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SHARES

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WASHOUT WEATHER COULD HURT RETAILERS AND PUSH UP FOOD PRICES

RECKITT BENCKISER'S NEW CHIEF EXECUTIVE HAS A DIFFICULT JOB AHEAD

A SUPERB WAY TO ACCESS THE WORLD OF SMALL CAPS

How bad is the rain for soft drinks firms?

We have yet to see a sector-wide share price sell-off in the wake of bad weather

The UK soft drinks industry could be crying into its hands at the state of this summer's weather. A washout June is disaster territory for the sector, particularly as last year was boosted by an unprecedented amount of sunshine and high temperatures which lasted for most of the summer.

Drinks companies should have been through volatile weather patterns plenty of times in the past and they've kept on going, although investors may not like the sour taste of weak sales figures should they appear in the next round of results.

Surprisingly the market doesn't appear to be pricing in much bad news for the majority of the sector. **AG Barr's (BAG)** share price has been on a tear and has only pulled back slightly in recent weeks, **Britvic (BVIC)** lost momentum a few months ago but hasn't really been that weak, and **Nichols (NICL:AIM)** is trading close to its all-time high.

The only stock to have fallen hard in recent weeks is **Fevertree (FEVR:AIM)**. That's likely to be a result of figures from market research group Nielsen which show UK sales of Fevertree products for the four weeks to 19 May falling by nearly 6% compared with last year.

Last year the sector had to contend with the soft drinks industry levy and rework products to have a lower sugar content. They all seemed to cope with that pressure quite well and the industry went into 2019 with a focus on product innovation. We would expect them to carry on with these plans and stay optimistic despite recent unfavourable market conditions.

Fevertree has just launched pre-mixed gin and tonic which is an interesting move and caters for the type of customer looking for convenience with a ready-made product.

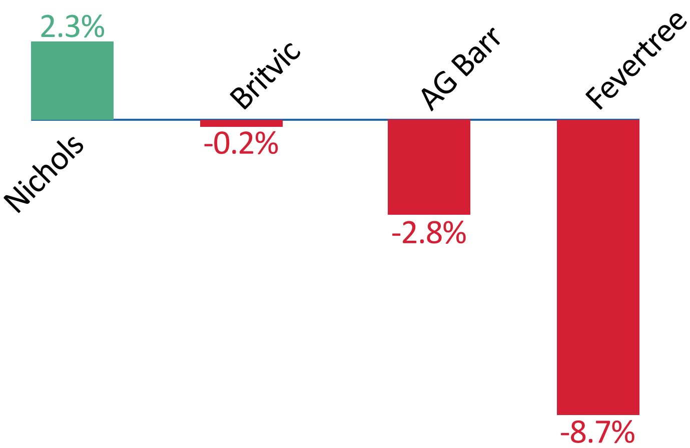
AG Barr is also targeting the ready-to-drink market with the recent debut of its Funkin canned cocktails, and it is launching an Irn-Bru energy drink this summer, capitalising on a very strong brand to tap into a fast-growing market. Earlier this month it also bought a 20% stake in alcohol-free adults drinks firm Elegantly Spirited.

Britvic is in a slightly different position to its peers because last year's summer comparative period isn't as hard to beat. Its carbonates business was heavily affected by a carbon dioxide shortage in mid-2018, leading the company to say last July that it couldn't fully capitalise on the exceptional weather in the UK.

Putting the near-term risk of a sales slowdown to one side, one has to look at the soft drinks sector with admiration in terms of how all four businesses are coping with challenges and staying abreast with changing consumer tastes.

This sector is often overlooked by investors who are focused on big tech stocks, generous dividend payers or high quality businesses. We think it is a mistake to overlook the soft drinks companies as they also have plenty of good traits. As such, it might be worth thinking about taking some positions should we get any summer trading-induced share price weakness.

DRINK COMPANIES' SHARE PRICE SINCE 1 JUNE 2019



Source: Shares, SharePad, data to 17 June 2019

By **Daniel Coatsworth** Editor

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FOR LONG TERM INCOME

GRAVIS CLEAN ENERGY

Gravis

Washout weather could hurt retailers and push up food prices

We look at the potential losers (and winners) from the summer of rain

For UK retailers, 2018's late April-to-early August hot weather already provided a demanding comparative for the same period in 2019. Trade in the period was also boosted by the Royal Wedding and the England football team's strong showing at the World Cup in Russia. Unfortunately for the nation's shopkeepers, it is now raining cats and dogs which suggests forthcoming trading updates could be ugly.

Downpours keep consumers indoors and away from high streets and retail parks. The UK's midsummer monsoon compounds the weak footfall flagged up in May's BRC-Springboard data (10 Jun).

Grocery sales last summer were boosted by record temperatures which stoked demand for everything from beer to ice cream, as well as the Royal Wedding celebrations. Comparatives for the likes of **Tesco (TSCO)**, **Sainsbury's (SBRY)** and **Morrisons (MRW)** are tough and should heavy rainfall persist, consensus earnings estimates could prove overly optimistic.

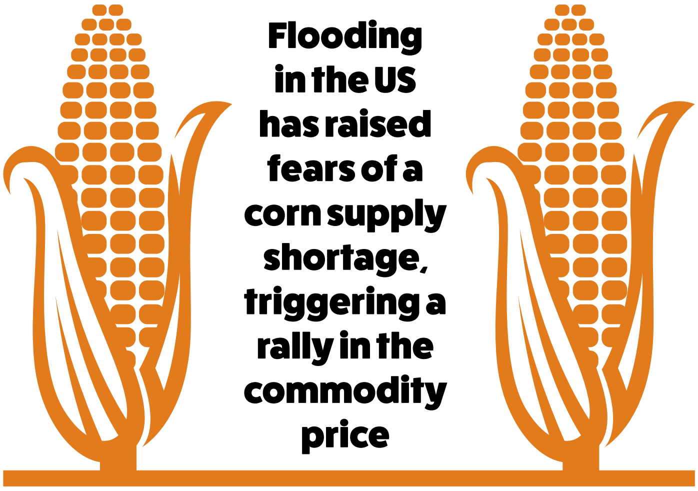
In the general retail sector, **Next (NXT)** notched up 4.5% sales growth for its first half to 28 July 2018 as unusually warm weather boosted takings at the high street fashion-to-homewares giant, now up against demanding comparatives.

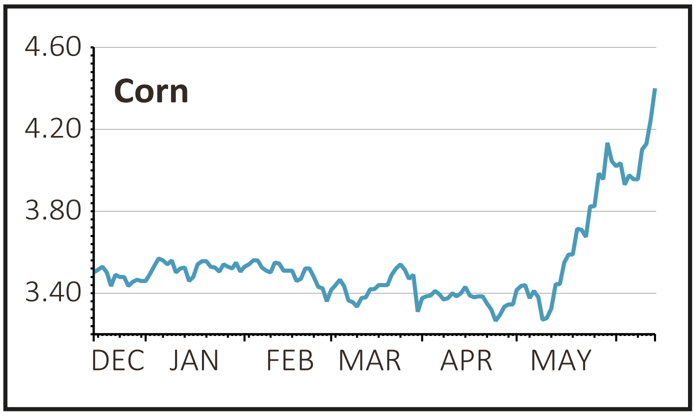
Torrential rain won't have helped hard-pressed B&Q owner **Kingfisher (KGF)** to shift DIY and gardening ranges and the weather presents a modest headwind for high street snack seller **Greggs (GRG)** too.

Retail wet weather beneficiaries are few and far between. However, indoor leisure plays including **Cineworld (CINE)** and **Hollywood Bowl (BOWL)** may have benefited from the rain.

And while unhelpful for the core *JD* fascia, recent downpours may have driven demand for the waterproof apparel sold by **JD Sports Fashion's (JD.)** outdoor businesses.

ARE FOOD PRICES ABOUT TO GO UP?





Shore Capital analyst Clive Black says: 'Every cloud has a silver lining but most of Britain's retail and food and beverage chiefs will be hoping for more clement weather sooner rather than later, otherwise the skies will start to feature into trading updates and earnings forecasts.

'Ongoing wet conditions could perhaps feature too in food prices if sodden fields hit crop production, as the US Department of Agriculture has reported for US corn, where plantings are behind plan, leading to downgrades to corn production expectations.'

Emerging data and mobile money growth eyed by Airtel Africa IPO

Continent's second largest mobile operator pins hope on £3.6bn market valuation

Mobile network Airtel Africa is hoping to raise around £595m from new investors as part of a London stock market flotation later this month in what could be an interesting emerging market opportunity for investors.

Airtel Africa is the second largest mobile operator in the continent, providing services to 98.9m subscribers in 14 nations. Owned by India's Bharti Airtel and a handful of institutions, the company plans for a free float of at least 25%. The new shares will be priced at between 80p and 100p each, implying an upper range market valuation of £3.6bn.

This valuation range will catapult Airtel Africa above **TalkTalk (TALK)** to be the UK's third largest listed telecoms business, behind **Vodafone (VOD)** and **BT (BT.A)**.

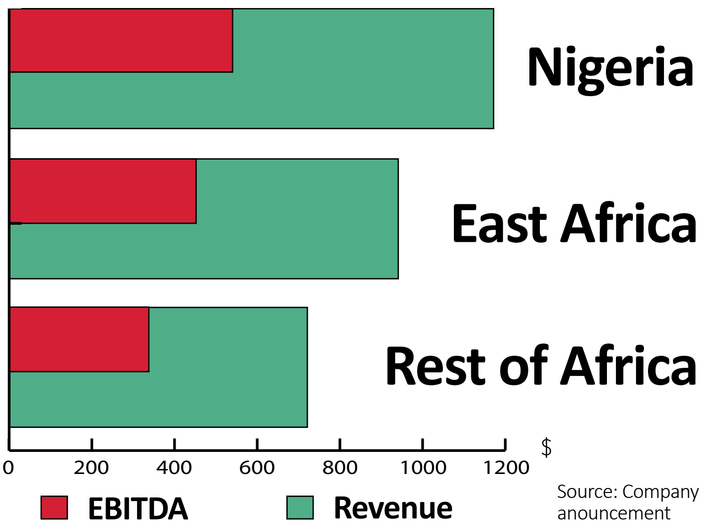
Airtel Africa has spent the best part of the past decade building its mobile networks throughout Africa, having initially bought Kuwait-based Zain's African operations in a $10.7bn deal in 2010. Since then it has embarked on a series of acquisitions from Nigeria in the west of Africa, to Kenya in the east, and as far south as Malawi and Zambia.

In the year to 31 March Airtel Africa reported revenue just shy of $3.1bn and earnings before interest, tax, depreciation and amortisation of $1.33bn, on an underlying basis. About two-thirds of that comes from voice revenues but the company hopes to ramp-up income from increasing data usage and mobile cash transactions through its Airtel Money service.

Africa has become a popular testing ground for mobile financial transaction services, including banking apps, largely because of limited fixed-line infrastructure.

'The 14 countries where we operate offer strong GDP growth potential and have young

WHERE AIRTEL AFRICA MAKES ITS MONEY



Source: Company anouncement

and fast-growing populations, low customer and data penetration and inadequate banking infrastructure,' says Raghunath Mandava, Airtel Africa's chief executive.

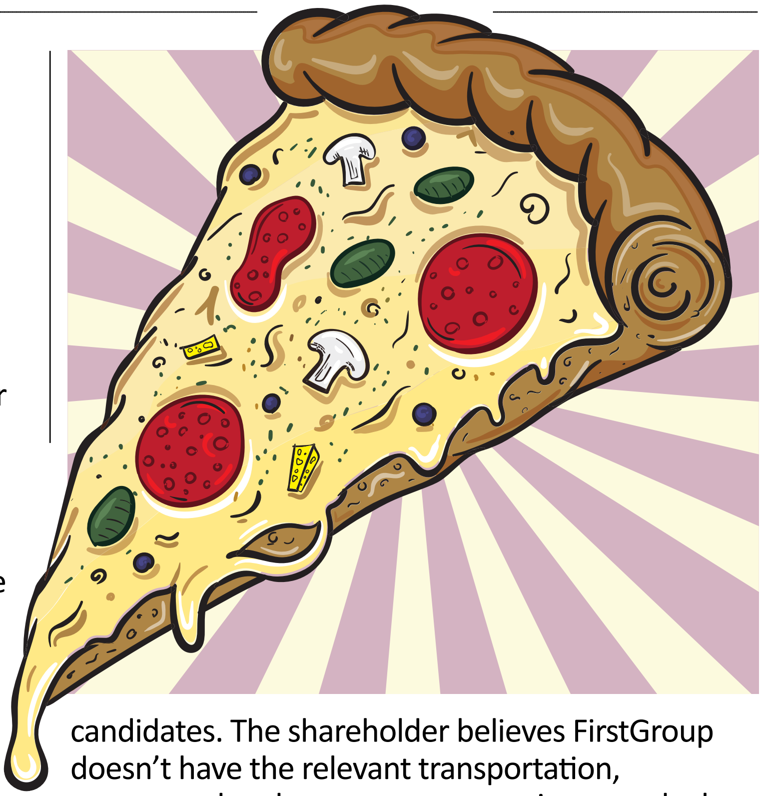
New funds raised are likely to go towards paying down its $4bn or so net debt.

