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SHARES

WE MAKE INVESTING EASIER

BIG US BET

CAN UK GAMBLING COMPANIES FINALLY CRACK THE STATES?

PLUS

ALLIANCE TRUST YET TO BEAT ITS TARGET WITH **NEW STRATEGY**

WHY RETURNS FROM **IMPERIAL BRANDS** HAVE GONE UP IN SMOKE

USING ETFS TO PLAY THE THRIVING **ROBOTICS** THEME

Is appetite waning for property bonds?

Investors are hungry for income but not everything should be on the menu

Property bonds can offer a high yield and tend to be secured against physical property assets, yet sentiment is weak towards most parts of the real estate market in the UK.

The money put up by investors for property bonds is used to build properties with investors either getting their return when the properties are sold, or the money is loaned to developers with interest payments helping to fund returns to the bond investors.

Sadly life is never simple. There is no guarantee a property will sell or go for the anticipated price. And if a developer defaults on a loan, there is no guarantee they can sell off assets to pay investors back, meaning the security measure isn't entirely secure.

The other issue to consider is liquidity. Many of these products are mini bonds which prevent investors from selling until the end of a fixed investment term.

Property financier Urban Exposure Finance is currently offering a 6.5% yield on a retail bond that comes with a double layer of protection. The proceeds will be loaned to property developers who principally build homes for first-time buyers.

Its loans will help more homes be built, thus having a positive impact from a social point of view by addressing the ongoing housing shortage in the UK.

HIGH YIELD WARNING

Urban Exposure says its 6.5% yield is lower than many other property bonds on the market because it only lends to established developers, and they won't be prepared to pay the types of interest to facilitate yields of 12% to 18% as seen on other property bond products on the market.

'If you're getting a yield in the region of 14%, the bond issuer is probably lending to very inexperienced builders which comes with a lot more risk,' says Urban Exposure chief executive Randeesh Sandhu.

However, we are currently in an era of cheap debt,

so offering a 6.5% yield would imply Urban Exposure is still having to take on a fair level of risk in order to generate an excess return over the cost of funding.

The money invested in the bond is secured as a first charge on the property if anything goes wrong; the AIM-quoted plc **Urban Exposure (UEX:AIM)** has also provided reassurance that it will give investors their money back in the event of any problems, funded from its balance sheet which included £46.8m cash at the end of 2018.

Nonetheless, your money isn't guaranteed to be paid back, as Urban Exposure is theoretically still at risk of going bust if it got into financial trouble.

Unlike cash up to £85,000 per financial institution, investment bonds aren't covered by the Financial Services Compensation Scheme (FSCS). And despite plans to trade on the London Stock Exchange's bond market, there is still the risk that Urban Exposure's bonds are illiquid and investors may not be able to sell their investment when they want, and at the desired price, should they wish to exit before the 2026 maturity date.

Brexit presents a big risk to the health of the property market. As such, appetite for property bonds is unlikely to be high. And anyone looking at Urban Exposure plc may be concerned that the business is loss-making and its share price has nearly halved in the past year. All of these factors would suggest a 6.5% yield would need to be carefully considered — is it adequate compensation for the potential risk involved?

By **Daniel Coatsworth** Editor

Contents

CFA UK Publication of the Year
CFA UK Journalism Awards 2019

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URBAN exposure

Urban Exposure Finance Plc

6.50% Fixed Interest Rate Secured Notes Due 6 August 2026 (the "Notes")

For more information visit:

www.urbanexposureplc.com/bonds

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Authorised Offerors
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Saga Share Direct
Selftrade
Shareview

Background to the Issuer

Urban Exposure Finance Plc (the "Issuer") is a special purpose company established by its ultimate parent company, Urban Exposure Plc, for the purposes of issuing the Notes. Urban Exposure Plc's group (the "Group") is a specialist real estate development finance and asset management provider focussing on two principal revenue streams – interest and fees generated on principal lending to UK development companies from the Group's own balance sheet, and asset management income generated from managing and servicing real estate development loans financed by third parties.

Key features of the Notes

The Notes described in this summary are debt securities to be issued under the £500,000,000 Euro Medium Term Note Programme of the Issuer pursuant to the final terms related to the Notes dated 15 July 2019 (the "Final Terms") and the Terms and Conditions of the Notes contained in the base prospectus dated 15 July 2019 (the "Base Prospectus").

The Notes pay interest of 6.50% per annum, payable semi-annually in arrear on 6 February and 6 August (each an "Interest Payment Date") in each year until and including 6 August 2026 (the "Maturity Date") unless the Notes have previously been redeemed or purchased and cancelled. Accordingly, the amount of interest payable on each Interest Payment Date will be £3.25 per £100 in principal amount of the Notes.

The Notes will be secured by a floating charge on the assets of the Issuer, which will include the Issuer's rights in relation to real estate development loans financed by it.

The minimum initial investment in the Notes is £2,000, and any purchases of greater than £2,000 must be in integral multiples of £100. The Notes are offered for sale by the Issuer from 15 July 2019 to 12 noon (UK time) on 30 July 2019 unless otherwise ended earlier by the Issuer (the "Offer Period"). After the Offer Period Notes may be bought and sold in integral multiples of £100 (although the price paid or received may be higher or lower depending on the market price of the Notes at the time). The Notes are expected to be admitted to trading on the Order Book for Fixed Income Securities from 7 August 2019, following which investors will be able to check the current trading price on the London Stock Exchange website and buy and sell their Notes in the open market at any time during market hours (subject to normal market conditions).

Full details of the Notes are set out in the Base Prospectus and Final Terms at **www.urbanexposureplc.com/bonds.**

Important information

This is an advertisement and not a prospectus. The contents of this advertisement are indicative and are subject to change without notice. **This advertisement should not be relied on for making any investment decision in relation to the purchase of Notes**. Any decision to purchase or sell the Notes should be made by you solely on the basis of a careful review of the Base Prospectus and Final Terms which are available to view at www.urbanexposureplc.com/bonds. Please therefore read the Base Prospectus and Final Terms carefully before you invest. Before buying and selling any Notes you should ensure that you fully understand and accept the risks relating to an investment in the Notes. You are recommended to seek professional independent advice.

The contents of this advertisement, which have been prepared by Urban Exposure Finance Plc, has been approved solely for the purposes of section 21(2)(b) of the Financial Services and Markets Act 2000 by Peel Hunt LLP (the "Lead Manager"). The Lead Manager, whose registered office is at 120 London Wall, London EC2Y 5ET, is authorised and regulated by the Financial Conduct Authority. Peel Hunt LLP does not provide legal, tax, accounting or investment advice in relation to the Notes and is not responsible for any advice you may receive from any third party.

The Notes have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act"). The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the Securities Act). The Notes are being sold outside the United States in reliance on Regulation S of the Securities Act.

Key Risks

You should seek your own independent professional investment, legal and tax advice as to whether an investment in the Notes is suitable for you. You should be aware that you could get back less than you invest or lose your entire initial investment.

Full details regarding the risk factors relating to Urban Exposure Finance Plc, Urban Exposure Plc and the Notes are set out in the section headed "Risk Factors" on pages 22 to 35 of the Base Prospectus at **www.urbanexposureplc.com/bonds**. Please read them carefully.

- The Notes are not protected by the UK Financial Services Compensation Scheme ("FSCS") or any equivalent scheme in another jurisdiction. Neither the FSCS nor anyone else will pay compensation to investors on the failure of the Issuer, the guarantor of the Notes or the Group as a whole

- The Notes may have no established trading market when issued, and one may never develop, or may develop and be illiquid. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market

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What Boris Johnson in Number 10 means for the markets

New PM faces a daunting challenge ahead of Halloween Brexit deadline

While sterling see-sawed around the announcement of Boris Johnson as Conservative Party leader (23 Jul) and, in turn, UK prime minister, the FTSE 100 traded higher as exporters were boosted by weakness in the pound.

Johnson's election by party members was largely priced in and essentially he faces exactly the same position as his predecessor Theresa May. As such the market's attention is likely to turn to how committed he is to campaign rhetoric of leaving the EU on 31 October with or without a deal.

Johnson also faces a significant challenge, given the parliamentary arithmetic, to bring MPs with him in whatever direction he decides to take. This suggests an imminent general election remains a live possibility.

Until there is clarity on this point UK assets, including domestic-facing banks, real estate and housebuilding stocks, as well as sterling, are likely to remain under pressure. That might change once the current fog clears.

Portfolio manager at Fidelity International Leigh Himsworth comments: 'We may well look back in a few years' time and regard this period as quite simply one of the best opportunities that we have seen to invest in UK equity markets.'

Oil giants BP and Shell unlikely to benefit despite Iran tensions

The days of oil prices spiking by $20 to $30 a barrel on geopolitical events are probably over

WHEN A COUNTRY threatens to block off access to a passage in the sea through which one fifth of the world's oil passes that usually means oil prices skyrocketing.

But as tensions between Iran and the UK and US escalate, the commodity's price – and that of shares in oil and gas firms such as **Royal Dutch Shell (RDSB)** and **BP (BP.)** – has seen only modest gains.

Even if Iran does block off international access to the Strait of Hormuz in any escalating tit-for-tat after it seized a UK-flagged oil tanker, production is growing so quick there could soon be more oil than the world needs.

According to OPEC, production of Brent crude, which stands at around $63 a barrel, should hit 2m barrels a day this year and 2.4m next year.

Given that number excludes OPEC countries, and global demand is forecast both this year and next at around 1.4m barrels a day, the world could soon be in for a very big oversupply.

While it is unlikely Iran would block access to the strait, it means even if it does the old days of oil prices spiking by $20 to $30 a barrel on such events – and shares in BP and Shell rising accordingly – are probably over.

Ted Baker shares jump on takeover chatter

Founder Ray Kelvin is rumoured to be mulling a private equity-backed bid

Out-of-fashion British clothing and accessories brand **Ted Baker (TED)** rallied to 951.5p at the start of the week following reports founder and former chief executive Ray Kelvin is considering a private equity-backed buyout to take the challenged retailer private.

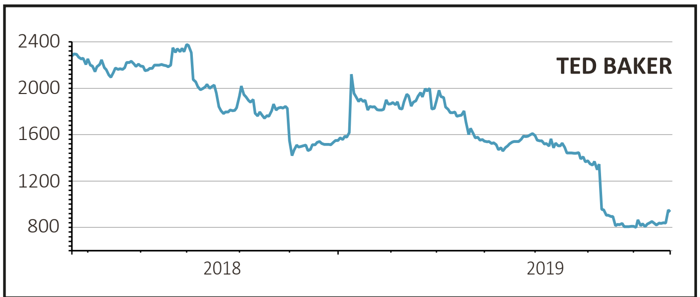
The mysterious Kelvin resigned as CEO earlier this year following a company probe into 'hugging' claims made by some employees, an allegation he denies.

Yet according to *The Mail on Sunday*, Kelvin has indicated he would support a buyout that would take Ted Baker private under the existing management team led by former finance director and new CEO Lindsay Page.

Though he denies all misconduct allegations, Kelvin agreed to resign as CEO and a director in March. However he still owns approximately 35% of the company and is unarguably the creative inspiration behind Ted Baker, which he founded as a single shirt specialist store in Glasgow over 30 years ago.

Shares in Ted Baker have fallen fast this year following a flurry of damaging earnings alerts. On 11 June, the British clothing brand warned profits for the year to January 2020 would fall significantly short of forecasts amid margin pressure and consumer uncertainty in key markets. It cited a particularly challenging US market exacerbated by womenswear range issues which were also behind an online growth rate slowdown.

At the time Peel Hunt said the scale of the profit warning would 'raise eyebrows'. The broker



downgraded its full year pre-tax profit forecast from £70.5m to £51.5m, dragging earnings per share and dividend estimates down from 123.5p to 90.2p and from 61.5p to 45p respectively.

Following the share price tumble and based on these lowered estimates, Ted Baker now trades on prospective price-to-earnings ratio of 10.5-times with a 4.7% dividend yield.

With the shares on sale, Kelvin may not be the only party considering a bid, although shareholders including Baillie Gifford, Aviva and Schroders won't want to see a strong brand able to generate robust gross margins and with global potential picked off by any acquirer on the cheap.

'Sales levels do not suggest a brand in turmoil,' said Peel Hunt in June, 'although earnings recovery may prove protracted in our view, leaving the group vulnerable to bid threats, particularly for potential acquirers that can offer the potential of accelerating Asian distribution.'

Robin West, co-fund manager of **Invesco Perpetual UK Smaller Companies (IPU)**, in June told *Shares* that he rated Ted Baker as a 'very good quality' business. He added: 'It has under-exploited brand globally and we think its equity rating doesn't reflect the growth.'

ASOS, Fevertree, PZ Cussons and the week's other big news

We look at the market's risers and fallers from the last week

Two of AIM's most prominent success stories of recent years have served disappointing news for investors. On 18 July online fashion retailer **ASOS (ASC:AIM)** set in motion another decline in its share price towards the £20 mark as it warned on profit for the second time in the space of a year.

Bringing forward its third quarter trading statement from the originally slated date (23 Jul), ASOS blamed growing pains arising from its ongoing warehouse transformation programmes in Berlin and Atlanta for its weak trading.

Pre-tax profit is now expected to be in the £30m to £35m range. That is significantly down from previous forecasts of £55m and factors in warehouse transition and restructuring costs.

On 23 July **Fevertree Drinks (FEVR:AIM)** came under pressure as its first half sales growth slowed in the UK from 73% a year ago to just 5%. More promisingly US sales were up 31%.

Having enjoyed a gravity-defying run following its 2014 stock market listing, the shares are more than 50% off the all-time highs marked in 2018 at £20.21.

Consumer goods firm and Imperial Leather maker **PZ Cussons (PZC)** has a big clean up job to do as it effectively issued yet another profit warning linked to problems in its Nigerian business.

The company is not sitting on its hands in the face of a double-digit drop in profit and a bearish outlook. It has pledged to 'act at pace' and focus on its core brands and geographies.

Elsewhere, **Metro Bank (MTRO)** enjoyed a happier time as it confirmed speculation that it was considering the sale of a loan portfolio (22 July). The market welcomed the more cautious approach, marking the shares slightly higher to the 500p mark.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS

STOCK	SHARE PRICE RISE	REASON
EI Group	37.8%	Acquired by Slug and Lettuce owner in £1.3bn deal
Acacia Mining	22.6%	Succumbs to long-running pursuit by major shareholder Barrick Gold
Ted Baker	13.8%	Disgraced founder Ray Kelvin linked with PE buy-out

WORST PERFORMERS

STOCK	SHARE PRICE FALL	REASON
Moneysupermarket	-8.6%	Slightly disappointing first half performance in Money division
Fresnillo	-9.7%	Cut to 2019 production guidance
Amigo	-13.2%	Continuing nervousness around potential regulatory action

Source: Shares, SharePad

Are you in control of your finances?

