a spread of assets so it can hopefully cope with different possible economic outcomes, ranging from growth and inflation to recession and deflation.

By **Russ Mould**
AJ Bell Investment Director

20 MARCH 2019

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Speaker: Dmitri Tsvetkov, CFO
OPG Power Ventures is a developer and operator of power generation plants in India.

SILENCE THERAPEUTICS (LON:SLN)
Speaker: Rob Quinn, Interim CFO
Silence Therapeutics is developing a new generation of medicines by harnessing the body's natural mechanism of RNA interference, or RNAi, within its cells.

+ MORE TO BE ANNOUNCED

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KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

1 March: Rightmove, William Hill, WPP, London Stock Exchange, Robert Walters. **4 March:** Johnson Service. **5 March:** Direct Line, GVC, Huntsworth, Keller, Ibstock. **6 March:** Just Eat, Paddy Power Betfair, Costain. **7 March:** Admiral, Greggs, Inmarsat, NMC Health, Spirent Communications, Cobham, Aviva, Informa.

Half year results

4 March: Abcam. **6 March:** Allergy Therapeutics.

Trading Statements

5 March: Ashtead.

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THIS WEEK: 22 PAGES OF BONUS CONTENT

SHARES SPOTLIGHT

Growth & Innovation

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

FEBRUARY 2019

Introduction

Welcome to *Spotlight*, a bonus report which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words.

The company profiles are written by the businesses themselves rather than by *Shares journalists*.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our investor evenings in London and other cities where you get to hear from management first hand.

Click here for details of upcoming events and how to register for free tickets.

Previous issues of Spotlight are available on our website.

DISCLAIMER

IMPORTANT

Shares Spotlight is a mix of articles, written by *Shares* magazine's team of journalists, and company profiles. The latter are commercial presentations and, as such, are written by the companies in question and reproduced in good faith.

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The differences between investing in large cap and small cap shares

Like most things in life shares come in a variety of different shapes and sizes. Listed companies are ranked as large cap, mid cap or small cap depending on their market value.

A firm's market capitalisation, or market cap, for short is calculated by multiplying its current share price by the total number of its shares traded on the stock market.

How should someone who has only previously invested in large cap firms approach small cap investing and what are the key differences between large cap and small cap stocks? We will discuss both these topics in this article.

A WORLD OF DIFFERENCE

As a general rule of thumb any firm with a market cap below £250m could be considered a small cap, above this level up to around £4bn is mid-cap territory and anything over this threshold is a large cap.

There are two key exchanges on which shares are traded in London – the Main Market of the London Stock Exchange and its counterpart the Alternative Investment Market or AIM.

AIM is generally the market for small-cap growth companies. These tend to be higher risk – especially if their success is reliant on a single idea or market. As fewer people trade small cap shares it can be harder to buy and sell them exactly when you want to.

Smaller companies will often have greater exposure to a single product or service. They can be overly reliant on their founder or chief executive officer and they can be over-exposed to one geographic region. This means they can have a less diversified revenue base and can be vulnerable in the event of macroeconomic shocks, technological change or other unforeseen events.

They should only be considered by sophisticated investors who have a long-term investment horizon, understand the risks and can accept that the value of their investment can fall.

Because of these risks, some investors may also prefer to a entrust decisions on small caps to a seasoned and professional stock picker through a fund. The table shows the UK smaller companies investment trusts which have generated the largest 10-year total returns.

On the plus side small cap companies have greater capacity for growth. It is easier

Best performing UK small cap investment trusts

Trust	Share price 10 year total return
Strategic Equity Capital	885%
BlackRock Smaller Companies	785%
Henderson Smaller Companies	761%
BlackRock Throgmorton	743%
Rights & Issues	666%
Invesco Perpetual UK Smaller Companies	512%
Standard Life Smaller Companies	484%
JPMorgan Smaller Companies	344%
Montanaro UK Smaller Companies	342%
Aberforth Smaller Companies	335%

Source: AIC, 20 February 2019

to double the turnover of a company which has £10m revenue, for example, than it would be for a business with sales upwards of £1bn.

Although not exclusively, London's Main Market tends to be populated by mid and large caps. These companies, particularly those listed on the FTSE 100, will usually have a track record of earnings and turnover which you can look back on.

More often than not they will also have a more diversified business – this means if something goes wrong in one part of the company other divisions can potentially make up for it.

READING THROUGH RESULTS

Any company whose shares are traded on the Main Market or AIM, no matter its size, is required to make public both its annual and half-yearly financial reports. At the very least, both reports must contain an audited financial statement.

While the format can vary from sector to sector and even company to company, there are some particular, crucial bits of information that will feature in every company's financial statements.

The main ones are pre-tax profit, revenue and margins but you are likely to focus on different aspects of the results depending on whether you are looking at a small-cap company or a firm further up the food chain.

Investors in larger companies may seek out information on the dividend policy. More mature firms are likely to pay a dividend out of the cash they generate. If management talk about maintaining a 'progressive dividend policy' you can expect the dividend to rise at least in line with increases in earnings.

Many small cap companies do not generate revenue, profit or cash flow from which to pay dividends. Investors looking at these firms must be mindful of their cash burn (the rate at which they are using any existing cash) and whether their funding will keep them afloat through to profitability.

Investors in both larger and smaller companies should scrutinise the 'outlook statement' which will give management's view of how a company expects to fare over the coming six to 12 months. For smaller companies, where visibility on future performance can be more limited, giving a definitive outlook can be more of a challenge.

Manolete
PARTNERS PLC

Manolete leads the way in insolvency litigation finance

Website: www.manolete-partners.com

Investors can spot the signs when a company is booming, progressing steadily or in danger. But once a company becomes insolvent it rapidly becomes yesterday's news. If you happen to have been one of the company's creditors, you may have had to write off that investment as a hard lesson. You would be joining a long line of creditors and could be waiting years for a paltry return.

But when you think about it more broadly, the aggregate amount of money left in the estates of the thousands of insolvent UK businesses means many, many millions are locked 'underground' and out of reach.

If only there were a business which had successfully shown it could get at these funds, to realise them then pay the creditors a fair share and earn themselves and their shareholders stellar returns.

In broad terms that is what **Manolete Partners (MANO:AIM)** does.

Manolete says it has the financial clout and acute knowledge of insolvency law to buy the best claims outright and get cases settled quickly.

Faster settlements mean lower costs and that means maximised returns. There are other very successful litigation funders but Manolete beats them all on average case duration and Return on Investment.

Manolete says it is different because it specialises in insolvency cases only – allowing it to uniquely purchase and fully control its case investments.

RAPID PORTFOLIO GROWTH

Manolete was founded in 2009 and has quickly built a portfolio of 275 cases with 189 completed showing the insolvency market is particularly well-suited to third-party litigation financing.

For example, Manolete's IRR's have been over 200% in each of the last seven years. Recent legal changes (such as Lord Jackson's reforms) have freed up the insolvency sector.

FT FINANCIAL TIMES statista
1000
Europe's Fastest
Growing Companies
2019

Manolete has lost just one case out of 275.

Investors have, on occasion, asked why other firms have not simply emulated Manolete's success through comparable models. Although Manolete acknowledges that some have tried, it believes it has considerable first mover advantage and it notes its team of lawyers have a premium level of expertise in insolvency law combined with a commercial outlook.

The business also points to a highly experienced board including Dr Stephen Baister as a non-executive director who was until recently the chief bankruptcy judge in the UK.