Final pricing of the new shares is expected on 28 June, with trading in the stock scheduled to start the same day.

This sounds like an interesting emerging markets growth opportunity, but without more detail on valuation or dividend potential, one to watch only for now.

Who is next as activist investors circle UK stocks?

Opportunistic investors are pouncing on fragile London-listed names to enforce change



Domino's Pizza (DOM) and **Restaurant Group (RTN)** could potentially be targets for activist investors, based on how they screen for valuation and quality.

Both companies have suffered falling share prices in recent years due to trading difficulties. Domino's has been getting into a spat with its franchisees and its overseas operations aren't going to plan. Restaurant Group is in the middle of a turnaround plan, but could still be a target for an activist who may have a plan to speed up the restructuring process.

Canaccord Genuity has screened the UK markets for stocks which are defined as value plays, in this instance companies which have gone through difficult periods, leaving them trading on cheap valuations.

It flags the aforementioned two stocks as possible targets and says three more names that popped up on its screen already have activist investors on their shareholder register. These are gambling technology provider **Playtech (PTEC)**, transport operator **FirstGroup (FGP)** and van hire business **Northgate (NTG)**.

UK-listed companies are increasingly targets for activist investors who seek an opportunity to invest in a depressed stock and enforce change. The ultimate goal is to realise value by getting a company to do something different and for that action to drive up the share price.

'Of the 318 non-US campaigns initiated in 2018, 128 targeted European companies, of which around half were UK companies. This compares with 300 to 500 campaigns per year in the US, according to Activist Insight and JP Morgan,' says Canaccord analyst Nigel Parson. 'This trend should continue as European markets and company valuations are less stretched than in the US, helped by sterling weakness.'

FirstGroup is currently engaged in a battle with 9.8% shareholder Coast Capital which wants to replace six board of directors with its own candidates. The shareholder believes FirstGroup doesn't have the relevant transportation, turnaround and government experience to deal with its multitude of challenges.

In May, activist investor **Crystal Amber (CRS:AIM)** criticised Northgate's chief executive Kevin Bradshaw, saying that despite being paid more than £1m since joining in 2017 he has never purchased a share in the business. Three months ago Crystal Amber succeeded in removing chairman Andrew Page from Northgate.

Plumbing supplies firm **Ferguson (FERG)** recently attracted US activist investor Trian Fund Management which took a 6% stake after third quarter results signalled a slowdown in its primary market, the US.

And having amassed a 9.3% stake, ValueAct Capital last month urged theme park operator **Merlin Entertainment (MERL)** to put itself up for sale.

Other London-listed stocks in the middle of activist situations include online food ordering platform **Just Eat (JE.)**. Shareholder Cat Rock Capital wants Just Eat to buy or merge with a rival.

888 has a plan for a sporty comeback

Don't be fooled by the gambler's recent share price slump as the future looks much brighter

The tough regulatory backdrop has seen shares in the largest London-listed gambling sector names fall by an average 43% over the past 12 months. We believe investors may have overreacted and are therefore missing out on some good opportunities, one of which is online gambling specialist **888 (888)** where the market hasn't fully recognised significant changes to the way it does business.

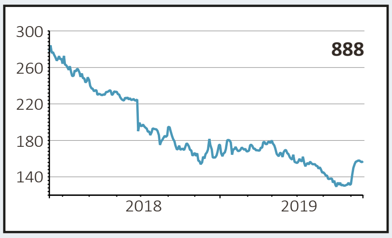
888 has reshaped itself from a focus on high rollers and business-to-business revenue (B2B) to a mass-market player in casino and sports betting. The ambition is to become the dominant casino player and a top tier sports operator, by scaling its proprietary technology platform.

Its shares trade on 11.4 times forecast earnings for 2020 and an EV/EBITDA (enterprise value-to-earnings before interest, tax, depreciation and amortisation) ratio of 6.4. In comparison, the average of the online gambling peer group is 12.2-times and 9.7-times respectively, according to investment bank JP Morgan.

The global casino market is still fragmented with online penetration of only 6%, compared with 44% in the UK. 888 intends to scale-up its mass market offering to grab market share, leveraging its heritage brand and best-in-class technology.

888 BUY
(888) 154.1p
Stop loss: 120p

Market value: £567m



What this means in practice is that the company will be able to enter new jurisdictions with speed and the flexibility to add new features. For example, utilising its unique in-house studio, the company can offer differentiated games to fill specific gaps in the market.

At a recent capital markets day, management said that its games generate 1.46 times more bets per play than third party equivalents.

According to JP Morgan analyst Ted Nyhan, and based on year-to-date numbers, 888 is seeing implied like-for-like growth of 45% in casino revenue.

The global market for sports betting is expected to grow by 7.2% over the next five years and 888 is well positioned to capture market share thanks to its end-to-end infrastructure, which allows it to be more efficient in its marketing.

The recent BetBright acquisition enables a more effective pricing strategy and personalisation. For example cost per customer acquisition has fallen by 13% since the first quarter of 2017 and 8% since the first quarter of 2018.

While the legacy poker and B2B units are expected to remain a drag on earnings for the current year, analysts then expect a full recovery in the UK and structural growth in global casino and sports betting.

Adjusted pre-tax profit is forecast to be $65m in 2019 (2018: $87m) before progressing to $73m in 2020 and $87m in 2021.

By **Martin Gamble**
Senior Reporter

Have you thought about the type of lifestyle you would like in retirement? For many of those currently in work, retirement feels a long way off – but to be comfortable in our golden years, it's important to start saving early.

A longer life

Long-term demographic trends are favourable. We are in general living longer and, as long as we remain healthy, later life can be enjoyed to the full. However, finances are a factor. Whether we spend our later years in comfort is largely dependent on us and our actions in advance.

We should all think about preparing for a longer retirement. Although we are inevitably working later in life, current UK 'pension freedoms' mean that some pensions can be accessed from the age of 55, whether one continues working or not. Pension income could supplement a wage or be a major source of income in retirement. Whichever, its importance in later life is likely to be considerable.

A longer income

The downside of living longer is that the money, which we save up from our working career, needs to last longer. Gone are the days of gold-plated, defined benefit schemes and annuity rates of over 10%. With interest rates so low, bond yields and, in turn, annuity rates are also low. In this environment, your pension fund in retirement needs to be bigger than ever.

The logical imperative is to save more. Most of us would like to maintain the standard of living that we have grown accustomed to. But still, some are sleepwalking into a lower standard of living by not putting enough aside. Those who come to realise this often do so too late to do much about it. The key is to start to save at a young age and to put sufficient sums away. Easier said than done, of course, when there are so many competing claims on our money.

Invest long-term and prosper slowly

The good news for the young is that the longer one is invested, the greater chance one has to build up a substantial sum of money to fund retirement. The upward bias of markets over the long-term, the benefit of reinvested dividends and the magic of compounding – are key factors required to drive returns. Historically, equities have been one of the best assets for maximising returns over the long run, although they can be more volatile than bonds. Investing over the long-term can smooth out the corrections in equity prices that will occur during the period you are building up funds for retirement.

Contrariwise

A fund with a contrarian approach could be a useful component of a diversified pension portfolio. This style does not chase the investment fads of the moment or become swayed by current themes but aims to provide investors with above-average returns over the longer term. It demands patience, recognising that some stocks, while representing good value, can stay 'unloved' or shunned by the market for some time. Good companies can go out of fashion, but they often remain good companies with the potential for share prices to recover.

> “A fund with a contrarian approach could be a useful component of a diversified pension portfolio.”

Being an independent, closed-ended fund allows the investment managers at The Scottish to select companies where they have a high conviction and a view to long-term payback – appropriate for long-term investors. The Scottish has one of the lowest ongoing charges figures within the AIC Global sector which is important as seemingly small differences can have a surprising impact on investors' returns over the long-term.

Similarly, dividends have historically accounted for a significant portion of total returns. According to the Association of Investment Companies (AIC) figures, The Scottish has one of the highest dividend yields in its peer group. The AIC have also named the trust a 'Dividend Hero' as it has grown the regular dividend for the past 35 years. However, it should be remembered that dividends are not guaranteed and can fall as well as rise.

By consistently investing from a young age – and taking a long-term approach – you are more likely to build your pension fund to a substantial level, helping to ensure a happy and fulfilling retirement. ■

As at 15 June 2019

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A superb way to access the world of small caps

Invesco Perpetual's investment trust has fantastic track record of outperforming the market

All serious investors need a small cap fund in their portfolio and **Invesco Perpetual UK Smaller Companies (IPU)** is a cracker of an investment trust to buy now.

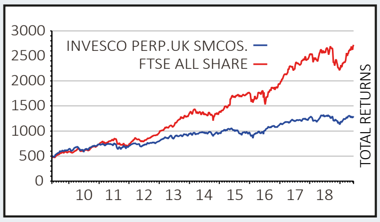
Smaller companies have the potential to generate high returns for investors as contract wins, a rise in customer numbers and market share gains can all have a bigger impact on their share price than larger, more mature companies.

Invesco's fund has significantly outperformed the Numis Smaller Companies index benchmark over the past three, five and 10 years. Shareholders have been richly rewarded with 17.9% annualised total returns over the past decade, according to Morningstar. The ongoing charges figure is 0.88%.

INVESCO PERPETUAL UK SMALLER COMPANIES INVESTMENT TRUST

BUY

(IPU) 527.8p / Stop loss: 350p



HOW IT DIFFERS FROM THE REST

Co-managers Jonathan Brown and Robin West have plenty of experience investing in the smaller company space and they've differentiated the fund by having an enhanced quarterly dividend.

They initially targeted 4% yield but subsequent share price appreciation means the yield has fallen to 3.5% based on the amount of dividends paid in the past financial year. The majority of smaller company investment trusts have yields of 2.5% or lower.

The fund's portfolio includes a stake in yarn manufacturer Coats

The dividend is funded by a mixture of income from its underlying portfolio and capital.

The introduction of this enhanced yield has helped to improve market sentiment towards the fund and the shares are now trading on a narrower discount to net asset value, currently 2.9%.

PORTFOLIO CONSTRUCTION

Approximately one quarter of the portfolio contains stocks worth £1bn and above. Many of these holdings were smaller companies which have subsequently grown in size; it tends to sell down once they get bigger. One third of the portfolio is in the £500m to £1bn range; and most of the rest sit in the £100m to £500m range.

The managers look for companies with lots of growth potential. 'We seek good profit margins, good returns, some pricing power or barriers to competition. Intellectual property and good brands are also desirable,' says West.

'We don't look at blue-sky companies,' he adds, referring to businesses which might have a bright idea but are not yet generating a profit. 'We want companies where we can analyse historic returns to see if margins have held up.'

Most of the analysis is done by the Invesco team with third party research used to help build financial models.

The managers undertake hundreds of company meetings and site visits a year, and Brown and West make sure they go together rather than splitting these meetings up.

'You get a more thorough analysis when two people attend a meeting,' says West. 'We can be more fleet of foot, as we can make a decision on whether to invest straight after a meeting, rather than one of us having to brief the other about what was said.'

PORTFOLIO THEMES

The two biggest themes in the portfolio are roll-ups/roll-outs where companies are either buying rivals or expanding organically to gain scale, and stocks offering growth at a reasonable price (GARP).

Among the former, positions include tenpin bowling operator **Hollywood Bowl (BOWL)**, document management group **Restore (RST:AIM)** and IT infrastructure provider **Softcat (SCT)**.

Johnson Service was snapped up when the managers realised the market misunderstood the company. 'People thought it was just a dry cleaning business, so it was priced at a discount. The shares benefited from the discovery effect as more people began to appreciate it had morphed into something much bigger in textile rental and linen services.' Shares in Johnson Service have nearly tripled in value in the past five years.

Polypipe (PLP) features among Invesco's GARP selections. Manufacturing pipes may be as dull as it can get, yet that's exactly what attracted Brown and West to the stock.

Many investors looking for exciting, market disruptive stories wouldn't give Polypipe the time of day which mean other investors had a chance to buy into an underappreciated story when it floated on the London market in April 2014 at 245p. Today the shares trade at 430.6p.

'Polypipe may appear to be a basic business but it has scale, is investing in factory automation and has an advantage with builders' merchants. The latter want to offer a full range of products to trade customers but they don't have room to take a lot of stock,' explains Brown. 'They are able to give a good service and replenish stock quickly, which smaller rivals can't do.'