From pensions to savings, every investment brings risk and potential reward. So, it goes without saying that people want to feel in control of their personal finances. But are people really taking the best approach when it comes to handling their investments.
We spoke to over 25,000 people, from 32 countries around the world, to explore their behaviours around investing.

Our findings in a nutshell:

People lack confidence in exactly how much money they have invested/saved, and where it is. Only 44% of people are very confident with how much money they have with various financial providers, and this reduces sharply for those with less self-purported investment knowledge.

People are not satisfied with the performance of their investment(s). Over half (51%) have not achieved what they wanted with their investments over the past five years, and most attribute their own action or inaction as the main cause of this failure.

Globally, there's a clear need to be more patient with investments. The average holding period before changing or cashing in an investment is 2.6 years, which is just over half the five-year term experts generally recommend to stay invested for.

People have unrealistically high annual return (i.e. income and capital growth) expectations. Investors expect on average a very high 10.7% return per year over the next five years, while one in six expect at least a staggering 20% annual return on their total investment portfolio.

In times of market uncertainty, people make immediate changes to their risk profile. In the final three months of 2018, when the MSCI World index of global equities fell sharply, only 18% of people kept their investments the same, and a further 9% made changes to their portfolio but kept the risk profile the same.

There's an expectation from people that investments will produce close to the income that they want. Income expectations for the next 12 months are very high on average (10.3%), which is just under what people want to receive (10.7%).

There is a general home bias for investments, and people are split over the benefit of investing in emerging markets. 31% of people prefer the majority of their portfolio in funds that invest in their home country, whilst a further 34% prefer investing in countries familiar to them. Only 31% of people globally feel emerging markets could be beneficial to their portfolio, and almost a quarter (24%) think it is too risky to do so.

Investment interests differ by age. When looking at the type of investments people held, there is a clear correlation between age and interest in slightly more unique investment types. Millennials were much more likely to have money invested in cryptocurrencies and crowdfunding (23% and 12% respectively). This interest in these newer, and riskier, investments is reduced with the older age groups.

Unsurprisingly, some of their attitudes towards risk reflect this, with millennials being the most likely to believe the greatest risk to them is not taking enough risk to achieve their investment objectives (53%). This trend also reduces with age, to 24% of those aged 71 and over.

Read the full investor behaviour report here

Schroders commissioned Research Plus Ltd to conduct, between 4 April and 7 May 2019, an independent online study of over 25,000 people in 32 countries around the world, including Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, UAE, the UK and the US. This research defines "people" as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last 10 years.

Numbers may not add to 100% due to rounding

Time to buy Ocado as it reaches a major turning point

The story is no longer about a van delivering someone's weekly shopping

The last two years have seen a transformation in **Ocado's (OCDO)** business model from a grocery partner for a couple of middling UK supermarket chains – **WM Morrison (MRW)** and Waitrose – to a software-driven facilitator of online delivery for more than half a dozen retailers, many of which are based overseas.

The shares have re-rated dramatically, from 300p two years ago to £14 earlier this year, but we believe they are far from discounting the future value of the non-retail side of the business. Parallels with Amazon may seem premature, but many in the industry are already talking in similar terms.

Broker Peel Hunt believes Ocado has the potential to become the standard platform for the retail sector.

OCADO ↗ BUY
(OCDO) £11.87
Stop loss: 949p
Market Cap: £8.6bn

KEEPING IT SIMPLE

Ocado was born in 2000 out of a simple premise: that despite all the advances in technology, grocery shopping hadn't changed since supermarkets were introduced to the UK 50 years earlier.

Thanks to its clever software, rather than customers having to drive to a supermarket and forage for food which had made its way through a long and complicated supply chain, Ocado would let them order their groceries online and deliver it directly to their front door from a central depot.

That made the customer experience easier and the distribution chain much shorter, which helped keep the fresh produce fresher.

Since forming its first branding and sourcing deal with Waitrose and starting commercial deliveries in 2002, orders have grown from 10,000 a week to over 300,000 a week in the first half of 2019.

OUT WITH THE OLD, IN WITH THE NEW

Ocado's core retail business was originally based on sourcing products from Waitrose but this agreement expires in September 2020, at which point a new joint venture with **Marks & Spencer (MKS)** will take its place.

The new agreement, signed in February, sees M&S taking a 50% stake in Ocado's UK retail business Ocado.com for £750m and supply its own-sourced and branded goods while the Ocado Smart Platform (OSP) provides solutions support and Ocado.com sells and delivers the products.

Separately, the OSP continues to provide the technology, logistics and distribution behind Morrisons' online grocery business, Morrisons.com, and since 2016 Ocado has licensed the 'store-pick module' which is the software platform needed to fulfil online orders from Morrisons stores.

Morrisons operates the store-pick solution, for which it paid an upfront fee in 2017 for access, on top of an annual licence fee based on the volume of sales generated, while Ocado provides and maintains the software platform.

GLOBAL GROWTH OPPORTUNITIES

Consumers are increasingly going online to order their food which creates significant opportunities for Ocado.

While the UK still offers growth potential – online grocery sales are only 6% of the total market, which was worth £180bn in 2016, and are expected to approach 10% in the next few years – the growth opportunities are in licensing its software and solutions abroad.

Ocado already has six international partners including French hypermarket chain Casino (2018 sales: €36.6bn), US food retailer Kroger (2018 sales: $121bn), Canada's Sobeys (2018 sales: C$24bn) and Australia's Coles Group (2018 sales: A$29bn).

Fees invoiced to these partners almost doubled in the first half of this financial year to £46.7m, with only a tiny proportion recognised as revenues due to accounting rules, and these fees are set to grow significantly as consumer fulfilment centre deliveries ramp up and Ocado finds new partners in food and non-food verticals.

Analysts at Peel Hunt estimate that the top 100 store-based retailers around the world generated $4.33trn of revenues in 2016. Around $89bn was spent on capital expenditure, or 2.6% of average revenue for the top 10 retailers. By comparison, Ocado charges roughly double

that percentage of a partner's gross annual sales as a fee due to the cost savings it brings.

However, assuming that the addressable market is 'just' $90bn, of which less than half could be available for solutions which Ocado offers, and a market share of less than one third, Peel Hunt believes the revenue opportunity for Ocado is $11bn or £8bn a year. That compares with total Solutions revenue last year of £123m, so the upside potential is abundantly clear.

BETTER POSITIONED THAN EVER

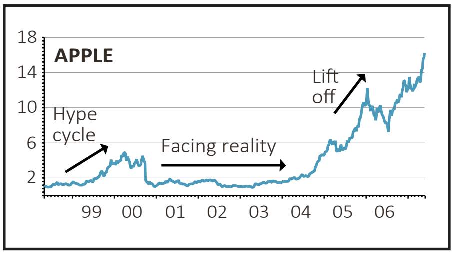
In a recent presentation to analysts and investors, chief executive Tim Steiner summed up the changes within the group and the opportunities ahead.

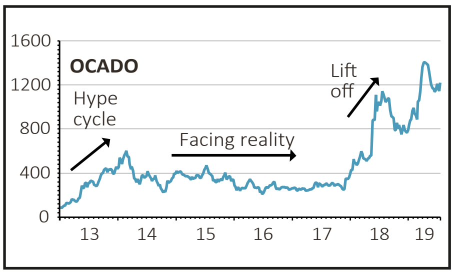
He said: '2019 has seen a shift in the centre of gravity at Ocado. We have pivoted from being a pure-play online grocer in the UK with a separate Solutions business to being a technology-led global software and robotics platform business providing a unique end-to-end solution for online grocery.

'Ocado.com is now one of eight global partners, all among the most innovative and forward-looking grocers in the world, whose online business will be enabled by the Ocado Smart Platform. We have never been in a better position to create value.'

Previous technology winners such as Amazon and Apple have followed a similar pattern on the market – their share prices have shot up (the hype cycle), come back (as reality sinks in) and then experienced a 'lift off' where the shares have soared. Ocado has also followed this path.

We believe the stock has much further to travel as existing partnerships become active and new opportunities are grabbed.





By **Ian Conway**
Senior Reporter

Bargain opportunity as fund sharpens focus

Reasons to be optimistic about this restructured stock pickers' portfolio

A steep 19.3% discount to net asset value (NAV) on **Artemis Alpha Trust (ATS)** should pique the interest of contrarian value investors.

A thorough portfolio restructuring and potential relief if Brexit is sorted out quickly offer catalysts for an improved performance and re-rating of the trust, steered by experienced investor John Dodd and up-and-coming stock picker Kartik Kumar.

Launched in 1998, Artemis Alpha Trust aims to provide long term capital and income growth by investing in listed companies. It wants to achieve a net asset value total return greater than that of the FTSE All-Share index while growing dividends at a rate greater than UK CPI inflation.

A revised investment strategy was announced in 2018 and subsequent changes have been made to the portfolio. A bit more work is needed and then hopefully the benefits will feed through to performance.

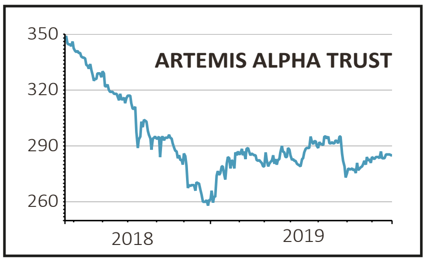
The fund managers are now seeking quality companies with competitive advantages and attractive industry characteristics, trading on compelling valuations and steered by what they deem to be outstanding management. This strategy is long term in focus and will involve a relatively low turnover of investments.

During a transitional year to 30 April 2019, the NAV and share price fell by 8.6% and 8.9%

ARTEMIS ALPHA TRUST ↗ BUY

(ATS) 285.5p
Stop loss: 228.4p

Total assets: £144.2m
(Source: AIC / Morningstar)




Tesco, Barclays, IWG, Domino's Pizza, Sports Direct Internatinal and Just Eat are included in this trust

respectively on a total return basis, thus underperforming a 2.6% increase for the benchmark FTSE All-Share. However the poor performance reflected disappointing showings from some unquoted investments and declines for quoted companies with sensitivity to the UK economy.

Dodd and Kumar are confident a portfolio repositioning will result in improved returns for shareholders. They have dramatically reduced the fund's exposure to illiquid unquoted investments while putting money to work with more liquid mid and large cap stocks.

Unquoted holdings have been reduced to 8.7%, down from 21.6% at the previous year end and this number will come down further in the future. The portfolio has been rationalised from 91 to 49 holdings, while the exposure to mid and large caps has risen from 35.1% to 60.3%.

Top 10 holdings include groceries giant **Tesco (TSCO)**, the internet business conglomerate Rocket Internet, serviced office operator **IWG (IWG)** and Mike Ashley's **Sports Direct International (SPD)**.

The managers have also used weakness at **Plus500 (PLUS)** to increase the holding in the online trading platform, having seen further evidence of its strong technology and culture following a visit to Tel Aviv.


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

EI GROUP
(EIG) 285p

Gain to date: 66%

Original entry point:

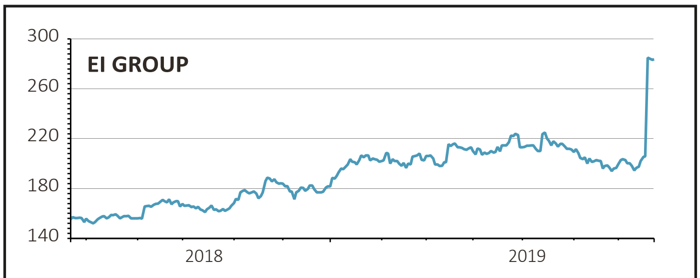
Buy at 171p, 8 November 2018

WE'RE NOW SITTING on a 66% return from **Ei Group (EIG)** after the pubs group agreed a takeover offer of 285p cash per share from Stonegate Pubs, a private operator of 772 pubs and bars. This gain has trounced the 5% return from the FTSE 350 over the same period.

Although the transaction is dependent upon the approval of UK and European competition authorities, the likelihood is that the deal will go through. This means that the company's shares will be delisted in due course.

The rationale was 'defensive' in nature and proposed against a backdrop of a 'challenging operating environment for the foreseeable future'. Indeed, Stonegate, owned by private equity group TDR Capital, says it will continue to execute EI Group's existing strategy in order to benefit from the combined company's greater scale and diversification.

The management said that Stonegate made multiple approaches earlier in the year. These were rejected because the price was not acceptable. Other shares in the sector gained on the takeover news as the price eventually agreed was at a premium valuation to other companies in the sector.



SHARES SAYS: ↘
Take profit now. For those wanting to keep exposure to the same industry, we recommend recycling the proceeds into Marston's (MARS) which we wrote about in June.

LEARNING TECHNOLOGIES
(LTG:AIM) 114.8p

Gain to date: 53%

Original entry point:

Buy at 75p, 25 April 2019

CORPORATE ONLINE TRAINER **Learning Technologies (LTG:AIM)** is knocking it out of the park this year and investors are jumping in for the ride.

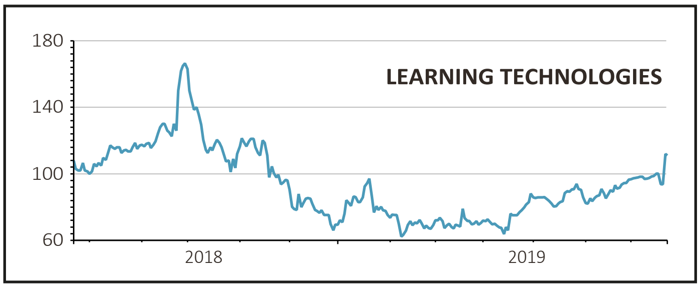
In just three months since our original *Great Idea* at 75p, the stock has soared an impressive 53% and analysts, like *Shares*, believe there is more to come.

On 22 July the £767m business announced that earnings before interest and tax, otherwise referred to as operating profit, would be 'materially ahead' of market expectations.

Forecasts had been pitched at £35.3m operating profit on approximately £128m revenue. Analysts now see £38m to £40m operating profit this year.

This is largely because of cost efficiencies being driven out of past acquisitions, including NetDimensions and PeopleFluent, thereby boosting profit margins. Operating profit margins shot up from 26.3% to around 32% in the half year to 30 June, according to the trading update.

That's the good news. The really good news is that there are extra value levers still to pull, particularly within PeopleFluent, a business that had been run for cash but is starting to get a new lease of life.