SUCCESSFUL IPO

Manolete floated on AIM in December 2018 when market headwinds deterred several other businesses from following suit. The market cap at IPO was £76m and by 25 February 2019 was closer to £150m.

INTRODUCING... MANOLETE
THE LEADING INSOLVENCY LITIGATION FINANCE COMPANY IN THE UK

Manolete was admitted to AIM on 14 December 2018

Vintage	Investments	% Completion	Return on Investment	Money Multiple	IRR
FY12	8	100%	156%	2.6	236%
FY13	10	100%	167%	2.7	281%
FY14	42	100%	147%	2.5	424%
FY15	39	100%	211%	3.1	526%
FY16	36	92%	245%	3.4	234%
FY17	31	81%	265%	3.6	1587%
FY18	49	24%	366%	4.7	2462%

Figures as at 30 September 2018

Institutions including Soros Fund Management (11%), Miton (10%) and Hargreave Hale (9%) became shareholders on the IPO. The fundraising was significantly over-subscribed.

The IPO raised a net £14.7m. At IPO, HSBC extended its Revolving Credit Facility from £10m to £20m at a maximum rate of LIBOR plus 2.75%.

HOW DOES THE MODEL WORK?

Every year in the UK, 14,000 businesses become insolvent with creditors left out of pocket. There are about 1,700 insolvency practitioners (IPs) who have a statutory duty to investigate claims and maximise returns to creditors.

There is very often little money or no money to pursue these claims no matter how meritorious they are, 93% of cases are pursued through 'no-win no-fee' arrangements which are characteristically slow, incur disproportionate costs and leave little in the Estate. IPs are personally liable if a claim is lost in court so naturally, as a profession, they are risk averse.

Invariably IPs approach the company with potential claims; it first carries out a full 'net-worth' assessment. If Manolete decides to invest (its investment committee selects only 18%), it takes on all the risk, offers the IP a full indemnity as well as paying a cash amount upfront to cover some work in progress costs. This is, of course, a very welcome feature of the model to the IP and their lawyers.

Manolete has built a unique network of over 100 insolvency practitioner firms where 60% of its trade is repeat business. Manolete prefers to purchase rather than fund claims so giving it more hands-on control of them.

CASE COMPLETION

The firm is always prepared to take a case as far as necessary through the Courts, for example it had a successful judgment against Hastings Borough Council in the Supreme Court in 2016.

However, it is better for all parties if claims are settled through mediation or similar alternative dispute resolution methods - only 10 of its cases have reached the Courts. On settlement, Manolete typically takes around 50% of the net proceeds (after costs) but this percentage decreases using a ratchet mechanism. Litigation costs are on average just 15% of its recoveries.

THE MARKET OPPORTUNITY

The insolvency market has been described as generally showing little correlation to macro-economic trends.

The most recent academic study in assessing the size of the sector was *Insolvency Litigation and the Jackson Reforms – An Update* by Professor Peter Walton of Insolvency Law at Wolverhampton University, published in April 2016.

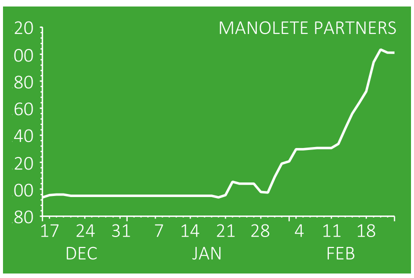
He estimated there were 2,300 insolvency litigation cases with a value of over £1bn every year in the UK. Specific to Manolete he said, 'The funder with the highest profile in the UK Market……with a majority of the market share is Manolete Partners Plc.'

In recent years, the company has noticed a dramatic increase in case values and volumes. Interim results to September (released in December) showed double-digit growth in revenue and EBIT (earnings before interest and tax) during the period and an average money multiple of 3.6 times on completed cases. In February 2019, the company announced a trading update projecting a 70% increase in operating profit.

PEER RECOGNITION

Manolete won the Turnaround, Restructuring and Insolvency (TRI) award for 'Insolvency Litigation Funder of the Year' for both 2016 and 2017. Manolete was included in FT1000 for 2018 and 2019.

Business failure is a fact of life. Manolete says it has shown that by consistently following its strong business model, it can ensure insolvency claims are settled quickly and efficiently for creditors and its shareholders.



Realising Value | mercia technologies

Mercia is a major investor in start-up firms

Website: www.merciatech.co.uk

By utilising the group's 'Complete Capital Solution', **Mercia Technologies (AIM:MERC)** addresses the shortcomings faced by many young tech start-ups which are inherently resource light in terms of experience and capital. Mercia prides itself in providing both of these attributes.

Mercia's investment model comprises two parts; it starts by initially nurturing businesses via its third-party funds (now with circa £400m under management) in a broad range of technology businesses and then over time Mercia can provide further funding to the most promising companies by deploying direct investment follow-on capital from its own balance sheet to help scale these businesses globally.

Since its IPO in December 2014, Mercia has invested over £74m across its direct investment portfolio.

Mercia differentiates itself in a number of ways. Firstly, it focuses on the UK regions, benefitting from 19 university partnerships which account for circa 20% of its total deal flow and offices across the UK provide it with access to high quality, regional deal flow.

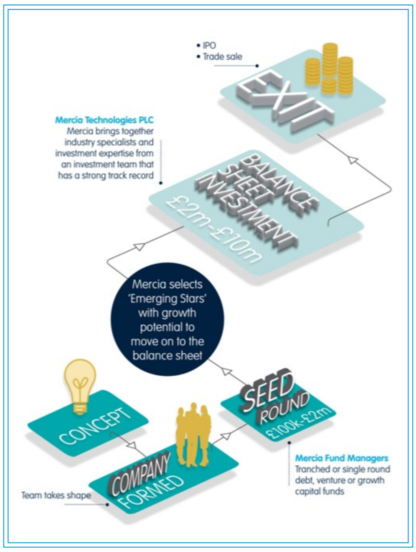
Secondly, Mercia is not solely about offering finance, it says it prides itself on providing value-add support and expertise to businesses, making Mercia, in its view, the best investor with which to partner in the UK.

Its direct investment approach identifies scale-up opportunities from key technology sectors which Mercia considers to be fast-growth segments playing to the strengths of the UK's research base, matched with global market disrupting opportunities.

THE JOURNEY

Mercia joined the AIM market in December 2014, with eight employees working from one office based in the

INTRODUCING... MERCIA TECHNOLOGIES
As one of the UK's most active investment groups, this company is focused on building ambitious, high growth businesses addressing global markets



West Midlands. It had nine university partners to help source deals and £31.1m AuM, including 11 direct investments and 36 fund portfolio companies. Upon listing, Mercia had £100,000 cash ready to deploy.

Move ahead just over four years and the company is growing its revenue, driven by its solid platform of circa £500m assets under management, having made 26 direct investments to a tune of over £74m with circa £400m of third-party funds under management and over £200m of free cash to invest over the next 4-5 years.

The business now has over 80 employees spread across eight offices in the Midlands, the North of England and Scotland and 19 university partnerships. With £38.3m cash on the balance sheet, Mercia is well positioned for further growth.

REALISING VALUE

The group is now four years into its strategic plan of building the leading provider of complete capital (being venture, growth and debt funding) to the UK regions. Since IPO, Mercia's direct investment portfolio IRR (internal rate of return) is around 15%. With an average investment period of approximately two years across the direct investment portfolio as a whole, the commercial progress now being achieved is very encouraging.