Other types of investments in the fund include self-help or recovery situations and companies benefiting from structural growth. The latter includes promotional products group **4imprint (FOUR)** which recently qualified for inclusion in the FTSE 250 index, so perhaps no longer considered to be a smaller company.

West says it is the market leader in the US but only has a 3% market share, implying further opportunity for growth. He adds that 4imprint has benefited from expanding marketing spend across more channels.

A year ago Google told the company it couldn't see a go-to-name in promotional products from an advertising perspective. It suggested 4imprint try radio and TV advertising, as well as online. The returns from 4imprint following Google's advice beat expectations.

By **Daniel Coatsworth**
Editor

INVESCO PERPETUAL UK SMALLER COMPANIES KEY PORTFOLIO THEMES

Self help/recovery	Roll-out/roll-up	Structural growth	Core GARP
Alfa Financial	CVS	4imprint	Coats
Bovis Homes	FDM	Boohoo	Hill & Smith
Essentra	Future	Kainos	M&C Saatchi
Euromoney	Hilton Food	Keywords Studios	Polypipe
Northgate	Hollywood Bowl	Microgen	Robert Walters
SDL	Johnson Service	NCC	RWS
Topps Tiles	Restore		VP
Vectura	Softcat		Young & Co

Source: Invesco Perpetual

SOPHEON

(SPE:AIM) £11.15

Gain to date: 19.9%

Original entry point:

Buy at 930p, 13 September 2018

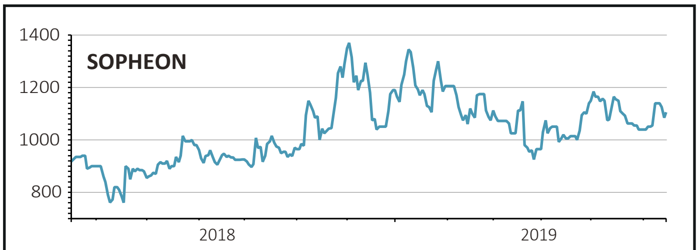
A DETAILED TRADING update from **Sopheon (SPE:AIM)** on 13 June confirms current performance momentum plus investment in future growth opportunities.

The innovation mapping software company is beginning to talk up digital transformation as a possible third pillar in the enterprise IT offering, alongside well established enterprise resource planning (ERP) and customers relationship management (CRM) themes.

This chimes with plenty of positives noises *Shares* has been hearing across the technology space.

Guidance is for growth to ease back somewhat in 2019 from the previous blistering pace. This is sensible management of expectations given the company's reliance on landing larger licence deals.

However, recent new business wins in Thailand and Pakistan illustrate success in penetrating new territories and through new channel partners, and that could easily equate to a busier than currently expected second half.



SHARES SAYS:

We have followed the story closely for more than two years, first pitching Sopheon as a *Great Idea* at 330p in June 2017, and hopefully many of our readers will have enjoyed the subsequent gains.

Yet if current target share prices hovering around the £15 mark prove accurate, there remains significant upside on offer even for new investors.

GB GROUP

(GBG:AIM) 540p

Gain to date: 27.8%

Original entry point:

Buy at 422.5p, 20 December 2018

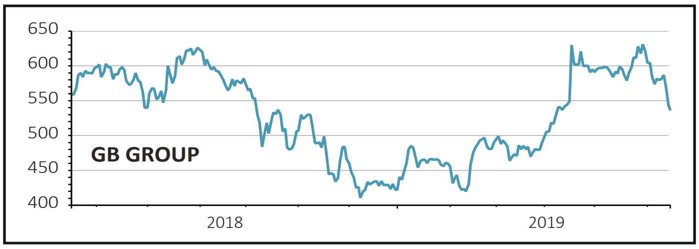
A PAUSE FOR breath was to be expected after such a strong start to the year for identity data intelligence expert **GB Group (GBG:AIM)**. That the stock, one of our top picks for 2019, remains up by more than a quarter year-to-date even after two months of relative drift illustrates the point.

GB believes it holds a technology edge over competitors and we agree. Knock-out full year results on 5 June suggests that customers both new and old increasingly share that view. Revenue up 20% to £144m encompasses very decent 12% organic growth while expanding margins at 22.3% fired a 21.7% jump in operating profit to £32m.

Some working capital wobbles saw operating cash flow decline 12% to £27.8m and cash conversion dip to 81%, but we believe this to be a short-term effect that will iron itself out down the line.

Otherwise it is business as usual with international expansion and cross/up-selling very much the focus, supported by integration of Vix Verify and IDology, opening new and 'significant' opportunities in Australasia and the US respectively.

Updated market expectations call for £195m of revenue and £46m of earnings before interest, tax depreciation and amortisation, implying rough 35% growth on both measures.



SHARES SAYS:

Typically impressive, GB remains a stand-out UK technology growth story.

FILTA
(FLTA:AIM) 187.7p

Loss to date: 15.4%

Original entry point:

Buy at 222p, 18 April 2019

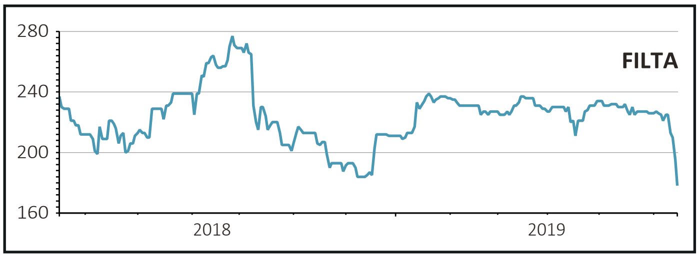
OUR TRADE ON filtration expert **Filta (FLTA:AIM)** was going so well until a trading update on 12 June triggered an aggressive sell-off in the share price.

The company talked about the benefits from the acquisition of grease and drainage management group Watbio starting to feed through via operational synergies and improved customer servicing.

It also said US operations were doing well, including existing franchisees broadening their territories and increasing the size of the fleets. In Europe the strategy is on track with further franchisees and vans added to the estate and guidance for the European arm to be trading profitability on a monthly basis by the end of the year.

Unfortunately investors didn't like news that group revenue and profit would be skewed towards the second half of the year. This can be a precursor to an eventual profit warning.

We think the market has completely overreacted to the trading update and that the focus should remain on the potential to grow across Europe and improve the quality of North American franchisees.



SHARES SAYS:
We see no reason in the latest update to change our positive stance. Investing in a stock like Filta requires taking a long-term view of the growth and cash flow potential. Small setbacks should be seen as an opportunity to buy more shares.

STHREE
(STHR) 292p

Gain to date: 0.7%

Original entry point:

Buy at 290p, 23 May 2019

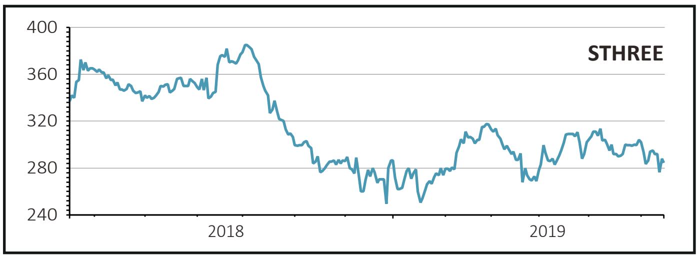
SPECIALIST RECRUITMENT firm **SThree (STHR)** posted a reassuring half-year update (14 Jun), putting it on track to meet its full year targets.

Group net fee income, also known as gross profit, grew by 9% to £163m in the first half driven by strong demand for contract staff in the US (up 22%), Continental Europe (up 16%) and Asia and the Middle East (up 15%).

The only region with negative growth was the UK and Ireland, as SThree restructured its UK business meaning a lower headcount and lower fees.

In its core disciplines of technology and life sciences, net fees rose in the first half with an accelerating trend in the second quarter. Encouragingly the energy sector sprung into life with 27% growth in net fees in the half, more than making up for a decline in banking and finance.

Demand for staff in the science, technology, engineering and mathematics fields is huge and growing and SThree is uniquely positioned to benefit among the London-listed staffing firms.



SHARES SAYS:
SThree's current rating of less than 10 times earnings undervalues the company's growth prospects. Keep buying.

Introducing AVI Global Trust

Name change

We are pleased to announce that the British Empire Trust has been renamed to the AVI Global Trust (ticker: AGT), with effect from 28th May 2019.

AGT
AVI GLOBAL TRUST

Since incorporation in 1889 as the *Transvaal Mortgage Loan & Finance Company*, AGT's name has always made reference to the scope of its investment mandate. In 1906, the name was changed to the *British Empire Land Mortgage & Loan Company* to reflect an increasingly global focus, and in 1964 the more familiar name of *British Empire Securities & General Trust* was adopted.
Today, 130 years after being founded, the company has developed a truly global reach and we believe its new name will more accurately reflect where and how it invests.

Investment Approach

Asset Value Investors (AVI) has managed the c. £1 bn AVI Global Trust since 1985. The strategy over that period has been to invest in asset-backed companies around the world, where we believe that attractive risk-adjusted returns can be earned through detailed research with a long-term mind-set.
Asset-backed companies is a broad category, and includes family-controlled holding companies, property companies, closed-end funds and, most recently, cash-rich Japanese companies. The approach is benchmark-agnostic, with no preference for a particular geography or sector.
AVI has a well-defined, robust investment philosophy in place to guide investment decisions. An emphasis is placed on three key factors: (1) companies with attractive assets, where there is potential for growth in value over time; (2) a sum-of-the-parts discount to a fair net asset value; and (3) an identifiable catalyst for value realisation.


Joe Bauernfreund, Portfolio Manager

A concentrated portfolio of c. 25* investments allows for detailed, in-depth research which forms the cornerstone of our active approach.
Once an investment has been made, we seek to establish a good relationship with the managers, directors and, often, families behind the company. Our aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in asset-backed companies–for the benefit of all.
AGT's long-term track record bears witness to the success of this approach, with a NAV total return well in excess of its benchmark. We believe that this strategy remains as appealing as ever, and continue to find plenty of exciting opportunities in which to deploy the trust's capital.

DISCOVER AGT AT WWW.AVIGLOBAL.CO.UK

*One investment is the Japan Special Situations basket of 18 Japanese stocks.

The rules companies have to follow when reporting earnings

How to keep up to date with company announcements

In order to successfully navigate the stock market it is useful to understand the rules on reporting earnings and what companies have to do if they know that their earnings are going to be either way above or way below market forecasts.

London Stock Exchange (LSE) has a 100-page document which sets out the rules and responsibilities for companies looking to join the market and the ongoing rules on disclosure for quoted companies.

Above all, the LSE has a responsibility to all participants, that is companies, professional investors and retail investors, to make sure that it runs a 'proper and orderly market'. In order to achieve this, the exchange requires listed companies to 'publish price-sensitive information on a timely basis and in accordance with the market abuse regulation'.

The quid pro quo for getting a listing on the exchange and getting access to outside investors is that, if a company's board knows that the company is about to beat or miss earnings forecasts spectacularly, they have to tell the exchange as soon as possible.

PUT IT IN YOUR DIARY

Almost every quoted company has a financial calendar on its website along with its recent results and past accounts. Some firms only report half and full year results, while some report every quarter, but every firm issues a trading update for its annual general meeting (AGM).

These dates are sent to the stock exchange and are a matter of record, so investors can make a note in their diary of when a company they own is next due to update the market.

If a company suddenly issues an unscheduled trading update, it's a sure-fire sign it has something significant to say and more often than not it will be bad news not good news.

Some companies have been known to try to sneak out bad news in an innocuous-looking AGM notice or a change of director, say, so it pays to keep an eye on the stock exchange's regulatory news service (RNS) or sign up for company announcements.

Fevertree made its investors wait for an update last year

LONG HOT SUMMER

Sometimes the wait for news can seem interminable. Shareholders in premium mixer-maker **Fevertree Drinks (FEVR:AIM)** will remember last summer's long wait for some kind of update.

Having posted its interim results on 24 July, including the tantalising news of a tie-up with SGWS in the potentially game-

Tesco had to pay £85m to investors for misleading them

changing US market, the company promptly went quiet for a full six months.

The end of the year approached and there was still no news. Some investors – fearful of a negative pre-announcement maybe, or more likely fearful of the lack of a positive pre-announcement – tipped out their shares, sending the price tumbling from £30 to £22.

The company remained tight-lipped, but when it eventually reported investors who had held fast or added to their holdings at £22 were rewarded with a 45% gain in the following five months.

As we approach the interim results next month, Fevertree shares are again sliding as each day passes without a positive pre-announcement. Investors who believe in the growth story might want to take note.

CRIMINAL TENDENCIES

When a company does breach the stock exchange's reporting standards, the exchange itself has fairly limited powers. It can suspend trading in the shares or, in extreme circumstances, it can cancel their right to be traded. In practice it is more likely to censure a company, privately or publicly, or issue a fine.