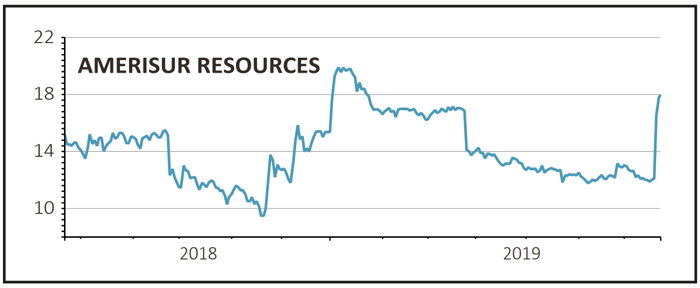
SHARES SAYS: ↗
Keep buying.

AMERISUR RESOURCES
(AMER:AIM) 17.85p

Gain to date: 32.2%

Original entry point:

Buy at 13.5p, 13 December 2018



FOR QUITE SOME time our faith that Colombian oil producer **Amerisur (AMER:AIM)** represented a good opportunity for investors was looking shaky, particularly after disappointing exploration results in the spring.

However, it looks like the industry has recognised the potential that we flagged and the market had ignored. On 22 July Amerisur confirmed it had received a $257m takeover approach from French outfit Maurel & Prom but had concluded that its offer undervalued the company.

Maurel & Prom is pitching a possible offer of 12.5p per share in cash and 4.5p per share in its own shares.

Amerisur says a 'number of conversations' have taken place with interested parties after a formal sales process was launched on 19 July and that it was 'confident that a competitive process involving several of these potential counterparties can be completed to the benefit of all shareholders'.

While shareholders will be hoping for a higher offer than the one already rebuffed, it is unlikely the company will get anywhere close to the peaks above 66p reached in 2014.

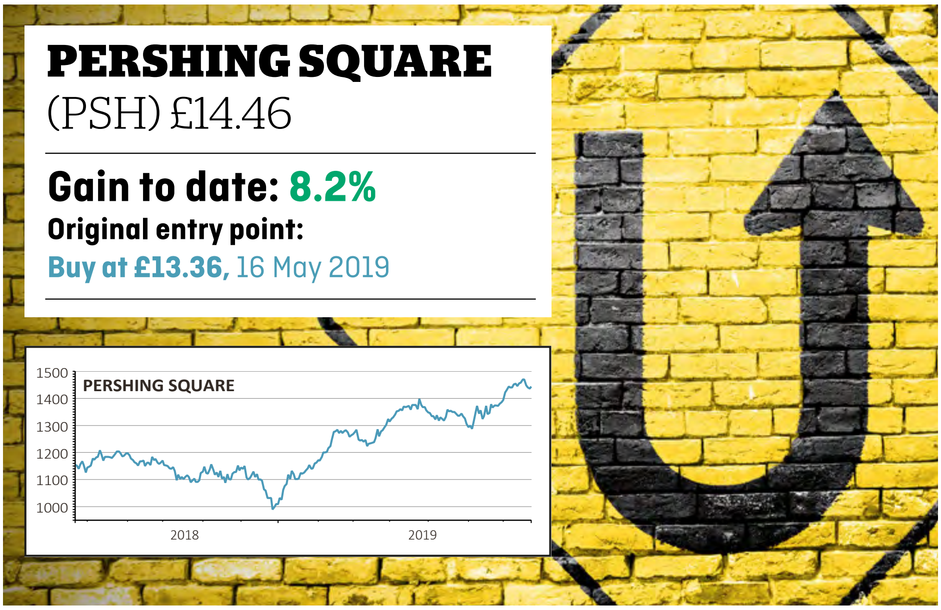
SHARES SAYS:
Take advantage of the recent share price strength and lock in a profit by selling now.

Why we've changed our view on Pershing Square

Its investment case has changed following a bond issue

PERSHING SQUARE
(PSH) £14.46

Gain to date: 8.2%
Original entry point:
Buy at £13.36, 16 May 2019



We are executing a swift U-turn with our trade on hedge fund guru Bill Ackman's **Pershing Square (PSH)** vehicle after the investment trust made plans to borrow more money to invest.

Increasing its borrowings, also known as gearing, from 18% to 25% of net assets substantially changes its risk profile and is too aggressive in our view as high levels of gearing can work against a trust in a market downturn.

Two of its biggest shareholders, Asset Value Investors and Metage, have also expressed concerns over the plan to place $400m of bonds with a coupon of 4.95%. The bond issue was scheduled to complete as this edition of *Shares* was published (25 July).

The investment trust team at Numis say the nervousness is justified as the move reduces the board's ability to manage the wide discount to net asset value (NAV) and has the potential to act as a 'poison pill' on any potential restructuring.

Gearing set to increase to 25%

Given Pershing had slowly been repairing its reputation with an improved performance in 2019, it might have been better for the trust to keep its head down for a bit longer rather than taking such a bold step.

This is particularly important when you consider it will probably be putting its newfound financial firepower to work in a US market which several observers have suggested is looking overvalued.

Ackman himself has been on record as saying he would not be surprised to see Pershing Square trade at a higher discount to net asset value if gearing were to increase – despite a recovery in the shares, the discount still stands at a smidge above 30%.

Investec says investors should sell the shares, adding that the proposed bond issue will take gearing to among the highest levels in the investment trust sector. It believes the trust would be better off accelerating share buybacks given how the stock currently trades well below the value of its underlying assets.

It adds: 'With the S&P 500 having produced a NAV total return of 446% since March 2009 lows, the US economy now enjoying its longest economic expansion in history, and the New York Fed's recession probability having just risen to 32.9% (with every breach of 30% since 1960 being followed shortly afterwards by a recession), the timing and quantum of this bond issue is a brave call.'

SHARES SAYS:
Changing our minds on Pershing Square so quickly may look strange but reflects a significant shift in approach which we think have thrown the balance between risk and reward off kilter. Take profits now.

How transparent are fund managers with short positions versus longs?

We consider the reasons why certain types of funds don't want to share their ideas

Fund managers are being encouraged to disclose more details about their portfolios in the name of transparency. However we've found that many managers are still very guarded when it comes to revealing their short positions, namely trades where they are betting the share price will fall.

Some fund managers are able to go long and short – i.e. they buy stocks which they believe will appreciate in value and also short-sell ones where they hope to profit from any decline in the price.

Shorting is very risky and you can lose more money than you invest. Fund managers may therefore be reluctant to disclose these positions so as not to draw attention to any trades that don't go in their favour.

During two 'crazy' days in 2008 Volkswagen became the largest company in the world, at close to $400bn, as short sellers were caught out after Porsche said it would buy the rival car maker, having secretly amassed a 74.1% stake using options.

In less than 48 hours the shares jumped 4,500% to €999 per share as short sellers scrambled to buy back their positions in a very illiquid market. In other words, if a short seller had borrowed £100 of stock it would have cost £450 to buy it back just two days later.

Volkswagen became the largest company in the world in 2008, catching out short sellers

HOW THE DISCLOSURE REGULATIONS DIFFER BETWEEN LONGS AND SHORTS

Fund managers are required to disclose their fund's holdings above 5% of a company's shares. However, for short positions, the threshold is 0.5% or 10 times lower, with further disclosures required at each additional 0.1% interval.

In addition, on reaching the 0.2% threshold, fund managers have to report their positions privately to the regulator, which clearly believes that short positions need to be monitored more closely than long positions.

Fund managers must have an audit every year and all portfolio holdings have to be reported, including a discussion on the changes that were made and the impact they had on performance.

> "Shorting is very risky and you can lose more money than you invest"


The 5% threshold can make fund groups an easy target

BALANCING TRANSPARENCY WITH COMMERCIAL REALITIES

At the monthly reporting level, the picture is very different. Looking at some of the larger absolute return funds, some general fund manager practices stand out.

Managers tend to disclose their largest 10 long holdings but don't do the same for short positions. Instead, they show a breakdown of shorts by sector, without disclosing the names.

However, some managers provide commentary which discusses the companies that they have shorted and the rationale for them. An example is Chris Rice who managers the **TM Sanditon European Select Fund (BNY7Y72)**. The reader gets a description of the changes made to the portfolio and the thinking behind the decisions.

In contrast, **BlackRock European Absolute Alpha Fund (B4Y62W7)** doesn't provide commentary about short positions, although in line with other groups, it does provide a break-down of exposures at the sector level.

More circumspect fund managers may not want to 'tip the market off' to some to their best ideas and may argue that they are protecting intellectual property by not disclosing short positions. For example, a manager may have spotted some dubious accounting or unearthed a problem with a business which has yet to come to light.

At the end of the day active fund management is a very competitive business, and good profitable ideas are hard to find.

EASY TARGETS

Larger fund groups with holdings above the 5% threshold can find that they are targeted when it becomes clear that they are selling down a position or are known to be experiencing client redemptions.

This can present an opportunity for hedge funds to target the largest and most liquid holdings which might need to be sold in order to raise liquidity. They take short positions in these stocks and position themselves ahead of the fund selling down its holdings, which if successful provides a windfall gain.

After three profit warnings in as many months and a share price down 75%, **Thomas Cook (TCG)** issued a statement on 10 June that it was in talks with its largest shareholder, the Chinese group Fosun, regarding a bid for part of its the business. Its shares jumped 23% on the day, exacerbated by 'short covering', which is when investors buy back borrowed stocks to close a short position.

However, to underscore the risks with this strategy, a month later, on 12 July, Thomas Cook announced plans for £750m debt-for-equity refinancing, sending the shares down 40% to 7p.

Data from the website *shorttracker.co.uk* shows that the percentage of the shares registered as 'short' went from zero on 21 January to the current level of 10%.

TRANSPARENCY CAN BE GOOD UP TO A POINT

It is reasonable that investors demand to know which stocks a fund manager holds, if only to confirm that the stated risks are consistent with expectations.

However, it is also the case that in the ultra-competitive investment world good ideas are very valuable and some managers want to protect their own investors' interests. Short selling has extra risks which make it harder to meet the same levels of transparency.


By **Martin Gamble**
Senior Reporter

BLACKROCK®

TIME TO PAY ATTENTION TO **LATIN AMERICA?**

Amid the recent revival for emerging markets, investors have remained focused on Asian markets. Should they be looking further afield to Latin America? Ed Kuczma, co-manager of the BlackRock Latin American Investment Trust plc, discusses the potential opportunities.

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. You may not get back the amount originally invested.

Investors have rediscovered their enthusiasm for emerging markets in recent months as the US has halted interest rate rises and the long-term strength of the US Dollar looks in doubt. However, focus has remained firmly on the more obvious charms of Asia, where rapid GDP (Gross Domestic Product) growth and technological innovation make it an obvious hunting ground for growth investors. Latin America, in contrast, has remained off the radar.

This hasn't stopped markets rising, with Brazil's benchmark Bovespa index bouncing back in recent months. However, it shows that, for investors, Brazil's strengths are often hidden behind some lingering ideas about the country.

Latin America has long held some poor associations for investors - turbulent, left-wing politics and volatile markets. Certainly, democracy is relatively new in the region, but we see real change across the region, even if it can seem like two steps forward and one step back.

Equally, while parts of Latin America are growing strongly, this growth isn't necessarily seen at the headline GDP level. If anything, GDP growth for Brazil and Mexico, the major markets in the region, looks subdued for an emerging market. Real GDP is forecast to be 2.4% in Brazil and 2.5% in Mexico for 2019[1].

This is ahead of recent years and encouraging, but it is not the main reason to invest. Instead, as stock pickers, we look for those sections of the economy experiencing long-term structural growth. Air transportation is a good example and is currently growing at multiples of GDP in Brazil. During the years when Luiz Inácio Lula da Silva, popularly known as Lula, was President of Brazil - 2003 to 2010 - air travel expanded rapidly - from 37 million per year in 2003 to 85 million in 2010[1], during his last year as head of state. This is being given new momentum by

BLACKROCK®

an influx of low cost airlines into the country[2]. There is a shift in the way people travel and as companies gain scale, they can decrease their fares. This creates opportunities for investors.

We see a similar picture in ecommerce. In the US, ecommerce has hit around 15-20% of overall retail sales. In Brazil, it is just 4%, but the country is embracing the Internet – with 130 million Facebook users and 64 million Instagram users in Brazil[3]. Over time, we believe it will continue to gain share, providing a tailwind to those retailers involved in the sector.

For Mexico, the picture is slightly different. In spite of the wrangling over NAFTA (The North American Free Trade Agreement), Mexico remains tied to the US economy, which – for the time being – is a notable advantage as the US continues to grow faster than any other developed nation. If anything, we see these ties strengthening, which should improve Mexico's position as a global manufacturing powerhouse.

While there has been a lot of fear around US/Mexican relations, Mexico benefits from having a low cost labour force. It is linked to the US via robust supply chains and has an enviable infrastructure – highways, rivers and roads. Equally, while the election of the left-leaning Andrés Manuel López Obrador (AMLO) spooked markets, his emphasis on financial inclusion and improving credit penetration should create opportunities for investors.

In other words, each country within Latin America has exciting areas of growth, but they need to be hand-picked. The stock market tends to be dominated by the large global commodity stocks – this is fine, if that is an investor's choice, but it may not deliver access to the most dynamic areas across the region.

Since taking over the BlackRock Latin American Investment Trust earlier this year, we have adapted it to our approach. We draw macro factors into our approach by looking at four 'C's' – Commodities, Consumption, Credit and Currencies – believing that analysing these four categories is the best way to build a coherent picture of the region's growth and opportunities.

We undertake fundamental research on all the companies in which we invest. We want to find companies that are under-valued, under-owned and under-researched. This gives us an opportunity to capitalise on stock performance driven by earnings that beat consensus expectations and multiple re-ratings – that the stock could beat current earnings expectations and that it could be re-rated in terms of its multiple.

Politics and the macroeconomic situation is always a consideration. Venezuela, for example, is not an area we would commit our investors' capital. In Mexico, the current leftist government under AMLO is a headwind to growth (although his social programmes should improve spending). While this doesn't bar investment, as it does in Venezuela, it does influence how and where we invest. However, with notable exceptions, these macroeconomic considerations are never as important as finding the right companies on the right valuations. We will pass on even the best growth ideas if valuations are too rich – as they were with the Brazilian consumer sector more recently. Equally, Mexico has gone through periods of looking very cheap as investors were anxious about the situation with the US administration and that can provide opportunities.

[1] IMF, January 2019
[2] The Brazilian Report, January 2019
[3] PagBrazil, Brazil Ecommerce Report 2018, December 2018

Latin America has come a long way in recent years, but its charms are not always obvious. It is a market that suits a stock-picking approach, digging deep to find the real growth in an exciting region.