The business is clearly at a pivotal stage, with three cash realisations. At the most recent interim results (30 September 2018), the company reported that net fair value increases were generated across the portfolio totalling £2.6m in the six month period.

MARKET OPPORTUNITY

The UK is consistently among the top four countries in the world for entrepreneurs to set up in business. With circa 80% of high-growth scale-up firms located in the UK regions, circa 70% of venture capital is solely focused in London. The Mercia team is confident that its regional investment model is a valuable differentiator for sourcing some of the most exciting, high-growth technology opportunities.

CREATING SHAREHOLDER VALUE

Mercia's most important priority is to deliver value for shareholders, which means growing its asset values, delivering exits and showing timely returns. The bespoke investment model ensures it sees the best deals that others do not, thanks to this regional focus, expertise and financial power to support these fast-growth companies through to commercial success and potential exit. The company is also focused on reducing net expenses in order to minimise cash, and thus net asset value, erosion arising as a result of its capital efficient operating model.

OUTLOOK

Having to-date reported three exits, Mercia's Board is already showing early signs of delivery against its strategic plan. Commercial progress is accelerating across the portfolio too and as the group increases in scale, it is seeing a greater number of attractive investment opportunities. Mercia is focused on continuing to add value to its portfolio, remaining ambitious and knowledgeable in its chosen markets whilst at the same time being responsive to and trusted by investors.

Mercia direct investment spotlight

Oxford Genetics

40.5% equity stake at a fair value of £9.1m as at 30 September 2018

Oxford Genetics is a specialist designer and developer of biological molecules such as proteins, viruses and cells within the growing synthetic biology market. In August 2018 the company secured its largest multi-million pound contract to date with a global e-commerce provider of reagents and tools to the research and clinical community. The business continues to attract further considerable commercial and strategic interest.

nDreams

45.6% equity stake at a fair value of £13.0m as at 30 September 2018

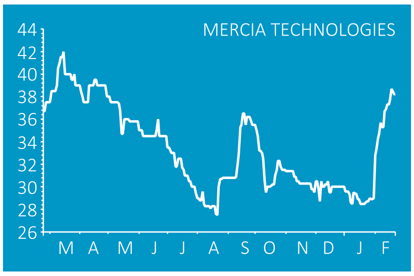
Founded in 2005, nDreams is now a leading specialist in gaming content for the interactive Virtual Reality (VR) market due to the help from Mercia to shape the business through direct investment and by utilising Mercia's platform, providing industry expertise to excel the business. nDreams now boasts major partnerships with blue chips such as Google and is already delivering over 50% growth in annual revenues. nDreams has now sold more than 320,000 VR experiences and games, generating over £3m in VR revenue to date.

For more information -

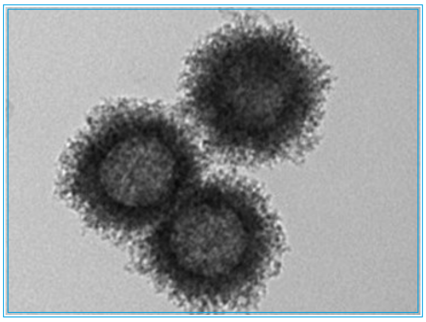
Please call -
+44 (0) 330 223 1430

Visit
www.merciatech.co.uk

Email
katy.horrocks @merciatech.co.uk



N4 Pharma aiming to advance its Nuvec technology



Website: www.n4pharma.com

AIM-quoted N4 **Pharma (N4P:AIM)** has developed Nuvec®, a silica nanoparticle with a unique spiky structure used to trap molecules and release them into a cell and has a wide range of potential drug delivery applications, but is initially focussing on vaccines and cancer therapy.

Its initial aim is to deliver nucleic acids, specifically DNA and RNA, into human cells whilst minimising the side effects associated with many of the current delivery systems used but unlike Nuvec® were not explicitly developed for DNA and RNA.

As such, Nuvec® has the potential to significantly improve treatments and thereby provides N4 Pharma with a vast array of opportunities in what is a highly attractive market, with many major pharmaceutical companies seeking delivery system solutions for projects in which they are investing significant sums of money.

EARLY MILESTONES ACHIEVED

N4 Pharma has already achieved important early research milestones having demonstrated Nuvec's® inherent adjuvant capability and the ability to deliver an immune response. N4 Pharma has improved Nuvec® production from 500mg to 17g of material.

This amount is a sufficient production level for initial pre-clinical trials and having a scalable process means further larger volumes suitable for clinical trials will be available. The company continues to undertake its own research to identify the exciting potential for Nuvec® and is establishing early exploratory collaborations with partners to extend its data on how Nuvec® performs.

In 2019 N4 Pharma will undertake additional research to demonstrate whether the immune response Nuvec® generates is sufficient to deliver effective immunity and also continue further manufacturing work, including technology transfer and scale up, in order to be well placed to work with partners to undertake clinical trials as and when needed.

N4 Pharma was also recently accepted by the European Nanomedicine Characterisation Laboratory, (EUNCL), formed by a network of European institutions, to undertake a full characterisation program for the Company's Nuvec® delivery system. The program will provide N4 Pharma with direct access to leading nanomaterial experts across Europe to allow them to provide invaluable information to potential collaboration partners.

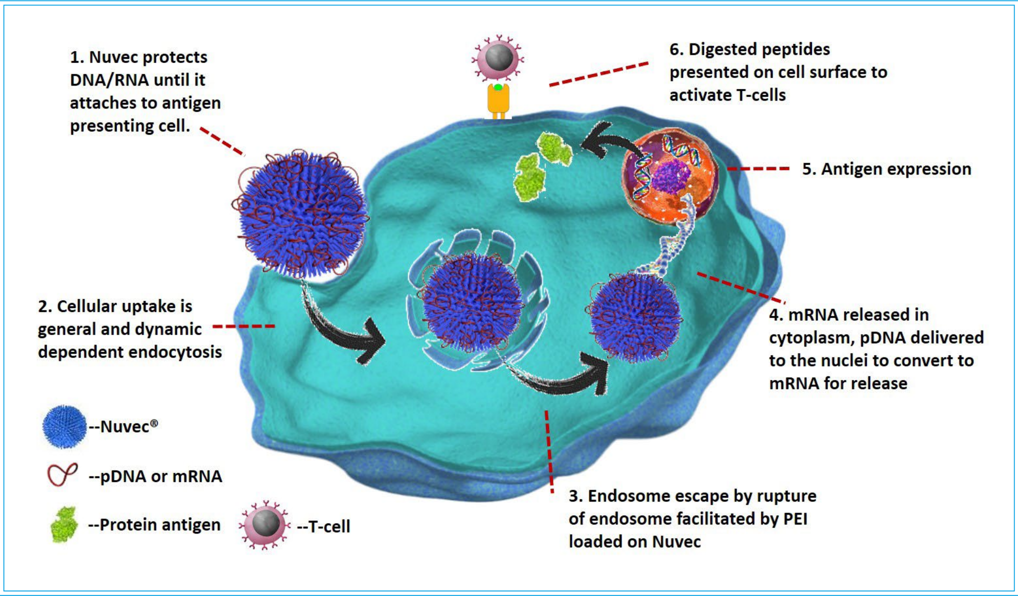
INTRODUCING... N4 PHARMA

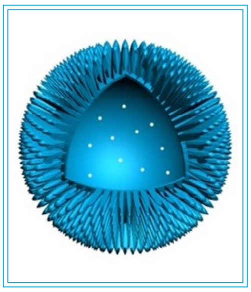
A PRE-CLINICAL STAGE SPECIALIST PHARMACEUTICAL COMPANY WHOSE STRATEGY IS TO DEVELOP A SUSTAINABLE DRUG DELIVERY COMPANY USING ITS UNIQUE NUVEC TECHNOLOGY.