The act of issuing a profit warning, even if the warning is monumental, isn't in itself a criminal offence. However, if a company warns that profits are going to miss forecasts or that they have been over-stated in the past as a result of criminal activity, the issue usually gets escalated to the regulator, the Financial Conduct Authority (FCA), and in some cases the Serious Fraud Office (SFO) will need to be involved.

In October last year cafe operator Patisserie announced that it had uncovered 'significant and possibly fraudulent' irregularities in its accounts.

The stock exchange suspended the shares as a precaution, but the fraud was so extensive that even months of investigation by forensic accountants couldn't get to the bottom of it and eventually the stock was delisted.

When **Tesco (TSCO)** admitted in 2014 that it had over-stated its profits by £326m due to the way it booked payments from suppliers, it was ordered by the FCA to pay £85m in compensation to investors who were misled by a trading statement in August 2014 just before the revelations were made public.

The update effectively created a 'false market' in Tesco shares and bonds which meant that some investors paid more than they should have.

Tesco was also fined £129m by the SFO for false accounting, although under the terms of the deal between the company and the agency it didn't have to admit any wrongdoing.

"INVESTORS WHO HAD HELD FAST OR ADDED TO THEIR HOLDINGS AT £22 WERE REWARDED WITH A 45% GAIN IN THE FOLLOWING FIVE MONTHS"

Disclaimer: The writer owns shares in Fevertree

By **Ian Conway**
Senior Reporter

Reckitt Benckiser's new chief executive has a difficult job ahead

Change at the top could see the new consumer goods boss follow the kitchen sink playbook

The retirement of company veteran Rakesh Kapoor as chief executive potentially spared the board of consumer goods firm **Reckitt Benckiser (RB.)** from a tough decision after a promising start to his tenure tailed off badly.

Given that Reckitt has just confirmed Kapoor's replacement – an external candidate in the form of Pepsi man Laxman Narasimhan – now is a good opportunity to examine the business he will inherit and the changes he might make once he takes over in September.

WHAT IS THE COMPANY'S STRUCTURE AND BUSINESS MODEL?

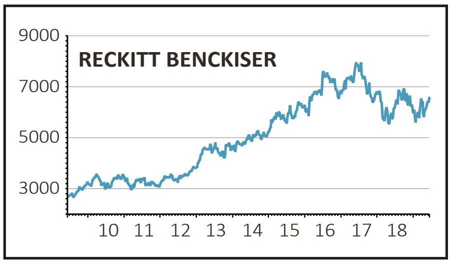
Reckitt ranks just outside the FTSE 100's top 10 by market value at the time of writing. In 2017 the company divided itself into two businesses units: Health, which encompasses brands such as Durex, Nurofen and Strepsils; and Hygiene Home which sells everything from Dettol disinfectant to Vanish stain remover and Air Wick air freshener.

The Health business is the more profitable of the two and there is speculation Reckitt might pursue a more permanent separation of the two units.

WHAT'S GONE WRONG AT RECKITT?

Having joined the company in 1987, Kapoor took over as chief executive in September 2011. At first everything seemed to go well as sales continued to build and the company was rewarded with a strong advance in its share price. Then like-for-like sales growth, stripping out the impact of currency movements and acquisitions, began to slow.

The $18bn capture of the Mead Johnson infant nutrition business in 2017 may have boosted sales but it stretched Reckitt's balance sheet and raised further questions about Kapoor's handling of the business, while missing out in an auction of Pfizer's consumer health assets in 2018 was also seen as a disappointment.



In addition, the company was hit by a high-profile cyber-attack, the ongoing fall-out over the health impact of a humidifier disinfectant sold in South Korea and, more recently, legal troubles at its pharmaceutical spin-off **Indivior (INDV)**. Reckitt's shares are now nearly 20% below their 2017 record highs.

WILL NARASIMHAN INCREASE INVESTMENT?

Several analysts have suggested Kapoor's successor might look to rebase or reset margins. In effect this is another way of saying he might boost investment in the company's brands.

Shore Capital analyst Alex Smith says: 'As an outsider, he probably has more of a license (if he felt the need) to reset Reckitt's industry leading margins and to reinvest in the business, including perhaps raising capital expenditure which has been notably below peers.'

WILL HE SPLIT THE TWO BUSINESSES?

RBC Capital Markets analysts reckon a split has become less likely due to Narasimhan's appointment 'We're intrigued. Our assumption had been that the new CEO would be an internal appointee. Our reasoning was that Reckitt Benckiser would be broken up over the next 18 months into two separately owned businesses, Health and Hygiene/Home, following the completion of the Reckitt Benckiser 2.0 programme.'

Narasimhan's appointment as head of the Health business as well as group CEO does suggest the company's future strategy will be more closely tied to the Health arm.

WILL HE CHANGE THE CULTURE?

There has been criticism of the high levels of executive pay and corporate culture at Reckitt and it certainly appears to have insulated itself from change through its leadership positions.

Kapoor, a long-time employee, took over from Bart Becht who had led the company since its 1999 formation through the merger of the UK's Reckitt & Colman and Dutch group Benckiser.

US investment bank Jefferies, commenting after Kapoor announced he was standing down in January, says: 'The unique Reckitt Benckiser pay-for performance model, so powerful for so long, is now under pressure, laying bare the fact that Reckitt Benckiser has the weakest culture and work-style ratings in the peer group.'

RECKITT LIKE-FOR-LIKE SALES GROWTH STALLS

Year	LFL sales growth
2011	4%
2012	5%
2013	5%
2014	4%
2015	6%
2016	3%
2017	0%
2018	3%

Source: Company Reports

WHAT OTHER CHALLENGES WILL HE FACE?

Among the other items likely to pile up on Narasimhan's desk is Indivior. The pharmaceutical firm has been charged with fraudulently marketing its Suboxone Film opioid addiction treatment. Although the business was spun off in 2014, the alleged wrongdoing largely falls in a period when Indivior was a wholly owned subsidiary of Reckitt.

The former parent company has set aside $400m to cover any liabilities relating to the case but this remains a key uncertainty for investors with the US Department of Justice reported to be pursuing a multi-billion dollar fine.

A big financial hit relating to Indivior would do nothing to improve Reckitt's balance sheet which remains stretched from the blockbuster takeover of Mead Johnson. At the last count net debt totalled £10.4bn.

A more existential threat to the business is posed by changing consumer tastes. People's appetite for big brands appears to be fading as individuals look for increasingly customised products, with smaller manufacturers better able to compete with their larger peers as sales have shifted from the shelves to the internet.

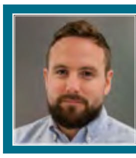
If Narasimhan matches the length of Kapoor's tenure at Reckitt this trend is likely to become an increasingly pressing issue for him to address.

SHARES SAYS:

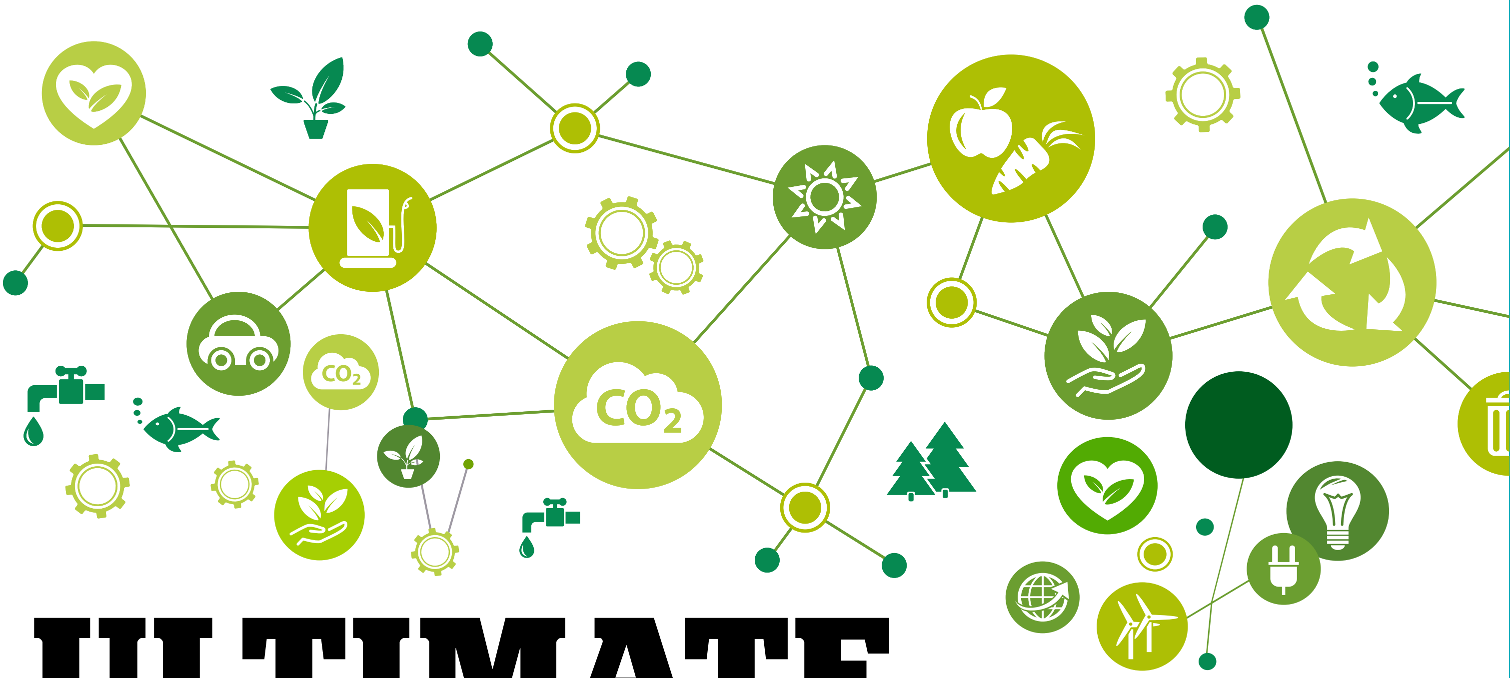
At £65.65 Reckitt trades on a 2019 price-to-earnings ratio of 18.5 – a discount to its closest peer on the UK stock market Unilever (ULVR) on more than 20-times. However, we think investors should resist the temptation to take advantage of this disparity.

We think there is a risk Narasimhan will follow the playbook of many incoming CEOs and kitchen sink (get all the bad news out early) on the business to give himself a realistic starting point for progress.

The time to reassess the investment case is once this process has been completed.



By **Tom Sieber**
Deputy Editor



ULTIMATE GUIDE TO ESG INVESTING

Why it matters and how to get exposure

Ethical investing is not a fad. It is becoming increasingly mainstream with figures from the Global Sustainable Investment Alliance showing global sustainable investment topped $30trn in 2018.

Given that regulatory and political pressure is helping to push the environmental agenda, anger is growing over the gap between executive pay and that of ordinary workers, and shareholders continue to count the cost of corporate scandals, all of us need to start thinking hard about these issues.

Once seen as a trade-off between your conscience and your wallet, the good news is there is evidence to demonstrate that including environmental, social and governance (ESG) factors when investing can help boost long-term returns.

For example, the MSCI KLD 400 Social index, focusing on 400 US firms which score highly in ESG terms, has generated annualised returns of 9.8% over the last 25 years against 9.6% for a wider universe of US stocks.

As emerging markets investment guru Mark Mobius, who runs the eponymous **Mobius Investment Trust (MMIT)**, says: 'By taking ESG factors into account, investors can significantly reduce the risk profile of their investments, which over the long term not only translates into positive risk-adjusted returns, but also positively impacts all stakeholders.'

HOW TO FIND SUITABLE INVESTMENTS

One problem for an investor looking to navigate this emerging space is that it isn't particularly well defined. Terms like 'green', 'ethical', 'ESG', 'sustainable' and 'impact investing' are often used interchangeably.

Less scrupulous companies and asset managers have taken advantage of this fuzzy picture by engaging in 'greenwashing' – making unsubstantiated environmental claims for their products or services.

But *Shares* is here to help. In this two-part series we will examine the 'E', 'S' and 'G' of ESG in turn as

ESG IN SUMMARY

Environmental
- Climate change risks
- Raw materials and water scarcity
- Pollution and waste innovation, clean tech, renewable energy

Social
- Employment policies and industrial relations
- Product and service liabilities
- Treatment of customers
- Impact on communities

Governance
- Shareholder rights
- Executive diversity
- Accounting
- Business ethics
- Scrutiny of key directors

THIS WEEK

- **PART 1:** We look at 'E' and 'S' from an investment perspective. This week's magazine also includes a look at the most popular ESG exchange-traded funds.