For more information on this Trust and how to access the opportunities presented by Latin American markets, please visit www.blackrock.com/uk/brla

TO INVEST IN THIS TRUST CLICK HERE

Trust Specific Risks

Exchange rate risk: The return of your investment may increase or decrease as a result of currency fluctuations.

Emerging markets: Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation.

Gearing risk: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

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Why returns from Imperial Brands have gone up in smoke

Davidoff-to-Gauloises Blondes maker's shares are weak, but cash flow remains strong

Share in Tobacco manufacturer **Imperial Brands (IMB)** moved higher on a decision to make its dividend policy less generous.

While this seems counter-intuitive the move went some way to alleviating concerns the company was paying out too much to shareholders and that its dividend growth was unsustainable, at least if the company wanted to keep its net debt-to-earnings ratio at comfortable levels.

Currently trading on a dividend yield approaching 10%, the shares have been in a declining trend with investors fretting over the structural decline in combustible cigarette volumes, the threat of rising regulation and concerns over Imperial's future beyond tobacco; thus-far, expansion of less harmful next-generation products (NGPs) has lagged rivals.

Management's tendency to over-promise and under-deliver, not to mention an increased investor focus on ethical investments, have also weighed on demand for the equity.

HOW DOES IMPERIAL BRANDS MAKE MONEY?

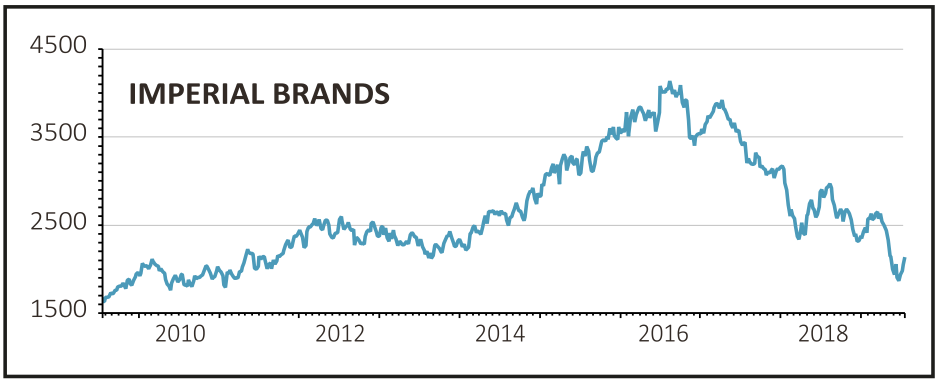
For the uninitiated, Imperial Brands makes and sells cigarettes, fine cut tobacco, smokeless tobacco, papers, cigars and next generation nicotine products (NGPs) primarily focused on the e-vapour opportunity.

Growth brands include Davidoff, John Player Special, Winston, Gauloises Blondes and blu, while specialist brands span Golden Virginia, Kool and Rizla.

Steered by chief executive Alison Cooper, Imperial Brands is highly diversified geographically, selling to 160 markets globally, although its combustible cigarette business is highly concentrated in developed markets including the US, UK, Germany, France, Spain and Australia.

Despite its status as a perennial takeout target, Imperial Brands trades on trough multiples.

This is potentially interesting as it is nearing the end of a



multi-year transformation from traditional cigarette seller into a focused brand builder attempting to boost share of an e-cigarette market dominated by Altria-backed Juul.

WHY HAVE INVESTORS BEEN STUBBING THE SHARES OUT?

Cigarette companies were long-prized for their strong brands, pricing power, fat margins and strong returns on capital, a function of the fact smokers are addicted and willing to stump up premium prices for brands.

However, millions of smokers around the world have been switching from combustible tobacco to NGPs (vapour, heated tobacco, oral nicotine) in a structural shift that has seismic industry implications.

Sentiment has also suffered from the threat of adverse regulation in the US, where the Food & Drug Administration has issued statements about potential changes to tobacco and vapour regulations and has e-cigarettes in its crosshairs.

Threats include possible restrictions on menthol and the level of nicotine in cigarettes, changes to the regulation of cigars, an increase to the nationwide minimum age for purchase of tobacco and vapour products as well as other measures to prevent youth access.

Also weighing on sentiment has been San Francisco's decision to ban the sale and distribution of vaping products altogether.

Poor execution on NGPs and a balance sheet that needs to continue reducing debt in order to maintain its investment grade rating have also worried investors.

Volume trends are concerning and in contrast to British American Tobacco, Imperial has limited exposure to faster growing emerging markets currently.

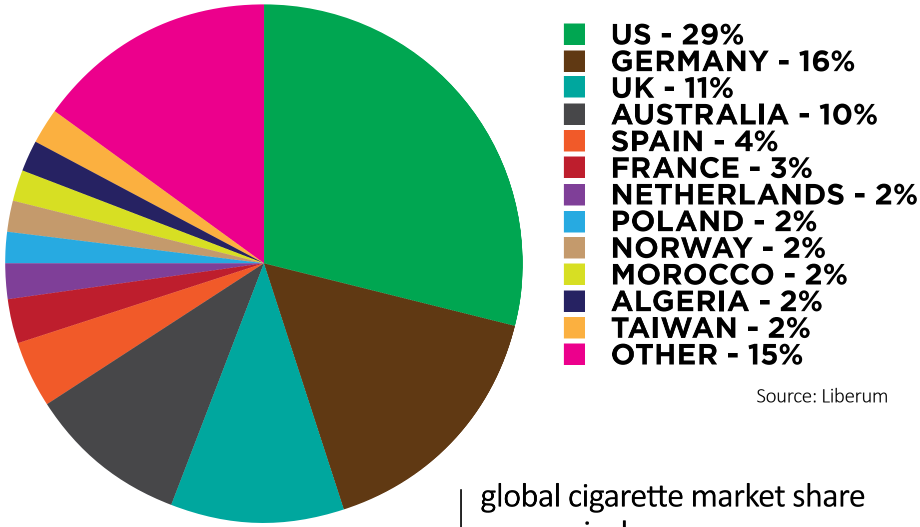
CAN EARNINGS WAFT HIGHER?

Although tobacco volumes fell by almost 7% in the first half ended 31 March, Imperial Brands' NGP revenues rocketed 245% higher to £148m thanks to sales of its myblu vape brand.

NGP revenue growth was driven by expansion in Europe, Japan (where it is trialling a heated tobacco product called Pulze in Fukuoka) and continued growth in the US, although Imperial has seen a slowdown stateside with category growth tempered by regulatory utterances.

It should be noted that Cooper believes Imperial Brands has the most to gain and the least to lose from any cannibalisation of combustible tobacco by NGPs given the relative size of its global cigarette market share versus rivals.

TOBACCO NET SALES BY COUNTRY FY2018



Source: Liberum

WHAT DOES THE DIVIDEND POLICY CHANGE MEAN?

Bristol-headquartered Imperial Brands large and growing dividend has long been the key attraction of the stock. However, debt reduction and buybacks have now shifted up the list of priorities at Imperial, whose divestment programme, including the sale of its Premium Cigars business, is on track.

The tobacco manufacturer has said it will no longer deliver annual 10% growth over the medium term. Instead, it will adopt a 'progressive' dividend policy, which really means growing the shareholder reward in line with earnings.

So whereas management reaffirmed the 10% growth in the final dividend for the year ending 30 September 2019, thereafter, 'the revised dividend policy will be progressive, growing annually from the current level, taking into account underlying business performance'.

The new policy strikes a balance between recognising the

IMPERIAL BRANDS – THE BULL & BEAR CASE

Bull case

- Attractive tobacco economics
- Better strategy in place since 2013
- Downtrading beneficiary
- Perennial takeover target
- Investing in vapour and tobacco heating product categories

Bear case

- In the crosshairs of regulation and litigation
- Price taker not price maker
- Limited exposure to growing emerging markets
- Concerning volume trends

Financial year	Sales (£m)	Adjusted net profit (£m)	EPS (p)	DPS (p)
2018 (A)	8,686	2,595	271	188
2019 (E)	8,952	2,698	284	207
2020 (E)	9,232	2,775	293	213
2021 (E)	9,391	2,769	293	213

Source: Imperial Brands, Liberum Capital

company's continued strong cash generation and the importance of growing dividends for investors, while also providing greater capital allocation flexibility for management.

The company now has greater freedom to buy back shares at what might be regarded attractive prices at present while funding the growth of the business, particularly NGPs, and paying down debt. Imperial Brands also said it will return up to £200m to through a buyback by the end of the current calendar year.

The ongoing divestment programme is on course to generate proceeds of up to £2bn before May 2020, with the group targeting a net debt to EBITDA ratio of between two and two-and-a-half times.

Investment bank Liberum forecasts Imperial Brands will finish full year 2019 on a net debt to EBITDA ratio (before the disposal of premium cigars) of around 2.7-times.

However, once the group sells premium cigars, a unique luxury business with a different customer base and route to market relative to the core operations, this leverage ratio would fall to 2.3-times, at least based on the broker's £1.5bn base case price tag.

WHAT WOULD HAVE HAPPENED IF THE POLICY REMAINED UNCHANGED?

In a note issued back on 13 June, Liberum had urged Imperial Brands to revise its dividend growth policy to grow in line with earnings and outline a strong intention to buy back shares.

The broker argued the dividend policy was unsustainable given its cautious stance on US regulation.

Based on its estimates, if payouts had continued to rise at a rate of 10% per annum, then Imperial's net debt to EBITDA ratio would have begun to rise to north of 5.0 times by fiscal year 2028 with earnings coming under pressure.

However, now that Imperial Brands plans to grow the dividend in line with earnings, this net debt to EBITDA ratio can continue to reduce.

SHARES SAYS:

While US regulation and declining combustible volumes are concerns, contrarians should investigate Imperial Brands shares, which languish on a single digit forward price-to-earnings ratio of 7.5 with a juicy 9.8% dividend yield.

This rating looks overly pessimistic for a cash generative, dividend paying fast moving consumer goods company with the intellectual property and brands to take share in the growing vapour category.

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

BIG US BET

CAN UK GAMBLING COMPANIES FINALLY CRACK THE STATES?

Can it be third time lucky for UK betting companies with their efforts to crack the US market?

The online market was effectively shut down in 2006, only for it to reopen in 2013 as individual states realised they could make a lot of tax from having regulated, legal online gambling activities.

After initial fanfare, the online market didn't prove to be that big a success for UK companies. Hopes were raised once again in 2018 when the US market signalled the opening up of the sports betting industry. That provided a short-lived tailwind for UK gambling stocks, but progress has been slower than hoped.

We're now at the next phase where progress is finally being made and it seems like the US could be the much-needed growth driver for UK companies. The sector looks cheap compared to historical ratings, so now could be time to buy select stocks. Our top picks are **888 (888)** and **Flutter Entertainment (FLTR)**.

MAJOR OPPORTUNITY

The global gambling market generated around £347bn in gross revenues in 2018 according to consultancy H2 Gaming Capital. The UK has the largest online penetration at 37%, representing around £6bn.

However, the future of gambling is inextricably linked to the opening up of the US market. Betting firm **GVC (GVC)** even goes as far as saying the US is the largest sports betting opportunity to emerge in the past 20 years.

To give some idea of the scale of the opportunity, Americans watch 2.2trn minutes of sports every year, which is covered by 37 networks, airing 11,000 sports events, according to betting firm **William Hill (WMH)**.

Gambling Compliance, a company which provides business intelligence to the industry, estimates there will be 34 states with legal gaming markets by 2024, generating $5.7bn of revenue.

It projects the US to become the second-largest regulated gaming market in the world – behind only China – even without California, Texas and Florida, which combine for 27% of the US population, joining the marketplace.

The regulations are expected to vary from state to state and will depend on whether operations are land-based, tethered mobile (mobile accounts must first be opened in a casino) or fully mobile.

Dermot Smurfit, chief executive of software-as-a-service (SaaS) company **GAN (GAN:AIM)**, tells *Shares*: 'The American market is clearly regulating internet gambling on a state-by-state basis, and regulating fast, with legislative momentum accelerating in the first half of 2019 to encompass 21% of all Americans, up from 10% at the end of 2018.

'This year alone internet gambling has been regulated in seven new US states and industry analysts believe more than half of all Americans will be permitted to gamble online as a result of accelerating regulation within just a few more years,' he adds.

JOSTLING FOR POSITION

Some of the UK operators believe the key to success will be gaining access to the market through relationships with land-based casinos, who are generally the licence holders.

For example, William Hill has a joint venture with US-based Eldorado which owns a 20% stake, and together they are one of the largest US players through a Nevada business that generates around $50m of earnings before interest, depreciation and amortisation (EBITDA).

Eldorado is currently in the process of merging with Caesars Entertainment, a deal which would have a major benefit to William Hill as the scale of the enlarged business would be material, with 60 casinos across 16 states.

William Hill is entitled to operate mobile sports in states where Eldorado obtains a licence, as well as to exclusively operate sports books in the acquired casinos.

However, a note of caution comes from gambling industry expert Regulus Partners, which says that UK companies may be making too much of the 'access' card. There are more than 1,000 land-based casinos in the US, so access shouldn't be an issue for UK companies.

However, as Smurfit at GAN says, there is an important dynamic at play which could create big upside for the land-based casinos. Almost a third of sports bettors subsequently go on to make a casino bet, bringing incremental business. Casinos are therefore more likely to collaborate.

GAMBLING SECTOR

		2018	2019	2020
GVC Market Cap: £3,540m	Sales (m)	£2,935.0	£3,500.0	£3,624.0
	Net profit (m)	-£62.5	£341.4	£421.5
FLUTTER Market Cap: £5,450m	Sales (m)	£1,873.0	£2,088.0	£2,302.0
	Net profit (m)	£201.4	£245.0	£272.0
WILLIAM HILL Market Cap: £1,430m	Sales (m)	£1,621.0	£1,647.0	£1,674.0
	Net profit (m)	-£712.3	£83.5	£106.7
888 Market Cap: £588m	Sales (m)	£540.6	£563.0	£595.0
	Net profit (m)	£94.8	£52.6	£58.3

Source: Reuters

WHY HAS THE SECTOR BEEN SUCH A POOR PERFORMER?

The four largest UK gambling companies have on average fallen 40% from their 52 week highs in May 2018. Poor performance can be placed at the door of stricter legislation and increasing taxation which has hit profits and nullified the growth of online.

In addition, politicians have moved to put in place greater protections for 'vulnerable' customers, making it slower and more expensive to acquire new customers.