HOW NUVEC® HELPS

The human body contains millions of enzymes called nucleases that will rapidly degrade RNA and DNA if it is injected alone. Because DNA and RNA are hydrophilic (water-loving) substances and are negatively-charged they have difficulty getting past a cell membrane which is made of hydrophobic (water-hating) lipids and is also negatively charged.

Even if some nucleic acid makes it through and protein





is expressed, that protein alone may not be enough to 'wake up' the immune system unless an adjuvant (e.g. Alum) is co-administered.

An ideal delivery system protects RNA/DNA, enhances uptake into cells, and has inherent adjuvant-like activity to promote a robust immune response to the antigen. Nuvec® demonstrates all three key properties. Nuvec® is a silica nanoparticle initially with 180nm diameter which is covered in thin silica spiky hairs.

These unique spiky hairs trap and protect the DNA and RNA drug payload in sufficient amounts to deliver the required treatment dose to stimulate the immune response against cancer or infectious disease.

The spiky structure clearly differentiates Nuvec® from other silica-based and lipid nanoparticle delivery technologies and is a significant physical property, enabling effective take-up of nucleic acid structures without requiring encapsulation and without many of the associated side effects seen with some lipid nanoparticles .

N4 Pharma's initial strategy is to establish Nuvec® as the go-to choice for a delivery system for nucleic acids, competing head on with the many lipid nanoparticles currently in use. Major players are investing hundreds of millions of dollars developing novel DNA and RNA molecules yet they all need an effective delivery system.

AIMING TO HIGHLIGHT NUVEC® AS THE IDEAL CHOICE

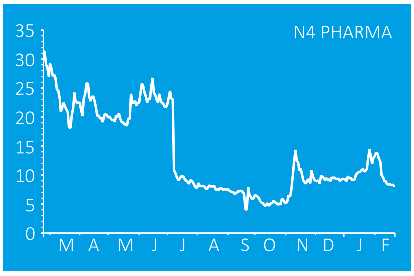
At the moment most companies choose lipid nanoparticles because they appear the best available or most familiar option however N4 Pharma intends to show via its own research and partnerships that Nuvec will be the ideal choice for delivery of nucleic acid vaccines and therapeutics.

The recent license extension to the Queensland patent application will allow for further development of Nuvec into areas outside of nucleic acids, including peptides, small molecules and combination therapies.

The estimated value of the global nanotechnology drug market is expected to be $178bn in 2019 of which lipid nanoparticles account for 27% so there is a sizeable opportunity for Nuvec to go after.

N4 Pharma is now totally focused on developing its innovative vaccine and therapeutic delivery system having previously also researched the reformulation of generic drugs.

However, following a strategic review in late 2018, the board decided that the potential for Nuvec was so significant that shareholders' interests would be best served by focusing solely on its development, providing the greatest chance of achieving multiple commercial agreements with large pharmaceutical and biotech companies which are developing cancer vaccines and therapeutics using their own nucleic acid compounds.



OPG Power Ventures looking to meet Indian energy challenge

Website: www.opgpower.com

Listed on AIM **OPG Power Ventures (OPG:AIM)** has a market capitalisation of approximately £90m at the current share price of around 23p per share.

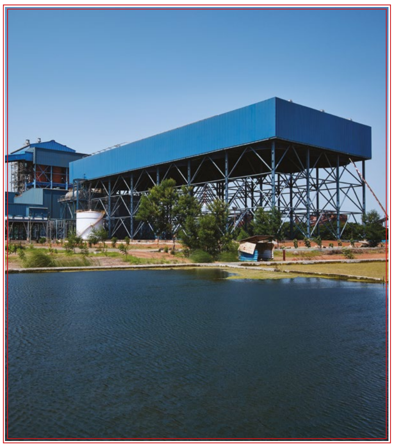
The company's IPO and admission to AIM took place in 2008, when its generating capacity was just 20MW. This has grown significantly to 476 MW currently.

OPG offers exposure to the fast-growing Indian power sector, with London levels of corporate governance and a growth profile with potentially significant upside.

Operating risks are well managed and the reduction in coal price creates a strong catalyst for revenue and profits growth.

The company is the developer and operator of 414 MW of thermal power at its site in Chennai, which has been operating consistently at industry leading plant load factors. The company's second operation, is situated north of Bengaluru, Karnataka and comprises a solar power project generating 62 MW of power.

In 2018, OPG decided to concentrate on the existing high quality, profitable 414 MW plant in Chennai and deconsolidated its 300 MW Gujarat plant. This was due to the trading difficulties experienced by the Gujarat plant which were almost entirely outside the control of operational management.