NEXT WEEK

- **PART 2 (published on 27 June 2019):** Why 'G' is important to investors. We also reveal our top ESG picks and create an ESG portfolio.

well as producing our own ESG portfolio of stocks and funds to help spark investment ideas.

While there are clear differences between all three areas, they are often interconnected. For example, **BP's (BP.)** Deepwater Horizon rig explosion and subsequent oil spill in the Gulf of Mexico was most obviously an environmental issue but it also had a significant social impact, given the employees killed and the communities affected by the spill, as well as having governance implications thanks to management failings in the run-up to the disaster.

The ability to tap into ESG trends has been made easier as index providers such as MSCI and FTSE Russell have come up with relevant indices such as FTSE4Good and FTSE All-Share ESG.

In some cases, these involve filtering out so-called sin stocks – think arms manufacturers, tobacco stocks, gambling outfits and booze producers – but in others the weighting of shares in the index is determined based on ESG criteria. Investors might be surprised to learn, for example, that **Royal Dutch Shell (RDSB)** is still the biggest stock in the FTSE All-Share ESG index.

And in recent years a more active approach has developed in the form of impact investing, directing investment towards companies that actively do 'good'.

THE IMPORTANCE OF 'E' IN ESG INVESTING:

WHY ENVIRONMENTAL ISSUES MATTER

Companies must now demonstrate they are being run responsibly and have adopted policies to address environmental issues.

More and more people want to know about the provenance of foods they purchase, labour practices, whether products are tested on animals, if the manufacturing process contaminates the local rivers and so on.

One place to find out if a company is environmentally-friendly is to look at a company's report and accounts to see if it articulates a policy.

One might think that a company such as Royal Dutch Shell, which extracts fossil fuels, is not environmentally-friendly.

But the question is more nuanced than it appears at first sight. For example, Shell is investing in a network of electric charging stations, so one needs to think about how to quantify this into the equation.

It has also introduced a policy whereby any project producing more than 50,000 tonnes of greenhouse gasses per year must have an energy plan in place. This resulted in a project in Malaysia using solar panels as a source of energy supply and a plant in Qatar using a fuel byproduct to power the plant.

The debate extends to less obvious companies. For example, one might think that **Tesco (TSCO)** has a large carbon 'footprint' due to its large

BENEFITING FROM THE GREEN SCENE

MANY BUSINESSES ARE benefiting from the shift to green investing, and range in activity from solar, lighting, packaging, and even, perhaps counter-intuitively, component suppliers to car manufacturers.

One example is Infineon, an electronics supplier to the global car industry. Its components help cars become more efficient and promote safety. In addition, the rapid move towards electric and hybrid vehicles is a potential bonanza.

A car run on fossil fuels contains around £230 worth of electronic components while an electric car has £700 pounds worth of electronics, a boon for suppliers like Infineon as the market moves towards electric vehicles.

numbers of energy sapping stores and food waste. However, it built the UK's first 100% carbon 'positive' store, which recycles rain water, utilises low power light emitting diode (LED) lights and is powered by solar panels.

ENVIRONMENTAL POLICIES

Some listed companies have explicit environmental policies on their websites such as **Next (NXT)**. The retailer aims to reduce energy used, cut back on carbon dioxide, increase energy efficiency and reduce waste by doing more recycling.

Last year, despite increasing floor space, Next reduced its carbon dioxide output by 14% and recycled 95% of waste, which otherwise would have gone into landfill. The company has installed smart building management systems in 97% of its buildings to increase efficiency and reduce usage. It has installed LED lighting and solar panels. Next has also set a target of producing 100% of renewable electricity by 2030.

Another good example is consumer goods giant **Unilever (ULVR)**. Owning iconic brands such as Ben & Jerry's, Unilever touches a lot of areas which impact the environment from manufacturing plants to packaging.

It has produced a blueprint for what it calls sustainable living, which is the cornerstone of its business activities. It defines sustainability as creating a world where everyone can live well within the natural limits of the planet.

A key pillar of the policy is reducing costs and using key resources more intelligently. Over the last 10 years, Unilever claims it has avoided energy costs in its factories equivalent to saving €490m, while using fewer raw materials and in turn resulting in less waste has saved the company over €260m. The company has lowered water usage through innovations such as low rinse laundry products.

TAP INTO FUND MANAGERS' SCREENING SKILLS

Unfortunately not all companies are this good at communicating their environmental practices; some don't have a policy at all. That's why it can pay to use the services of a fund manager when seeking to make investments explicitly linked to good environmental practices.

These fund managers will either have their own screening techniques or they employ a third party specialist to do the hard work.

Liontrust has a three stage approach to its investment process when it comes to constructing its sustainable portfolios. It screens for companies which it considers are negatively impacting the environment, such as miners, airlines, and oil and gas companies. It explicitly excludes investing in companies which have more than 5% of revenues involved in any form of fossil fuel extraction.

The second screening process is more about which companies to include and it has an interesting take on the environmental issue. It believes that the climate change challenge is providing good growth opportunities for some companies, at the expense of incumbents.

It believes investing in companies that are focused on providing solutions to environmental issues is the best way forward, both for a cleaner planet and its investors' returns.

Finally, the team engage with investee company managements to encourage greater responsibility and to move towards a greener future. The screening process reduces the potential universe

FOUR STOCKS INVOLVED IN RECYCLING

Pennon (PNN)
Although best known as a water company, half of its business is in waste management and recycling, through subsidiary Viridor. It has 800 waste collection trucks and operates eight energy recovery centres. It produces enough power to keep the lights on in over 400,000 homes.

Biffa (BIFF)
Biffa is engaged in collection, treatment, processing and disposal of waste and recyclable materials, as well as turning waste into energy to sell back to the grid. It operates the UK's largest commercial and industrial waste processing business as well as collecting waste from local councils.

DS Smith (SMDS)
The company is a supplier of corrugated packaging in Europe and plastics across the world. Its packaging is used to transport food, beverages, chemicals and pharmaceuticals among other items. The company boasts that its paper mill in Kent is capable of recycling over 2.5bn coffee cups every year.

Smurfit Kappa (SKG)
A global packaging business with 350 production sites across the globe, Smurfit Kappa has strong credentials as a green company. It replaces all the natural resources used to make its boxes by replanting trees and Smurfit also uses 75% of recycled fibres in its products. The company operates a 'chain of custody' whereby it verifies the traceability of suppliers.

of investment candidates in half, but still plenty big enough to construct diversified portfolios.

DIGGING DEEPER WHEN SCREENING

Edentree Investment Management runs one of the oldest socially responsible funds, **Amity UK Fund (0937175)**, which launched in 1988. It too starts its process by employing a negative screen and a positive screen to whittle down the available universe. As one might expect, it excludes companies involved in tobacco, alcohol, gaming, armaments and mining.

It also excludes companies doing business in countries with poor human rights records. It claims that it checks firms' supply chains and fair trade practices as well as the provenance of raw materials.

It outsources some of the heavy lifting to a company called Sustainalytics, which is a leading ESG and corporate governance provider. It measures companies on a number of metrics to come up with a rating on over 11,000 companies worldwide.

The positive screening aims to identify companies with strong green credentials and then conducts individual research on what it believes are the best companies.

A GROWING MARKET

Asset manager Impax takes a different approach, aiming to give its investors exposure to profitable companies which have material revenues from fast growing environmental markets.

It offers a number of funds and strategies including investment trust **Impax Environmental Markets (IEM)** which is focused on benefiting from

long term themes, such as growing populations, increasing urbanisation and depletion of natural resources.

It invests in small and mid-cap companies which have more than half of their revenues generated by sales of environmental products.

Elsewhere, there are a number of specialist investment trusts which give investors exposure to renewable energy and the environment. For example, **John Laing Environmental Assets (JLEN)** invests in a portfolio of operational environmental infrastructure projects. Its portfolio includes onshore wind, solar and waste and wastewater processing projects in the UK.

There are also a number of exchange-traded funds which provide exposure to the environmental theme such as **iShares Global Clean Energy UCITS ETF (INRG)**.

INVESTORS CAN REAP HIGHER RETURNS

One upshot of all these trends is the appearance of a new zeitgeist ('spirit of the age'). A few years ago it was assumed that investing in ESG would lead to inferior investment returns, but that didn't matter because the primary purpose was to 'take the moral high ground'. Today that is not the case.

In fact, due to the weight of money now dedicated to ESG, the chances are that companies considered to be 'green' are more likely to outperform.

A report by BNP Paribas highlighted empirical data suggesting that strong performance on ESG measures improved corporate financial performance and investment returns.

But, as far as many of the next generation of investors are concerned, the profit motive is not important when compared to wider issues like climate change, as the Extinction Rebellion protests showed. Younger people care about companies behaving responsibly and doing the right thing.

By **Martin Gamble** and **Tom Sieber**

DON'T MISS PART 2 ON 27 JUNE

WE LOOK AT THE 'G' IN ESG AND WE REVEAL OUR TOP ESG INVESTMENTS

TRACKING THE 'S' IN ESG:

WHAT YOU NEED TO KNOW ABOUT SOCIAL FACTOR INVESTING

Perhaps the lesser sung of the ESG playlist, experts hope that social factors will start to emerge from the chorus line to take a more centre stage spot in investment selection and performance.

The social leg of the ESG stool has typically focused on areas like worker rights, equal opportunities and gender pay equality but the reality is that social factors are a far more broad a complex collection of issues.

'Social looks at things like working conditions, including child labour and employee diversity, a business' interaction with local communities and health and safety issues,' say experts at M&G Investments.

But while many organisations have made significant strides forward in environmental and governance reporting, measuring social factors has been largely left behind.

THE WEAK LINK

'The S in ESG has been the weak link in investment analysis so far, and investors have lacked a shared framework to assess companies' approaches,' says Sharan Burrow, general secretary of the International Trade Union Confederation, a global worker's rights organisation.

In a study of 12 leading ESG frameworks in March 2017 the NYU Stern Center for Business and Human Rights found that despite the growing interest in ESG investing, reporting of the social element had failed to keep up with reporting on environmental and governance issues.

'Measuring things that are complex, multidimensional and sometimes intangible is a unique challenge,' say study authors Casey O'Connor and Sarah Lebowitz.

'Social phenomena is inherently reductive in a way that measuring revenue is not.'

Uber refusing to give holiday or sick pay rights to drivers, Facebook selling user data without permission, or a supermarket's overuse of plastic in product packaging might all be seen as social issues in varying guises.

What they share is a reputational risk to the organisations in question, a breakdown in trust that could cost sales, lose customers and see business partners (such as advertisers) walk away.

HARD FACT AND SUBJECTIVE IMPRESSIONS

The fact that many social issues must be assessed qualitatively rather than quantitatively is another gap in the analysis process.

Lara Blecher, shareholder engagement executive at investor adviser group PIRC, uses low trade union membership as an example. 'It could be that people feel comfortable enough with approaching their employers so they don't feel the need to join a trade union,' she says.

But it could equally be that staff have been bullied away from trade unions and are too scared to do so. 'Unless you have a good qualitative grasp of the issues, you don't have a great sense of what's going on,' says Blecher.

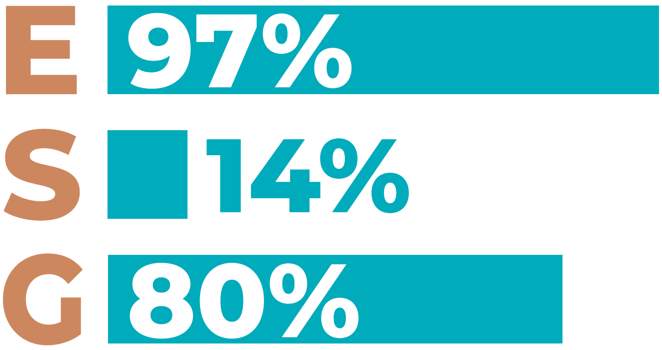
When it comes to evaluating companies on their toxic waste emissions (environmental) or vulnerability to fraud and corruption (governance), investors now have tools to assist them.

But The NYU Stern analysis shows that social measurement almost exclusively targets efforts, not effects.

'Only 8% of the more than 1,700 "S" indicators we examined evaluated the effects of company practices,' say O'Connor and Lebowitz. The other 92% of indicators look at areas like policies or commitments, conducting audits, risk assessments, training or other collaborative and stakeholder engagement actions, but with little or no heed paid to the actual impact they have.

This filters through to limited tools for investors. According to the NYU Stern study just 14% of social ratings products aggregated by the Global Initiative for Sustainability Reporting target investors.

'This suggests either that investors do not believe these factors are likely to improve investment outcomes (and therefore do not demand social products and services), or that there is something about social factors that make them difficult to package for investor use,' says the report.



'Of the 580 ratings products aggregated by the Global Initiative for Sustainability Reporting, 97% of environmental efforts and 80% of governance efforts target investors as the primary audience. When it comes to social efforts, only 14% similarly targeted investors.'