These pressures have prompted the recent consolidation seen in the sector such as GVC buying Ladbrokes/Coral and Paddy Power buying Betfair. The clampdown on fixed odds betting terminals reducing the maximum bet from £100 to £2 is forcing William Hill and GVC to shutter stores to reduce costs.

In 2016 the UK introduced a point of consumption tax (POC) in order to capture the sales value of offshore companies operating out of tax havens and selling into the UK. Under the new rules, gambling companies pay 15% of all revenues generated from UK customers, irrespective of where they are registered. From 2020 the POC tax will increase to 20%.

The regulator has become more proactive in taking actions against companies who fall foul of the stricter rules. For example, the Gambling Commission recently reported that nearly £14m of penalties will be paid by three companies for failing to put in place effective measures to prevent money laundering and keep customers safe.

Until recently online gambling companies had 72 hours to carry out age related checks and were not allowed to pay out winnings until age verification had been completed. Since February this year, new rules came into effect which means companies are not permitted to take deposits until verification has been done, including free bets.

The regulator is also considering extending the rule to free-to-play games as there isn't a reason why they should be available to children.

THE ADVERTISING ISSUE

Nearly 60% of football clubs in the top two divisions are sponsored by gambling companies, with the Championship boasting 70%. It's got to the point where betting on a football match while watching seems almost normal.

Media pressure highlighting the dangers of promoting a gambling culture is having an impact on the commercial side of the business. GVC and William Hill are considering stopping perimeter advertising, and GVC wants to go further and stop advertising in sport altogether.

Ignoring the moral considerations just for a moment, there is an argument that even if sponsorship was banned it would have little

HIGH GROWTH MARKETS IN A HIGH GROWTH SECTOR

Source: GVC

impact on consumer behaviour. Look no further than the US Superbowl 2018 where an estimated $4.5bn worth of bets were placed despite the fact that 97% of bets were illegal at the time and there weren't any gambling adverts.

Whatever happens in the future, the direction of travel is clearly for more regulation and if the industry wants to prove its credentials for 'self-regulation', it will need to spend more money financing initiatives designed to protect the consumer of its products.

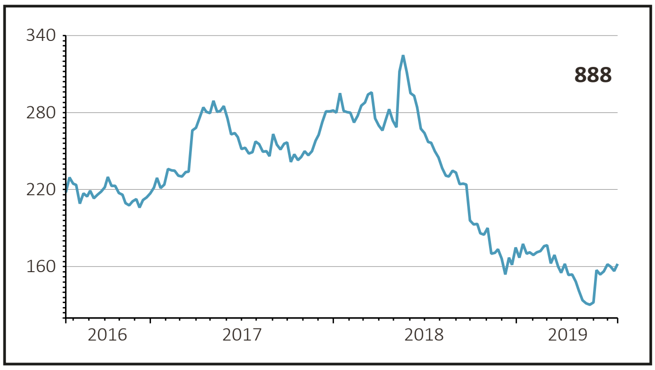
OPPORTUNITY KNOCKS

These developments beg the question, what have share prices already discounted and are they too pessimistic about the US market?

The four largest companies in the sector have an average dividend yield of 5.5% and trade on an average price-to-earnings ratio of 13.8-times. Historically these metrics are at the cheaper end of the spectrum and suggest that investors are sceptical of future growth.

There will no doubt be winners and losers emerging from the shift to online and the opening up of the US market. Read on to see how the runners and riders stack up.

888



Founded in 1997, 888 is a pure online company focused on providing mass-market casino and sports games direct to the consumer. Its ambition is to become the dominant casino player and top tier sports operator, by scaling up its proprietary technology platform.

The company runs a white label technology platform for the business-to-business sector through its ownership of Dragonfish, although this is now only a small part of its business.

The company's technology platform is a key differentiator and provides it with speed and flexibility to enter new markets and add new features. Its games generate 1.46 times more bets per play than third party equivalents.

Customer acquisition costs have fallen by 13% since the first quarter of 2017 and 8% since the first quarter of 2018. The transformation in 888's business is starting to pay off with increasing like-for-like growth of 45% in casino revenue year-to-date according to JP Morgan analyst Ted Nyhan.

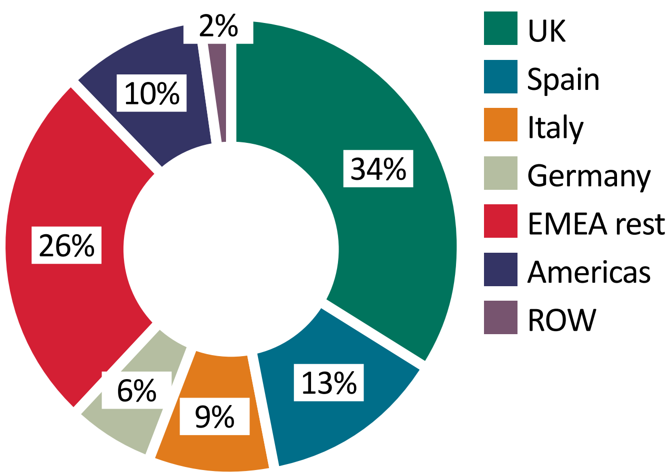
888 has been present in the US since 2013 and it runs a tri-state poker network to pool players across currently regulated states. The network has launched a host of tournaments and prizes, including a guaranteed weekly $100,000 Sunday tournament.

The company also runs the Delaware state lottery on a contract which runs for another two years.

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

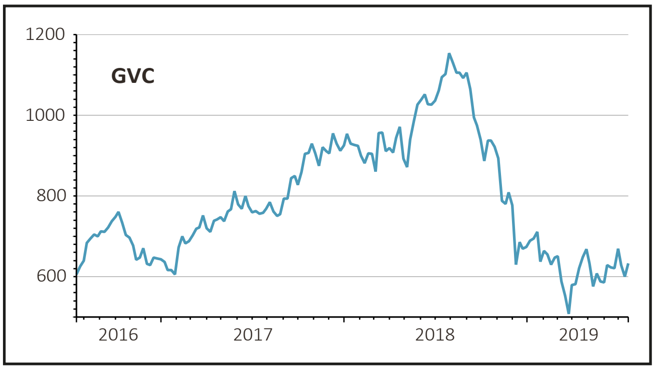
'888 was among the first operators to realign its business to become fully compliant with tightening compliance regulations,' says research group Edison. 'This has been particularly evident in the fact that first quarter 2019 UK revenues have seen a significant uptick, while other operators continue to show declines.'

We have a 'buy' rating on 888 and believe the market has yet to fully recognise the significant changes to the way it does business.



Source: Edison

GVC



GVC was founded in 2004 as an e-gaming operator and has since grown rapidly through acquisition. In 2016 it bought the Austrian gaming company Bwin.party for €1.5bn and in 2018 it purchased Ladbrokes for £3.1bn.

Generating $3.5bn of net gaming revenues, GVC is the largest UK quoted gambling company.

In the US GVC operates a 50:50 joint venture with MGM called Roar Digital, created to capitalise on the market opportunities. Management believes the size of the US market could be worth $6bn to $10bn in the medium term.

GVC hopes to capture around 20% of the market through its joint venture and leading brands, and to generate 30% margins at the earnings before interest, tax, depreciation and amortisation (EBITDA) level.

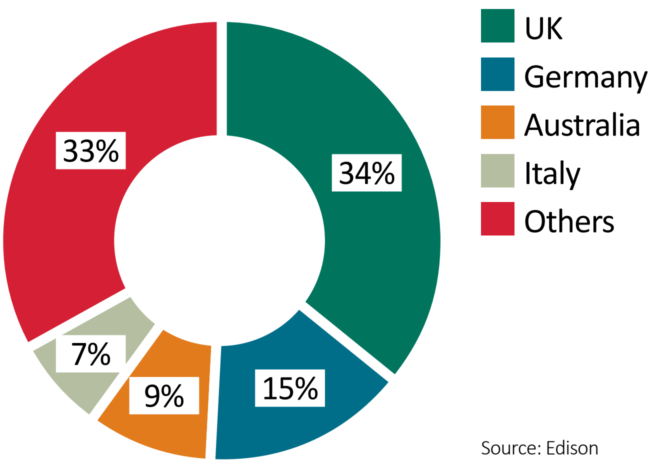
The legacy retail shops, which represent around 37% of revenues, have been a drag on performance but in May management suggested that they expect Ladbrokes to be GVC's best performing brand over the next two years and that the transition to the GVC platform was now largely complete.

The company has made a 'step-change' in its practices to accommodate all the regulatory changes. It expects UK online to grow at a high single digit over the coming years.

GVC has been at the forefront of taking preventative actions including calling for a ban on UK TV sports betting adverts and an increased funding for research and education.

The company has guided towards long-term double-digit growth in online revenue and an EBITDA margin of 30%, while reaffirming that annual dividends will grow at least double-digit. In terms of the US, it expects that over time, the top three operators will achieve a combined 60% market share. Its joint venture is targeting the number one position.

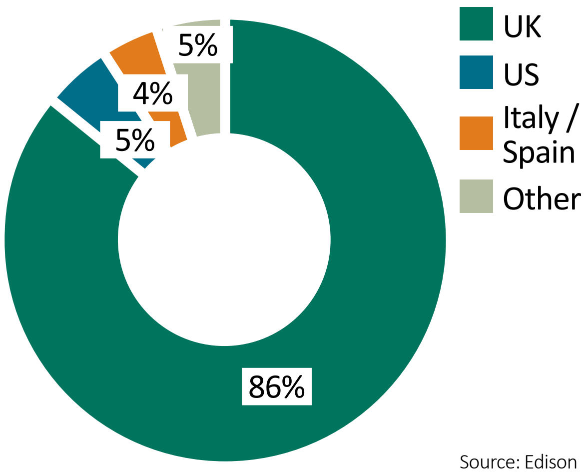
We don't believe the shares are worth buying at present as the company continues to face criticism of poor corporate governance. This negative market sentiment could weigh on the share price until GVC can prove its standards have improved. Avoid for now, but keep a close eye as the business does have opportunities to grow.



Source: Edison

William Hill

Founded in 1934 as a postal and telephone betting service, William Hill entered the retail betting business in 1966. The bulk of its business today is conducted in the UK where it operates from around 2,300 shops. Online accounts for 39% of revenues.



Source: Edison

The recent acquisition of Mr Green for £242m significantly increased its European footprint.

The company has operated in the US since 2012 and is a leading US sports operator. It reckons that its potential revenues from the first 17 US states to open up will be worth between \$2.5bn and \$4.9bn by 2023.

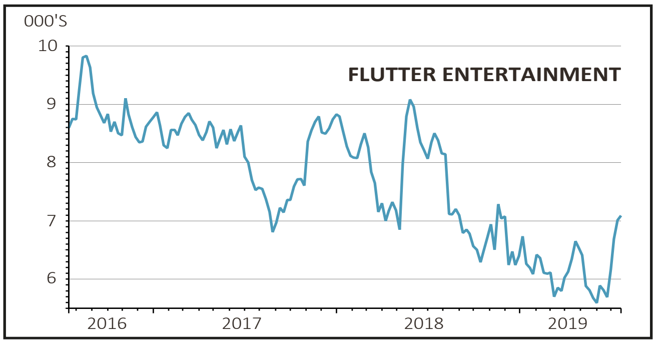
As well as Eldorado's \$50m shareholding in the William Hill plc business it also has a 20% stake in William Hill US. The companies will share profits and capital expenditures 50:50 over an initial 25-year term.

Since the rules on US sports betting changed last year, the company has taken around \$200m of sport wagers from states outside

Nevada, demonstrating its potential to grow quickly. Its existing presence will also lower potential marketing costs, helping to achieve profitability sooner.

We're concerned about the challenges facing its UK business and the fact the business no longer has the scale it previously enjoyed. It continues to be seen as a takeover target, but that is no reason to buy the shares. Avoid.

Flutter Entertainment



Formerly called Paddy Power Betfair following the 2016 merger, Flutter Entertainment operates a dual brand strategy, with the Betfair brand positioned to attract more value conscious players and the Paddy Power brand positioned to attract more casual players.

Roughly half of revenues are generated from online, with retail shops representing 18%, the US 10% and the rest from Australia. The company has recently acquired licences in the US, Spain and Georgia.

Flutter has been in the US market since 2009 and expanded through the acquisition of two fantasy sports businesses, FanDuel and Draft, making Flutter the largest US operator.

The FanDuel business is comprised of four revenue streams: horse racing, fantasy sports, sports betting and the Betfair online casino, which in aggregate made $313m of revenues in 2018.

While the Betfair casino and sports betting businesses are only present in three states, New Jersey, Pennsylvania and West Virginia, horse racing operates across 33 states and fantasy sports across 41 states. FanDuel is the largest online sports gaming company is the US.

As to the potential market opportunity, the

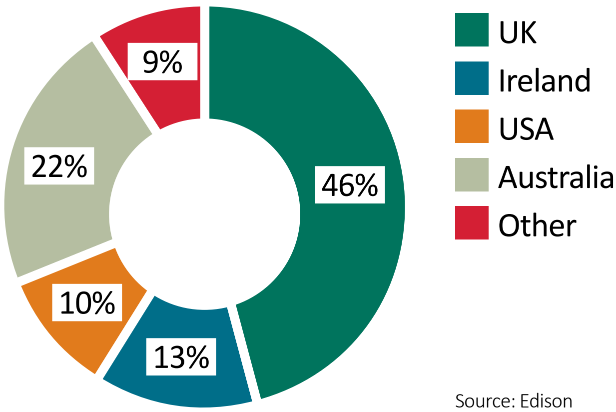
company cites the American Gaming Association which estimates the total size of illegal sports betting as north of $150bn annually, equivalent to around $10bn of gross gaming revenues.

New Jersey is already an attractive online market with $122m of revenues seen in the first few months. Industry analysts believe the market size will eventually reach between $500m to $600m of gross gaming revenues.

Flutter estimates that even applying a modest legalisation assumption of around 25% of the US population, a FanDuel profit contribution could match the current European online business.

Edison says Flutter's scale and technology provide significant revenue and cost advantages versus some peers.

We believe the shares are worth buying given its strong position in the US and differentiated offering.



Source: Edison

By **Martin Gamble** Senior Reporter

Alliance Trust yet to beat its target with new strategy

Investors have been rewarded with decent gains but outperformance is another matter

Now into its third year under a new strategy born out of pressure from activist investors Elliott Advisors and to a lesser degree Laxey Partners, **Alliance Trust's (ATST)** shares are trading at an all-time high and investors are enjoying double-digit returns so far in 2019.

Elliott Advisors is no longer a shareholder and Alliance Trust has nearly sold all its non-core investments with just a bit of property and some mineral rights needing to find a new home.