INTRODUCING... OPG

A DEVELOPER AND OPERATOR OF THERMAL COAL AND SOLAR POWER GENERATION PLANTS IN INDIA

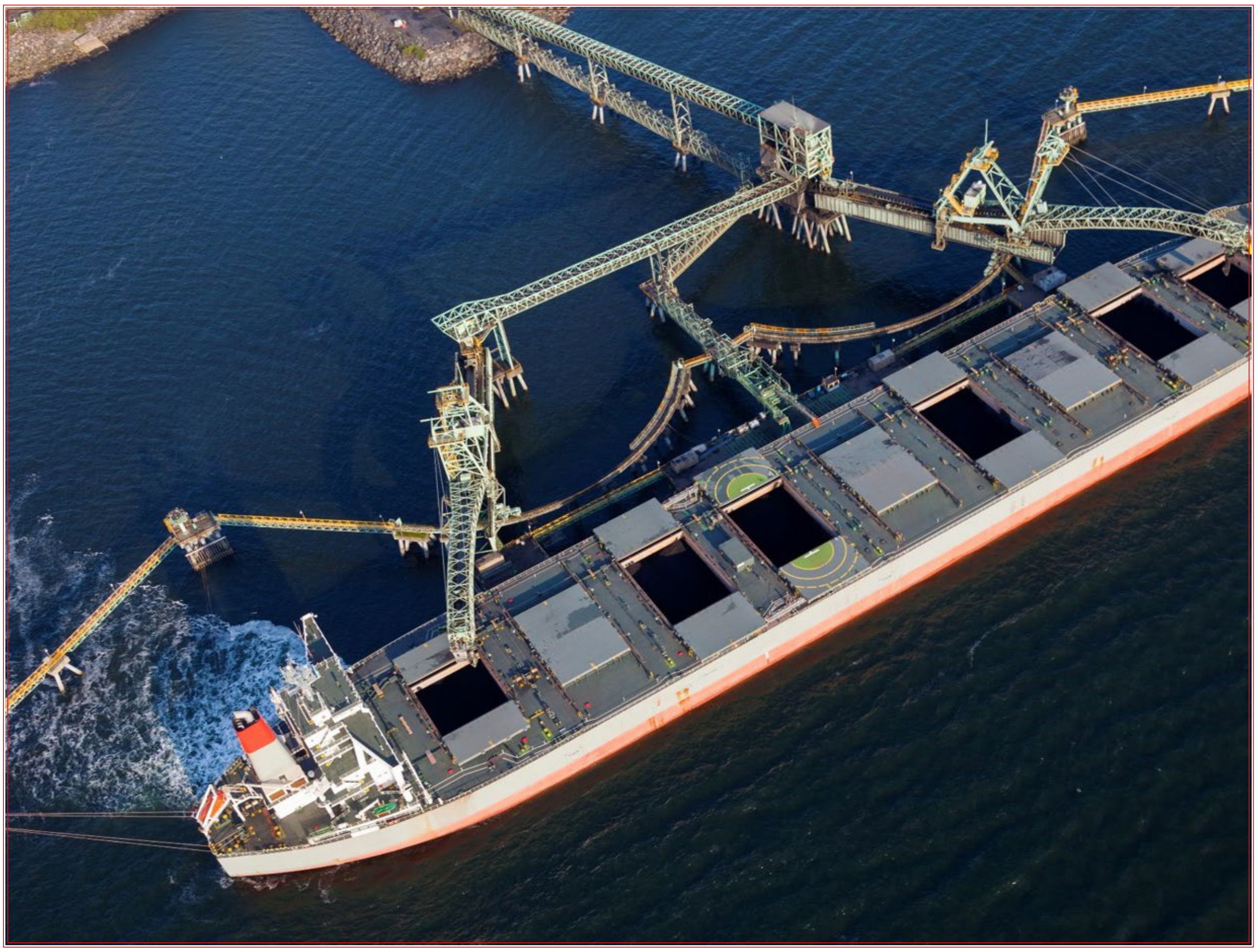
RECOVERY STORY

The strong performance seen in the first half of the company's FY19 (six months ended 30 September 2018) is expected to continue with all term debt associated with the four Chennai units scheduled to be repaid within five years.

The company crossed a significant milestone when the term loans relating to unit one of the Chennai plant were fully repaid in December 2018.

OPG paid a cash dividend in FY17 and a scrip dividend in FY18.

OPG recently delivered a strong H1/19 performance, which has built momentum into H2/19E and FY20. Revenue increased 17.2% from H1/18 to £77.7m, driven by higher power sales, plant load factors and tariffs. Following a period of higher than expected coal prices, prices have now reduced since the end of September 2018 which should aid FY20 profitability materially. For the first half of FY19, the high



coal prices were managed effectively with gross margins only contracting 230bps year-on-year to 30.2%.

Profit before tax grew 74.7% year-on-year to £7.3m, benefitting from lower net finance costs. Gross debt at the half year end stood at £85.9m after a £10.3 million term debt principal repayment during the first half of FY19.

THE INDIAN POWER OPPORTUNITY

As a result of existing and forecast power shortages, India's Electricity Act 2003 introduced structural changes to the power industry, permitting private investment for the first time since 1948 under both regulated and non-regulated regimes.

Demand for power generation is closely correlated with GDP. GDP in India is forecast to double in the next decade, growing at an annual rate of 7% and will lead to increased electricity demand which is also forecast to double during this period.

India remains a power deficit nation although primary energy consumption in India in 2018 was the third highest in the world after China and the USA with India accounting for 5.3% of global consumption.

Despite being among the top three power consumers in the world, per-capita electricity consumption in India was only 1,112 kWh in 2018 which is significantly lower than the world average and the lowest among BRICS nations. India's rapid economic growth and low levels of per capita consumption of electricity creates the potential for large scale growth in the power sector.

In addition to this increase there are still some 300m people with no access to electricity at all. The Indian Government has announced a range of intiatives to bring power to all and this, together with GDP growth, underpins the forecast 6.75% compound annual growth rate in electricity demand between 2017 and 2022.

Steady economic growth of the country, coupled with population growth and rapid urbanisation are expected to propel energy demand in India.

OPG'S DISTINCTIVE BUSINESS MODEL

Founded by executive chairman Arvind Gupta, the pioneer of the 'group captive' model in India, OPG's business model and strategy has been designed to capitalise on the deregulated sector of the Indian power industry by developing and then operating a fast growing portfolio of power plants, in India, a country with a continued power deficit.

OPG operates three out of the four units at the 414 MW Chennai coal-fired power plants under an unregulated tariff regime and revenue model which allows it to sell power directly to industrial consumers and traders through short to medium term bilateral agreements at attractive tariffs.

One unit at the 414 MW Chennai site operates under the Long Term Variable Tariff Agreement with Tamil Nadu Generation and Distribution Corporation (TANGEDCO) and is entitled to a fixed capacity charge. In line with India's energy mix, OPG diversified into renewable power generation with the commissioning of the 62 MW solar plant in Karnataka in 2017-18.

In order to manage the risks associated with the supply of Indian coal to its plants, OPG has sited its core project in Chennai close to ports and has specified and fitted boilers that can burn a wide variety of Indian or imported coal (including cheaper, lower calorific value imported feedstock) without compromising output or load factors.

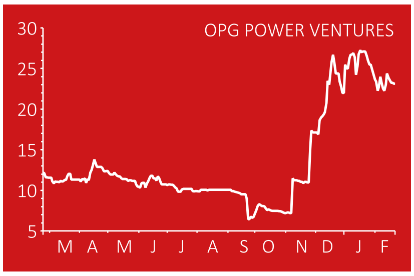
CORPORATE SOCIAL RESPONSIBILITY

OPG, believes in efficient, sustainable, responsible and inclusive growth. The company ensures that the health and safety of all employees and workers remain a top priority; environmental compliance and conserving resource remains an integral part of the organisational culture and OPG continues to proactively engage with communities near their operations; the company is working on intensifying engagement with these communities in the coming years to have a measurable positive impact on them.

WHAT'S NEXT

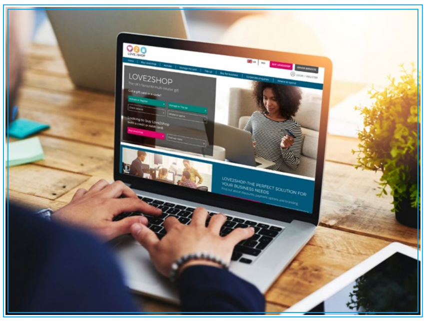
Maximising cash flows from existing and proven assets through maintaining strong operational performance, benefitting from a reduction in coal prices and increases in tariffs from the commercial customers.

The cash flows accruing to OPG will enable it to fully repay term loans by Q3 2023. The company expects that going forward it will maintain its long-term profitability and sustainable value accretive business model for its shaeholders.



Park Group is tapping its true potential

Website: www.parkgroup.co.uk



Following a strong performance in the first half of the year, **Park Group's (PARK:AIM)** new management team unveiled their strategy to accelerate future growth.

The first half of 2018 saw Park raise its dividend by 5% to 1.05p, achieve a reduction in its typical seasonal losses and secure an order book comfortably ahead of the comparative period.

Park also recently announced major new retailer signings including Arcadia Group (including Topshop, Topman and Miss Selfridge), Fat Face, The Entertainer, Jaeger, Austin Reed, and TK Maxx. These new additions, mean Park's gift vouchers are now accepted by over 175 national brands and over 20,000 high street stores across the UK, connecting them directly with Park's 430,000 Christmas Savers and 33,000 Corporate clients.

But 2018 was much more than just business as usual for Park. In January new CEO, Ian O'Doherty, was appointed. Ian has a strong background in financial services, specifically in banking, payments and card services, having worked at MBNA for 26 years, most recently as chairman and CEO of MBNA in the UK, a position he held from 2008 to 2017.

Following his appointment, the company appointed chief finance officer Tim Clancy, former CFO of Assurant Europe, and Stephen Miller as chief information officer, formerly European CIO at Standard Chartered Bank.