NYU Stern

IMPACT ON RETURNS

Understanding what to measure, and how to measure it, is part of the puzzle but social factors' impact on returns is also to be determined.

That leaves company bosses with an uncomfortable problem; prioritise long-term goals first for the good of the company and broader society, but risk short-term performance that could put their own jobs at risk.

There are also timeframes to be considered. The impact of social investments might take years to manifest themselves. 'Measuring customer satisfaction levels, or the value of intangibles, such as investment in innovation, brand recognition or culture, are things companies and investors have been able to do, despite their complexity,' notes the NYU Stern study.

Companies now need to find a way to report progress on social factors and impact 'in a way that allows investors to see a good trajectory for their investment purposes,' says Blecher.

NYU Stern authors O'Connor and Lebowitz accept that plenty of heavy lifting is still needed but they remain optimistic. 'With sufficient demand and ingenuity, there is every reason to believe that the challenge of developing sound, easy-to-use measurements for "S" can be overcome,' even if it does require a different approach.

The NYU Stern study highlights four areas where companies, and the ESG industry, should focus in a bid to move social reporting forward:

1. Measure real-world effects, not just efforts

2. Diversify the data – the ESG industry should look beyond the information provided by companies, such as data from trade associations

3. Establish and rely upon clear standards for evaluating social impacts. O'Connor and Lebowitz suggest industry-specific frameworks

4. Target investors as the primary audience. Companies and the ESG industry need to package their social data with investors in mind.

By **Steven Frazer** News Editor

The top five ETFs with an ESG focus as inflows surge

Discover the most popular products and how they play the ESG theme

Investors' capital flooded into environmental, social and governance (ESG) exchange-traded funds (ETFs) at the start of the year. Total assets globally reached a record $25bn at the end of January, a 10% increase in just a month, according to data from research provider ETFGI.

There are 210 ESG ETFs listed globally, and the top 20 took nearly $900m in net new assets in January. Among the top five most popular globally at the start of the year were a mix of socially responsible investing (SRI) and ESG funds covering broad geographical regions, plus a fund based on religious values.

ETFS FOR UK INVESTORS

Of the London-listed top five by net new assets, the most popular was **iShares MSCI Europe SRI UCITS ETF (IESE)**, taking a net $70m in January.

It aims to track the performance of the MSCI Europe SRI Index, which includes large and mid-cap stocks from 15 developed markets in Europe, counting Roche, Total, SAP and Allianz among its top 10 holdings.

Its approach is a mix of best-in-class selection of firms with outstanding ESG ratings, and values-based exclusions of companies with a negative social or environmental impact. It has an ongoing charge of 0.3% and has achieved 7.07% annualised returns over the past five years, according to Morningstar.

NEGATIVE SCREENING

The other bestselling European fund is **iShares MSCI Europe ESG Screened UCITS ETF (SAEU)**, a relatively new product which tracks the MSCI Europe ESG Screened Index, based on the MSCI Europe universe.

It uses only negative screening to exclude stocks from controversial industries such as nuclear and tobacco. Top 10 holdings include Nestle, Roche, **HSBC (HSBA)** and **BP (BP.)**, and it has an expense ratio of 0.12% and has returned 13.2% so far this year (to 11 June).

The US-focused product in the top five, **iShares MSCI USA SRI UCITS ETF (SUAS)**, launched in 2016. It tracks the MSCI USA SRI index, designed to capture those companies best at managing ESG risks and opportunities.

Its largest positions include Microsoft, Proctor & Gamble, Walt Disney and Home Depot. It has returned 17% so far this year (to 11 June) and costs 0.3%.

EMERGING MARKETS FOCUS

There are two emerging market ETFs completing the top five. One is **iShares JP Morgan ESG USD EM Bond UCITS ETF (EMSA)**, which launched last year. It invests in sovereign and quasi-sovereign debt from emerging markets governments that pass its ESG screening.

It tracks the JP Morgan ESG EMBI Global Diversified index, and excludes controversial sectors such as thermal coal,

TOP 5 ESG ETFS BY NET NEW ASSETS

Name	Net new assets ($m)
UBS ETF (LU) MSCI Emerging Markets Socially Responsible UCITS ETF	166
iShares MSCI EAFE ESG Optimized ETF	95
iShares MSCI Europe SRI UCITS ETF (IESE)*	70
UBS ETF (LU) MSCI World Socially Responsible UCITS ETF	68
Global X S&P 500 Catholic Values ETF	52

All overseas-listed ETFs apart from *.
As of end Jan 2019. Source: ETFGI

tobacco, weapons and any violator of the UN Global Compact principles.

The ETF gives exposure to more than 300 bonds with at least 2.5 years maturity, issued by countries including Uruguay, Poland and Peru. It has returned 6% year to date with an expense ratio of 0.45%.

The emerging markets equity product is **iShares MSCI EM SRI UCITS ETF (SUES)** which tracks the MSCI Emerging Markets SRI index. It comprises large and mid-cap stocks from 24 emerging markets countries, including those with outstanding ESG ratings and excluding those with negative social and environmental activities.

Holdings include Taiwan Semiconductor, Infosys, Banco Bradesco and Tata. The ETF has delivered 1% year-to-date with an expense ratio of 0.35%.

A SMORGASBORD OF FUNDS

Damien Lardoux, head of impact investing at EQ Investors, says it's no surprise these products are growing in popularity, as ESG investing is known to have the ability to improve returns.

'The reason ESG has become such a topic across the industry is because there are hundreds of studies that have shown, by implementing ESG factors into your process, you can reduce your downside risk and enhance returns,' he says.

The inflows also reflect investors' desire to hold companies to account and the evolution of the ETF market to offer more complicated products, says Hector McNeil, co-CEO at independent ETF platform HANetf. 'The industry is a bit of a smorgasbord because one person's moral or ethical stance will be different for someone else, so trying to capture some sort of commonality is difficult.'

He predicts there will be many more ESG-focused ETFs coming to the market in the future, and artificial intelligence will allow much more granular and accurate screening of stocks. 'We're only scratching the surface, it is going to get much more important and I think you'll see ESG versions of all the common themes in the investment world, whether equity income or commodities or factor indices.'

TOP 5 LONDON-LISTED ESG ETFS BY NET NEW ASSETS

Name	Net new assets ($m)
iShares MSCI Europe SRI UCITS ETF (IESE)	70
iShares MSCI USA SRI UCITS ETF (SUAS)	45
iShares MSCI Europe ESG Screened UCITS ETF (SAEU)	34
iShares MSCI EM SRI UCITS ETF (SUES)	32
iShares JP Morgan ESG USD EM Bond UCITS ETF (EMSA)	24

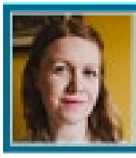
As of end Jan 2019. Source: ETFGI

PRICE FOCUS

So are these products a good option for DIY investors wanting to bring an element of ESG investing to their portfolios? 'Yes I think they are,' says McNeil. 'What affects returns is largely price and having that ESG sleeve [available on ETFs] is important because it allows investors to keep a sub-50 basis point portfolio.'

Lardoux adds: 'For your general investor, it makes sense to use those ETFs.' He says price is important, but he thinks the slightly more expensive SRI products are worth the extra cost versus the ESG-screen-only ones which are 'quite old school'. For example, the non-SRI version of the MSCI Europe fund costs 12 basis points, compared to 30 basis points for the SRI version. 'It's a bit more expensive, but still you could argue relatively cheap.'

In this growing investment universe, what's the starting point for investors wanting to dip a toe? They should do their research, read factsheets and methodologies to see exactly what a particular ETF does and how it screens stocks, concludes Lardoux.



By Hannah Smith

ETFs to gain exposure to the US, Europe and China

How low-cost passive tracker funds tap into different parts of the world

While there are many compelling opportunities for investors in companies on the UK stock market, there is a whole world of opportunity out there for people to make money.

And more importantly, investing in companies in other countries can provide important portfolio diversification benefits, particularly as a domestic-focused firm on the other side of the world is rather unlikely to be affected by Brexit, for example, and the whims of British politicians.

It's not always easy to directly invest in companies in other countries, and in some cases it's impossible. That's where investment funds come to the rescue. They provide instant diversification and give you access to different geographic markets at the click of a button.

Many of these funds overcome the hurdles about foreign ownership of stocks and there is rarely the form-filling you often get when investing in individual companies listed on overseas exchanges.

TWO PATHS TO TAKE

Investors have two main choices to get geographic exposure – either buy an actively-managed fund where someone is picking stocks or other assets to go into a portfolio, or buy a passive fund which simply tracks the

performance of a specific index.

In the latter case, the index will have specific rules to determine which stocks and/or other assets qualify for inclusion. Costs for passive funds tend to be much lower than active funds because the index is essentially maintained by computers and there isn't an expensive fund manager salary to pay.

We see merit in considering both strategies. On one hand there are some very good fund managers with the skills to outperform the market. On the other hand, passive products do help to keep your costs down – which really matters in investing – and they provide simple, easy access to a broad range of assets.

For this article we're going to focus on the passive side and explore the range of exchange-traded funds (ETFs) offering exposure to three different geographic markets.

ETFS TO PLAY THE US

It can be hard to beat a market over a long period which makes it a fairly easy choice to buy a fund which tracks the whole thing.

While there will always be some savvy stock pickers who happen to beat the market in any one year, even the legendary Warren Buffett has conceded he most likely can't outperform the US S&P 500 index in the long-term.

Indeed, a study earlier this year from S&P Dow Jones Indices revealed that 64% of active US large cap funds underperformed the S&P 500 in 2018.

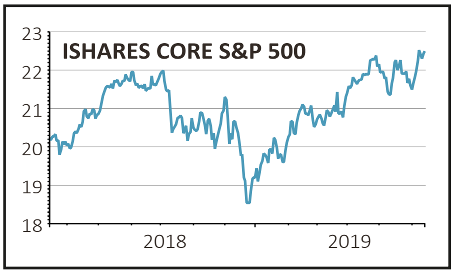
Over 10 years, 85% of such funds underperformed compared to the index, and over 15 years the figure rose to almost 92%.

So at a time when the outlook for the US economy over the next few years is considered to be better than most other developed countries, a great way to play the US market is through an ETF.

AJ Bell's head of passive portfolios Matt Brennan says: 'US financial markets have always been 10 to 15 years ahead of everywhere else, and even active managers now understand that it is really hard to beat the US market, as there is a lot of information out there and it is so efficient.'

THE ISHARES ETF

Brennan flags **iShares Core S&P 500 (CSP1)** and says its size and its low price, particularly when taking into account dealing charges, make it a standout candidate.



While its headline 0.07% fee is marginally higher than others on the market, it has significantly lower dealing charges and bid/offer spread, bringing the overall fee down compared to other ETFs which also track the US market.

Some of the names being tracked by the index include Microsoft, Apple, Amazon and Warren Buffett's investment vehicle Berkshire Hathaway.

OTHER ETFS

If you want to look further down the market cap spectrum, among the ETFs tracking the Russell 2000 small-cap index in the US is **Lyxor Russell 2000 ETF (RUS2)** with a 0.19% ongoing cost.

ETS TO PLAY EUROPE

European economies have had a

tough time recently, having been singled out as the global laggards when it comes to growth.

Proclamations of doom were made at the start of the year, when fears grew that the euro area could be heading for a recession.

And while there have been shocks and various little nasties from unexpected slowdowns and trade tensions, things may be about to turn.

According to Amundi strategist and economist Tristan Perrier, some of the factors that were 'highly negative' in 2018 are only temporary and are likely to fade.

For starters, the German auto industry is expected to pick up again as the year continues, while people in France should be spending more again as the gilets jaunes protests start to wane.

Across Europe, Perrier adds that household income in recent months has been on a 'steep upward trajectory', with the amount of cash people have in their pockets this year expected to be even better as inflation goes down.

He also points out that even as bad news was piling up on GDP and other economic indicators, the unemployment rate in the Eurozone kept declining, to 7.8% in January 2019 from 8.6% a year earlier.

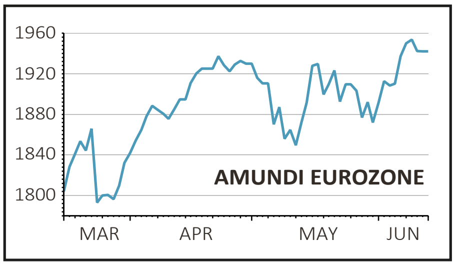
In addition, Perrier says employment has remained strong, and most importantly, wages rose by about another 2% last year.

He adds: 'All of these figures should mean an increase in real household consumption far above last year's 1.2%, while year-on-year inflation recedes rapidly under the base effects of energy prices (even when assuming a slight increase in oil prices this year).'

There are risks, particularly around Brexit and persistent threats of tariffs on exports of European vehicles, as well as the continuing populist movement across the continent. But from an economic point of view the clouds appear to be lifting in Europe.