Once complete it will be left as a pure equity fund.

The investment trust switched strategy in April 2017 when financial advisory group Willis Towers Watson picked a panel of eight fund managers who each provide up to 20 of their best ideas that now form the Alliance Trust portfolio.

HOW HAS IT PERFORMED?

In terms of returns, the investment trust underperformed its MSCI All Country World benchmark in 2018. However, if you focus purely on the equity portfolio and ignore the non-core bits that are being, or were recently, sold then you'll see it did beat its benchmark by 1% between the start of the new strategy and the end of 2018.

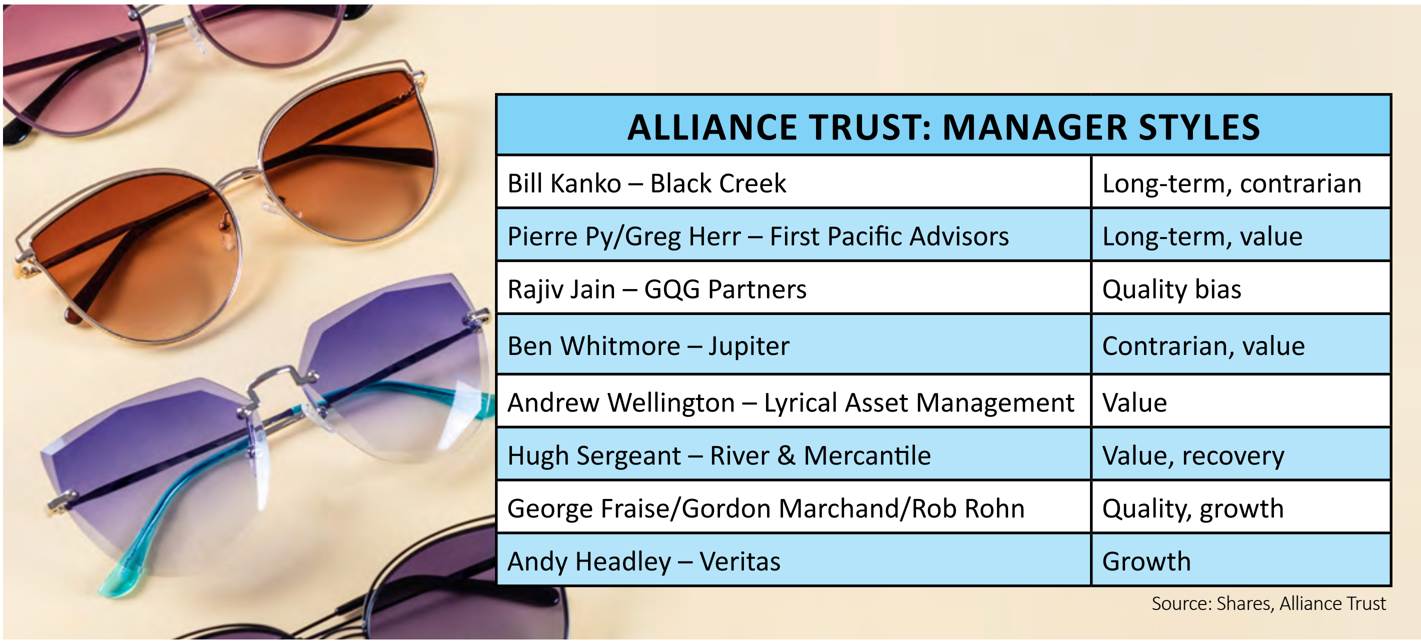
This year it has so far kept pace with the benchmark with a 16.7% gain in net asset value (NAV) to 30 June 2019. The recent performance is positive but ultimately Alliance Trust is not yet delivering on its target of beating the benchmark by at least 2% a year after costs (over rolling three-year periods). It needs to outperform otherwise investors might as well own a tracker fund.

If you include both the equity and non-core components, its NAV has increased by 15.9% and share price by 16.2% since the new strategy began in 2017 (up to 30 June 2019), whereas its benchmark has advanced by 18.9%.

These performance statistics might explain why the investment trust still trades at a discount to NAV – currently 5.4% versus an average 6% discount over the past 12 months.

Even though the Elliott Advisors debacle was high profile at the time, Alliance Trust has arguably fallen beneath the radar of many investors since the strategy changed. Indeed, Mark Atkinson, marketing and communications manager at Alliance Trust, suggests the current discount to NAV is partially down to investors still not appreciating the strategy and

> "BRINGING TOGETHER BEST-IN-CLASS FUND MANAGERS AND USING THEIR BEST IDEAS IS A TRIED AND TESTED APPROACH"



ALLIANCE TRUST: MANAGER STYLES	
Bill Kanko – Black Creek	Long-term, contrarian
Pierre Py/Greg Herr – First Pacific Advisors	Long-term, value
Rajiv Jain – GQG Partners	Quality bias
Ben Whitmore – Jupiter	Contrarian, value
Andrew Wellington – Lyrical Asset Management	Value
Hugh Sergeant – River & Mercantile	Value, recovery
George Fraise/Gordon Marchand/Rob Rohn	Quality, growth
Andy Headley – Veritas	Growth

Source: Shares, Alliance Trust

board change.

In March, Winterflood analyst Simon Elliott – no connection to the aforementioned ex-investor Elliott Advisors – wrote that Alliance Trust's performance since the restructuring hadn't been good enough to differentiate it from a competitive peer group. And that is a fair point which is still relevant today.

Fortunately 2019's performance has given Alliance Trust an edge. Both **Witan Investment Trust (WTAN)** and **F&C Investment Trust (FCIT)** have a similar multi-manager strategy, offering investors access to a range of best ideas from around the globe. Witan's NAV is up 13.5% this year and F&C's is 14.3% higher – so both lagging Alliance Trust's 16.7% gain. It needs to keep delivering this superior performance to stand out from the crowd.

TOO EARLY TO CALL

Atkinson argues that it is too early to judge whether Alliance Trust's new approach has been a success.

'Just over two years is too short to judge a new strategy, although you must appreciate it isn't actually a new approach as Willis Towers Watson have been running it with institutional investors for more than 10 years,' he comments.

'Bringing together best-in-class fund managers and using their best ideas is a tried and tested approach.'

ONE-STOP-SHOP

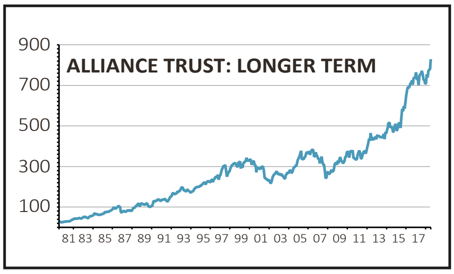
The new-look Alliance Trust is pitched as a one-stop-shop for global equities. Atkinson says it isn't meant to be the only product you need for equities, remarking that it could work as the core holding in a portfolio and that many investors will also want to hold more specialist funds or as satellite holdings.

'If you don't have spare time or the skill to select the best fund managers, Alliance Trust will do it for you. Our managers are also generally not available to retail investors, providing another advantage to owning our investment trust,' adds Atkinson.

He says many investment funds contain a mixture of a fund manager's best ideas and 'filler' to help balance the portfolio for risk management purposes. 'Our portfolio only has the best ideas. We blend the types of managers to get risk control.'

DIFFERENT STYLES

The eight managers currently on the Alliance Trust panel have a value, growth or quality approach when it comes to stock



selection. Having a mixture of them acts as a cushion when one of the styles is out of favour.

'A lot of people compare us to big global funds. We're not like Terry Smith at Fundsmith or Nick Train from Lindsell Train; they face a challenge when their investing style is out of favour whereas we are an all-weather vehicle.'

The growth style managers have done very well at Alliance Trust, according to Atkinson who says they've delivered 20% to 30% outperformance. The value managers have struggled due to the style being out of favour.

'Interestingly we had a growth manager and a value manager at our recent annual shareholder meeting. The value guy manager was more optimistic whereas the growth manager was more nervous, despite delivering years of outperformance with their style.

WHAT'S IN THE PORTFOLIO?

THE BIGGEST NAMES in the portfolio are Google's parent company Alphabet, tech giant Microsoft and and Indian financial services group HDFC Bank.

Investors are also getting exposure to the likes of airline **Ryanair (RYA)**, food packaging group Crown and specialty materials provider Celanese.

Recent additions to the portfolio include outsourcing group **Capita (CPI)**. 'While it has experienced distress in recent times, notably issuing a profits warning shortly after the collapse of rival Carillion in January 2018, in the manager's view the company is now starting to see benefits from wide ranging changes introduced by CEO Jonathan Lewis following his appointment in December 2017, and represents an attractive opportunity at a suppressed valuation,' says Alliance Trust.

'Planned cost reductions are progressing ahead of schedule and management hold a bullish outlook for the company's future free cash flows and operating margins.'

COMPARING CHARGES

Alliance Trust's ongoing charges are 0.65% which are very competitive for a global investment trust. While you could certainly get global exposure for a lot less via exchange-traded funds, the average open-ended fund costs 1.4%, claims Atkinson.

Fees are unlikely to get lower unless Alliance Trust significantly grows in size. However, the investment trust has recently done something extra to hopefully help investors, namely adding an ESG layer to the fund managers' investment decision making.

It has appointed sustainable investing expert Hermes to provide Alliance Trust's panel of fund managers with guidance on ESG issues for their investments, such as ways in which to vote at shareholder meetings.

SHARES SAYS:

Low-cost multi-manager investment trusts are a good concept for investors who want the tap the best ideas from a range of different people in a single product.

Alliance Trust still has a lot to prove, but so far its simplified approach has a lot of merit and certainly this year's performance is encouraging. If you don't already have such a product in your portfolio, Alliance Trust is certainly worthy of consideration alongside F&C and Witan.

By **Daniel Coatsworth**
Editor

Using ETFs to play the thriving robotics theme

We look at two products offering low-cost access to a hot part of the market

Last month's Goodwood Festival of Speed saw the unveiling of Europe's first roadworthy autonomous delivery vehicle. Called Kar-go, the self-driving electric-powered robot on wheels has been developed by former Formula 1 and classic car boffins. It promises to slash the cost of last-mile goods delivery by up to 90%.

This is just the sort of exciting project to have captured the imagination of investors, fuelling the idea that disruptive technologies such as automation, robotics and artificial intelligence can transform industries and make investors a mint along the way.

Such innovation could mean streamlined production processes and 3D printed manufacturing, predictive analytics in retail and entertainment, and autonomous transport fleets speeding us home on networks of road and rail.

It is also why the **Pictet Robotics (BDB6DB9)** fund has grown into a whopping €4.72bn specialist vehicle in less than four years, and similar funds are emerging.

ETFS TO PLAY THE SPACE

Investors looking for a lower-cost way of playing this theme have several alternative options in the exchange-traded space. Among them is **iShares IV Automation & Robotics ETF (RBOD)** which tracks an index of developed and emerging market companies which are generating significant revenue from sectors associated with the development of robotic and automation technology.

It has 0.4% ongoing charges and provides exposure to such companies as US-based Inphi which produces semiconductor components; and Milacron, a manufacturer of plastic processing equipment which has just received a $2bn takeover offer from industrials group Hillenbrand.

Another route for investors is **L&G ROBO Global Robotics & Automation ETF (ROBG)** which tracks an 89-strong list of robotics and automation companies that must jump through some very demanding qualification hoops set down by the index provider's team of tech industry experts and academics.

This was no easy task but ROBO has created a database of more than 1,000 companies across the globe, split into 12 sub-sectors of the robotics and automation theme, such as sensing, computer processing, logistics automation, energy and healthcare.

'There is no perfect database

ROBO GLOBAL ROBOTICS & AUTOMATION ETF TOP 10 STAKES	
Hiwin Technologies	1.8%
Nvidia	1.8%
Oceaneering	1.8%
Yaskawa Electric	1.7%
Flir Systems	1.6%
Zebra Technologies	1.6%
Nabtesco	1.6%
Keyence	1.6%
Rockwell Automation	1.6%
Intuitive Surgical	1.6%

Source: ROBO Global, 16 July 2019

of companies,' admits Richard Lightbound, ROBO's chief executive of the Europe, Middle East and Africa (EMEA) region, but he believes the ROBO index represents 'established proven businesses' with the products and technology capable of delivering high growth and returns potential for investors.

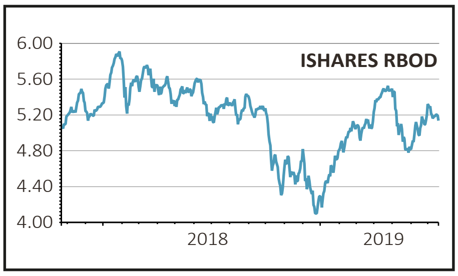
These are all companies trading on recognised global exchanges that derive most of their revenue from the wider robotics, automation and artificial intelligence (RAAI) sphere. This explains the glaring absence of some very well-known and large technology companies, such as Microsoft or Google, which have vast income streams outside the RAAI arena.

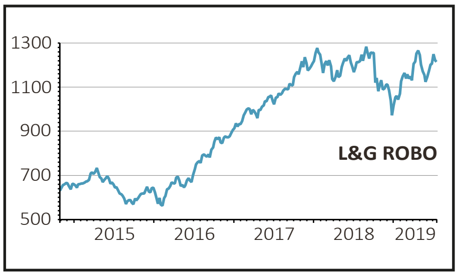
Potential index members are also judged on ESG (environmental, social and governance) criteria.

Beyond this point the index is split again. About 40% are established leading players whose core business is directly related to RAAI, what ROBO calls 'bellwether' companies, which can individually represent no more than 2% of the index.

These include Taiwanese motion controls designer Hiwin Technologies, which makes low-friction rails along which machinery can glide; and Flir, a US thermal imaging specialist.

The other 60% of constituents, or 'non-bellwether stocks', can account for no more than 1% of the index, being companies with a distinct portion of their business and revenue in RAAI and which have the potential to grow through innovation and market adoption of





their products and services. To keep the balance honest ROBO modifies holdings on a quarterly basis.

GLOBAL SPREAD OF ASSETS

As you might expect, most of the companies tracked by the ETF are overseas-based, mainly in the US (45%) or from Japan (22%), with Germany (7%) and Taiwan (6%) following. The UK supplies just 3% of members, which amounts to grocery automation specialist **Ocado (OCDO)**, robotic workforce designer **Blue Prism (PRSM:AIM)** and **Renishaw (RSW)**, which designs and manufactures high tech measurement tools.

Perhaps the thing that makes the ROBO index stand out is its research team. It includes more than seven PhDs and some of the most highly respected robotic visionaries, working closely with management team to identify early key industry trends and associated companies.