Having come to the business afresh, it was clear to this team that there is a significant long-term growth opportunity for Park. With robust demand for the group's products and services, which are well regarded by customers, there is a real opportunity to enhance the group's products and tap into further demand.

The new team unveiled their new strategy to drive future growth to investors at the end of 2018, based around four key pillars:

The main thing is multi-retailer redemption – Park started as a Christmas hampers business, but like any successful 50-year-old company has evolved to meet the changing market. Today Park generates 84% of its billings from its multi-retailer redemption products.

It offers consumers ways to save money, businesses sophisticated reward, recognition and incentive tools for employees, and recipients highly flexible purchasing options. Park will focus on this primary business and separate out the hampers production, which represents only 2% of billings. This will drive greater efficiencies and accelerate growth in its prime market.

Start with the customer – Park has a loyal customer base. In a survey conducted by the company in 2018 it was made abundantly clear that its product is in high demand. The same survey of customers (consumer, business and retailers), also highlighted that its purchasing process, branding, and product range had become overcomplicated.

After many years of expanding products and retailer sets, Park intends to

INTRODUCING... PARK GROUP
THE UK'S LEADING MULTI-RETAILER REDEMPTION PRODUCT PROVIDER TO CORPORATE AND CONSUMER MARKETS.

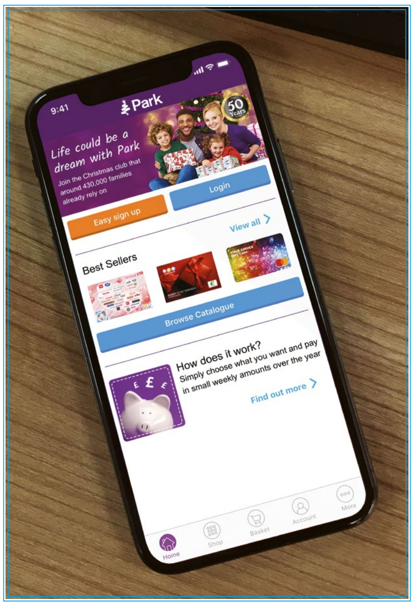
streamline with a clear focus on what is most important to its customers. As part of its strategic plan the company has pledged to put digital first, announcing the adoption of full mobile wallet capability for its Mastercard products, and exploring technology solutions to broaden its physical and virtual payment capabilities. Park has already made significant improvements to its tech platform this year, unveiling its new Love2Shop app, which gives access to all of its products on one integrated mobile platform.

Becoming more efficient and effective – Park announced its intention to move from sprawling premises in Birkenhead into fit-for-future offices in Liverpool city centre. This will drive greater efficiencies as the company houses its multi-retailer redemption team in one optimised office space and gives access to a deeper talent pool – a considerable step in the company's wider goal of improving efficiency and focus.

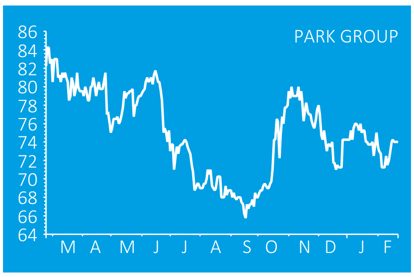
In the last year Park has made significant operational improvements which, alongside an improved mix of higher margin products as the company shifts towards card and digital products, has seen an improvement in operating profit of 11.5% on the same period last year.

Broadening appeal to a significant market – The UK Gift Card and Voucher Association estimates that the redemption products market is worth c.£5.8bn in the UK, yet Park's products only currently address just over half of this market.

Park has identified an opportunity to target the remaining £2.6bn market with a new product building on its existing savings and payments expertise. The concept offers customers the opportunity to save and spend year round, supported by contactless, mobile enabled payments and an app offering real time money management and spending analytics. It has been very well received at concept stage and development is a major focus for the company this year.



New technology is offering Park a significant opportunity to do what it does best, only even better. By putting the customer first with innovative technology solutions, Park expects to build on its track record of profitable, cash generative growth and shareholder returns and to accelerate its future growth, taking full advantage of its strong assets and market position.



Powerhouse aiming to turn waste plastic into energy

Website: www.powerhouseenergy.net

PowerHouse Energy (PHE:AIM) has a strong belief in the nascent hydrogen economy and is exploiting this opportunity through its proprietary technology which converts waste, that today is typically incinerated or sent to landfill, into a clean energy rich gas.

Whilst every effort is made to recycle this waste, many plastic containers such as plant pots are not recycled, indeed, even bottles prove difficult to recycle due to the way they are manufactured.

As a result, much of our plastic is either uneconomic to recycle or 'contaminated' such that the majority of plastic is enveloped in a further layer of plastic. This waste, and of course single use plastics' are either being incinerated, landfilled here in UK or shipped in the 500,000 tonnes of waste plastic moved overseas where much of this volume is also feared to be landfilled.

With global plastic production increasing and environmental regulations tightening, there is no shortage of need for an economic solution.

INTRODUCING... POWERHOUSE ENERGY

AN AIM-QUOTED COMPANY WHICH HAS DEVELOPED A PROPRIETARY TECHNOLOGY TO CREATE ENERGY FROM WASTE.

PROPRIETARY TECHNOLOGY

PowerHouse Energy believes its proprietary DMG technology can help address this problem by monetising the waste through energy recovery. This process, rather than focussing on oil, uses a thermal chamber to convert waste feedstock into clean gas. The gas can be used for road fuel quality hydrogen and for power and heat generation.

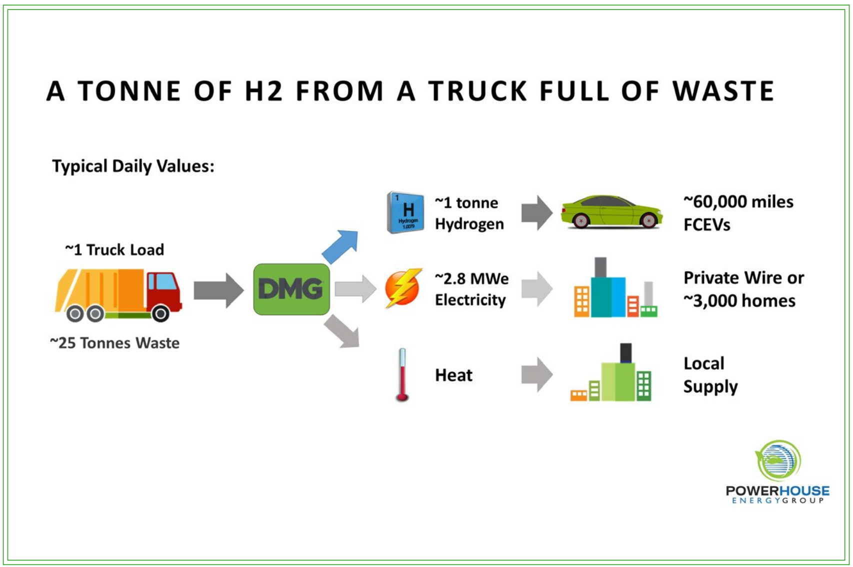
Most forms of waste are acceptable as feedstock, including all plastics, end of use tyres and waste streams, all of which do not need to be cleaned prior to processing. The process is controlled such that the constituents of the gas can be adjusted depending on output - with a high methane