THE AMUNDI ETF

One way to play the turning tide of Eurozone growth is **Amundi Prime Eurozone (PRIZ)**.



The ETF aims to replicate the performance of the Solactive Euro 50 index, a benchmark which follows the 50 largest companies in 10 Eurozone countries.

It has an ongoing charges

figure of just 0.05%, which is better than most other similar ETFs on the market, and provides exposure to some of the biggest and well-known companies in Europe like Siemens, **Unilever (ULVR)**, Airbus and Santander.

OTHER ETFS

Further products offering exposure to the Eurozone territory include **Vanguard FTSE Developed Europe ex-UK ETF (VERX)** which tracks an index of large and mid-cap stocks in such countries as France and Germany. It charges 0.12%.

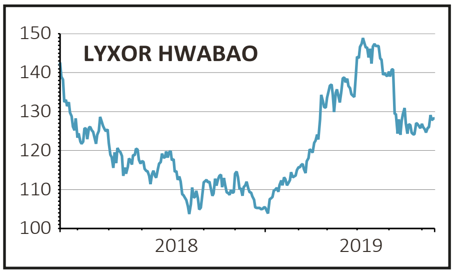
ETFS TO PLAY CHINA

Now could be the time to take the plunge and invest in China's growth story as the country has become more accommodating to foreign investors.

In a two-stage process which began in June last year, over 200 large cap Chinese companies on both the Shanghai and Shenzhen stock exchanges have been added to the MSCI Emerging Market and ACWI indices, two globally accepted investment indices.

Companies trading on these Chinese stock exchanges are known as A-shares, and unlike companies on the Hong Kong Stock Exchange which overseas investors have always been able to buy, they are considered more representative of the Chinese economy as they are a lot more domestically focused.

And given their inclusion in the aforementioned indices, overseas investors are now able to invest in them, albeit only via investment funds due to Chinese government regulation.



THE LXYOR ETF

One way to access China A-shares is **Lyxor Hwabao WP MSCI China A ETF (CNAA)** which charges 0.65%. Adam Laird, Lyxor's head of ETF strategy for Northern Europe, says the country is a 'high performing area', which provides good opportunity for investors as ordinary people in the world's most populous country continue to get richer.

He adds: 'The big story about China is that factor of opening up. Everyone's seen over the last decade or longer how much of a role China is playing in the global economy.

'There's a lot of opportunity. You've got some domestic companies in China that have a larger consumer base than big multinationals because of the size of the population there.'

The Lyxor ETF tracks the MSCI China A Net Total Return index which captures Chinese large and mid-cap A-shares listed on the Shanghai and Shenzhen exchanges. It covers only those securities accessible through the 'Stock Connect' link between China's mainland markets and the Hong Kong Stock Exchange.

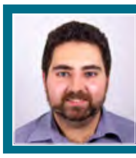
OTHER ETFS

Another way of getting access to China is **Xtrackers CSI 300 Swap ETF (XCHA)**. It tracks the CSI 300 index which covers the 300 largest and most liquid A-share stocks.

The ETF is synthetically replicating an index of Chinese stocks rather than physically owning the underlying shares.

Synthetic ETFs use derivatives such as swaps to track the underlying index. This process can be difficult to understand and many investors stay clear of such ETFs as they don't like the idea that the product doesn't physically own the assets.

However, the Xtrackers ETF has significantly outperformed the Lyxor ETF since the start of 2017, generating nearly 26% total return versus 3.1% respectively.



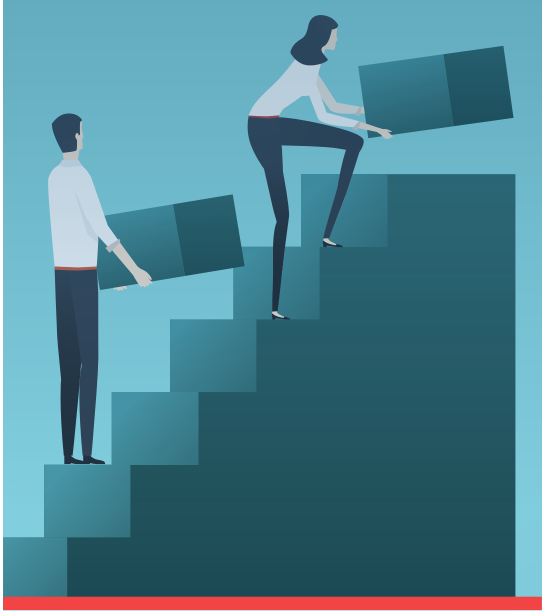
By **Yoosof Farah**
Reporter

Syncona sees surge in net asset value growth

INVESTMENT TRUST **Syncona (SYNC)** has reported 38% growth in net asset value (NAV) for the year ended 31 March. It invests in life science businesses and the past year's performance has been helped by valuation increases to its stakes in Autolus, Nightstar and Blue Earth.

Syncona says it will no longer pay dividends, adding its investee companies are 'fast growing and capital intensive' which implies it will use spare cash to back their growth plans rather than return money to shareholders. A final dividend of 2.3p will be paid in July.

The trust is focused on so-called 'Third Wave' innovation, which include gene and cell therapies. With no incumbents, these technologies are expected to revolutionise the healthcare industry.



John Laing Environmental looks beyond wind and solar

LIKE WHEN A little-known band comes out with a banger and then everyone likes it, **John Laing Environmental Assets (JLEN)** is looking to tilt its portfolio as its biggest exposures, wind (43%) and solar (25%), have become too much of a scene.

Citing 'competitive pressure' in the sectors, JLEN is looking to add more positions to its portfolio in areas like anaerobic digestion (AD), biomass, energy-from-waste and hydro power.

Chris Holmes, co-manager of the trust, believes the 'opportunity set' is big for AD in particular, and says it could soon make up more of the portfolio than solar.

The trust's full-year results on 13 June showed a 5.1% increase in net asset value and 3.2% dividend growth.

Why cash levels have shot up at Schroder AsiaPacific

MATTHEW DOBBS, THE manager of **Schroder AsiaPacific (SDP)**, has increased the fund's cash levels to their highest level for at least a decade according to investment bank Stifel.

While Dobbs acknowledges Asian markets are modestly cheap, he is concerned about the weak growth outlook and the scope for the US-China trade spat to spin out of control.

Since late 2018, Dobbs has moved the portfolio from a modestly geared position to 5% net cash as at 30 April while dialling down the China and Korea exposure.

Stifel believes Dobbs' 30 years of experience of Asian markets investing 'will be invaluable to navigate these changing markets'.

Five different ways to play the bond market rally

We look at BlackRock Sterling Strategic Bond Fund and other collectives targeting fixed income markets

The bond market is back in favour as investors seek solace in fixed income amid fears of a potential recession in the near future.

In particular, prices of US government bonds, known as Treasuries, have gone up in recent months thanks to increased demand fuelled by concerns about interest rates and global growth. And investors have been keen to own very short-dated bonds such as those with less than 12 months to maturity.

It's an interesting turn of events as stocks and shares were all the rage for much of last year with many investors uninterested in bonds. But the big equity market sell-off in the fourth quarter of 2018 and growing fears about the global economy have shifted investors' attention back to fixed income.

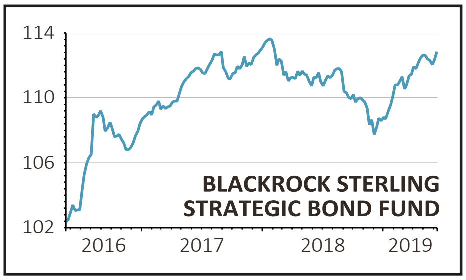
Also fuelling the bond space are rising expectations for central banks to consider restarting quantitative easing (QE) where they buy bonds and other assets to boost liquidity in the financial system.

US government bonds have been in big demand

BLACKROCK'S THREE YEAR TRACK RECORD

This is an interesting backdrop for **BlackRock Sterling Strategic Bond Fund (BZ6DDH5)** which has just celebrated its third year, delivering 17.3% return since inception or 5.5% annualised.

As you can see from the chart, it is among the list of bond funds which have seen their prices appreciate since early 2019.



The broader question is whether investors are now too late to play the recovery in demand for bonds as prices have gone up and yields have come down.

While returns may be harder to achieve in the near term, particularly if investors have got it wrong and over-estimated central banks' willingness to prop up the markets, there is merit in exposure to bonds as part of a diversified portfolio for the long-term.

'If you are building a risk-controlled portfolio, having 100% in the share market is rarely done, particularly among advised clients. The vast majority of people will have exposure to bonds,' says Ben Edwards, co-manager of BlackRock Sterling Strategic Bond Fund.

'If the world is moving into a slower growth phase and markets are pricing in a higher chance of recession then I think central banks will move into supportive mode and bond-buying will form part of that.'

Edwards is among the investors preferring to put money into shorter-dated bonds. He likes knowing that a bond will soon mature so he can have a plan how to recycle the capital.

'The overriding theme of the fund is defensive credit positioning. We haven't bought a lot of high yield or emerging market bonds despite the ability to do so in the fund.'

The fund manager thinks the Fed's rate hikes are near the end of their current cycle so he believes it is better to have good quality assets in the fund if markets could soon turn.

THREE-PRONGED APPROACH

BlackRock Sterling Strategic Bond has three different pots which make up its overall portfolio. The 'income' component sees the asset manager lend to high quality (largely BBB and BB-rated) companies with the goal of obtaining attractive yields from corporate entities with historically low default risk.

The 'alpha' component involves the team taking advantage of inefficiencies in the global fixed income markets. 'For example, if you are an equity fund manager and like **Barclays (BARC)** you simply buy the shares when they are at a desirable price, or not at all.

'But there are 2,000 Barclays bonds with different maturities and risk characteristics, all with different returns. Once you've done your analysis to invest in a certain company, you then have an opportunity to find mispriced bonds,' says Edwards.

Thirdly, the 'beta' component involves allocating money to the most attractive areas of the global bond markets including high yield and emerging markets, although the fund manager reiterates that he hasn't bought a lot of the latter two categories. 'The returns from the fund have been pretty good over its first three years and we haven't needed to add a lot of extra risk to get there.'

MIXTURE OF ACTIVE AND PASSIVE

Interestingly for an actively-managed fund, it tends to use passive exchange-traded funds (ETFs) to get exposure to high yield bonds.

Edwards explains that prior to launching the fund BlackRock looked at the strategic bond space and how others promised to allocate to certain assets. It identified the best way to structure the BlackRock fund was to do certain parts as efficiently and with the least possible costs through passive instruments.

'If we want exposure to a sector we buy an ETF, if we like the debt of a certain company we buy the bonds,' he says.

The bond is currently yielding circa 3% which is the same as when it launched. However, a 5.5% annualised return shows it has managed to generate additional returns elsewhere. Edwards attributes the broader mix of returns to income from the portfolio, capital appreciation from government bond yields falling, credit spreads coming down, and bonds getting closer to maturity.

By **Daniel Coatsworth**
Editor

OTHER WAYS TO GET EXPOSURE TO THE BOND MARKET

There are a variety of ways to add bonds to your investment portfolio. Perhaps the easiest way is to buy a bond fund, either one that tracks an index of bonds via an exchange-traded fund or an actively-managed investment fund where an expert is doing all the hard work for you.

EXAMPLES INCLUDE:

1. **Lyxor FTSE Actuaries UK Gilts 0-5yr ETF (GIL5)** which tracks UK government bonds with remaining maturities of less than five years.

2. **iShares GBP Corporate Bond ETF (SLXX)** which tracks an index of large and liquid corporate bonds with investment grade rating.

3. **Artemis Strategic Bond (B2PLJR1)** which seeks to achieve income and capital growth by investing mainly in fixed income markets.

4. **BMO Barclays Global High Yield Bond ETF (ZHYG)** which tracks an index of global high yield corporate bonds.

Having bond exposure in a world of uncertainty

For an investor looking for income, the ability to invest in both equities and bonds can be beneficial, particularly in the current investment climate, says David Smith, Fund Manager of Henderson High Income Trust.

When economic growth is looking fragile and uncertainty creeps into equity markets, having the flexibility to diversify your exposure to different asset classes can be beneficial – particularly for income-seeking investors.

At Henderson High Income Trust (HHI), we have the ability to invest in bonds (government and/or corporate debt) in order to diversify the income generated from the underlying holdings and reduce the overall volatility of the Trust. In recent years, government and investment grade corporate bonds (the higher quality bonds as defined by the rating agencies), have offered little in way of income for investors given the level of interest rates and bond yields. That has been reflected in the Trust's positioning with around 90% typically invested in equities. However, with yields becoming more attractive recently we decided to move part of the portfolio out of equities and into bonds, specifically US investment grade corporate bonds, including some well-known companies like Amazon and McDonald's.