They are active in their research efforts, regularly meeting company management teams, running adviser engagement meetings as well as the quantitative and qualitative number crunching you might expect.

'If you compare our index with the iShares ETF, we have only about a 25% index overlap,' says ROBO's Lightbound. By that he means barely a quarter of the same companies will feature in both indices.

One reason, according to Lightbound, is that iShares' research is predominantly based on financial data. Another is that the ROBO index includes a greater number of smaller companies. 'We set a market cap floor at $200m,' says Lightbound.

But if the proof of the pudding is in the eating, then the true measure of success for an ETF is performance, which has been pretty spectacular for the ROBO product, more than doubling since inception on 2 August 2013. Over the same period a FTSE 100-tracking ETF would have returned barely 15%.

We rate this ETF as a 'buy' with the caveat that performance could be quite volatile – i.e. the potential for wild swings in the share price – as many stocks it tracks are on expensive ratings and so the market will be less forgiving at the first sign of any bad news, or these companies quickly go out of favour when markets are in decline.

It is also twice as expensive as the iShares robotics ETF at 0.8%, albeit justified by having a more active approach when it comes to creating and managing the portfolio.

By **Steven Frazer**
News Editor

Investors turn their back on absolute return funds

New figures reveal the extent to which investors have pulled their money out of the once-hot products

Investors have been pulling their money out of absolute return funds over the past year, as the sector has lost popularity.

The past 11 months have seen consistent outflows from the sector, with investors pulling £5.4bn from the funds over that period, according to figures from the Investment Association.

It comes after a period where absolute return funds were the darling of the industry, seeing £3.4bn of inflows in 2017 and £5bn of inflows across 2016, while also being the best-selling sector across the entire year in both 2015 and 2016.

We've previously highlighted the lacklustre performance of much of the sector, as well as the volatility that so many of these so-called 'safe haven' funds have seen. Alongside the performance issues endured by many of the big funds in the sector, we've been in a period where inflation has increased, and many of the fund returns have failed to keep up.

Standard Life Investments Global Absolute Return Strategies (B7K3T22) is seen as the pioneer of the absolute return funds sector. The complicated strategy uses a number of different fund managers each with allocations to specific areas of the bond or equity market to run the strategy.

It aims to deliver a positive return in all market environments

and to return 5% above the return on cash over a three-year period.

However, the flagship fund of the sector has been hardest hit, with almost £10bn in outflows over the past year and more than £18.5bn of outflows in the past three years. The fund now has £8.2bn in assets.

The performance of the fund has been disappointing over five years, returning 5.8% compared to 9.5% for the sector average. What's more it hasn't even kept pace with inflation, which has added up to 7.7% over the same time period.

LAGGING INFLATION

Many of the funds have failed to beat inflation, particularly those seeing the highest outflows. Looking at the largest outflows list, seven of the 17 funds with five-year figures have managed to beat inflation – just over 40%. Over one year, just seven out of 20 funds have beat inflation, roughly a third.

However, for those seeing the largest inflows, 10 out of 14 funds with five-year figures have beaten inflation, while 15 out of 20 funds have beaten it over one year. While inflation has picked up in recent years, this is still a relatively low bar to beat for so-called 'safe haven' funds that aim to provide positive returns in all market conditions.

Other outflows in the sector are more specific to problems at an asset manager rather than sector-specific. Ongoing problems at GAM, related to the suspension of fund manager Paul Heywood and the liquidation of his absolute return bond fund range are shown in the figures.

The **GAM MultiBond Absolute Return Bond (B3B0FT3)** and **GAM MultiBond Absolute Return Bond Plus (B19DHH2)** funds' outflows are due to the liquidation of the funds. And while the **GAM Star Global Rates (B5BJ077)** fund isn't being liquidated, it's clearly been impacted by the ongoing turmoil at GAM.

Even though a number of funds have managed to attract inflows during this time, they are by far and away eclipsed by the

Name	Outflows over 1 year (£)	1 year return (%)	5 year return (%)
Standard Life Investments Global Absolute Return Strategy	9,682,879,653	4.9%	5.8%
Merian Global Equity Absolute Return	4,018,226,252	-7.8%	10.5%
BNY Mellon Real Return	2,887,107,085	10.1%	19.3%
GAM MultiBond Absolute Return Bond Plus	1,403,687,302	1.2%	0.2%
Kames Absolute Return Bond	1,351,788,929	0.7%	4.8%
BNY Mellon Absolute Return Equity	1,178,392,610	-4.7%	2.4%
GAM MultiBond Absolute Return Bond	1,018,382,110	0.8%	-0.4%
Invesco Global Targeted Returns	924,972,193	-0.9%	10.5%
Aviva Investors Multi-Strategy Targeted Return	719,288,913	0.7%	8.8%
Aviva Investors Multi-Strategy Targeted Income	678,954,891	4.9%	NA
BNY Mellon Absolute Return Bond	624,757,543	-3.0%	NA
Janus Henderson UK Absolute Return	503,185,051	-1.1%	15.7%
GAM Star Global Rates	396,457,268	4.8%	3.6%
SLI Absolute Return Global Bond Strategies	336,505,832	1.8%	0.5%
Absolute Insight Emerging Market Debt	306,457,925	0.3%	-1.1%
Sector average		1.0%	9.5%
UK inflation		2.0%	7.7%

Source: Morningstar/FE/AJ Bell. Data accurate to 30/06/19. Morningstar flow figures are an estimate. Inflation measure based on CPI.

Name	Inflows over 1 year (£)	1 year return (%)	5 year return (%)
BlackRock Absolute Return Bond	688,524,426	1.3%	4.9%
Threadneedle Dynamic Real Return	577,960,576	2.3%	24.8%
Vontobel TwentyFour Absolute Return Credit	433,614,118	3.1%	NA
Man GLG Alpha Select Alternative	363,514,049	5.0%	37.6%
JPM Global Macro Opportunities	223,284,702	4.8%	45.2%
Royal London Absolute Return Government Bond	193,253,029	0.5%	NA
SVS Church House Tenax Absolute Return Strategies	142,587,501	2.0%	16.3%
L&G Multi-Asset Target Return	138,092,438	4.9%	0.0%
BlackRock European Absolute Alpha	118,262,416	6.0%	20.3%
Uni-Global Cross Asset Navigator	104,851,489	9.2%	NA
Brooks Macdonald Defensive Capital	95,777,920	4.9%	25.6%
Schroder Multi-Asset Total Return	79,797,848	-0.7%	NA
FP Pictet Multi Asset Portfolio	79,221,999	1.1%	NA
Man GLG European Alpha Alternative	77,111,857	-4.6%	-1.4%
Sanlam Multi Strategy	72,075,631	5.3%	18.7%
Sector average		1.0%	9.5%
UK inflation		2.0%	7.7%

Source: Morningstar/FE/AJ Bell. Data accurate to 30/06/19. Morningstar flow figures are an estimate. Inflation measure based on CPI.

outflows. The collective inflows of the top 20 funds over the past year doesn't even amount to half the outflows seen on the SLI GARS strategy alone.

What's notable is that while those attracting inflows have broadly seen better performance, particularly over five years, some of the funds still getting investor money have severely underperformed. **Man GLG European Alpha Alternative (B3LIVG9)**, for example, has delivered a 4.6% loss over the past year, and a 1.4% loss over five years – despite this it has attracted £77m in new money over the past year.

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

Middle East investing moves into the mainstream

Kuwait ascension to emerging markets status is the latest milestone

The elevation of the Kuwaiti stock market from frontier to emerging market status is the latest sign that the region is moving steadily towards the mainstream in investment terms.

Index providers FTSE Russell and MSCI both welcomed Saudi Arabia to the emerging markets club earlier this year in a move which should increase the flow of capital into the country after the UAE arguably paved the way for some of its Gulf neighbours back in 2010.

This follows several years of work to bring the way these markets operate up to speed with the standards seen elsewhere.

Although there has been some volatility in the intervening period, the benchmark Taduwal All-Share Index is up 14% since FTSE Russell explicitly earmarked Saudi Arabia for promotion at the end of March 2018. That is a better performance than the UK's FTSE All-Share index, up less than 12%.

The MSCI Taduwal 30 index provides a good snapshot of the market and although the oil industry dominates the Saudi economy, the list of top constituents includes several financial stocks. In total financial companies account for more than 50% of the index.

The elephant in the room is the state-owned oil firm Saudi Aramco with continuing questions over when or if a long-mooted stock market flotation might happen.

We recently saw Middle East-focused **Network International (NETW)** join the London Stock Exchange and the payment services business has enjoyed a strong start to life as a public company.

For Kuwait the transition to emerging markets status should finally complete in May 2020 with the country planning further improvements to its equity market infrastructure in the interim.

MSCI TADAWUL 30: TOP 10 CONSTITUENTS

	Sector	Index (%)
SAUDI BASIC IND CORP	Materials	15.1
AL RAJHI BANKING & INV	Financials	15.0
NATIONAL COMM BANK	Financials	11.8
SAUDI TELECOM CO	Communication	7.2
SAMBA FINANCIAL GROUP	Financials	6.2
RIYAD BANK	Financials	5.7
BANQUE SAUDI FRANSI	Financials	3.9
SAUDI ARABIAN MINING CO	Materials	3.5
ALINMA BANK	Financials	3.2
YANBU NATL PETROCHEMICAL	Materials	2.6
TOTAL		**76.2**

Source: MSCI Tadawul 30 index

Emerging markets: Views from the experts

Three things the Franklin Templeton Emerging Markets Equity team is thinking about today

1. The United States and China agreed to resume trade talks at the G20 summit in late June. The United States also decided against imposing new tariffs and easing some restrictions on Chinese telecommunications company Huawei, while China agreed to substantial purchases of agricultural and other products from the United States.

Although this truce has reduced the likelihood of further escalation in the short term, we expect prolonged discussions in view of the pending issues between the two countries. Domestic consumption now makes up the lion's share of China's economic growth.

Net exports, however, were a 9% drag on growth in 2018, compared to a 9% contribution in 2017. Further, with only 19% of Chinese exports destined for the United States in 2018, we have thus far seen limited impact from US tariffs on Chinese exporters.

2. As widely expected, index provider MSCI promoted Kuwait to emerging markets (EM) status in June. Kuwait's MSCI Emerging Markets index weighting is expected to be about 0.5% with implementation in May 2020. With substantial reserves, low levels of debt and a stable

banking sector, Kuwait stands out in an EM context.

Kuwait also continues to make significant progress in terms of fiscal and structural reforms and is committed to developing a dynamic and vibrant private sector.

And while there is still some way to go, the results of Kuwait's move to reduce the role of the public sector in the economy are encouraging. The country is moving away from oil dependence by developing its infrastructure, investing in human capital and promoting private sector involvement.

3. We continue to find opportunities in health care, as well as companies that stand to benefit from long-term secular trends relating to consumption and innovation.

Demographic shifts and ageing populations in many EM countries are intensifying pressures on health care systems. These factors should continue to be a boon for hospitals, dietary supplements, medical devices and pharmaceuticals. The health care landscape is also changing, with growing consumer awareness fuelling medical and wellness needs.

We continue to find opportunities in health care, as well as companies that stand to benefit from long-term secular trends relating to consumption and innovation

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

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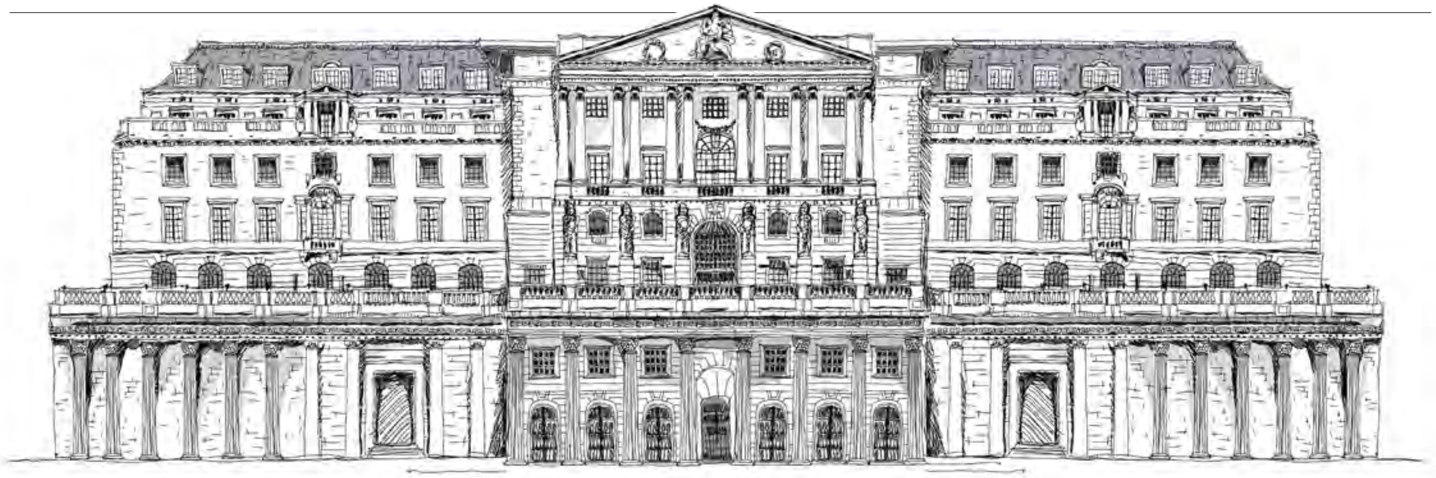
TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

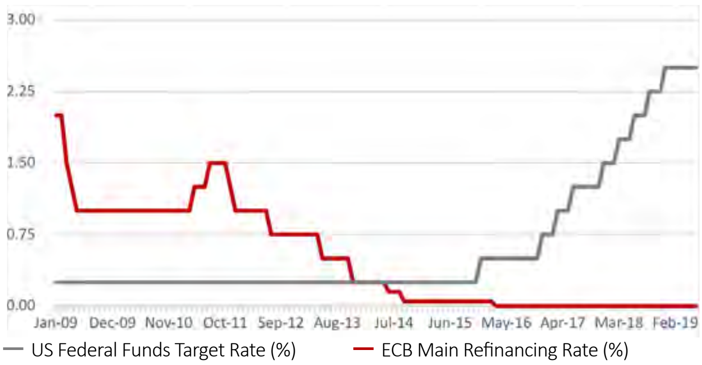
Mounting debt haunts rate cut bonanza

Global borrowing is going up as central banks look to slash rates



One of the most stunning aspects of the financial markets in 2019 is the U-turn in monetary policy across the world's leading central banks.