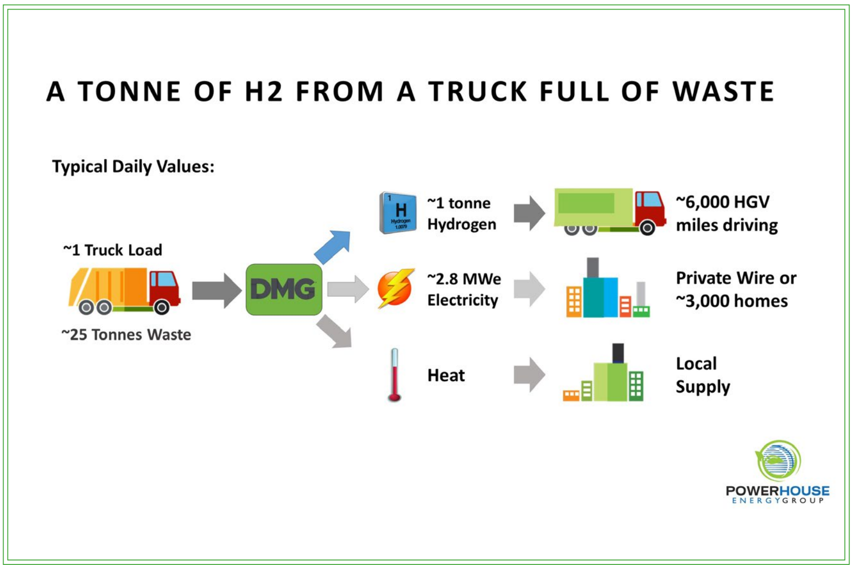
content, the gas is used to generate competitively-priced electricity, alternatively with hydrogen content separating the hydrogen to meet specifications for HGV vehicles and buses powered by fuel cells.

INTO A COMMERCIALISTION PHASE

Powerhouse Energy is now well into its commercialisation phase and has a site at Ellesmere Port for a potential stand-alone plant and a further six potential commercial sites co-located with waste management facilities, all of which appear technically and economically viable – contract agreement for outright sale or power purchase and plastics feedstock are in negotiation.

It's important to note that the DMG technology is not dependent upon grants or public subsidy – it is





commercially viable on its own terms, a DMG plant ordered today could be up and running within 12 months according to the company.

The UK market for the DMG technology is, the company believes, potentially huge. There is currently enough single use plastic going into landfill in the UK to build at least 500 of these units. The company's ambition is for at least 200 units in the UK alone.

The nature of the PowerHouse installed process will also change over time. In the first phase, the main application for plants located in the UK will be for generating electricity, initially using unrecyclable plastic waste, but then moving on to other feedstocks, such as used tyres, that, on a worldwide basis are also challenging to recycle and numerous in quantity.

The company believes that the adoption of the technology for hydrogen generation from waste, with worldwide take-up will follow on quickly from these initial waste destruction and power generation contracts.

HYDROGEN FOR TRANSPORT

The company believes the first significant use of hydrogen within the transport infrastructure for the UK will, most likely, be for commercial fleets of buses and lorries, particularly those that operate on 'a return to base' model as they will be able to fill-up at their home depot. Being able to produce hydrogen close to lorry and bus users makes us attractive to these fleets and in turn will save the current CO2 emissions and particulate levels they generate.

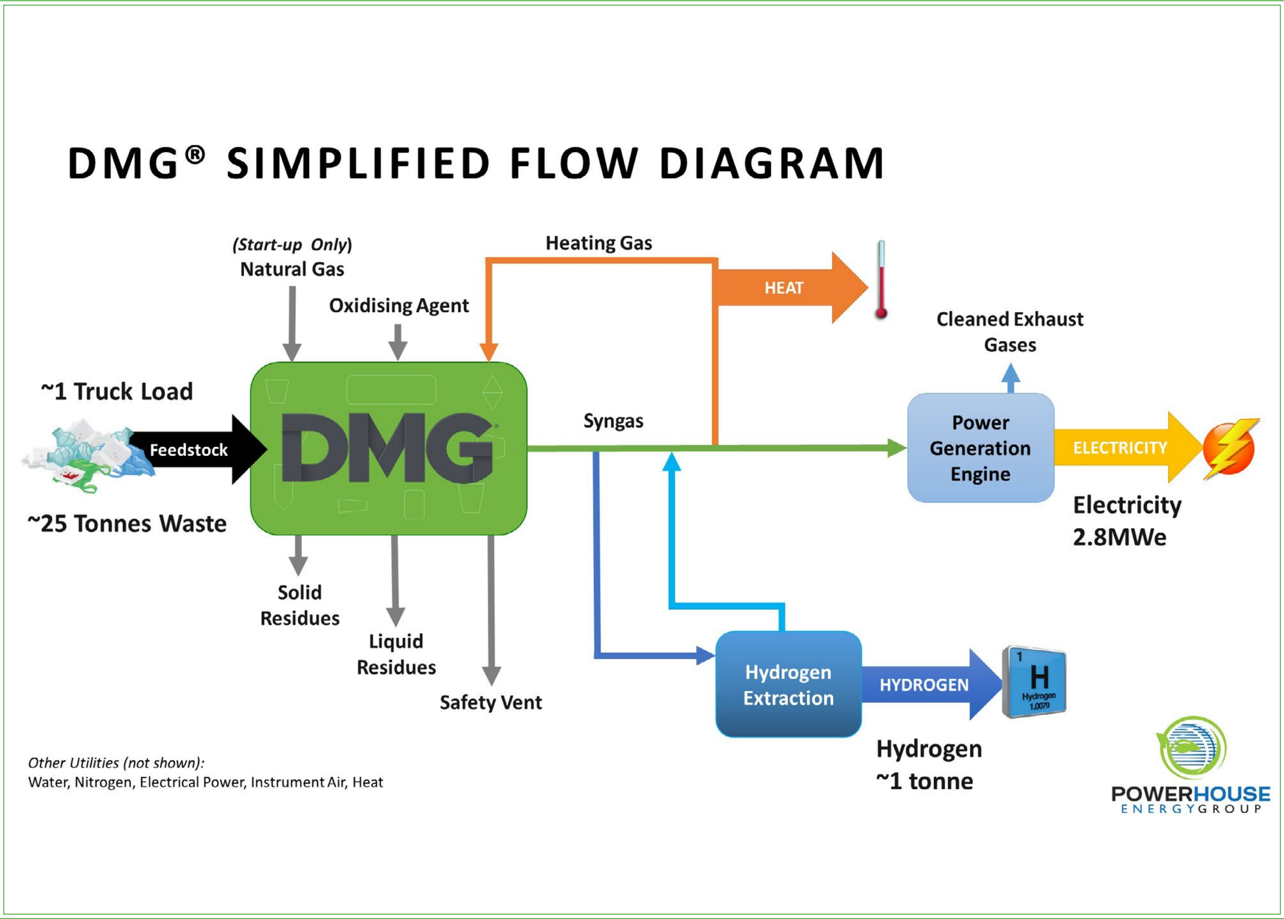
There are also numerous industrial processes for which there would be a market for DMG generated hydrogen.

Importantly in addition to the UK there are many other attractive markets to be seized in almost every country of the world. Indeed, Korea, parts of the US, and Japan, are globally leading the drive for a hydrogen economy.

In particular, working alongside its development partners Powerhouse Energy was particularly pleased when, following a detailed technical review process, it was invited by Toyota Tsusho to enter into formal discussions to enter a commercial review phase which could lead to Toyota Tsusho being one of the companies introducing the DMG technology into Japan and then other Asian markets. A proposed Heads of Terms agreement received from Toyota Tsusho is currently being progressed.