END OF CYCLE?

Over the past 12 months there have been signs that the global economy is slowing at the same time as corporate profitability and equity markets are close to peak levels. Closer to home, the UK is surrounded by Brexit and political

Janus Henderson INVESTORS

uncertainty so we believe it's prudent to both move defensively and consider other markets for investment opportunities. Having the ability to own bonds and invest overseas are key benefits of the Trust in this regard.

WHY US BONDS?

With the US Federal Reserve increasing interest rates, we saw an opportunity late last year to buy investment grade US corporate bonds, yielding on average an attractive 4.5%, which hasn't been possible for some time. The rationale was two-fold: firstly, it meant we could reduce our exposure away from equity markets by allocating more to bonds without impacting the income of the Trust; and secondly, it presented an opportunity to diversify away from the UK by buying the debt of US companies. Increasing the bond exposure also helps reduce the overall volatility of the Trust's net asset value (NAV), given bond prices, especially investment grade credit, generally fall less than equities in more challenging economic environments. Having increased the Trust's exposure to US investment grade bonds, the overall bond portfolio is now 19% of net assets.

BORROWING

The bond portfolio has always been a key feature of the Trust; it dampens the overall volatility of the NAV and offers a predictable revenue stream. The other important aspect of the Trust is its ability to use gearing*, especially to fund the bond portfolio given its relative stability, to help enhance the overall income of the Trust.

With the Trust's borrowing costs currently lower than the yield on the bond portfolio, we have utilized gearing fully to fund the bond portfolio, which boosts the revenue generation and helps support the Trust's 5.5% dividend yield. It also means that within the equity portfolio we don't have to chase the highest yielding areas of the market where dividend cuts and value traps are more prevalent. With this structure the equity portfolio can continue to own some high quality companies with attractive dividend growth prospects.

Given the increasing probability of an economic slowdown and uncertainties in the UK, we have utilized the Trust's ability to own bonds and invest overseas to position the Trust more defensively.

DAVID SMITH,
FUND MANAGER – HENDERSON HIGH INCOME TRUST

*Gearing is a measure of the debt level of a company. Within investment trusts it refers to how much money the trust borrows for investment purposes and is normally expressed as a percentage of net assets

Wine, a warm house and holidays: planning for the retirement you want

The steps you need to take enjoy a comfortable post-work life

What do you think of when you picture retirement? Daytime television adverts usually depict an impossibly healthy couple sailing into the sunset, laughing manically at nothing in particular.

At the other end of the spectrum, campaigners and the media often highlight the struggle older people face heating their homes or simply making ends meet.

I suspect most *Shares* readers are aspirational when thinking about retirement, aiming for the financial freedom to enjoy life. But what steps do you need to take to get to the retirement you want?

While annual incomes are on average £6,000 a year lower in retired households (£23,900) compared to non-retired households (£29,700), there are some things we continue to splash out on regardless of age.

HOW MUCH YOU'LL NEED FOR RETIREMENT LUXURY

You'll need to consider both your state and private pension entitlements when figuring out the income you'll have in retirement. The current flat-rate state pension is worth £168.60 a week (£8,767.20 a year) and rises in line with the highest of average earnings, inflation or 2.5% each year.

It's worth noting you may get more or less than this if you built up state pension rights under the old system or have a patchy National Insurance record. The state pension age is currently rising to 66 by October 2020, with further increases planned to 67 by 2028 and 68 by 2039, so you'll need to factor this into your retirement planning.

If we assume you get the full flat-rate amount from age 65, plan to retire at that age and have no other income sources, you'll need roughly £15,000 a year more to enjoy an 'average' retirement (based on ONS stats).

If you keep your pot invested in drawdown and withdraw 4% each year (rising annually with inflation) you'll need a fund of around £375,000 in today's money to reach that target.

If your target is a more frugal retirement or you have other sources of income, a pot worth £250,000 should generate an income of £10,000 a year. For those eyeing a more luxurious retirement, a fund of £500,000 could deliver a 4% annual income of £20,000, while you'll need £750,000 to generate an income of £30,000 a year.

These numbers are just a guide on what might represent a sustainable retirement income,

so it's vital to review your plans regularly to make sure you're on the right track.

While hundreds of thousands of pounds might sound like a mountain to climb, it is achievable if you start early and save often. For example, someone earning £30,000 who saves 8% of their salary from age 25 will get to a fund of almost £200,000 in today's prices (assuming investment growth of 3% above inflation).

That works out as an annual contribution of £2,100 a year, or about £40 a week. Save more and that number will escalate – although if you delay contributing to a pension you'll need to set aside more to reach your goal.

And don't forget your contributions will be topped up by a tax relief bonus of at least 20%, with even more available for higher and additional-rate taxpayers.

WHAT DOES RETIREMENT COST?

Clearly what you spend in retirement will depend on your personal circumstances. However, to give you an idea of what your costs might be let's consider official data from the Office for National Statistics (ONS).

People's spending patterns fluctuate throughout their working lives and into retirement, reflecting shifting priorities as we grow older.

Former Oasis frontman Liam Gallagher was in his twenties when he complained his search for 'action' only led him to 'cigarettes and alcohol', but it turns out those aged 65 to 74 are more likely to splash the cash on fags and booze than most other age groups.

On average those aged 65 to 74 spend just over £550 a year on alcoholic drinks, equivalent to £10.60 a week. That'll buy you a decent bottle of plonk or a couple of four-packs of lager every weekend.

Perhaps unsurprisingly money spent on alcohol away from home tends to fall as we get older, suggesting a big night on the town for many is replaced by a more frugal and potentially quieter night in.

THE RISING (RELATIVE) COST OF HEATING OUR HOMES

Retired households are significantly more exposed to shifts in energy and fuel prices than their younger counterparts.

The cost of heating your home tends to remain relatively unchanged throughout your life, but represent a far bigger proportion of expenditure for retired households.

Average annual bills for over 65s were north of £1,100 in 2017/18, representing almost 5% of the average retired person's income. A non-retired person would face broadly similar energy costs but with their income higher, the impact of any price changes would be lower.

NICE PACKAGE

Thankfully retirement is about more than drinking, smoking and worrying about your fuel bills, with those who have just reached state pension age spending around £1,700 a year on package holidays, more than any other age group.

That could buy a week all-inclusive in the Canary Islands for two people in a four-star hotel or a seven night cruise round Spain and Portugal.

By comparison, those aged under 30 spend just £700 a year on package holidays while the 30 to 49 age group splurge just under £1,300 a year – although this might reflect the fact younger people are more likely to arrange their own trips rather than opt for a package deal.

By **Tom Selby**
AJ Bell Senior Analyst

FTSE 100 needs more momentum to make further gains

A lack of earnings upgrades is causing the market to tread water

We are six months into the year and the FTSE 100 is up nearly 9%, with the prospect of a decent dividend on top. Given everything that is going on in the world right now, it seems fair to assume that many investors would have taken that return for 2019 as a whole, had they been offered it on 31 December last year.

The index's advance is at least partly the result of its valuation, since a forward price-to-earnings ratio of 13.1-times and a dividend yield of 4.7% look attractive, in absolute terms and also relative both to the benchmark's history and to other geographic options available to investors.

Bulls of UK stocks may therefore be drawing comfort from how aggregate profit forecasts for the FTSE 100 are holding up, despite the prevailing uncertainty over issues such as global trade and tariffs, central bank monetary policy and the growth trajectory of the Chinese and US economies, let alone Brexit.

Equally, bears can point to a lack of upgrades in earnings (at least of any magnitude) and downgrades to dividends to back up their cautious outlook.

FTSE 100 IS EXPECTED TO PASS 2011'S PROFITS PEAK IN 2019

Source: AJ Bell, company accounts, Sharecast, consensus analysts' forecasts for 2019 and 2020

PROFIT PROGRESS

The good news is that analysts are, in aggregate, expecting the FTSE 100 to generate an all-time high pre-tax profit of £225.5bn in 2019. That is a meaty 16% increase on 2018 and finally takes the index past the £202bn peak of 2011, when over £100bn in pre-tax profit came from the then-buoyant mining and oil sectors.

In 2019, oils and miners are forecast to churn out £74bn in profit, so the base of the FTSE 100's earnings power seems more broadly based than it was eight years ago.

On balance, this should be a good thing, especially as the aggregate profit contribution from oils and miners is expected to drop by some £1.6bn in 2019 thanks to soggy commodity prices.

Financials and industrial stocks are seen by analysts as taking up this slack. The rebound in industrials stems mainly from **Rolls-Royce (RR.)** and **Melrose (MRO)**, as the former sorts out its engine problems and cost base and the latter gets to work on 2018's acquisition of GKN.

Whether investors feel comfortable relying on the banks is another matter. While the banks are already heavily provisioned for a final surge in claims, the PPI deadline probably cannot come quick enough for them.

Meanwhile, challenger and digital rivals continue to nip at their heels and central banks' U-turn in interest rate policy, with the next movement now likely to be down rather than up, will only hurt net interest margins at a time when they are already thin.

LACK OF MOMENTUM

The unhelpful contribution from miners and oils may not be a surprise given the lack of clarity on the global economic backdrop but the index is relying on

FTSE 100 EARNINGS GROWTH FORECASTS RELY HEAVILY ON FINANCIALS AND INDUSTRIALS			
Percentage of forecast FTSE 100 profits		**Percentage of forecast FTSE 100 profits growth**	
Financials	24%	Financials	37%
Oil and gas	17%	Industrial goods and services	24%
Mining	16%	Health care	19%
Consumer staples	14%	Consumer staples	13%
Consumer discretionary	9%	Consumer discretionary	5%
Industrial goods and services	8%	Telecoms	4%
Health care	6%	Utilities	4%
Telecoms	3%	Technology	0%
Utilities	2%	Oil and gas	(0%)
Technology	1%	Real estate	(1%)
Real estate	0%	Mining	(5%)

Source: AJ Bell, Sharecast, analysts' consensus pre-tax profit forecasts, company accounts

banks and industrials – which are also cyclical and sensitive to the economy to varying degrees – for this year's earnings growth.

That may be a concern for some and bears may continue to growl unless we see some genuine upgrades to profit (and dividend) forecasts for 2019 and 2020, so that some positive momentum can carry the FTSE 100 to, and then beyond, May 2018's all-time high of 7,877.

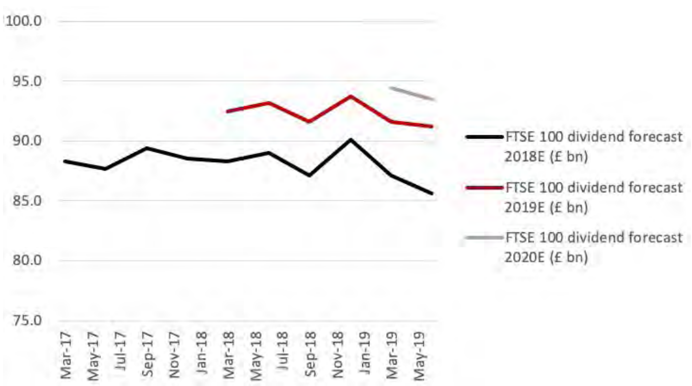
The news here is mixed. We are not seeing any downgrades but we are not seeing upgrades of any note when it comes to earnings.

In aggregate, analysts' earnings forecasts for the FTSE 100's members have dropped by 7% so far this year, to £226bn from £242bn at the end of last year. The only good news is that the rot stopped in the second quarter, when earnings forecasts ticked up from £224bn in March.

The absence of profit upgrades or downgrades suggests that neither FTSE 100 boards nor analysts know much more than investors, as analysts will tend to use guidance from management teams as the basis for their forecasts.

Aggregate dividend payments are expected to grow by 7% (excluding special dividends) but momentum is negative. Thanks to cuts from **Vodafone (VOD)** and **Marks & Spencer (MKS)** dividend payment forecasts have fallen for the second quarter in a row and, at £91.2bn in total, now stand 3% below where they began in 2019.

DIVIDEND FORECASTS HAVE STARTED TO SAG



Source: AJ Bell, company accounts, Sharecast, consensus analysts' forecasts

The battle lines therefore remain drawn. Bulls like UK equities because they have underperformed their global peers for more than three years, look cheap on both an earnings and a yield basis as a result, and it will just need a bit of positive forecast earnings momentum to stoke fresh interest.

Bears will counter that the FTSE 100 is cheap because it deserves to be, given concerns over the quality of profits, the quantity of dividends and how any downgrades in the event of a global slowdown could leave the index bereft of a positive catalyst.

By **Russ Mould**
AJ Bell Investment Director

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24 June: Porvair. **25 June:** Pressure Technologies. **26 June:** Autins.

Trading updates

26 June: Bunzl, Tullow Oil, John Wood.
27 June: Serco.

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