FEDERAL RESERVE AND ECB ARE PRIMED TO CUT INTEREST RATES AGAIN



Source: US Federal Reserve, European Central Bank, Refinitiv

The Federal Reserve started the trend on 4 January when chair Jay Powell strongly hinted that the American central bank's previously metronomic, quarterly increases in headline borrowing costs would come to end this year and that the sterilisation of quantitative easing (QE) would stop in the autumn.

Powell and his colleagues on the Federal Open Markets Committee have since gone further and put interest rates reductions so clearly on the agenda that the debate has shifted on to how fast and how deep those cuts will go.

Even if it does not cut rates today (25 July) the European Central Bank (ECB) is expected to lay the groundwork for reductions in its headline deposit and refinancing rates, as well as possibly a resumption of its QE scheme, barely eight months after ECB chief Mario Draghi had announced a halt.

Financial markets currently seem happy with the prospect of this largesse. Bond markets are rallying because more QE will mean more price-insensitive buying of fixed-income instruments by central banks.

This will also likely serve to drive down yields on future issuance and make the yields available on currently-traded paper look more attractive on a relative basis.

Equity markets are rallying because lower returns on cash and falling bond yields may revive the 'There Is No Alternative (TINA)' argument for stocks, or in other words the offerings from bonds and other assets are so paltry, equities are the only option, especially for those investors who are hungrily seeking income.

Yet perhaps people need to ask themselves why central banks are returning to their bags of monetary policy tricks and what potential risks lie ahead, as well as the rewards that may be accrued.

ABOUT TURN

According to the website cbrates.com we have had over 40 central bank rate cuts this year –

with Russia, Korea, South Africa, India, Australia and New Zealand leading the way – against just 10 increases, with Norway the most prominent exponent of tighter monetary policy.

That compares to 89 increases and 47 cuts last year so the tide has turned, especially as the Fed, ECB and also Turkey have set out their stall when it comes to plans for cutting the cost of borrowing.

Perhaps markets could have seen this coming. After all, we have been here before. A succession of central banks in developed markets – Australia, Canada, Israel, New Zealand and Sweden, as well as the EU – all raised interest rates at the start of this decade. Each nation's central bank had to quickly back-pedal and New Zealand even had another go at normalising policy without success in 2014-15.

The sextet of central banks quickly changed their minds as their currencies and borrowing costs for consumers and corporates (and governments) crimped spending, with the result that their economies slowed. It simply proved harder to move away from record-low interest rates than they had thought and central bankers have apparently come up against the same problem again in 2019.

CAUGHT IN A TRAP

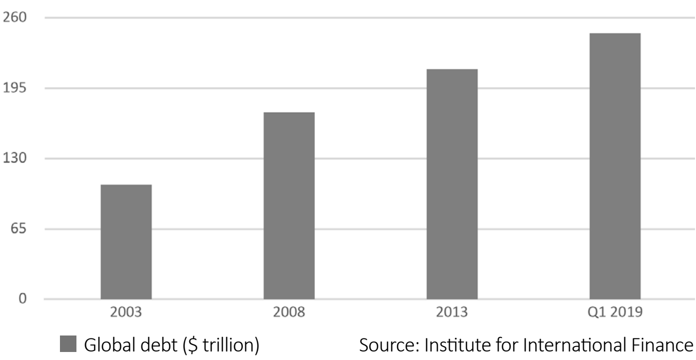
If anything, it could be even harder to normalise interest rates now than seven or eight years ago, because global indebtedness is so much higher and no-one seems to want a strong currency (which may be why gold is back on the march).

The irony is that borrowing is higher because central banks have encouraged it, with lower interest rates and QE.

According to the Institute of International Finance (IIF), global debt ended the second quarter 2019 at $246tn, or 320% of GDP. The good news is this is $2tn below the Q1 2018 peak in monetary terms but it matches the all-time high of Q3 2016 as a percentage of GDP.

The bad news is that global debt is now some 40% higher than when the Great Financial Crisis began. The world simply cannot afford interest rates to match those seen between 2006 and 2008, when they peaked at 5.25% in the US and UK and 4.25% in the EU.

GLOBAL DEBT IS HIGHER THAN EVER



Source: Institute for International Finance

This raises the spectre of a Japan-style debt trap, to match the one that has devilled the Bank of Japan since 1989 – and remember that the Nikkei 225 still trades some 45% below the all-time high it reached right at the end of the 1980s, even after three decades of zero or negative interest rates and umpteen rounds of QE.

This suggests that Abraham Lincoln may have been on to something when he asserted that 'You cannot bring about prosperity by discouraging thrift'.

Japan's experience hints that interest rates in the West go a lot lower for a lot longer than we expect as central banks strive to conjure up growth and inflation by trying to encourage governments, consumers and companies to borrow and spend.

By **Russ Mould**
AJ Bell Investment Director

'How can I access pension money and still save into the pot?'

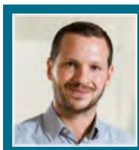
AJ Bell pension expert Tom Selby explains the rules

My wife is 62 and has a small SIPP of around £32,500 in total and no other pension (of her own). We have other savings in ISAs we want to keep there and a large SIPP of mine we cannot access until I am 55.

We would like to access some of her pension (the tax-free element and around £7,500 to take her near to using her personal allowance for the year).

Can we do this from the existing SIPP and continue to contribute?

Kevin



Tom Selby
AJ Bell
Senior Analyst says:

The short answer is 'yes', although there are several important things you need to be aware of. But first let's look through the available income options.

Assuming your wife doesn't wish to convert her pension into a guaranteed income stream by buying an annuity, there are two ways she can access her fund: entering drawdown, with 25% of the pot available tax-free; or taking an uncrystallised funds pension lump sum (UFPLS) withdrawal, with 25% of each chunk withdrawn tax-free.

If she commits (or 'crystallises') the full £32,500 to drawdown she will be able to access her full 25% tax-free lump sum of £8,125. This will not have any impact on her tax-free personal allowance, meaning she can still receive income of £12,500 in the current tax year without paying a penny to HMRC. However, she will no longer be able to take any more tax-free cash from her pension.

If your wife wants to retain some tax-free cash for the future (and give it the opportunity to grow within her SIPP) she could partially crystallise a portion of her fund in drawdown, with 25% of this portion available tax-free. UFPLS withdrawals can be used in a similar way.

Taxable pension withdrawals (i.e. withdrawals over and above your tax-free lump sum) count as income for tax purposes in the same way as earnings. So for someone with no other taxable income, a £7,500 taxable pension withdrawal would be taxed at 0%, with £5,000 of personal allowance left over.

Whichever route your wife chooses, if she takes taxable income from her SIPP – even if it's below the personal allowance and so is taxed at 0% – she will trigger the Money Purchase Annual Allowance.

This means that rather than being able to save up to £40,000 a year into a pension tax-free, this will be reduced to just £4,000. She will also lose the ability to 'carry forward' unused allowances from previous tax years.

It is worth noting ISAs are more flexible and accessing this money will have no impact on your wife's pension allowances.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **editorial@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide guidance and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

Top tips for making your money go further on holiday

How to avoid high fees when ordering cash, using prepaid cards and more

Holiday season is looming. While you're packing your bucket and spade and planning your sun-tanning schedule, it is vital you don't get fleeced when it comes to your holiday spending money.

The value of the pound against the euro has dropped in recent weeks, meaning those who are heading to Europe will find everything a little bit more expensive.

The pound is currently worth around €1.10, while those heading stateside will find £1 is worth around $1.25. Unfortunately this is the official exchange rate and what you get on your holiday spending money can vary vastly.

You'll find that ordering in advance will save you money compared to going to exactly the same outlet and buying currency on the day.

First things first, the worst thing you can do is to leave it to the last minute and buy currency at a kiosk in the airport, without ordering ahead. These outlets are knowing for capitalising on the panic purchase and offering far lower rates than most other places. Research from financial website MoneySavingExpert found that buying €1,000 of money could cost you £100 more if you buy at the airport rather than order ahead.

Here's our guide to the best options:

1 Put it on plastic

A number of cards are now available that will maximise the exchange rate you get on your holiday money and mean that you avoid the 'foreign transaction charges' that your usual bank might charge.

Halifax Clarity credit card is one of them; it has no fees on spending abroad and doesn't have an exchange fee, meaning you get pretty close to the day's exchange rate when you make a purchase.

It's a credit card but you can withdraw cash from an ATM on it, although this will accrue interest from the day you make the withdrawal, rather than the end of the month like the other transactions. Make sure you pay it off in full though as it has a 19.9% APR rate.

Another credit card option is from Tandem, which also has no fees and the same deal on withdrawing cash as the Halifax Clarity card. As an added bonus, it gives you 0.5% cashback when you spend more than £1. The catch (for some) is that it's an app-only bank.

For a debit card option

instead, app-only banks Starling and Monzo are good options. Both can be set up easily through their respective apps and don't charge non-sterling transaction fees or withdrawal fees. Starling limits you to £300 a day in cash withdrawals, while Monzo limits you to £200 in cash withdrawals over 30 days before you're charged 3% on taking cash out.

If you want a more traditional bank, rather than an app-only version, you can plump for Metro Bank, which has no transaction or withdrawal fees in most European countries, but will charge you a fee if you go outside Europe.

2 Want to get cash?

If you want to get cash ahead of your trip your best bet is to order ahead and collect it. TravelMoneyMax is a good comparison site that will compare rates depending on how much you want to exchange and where you live. You need to make sure that you pay for any money with a debit card or cash, as otherwise it counts as a cash withdrawal on a credit card and you'll be charged.

However, you won't get as good rates as the best card options listed above, and you need to make sure you've got a safe place to stow the cash.

Another warning is that these bureau de change don't offer any protection, so if they go bust and have your cash you won't get the money back. This isn't an issue if you order online and pay when you collect, but it can be a risk if you order online, pay online and get delivery.

AVOID THIS SNEAKY TRICK

A long-established swindle from card operators is to ask you whether you want to pay in local currency or your home currency, when you're making a purchase abroad or taking out cash.

If you select to pay in pounds you'll often get a terrible exchange rate and so be charged far more. Avoid this at all costs, particularly if you've gone to all the effort of getting the best card to give you the best rate.

The wording on these transactions can sometimes be confusing, so make sure you read it carefully to ensure you're paying in the foreign currency.

3 Want to lock in the rate?

It's notoriously hard to predict how exchange rates will move, particularly with the current uncertain political environment. However, if you want to lock in a rate now for fear that it will get worse before you jet off on your annual break, then you can use a pre-paid card.

These work by loading money onto a card, with the exchange rate calculated at the time that you load the money, rather than when you spend it. You can then use the cards like a debit card, to pay on card or withdraw cash.

There are a number of options available. For example, WeSwap will allow you to convert your pounds into lots of major currencies, including euros. It's free to sign up to and to top up and you get free cash withdrawals as long as you take out £200 or more. You will be charged a fee when you switch your money to a different currency, with the fee staggered depending on how quickly you need to access the cash. If you can wait seven days it's 1%, while three days is 1.3% and an instant exchange is 2%.

Another option is Caxton, which is free, has free transactions and free ATM use abroad; or Revolut, which allows up to £200 a month to be withdrawn for free, charging 2% after that.

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

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James tells the story of how Equals, previously called FairFX, started from humble beginnings to become a business with £2bn+ turnover.

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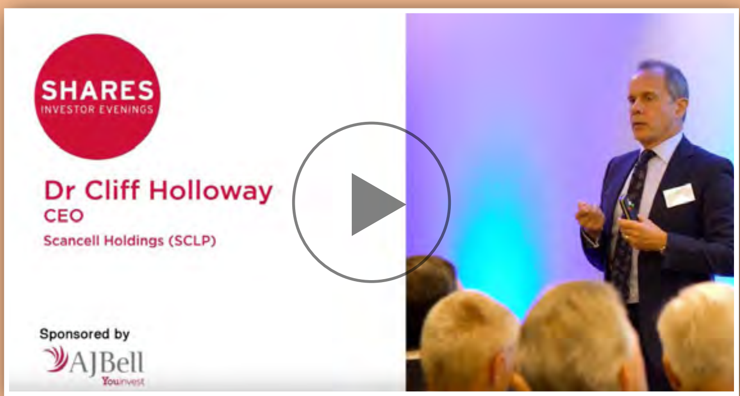
Manolete Partners (MANO)

Manolete Partners' CEO gives a presentation on their recent annual results and looks ahead at future opportunities.



Dr Cliff Holloway, CEO
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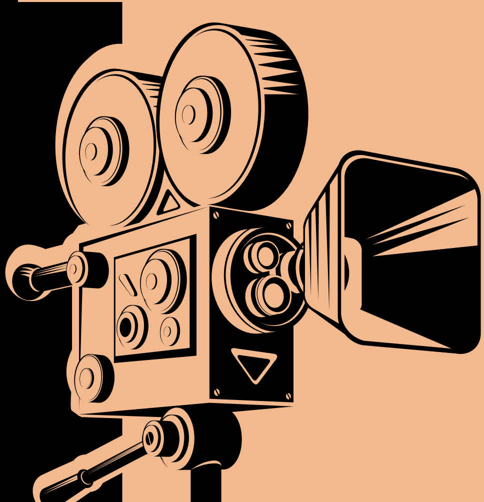
Scancell is at the forefront of immuno-oncology, a rapidly growing sector in the biopharmaceutical industry.



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KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

30 July: Games Workshop. **31 July:** Angle, DWF, Hargreaves Services. **1 August:** Renishaw.

Half-year results

26 July: Foxtons, IMI, Rightmove. **29 July:** Hammerson, Keller. **30 July:** Aggreko, BP, Centrica, Elementis, Greggs, Hutchison China Meditech, Jupiter, LSL Property Services, Low & Bonar, Provident Financial, Spectris. **31 July:** BAE Systems, Countywide, Direct Line, Dignity, Man Group, 4imprint, Indivior, Intu Properties, International Personal Finance, Just Eat, Lloyds, Mitchells & Butlers, Restore, Rentokil, Smurfit Kappa, Smith & Nephew, Serco, St James's Place, Taylor Wimpey. **1 August:** Barclays, British American Tobacco, Coats, Cobham, Capita, ConvaTec, T Clarke, Dairy Farm, Intertek, London Stock Exchange, Merlin Entertainments, Mondi, Royal Dutch Shell, Rio Tinto, RSA Insurance, Schroders, Spirent Communications, Standard Chartered, UK Commercial Property Trust, Vivo Energy.

Trading statements

26 July: Vodafone. **29 July:** Cranswick, Gama Aviation. **31 July:** Next.

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