NEW CHIEF EXECUTIVE

The CEO newly in position is David Ryan, a veteran of energy technology, with 38 years' experience under his belt leading teams of engineers working on



projects, technologies and new developments. His career includes founding and growing a consultancy - Energy & Power, and MD of ThyssenKrupp UK. Prior to becoming CEO he spent almost two years as technical director of PowerHouse Energy, testing feedstocks leading and refining the design of the DMG technology for commercial implementation.

Ryan emphasises that the operational systems of PHE are now ready, not only the engineering and design, but also the operational systems are now in place to manage the technical and commercial aspects to take opportunities to contract, not only for sites but also for feedstock and power sales.

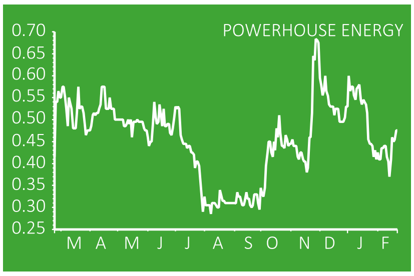
Furthermore, he explains the project delivery is to be executed through a contractor partner and this engineering procurement and construction (EPC) contractor partner competitive engagement is under way with several blue chip companies in the UK.

The company has its primary focus on delivering its first commercial plant in the UK, with targets to have contractual agreements signed for the construction of such a plant in the second quarter of 2019.

IN A NUTSHELL

In summary PowerHouse Energy believes it offers a low profile, easily installed process fully compliant with international regulations that offers buyers and partners profitable returns on handling the worldwide challenge of plastics in the waste stream and furthermore gives visibility to a new fuel vision of cleaner haulage and bus transportation.

Whilst PowerHouse's management would not claim that its DMG technology is the panacea to dealing with plastic waste it does believe its DMG technology is very well placed to play a significant role as one of the approaches that will be part of the road map for the responsible management of plastic and other hard to breakdown types of waste.



Safestay at the forefront of a hostelling revolution

Website: www.safestay.com/investors

Gone are the days of hostels being located in seedier parts of cities, offering communal washrooms, rickety bunk beds and low levels of hygiene. Today, a contemporary hostel such as a hostel operated by **Safestay (SSTY:AIM)**, will occupy a city centre location in an attractive building, providing stylish accommodation, in clean and safe surroundings and all for just £20 per night. The change has been dramatic and demand for this sociable, stylish and affordable accommodation is booming.

UNDERSTANDING THE HOSTEL INDUSTRY

The contemporary hostel sector has been and is predicted to continue to be the fastest growing segment of the accommodation industry, growing at 5% per annum according to a report from travel industry consultant Phocusright.

Some of reasons for this rapid growth are:

- Hostels have always existed, but historically they were largely ignored and underinvested. In the last five years or so a handful operators have seen the opportunity to breathe new life into hostels and aided by digital booking platforms such as Booking.com, demand has grown exponentially.
- The investment appeal for Safestay and hostels generally begins with the simple concept of using bunk beds to accommodate more beds over an equal surface to that of a hotel room. The result is many more guests creating the social hostel atmosphere and generating more additional income such as F&B.
- The density of the bed stock along with a lean operational model and low maintenance costs (versus a hotel) are the key to a highly cash generative model, and the low level of fixed cost also makes it less sensitive to seasonality.
- Scale is important and critically the hostel market is still dominated by independent operators. For Safestay this has created the opportunity to acquire new sites and establish a strong brand leading to increased scale with all the advantages that brings.
- Another key feature supporting Safestay's ability to expand is the flexibility of the product when it comes to converting buildings into a hostel. With a variety of sizes and shapes, our bedrooms and bathrooms can fit in any form of building. This enables Safestay to acquire unique buildings at good prices because often hotels operators are not competing for

INTRODUCING... SAFESTAY

Quoted on the AIM London Stock Exchange, Safestay is the owner and operator of a chain of contemporary hostels located in the UK and Europe in prime tourist cities

them, as they don't fit with their more standardised product.

A good comparison for the growth trajectory of hostels is with the budget hotel industry 25 years ago, when the likes of Premier Inn, Motel 1 and Holiday Inn Express decided to successfully reinvent the lethargic budget market into the vibrant and highly valued accommodation segment it is today.

WHY IS SAFESTAY WELL POSITIONED?

Safestay says it has benefited from first-mover advantage. Created in 2014 with the first Safestay hostel opening in Elephant & Castle in the former Labour Party's ex-headquarters. By comparison, large hotel chains are only now looking to get into this market.

Safestay was founded by Larry Lipman, well known for other businesses that he has created and developed and then sold such as Safestore, Bizspace and Hercules Asset Management.

Lipman's knowledge of what it takes to develop a new brand and business is fundamental to the future of Safestay. Safestay has attracted strong investor support with the company raising £10m in December 2018 to fund future expansion.

Alongside Lipman, are Nuno Sacramento, chief operating officer, who spent 25 years with hotel groups **Whitbread (WTB)** and Accorhotels and Herve Deligny, CFO, who has also spent 20 years in the hotel industry with Accorhotels and onefinestay. This mix of entrepreneurial spirit and expertise with first mover advantage has been key to establishing a leading brand and well-located hostels.

While Safestay shares the same characteristics as other contemporary hostel operators, it also has key points of differentiation in addition to the broad experience of the management team. Many operators have focused on the party element of the hostel experience, while

> **THE COMPANY OPERATES 2,792 BEDS IN 12 HOSTELS SPREAD ACROSS SIX COUNTRIES, PLUS A FLAGSHIP HOSTEL UNDER CONSTRUCTION IN THE CENTRE OF PARIS.**

the Safestay offer is more balanced providing fun, social environments without a party focus.

This has encouraged higher levels of school and college bookings which tend to bring large numbers of guests and generate annually reoccurring revenues. Safestay Hostels are also often located in unique buildings which appeal strongly to younger generations.

Operationally, Safestay is adapting its level of investment to the cost-conscious budget of its clientele to guarantee consistent returns on investment. A typical hostel will generate a 25% EBITDA (earnings before interest, tax, depreciation and amortisation) margin under lease (50% if freehold) to generate IRR (internal rate of return) in excess of 15%.

WHAT IS THE COMPANY'S TRACK RECORD?

Since the IPO in 2014, Safestay has delivered a 106% CAGR (compounded average annual growth). Following a roll out in the UK (London, York and Edinburgh) Safestay moved into Mainland Europe in 2017 with new hostels in Madrid, Prague, Lisbon and Barcelona.

In 2018, three new properties were opened in locations in Brussels, Barcelona and Vienna. Today, the Company operates 2,792 beds in 12 hostels spread across six countries, plus a flagship hostel under construction in the centre of Paris.

In 2019, the Company expects 1,000,000 sleepers to stay in our properties. They will all come to grow an online community which already counts 25,000 followers making 750,000 impressions per year.

Safestay has grown its network through a flexible mix of freeholds, new leaseholds and hostel acquisitions. The short timescale on conversion of new sites and ramp up to maturity have allowed the Company to maintain extremely healthy operating margins (37.4% hostel EBITDA margin in the first 6 months of 2018). The group has just announced that total revenue has increased by 38% in 2018 and occupancy has reached 76% across the portfolio

WHAT IS NEXT?

The capital raise in December 2018 which generated £10.36m of new funds provides the financial platform to complete the next stage of the group's expansion. The focus is to grow the brand from the 13 sites today to over 20, at which point it is hoped the business will become self-funding and increasingly gain from economies of scale and brand growth.