STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

OF GREAT RETURNS

We look at the superstars as Shares celebrates its 20th birthday

PLUS

SIRIUS MINERALS' SHAREHOLDERS NEED TO MAKE A BIG DECISION

WHY THE BLOCKBUSTER **LONDON STOCK EXCHANGE BID** MAY NOT BE OVER

WHAT THE SHARP MOVE OUT OF MOMENTUM INTO VALUE **MEANS FOR YOUR PORTFOLIO**

20 years of helping investors make money

Discover our development plans as Shares celebrates its 20th birthday

Happy 20th birthday to *Shares*. In the two decades since we first hit the newsstands on 23 September 1999, the investment magazine has gone from strength to strength in helping the public to improve their investing skills and get bigger returns.

Our goal is to educate readers so they can make better informed investment decisions. In the past 20 years nothing has changed in that respect. We've provided a constant stream of investment ideas as well as informed opinion on the markets and useful articles on a wide range of investing topics – and that is still the focus of the weekly digital magazine and daily stories on our website.

CELEBRATING 20 YEARS

Perhaps the key thing that has changed in the intervening period is the way markets have moved, the changes to tax allowances, shifts in consumer trends and a whirlwind of economic and political developments.

Nearly all of the journalists at *Shares* have been writing about investing, or previously working as fund managers or other roles in the industry, during these 20 years of ups and downs, and so bring incredible experience of how to navigate good and bad market conditions.

In the past 20 years we've seen the bursting of the dotcom bubble, a new up and down cycle in commodity prices, the global financial crisis, the acceleration and then deceleration in China's economic growth, a trade war, the run-up to Brexit and various monetary stimulus experiments by central banks around the world.

Investing hasn't been easy but *Shares* has earned the reputation of being a trusted voice and a source of help for readers in managing portfolios, spotting good opportunities and avoiding bad ones.

We've also gone through our own major change with the shift to digital where we decided in 2016 to stop printing the magazine.

So where next for *Shares?* In the past few years we've sharpened our focus on helping novice investors, expanded our coverage of investment trusts, funds and ETFs, and boosted the amount of space given to managing money in retirement. We've also spent more time analysing the most popular overseas-listed shares held by UK investors.

We will continue this journey with the imminent launch of a first-time investor section in the magazine and a new series of educational videos. We plan to spend more time on portfolio construction and make our website much easier to use. Later this month will also see the return of our popular Money & Markets podcast.

If you have any requests for articles or ideas for making the magazine and website even better, we'd love to hear from you. Simply email editorial@sharesmagazine.co.uk with the words 'Shares ideas' in the subject line.

Thanks for your ongoing support and here's to the next 20 years and beyond.

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CFA UK Publication of the Year
CFA UK Journalism Awards 2019

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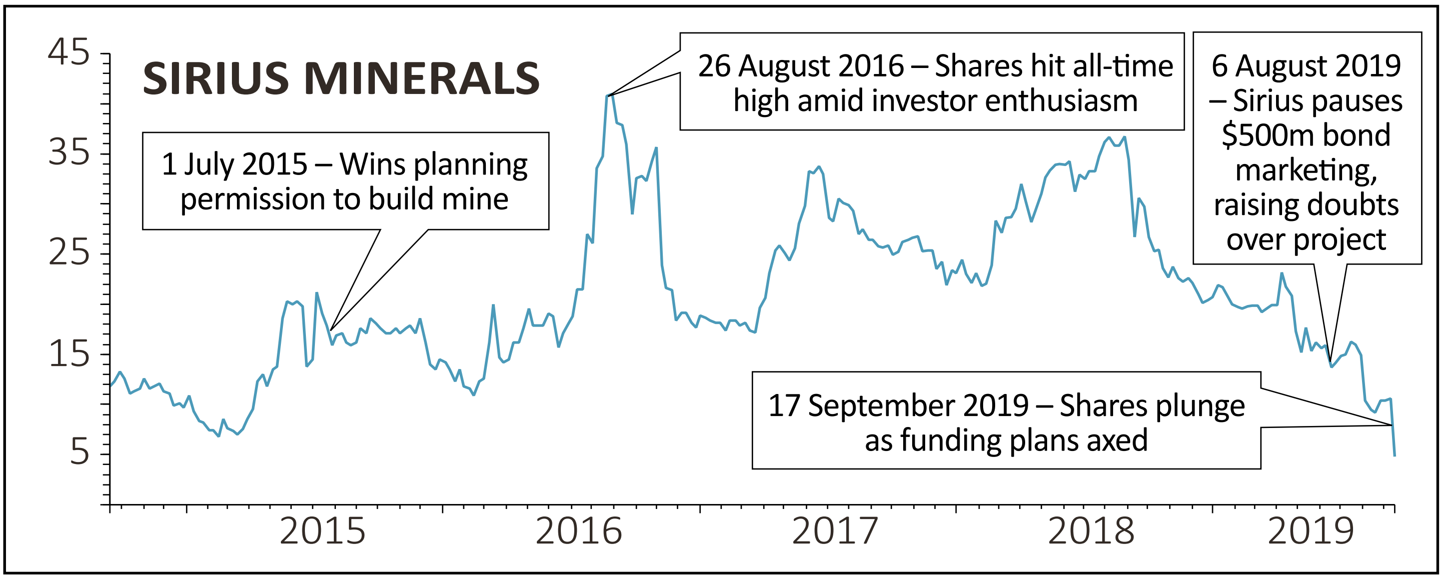
Sirius Minerals' shareholders need to make a big decision

Either walk away or stay and risk everything in hope of a new financing plan



Potash miner **Sirius Minerals (SXX)** has stunned the market after being forced to cancel plans to raise $500m through a bond sale, meaning there is now great uncertainty over the future of its polyhalite mine in North Yorkshire. Its shares halved on the news (17 Sep) to 4.92p.

A stock popular with many retail investors, Sirius Minerals was meant to be a poster boy for UK mining and engineering with myriad economic benefits.

We will now explain exactly what's happened, what's next, and what it means for shareholders.

WHAT'S HAPPENED?

Sirius has scrapped a bond issue, money which was crucial to getting another $2.5bn via a revolving credit facility (RCF) from investment bank JP Morgan, and in turn that funding was vital to get the mine up and running.

According to Sirius, feedback from potential bond investors was that the money could be raised if warrants were attached to the bond.

A warrant is basically an extra sweetener to entice investors. They would normally be able to buy shares in the issuing company at a fixed price until a specific expiration date.

Going down this path would have raised the effective yield for Sirius' bond above 15%, breaking an earlier condition set by JP Morgan. The bank subsequently declined Sirius' request for a waiver of this condition.

Sirius now intends to terminate the RCF agreement with JP Morgan.

WHY HAVE THE SHARES FALLEN SO MUCH?

Having pulled the bond issuance, where Sirius goes from here is undecided. But what is certain is that $3bn that was meant to continue funding the project is now gone, at least for the time being.

Sirius has therefore had to slow down operations at the mine in order to preserve some of its remaining cash.

Getting the cash, in the eyes of some in the market, was meant to be a sure thing by now. So the fact it admits it won't get the money and currently has no idea how additional funds will be obtained has been a shock to investors, triggering widespread selling.

Certainly JP Morgan hasn't been helpful, and Sirius painted the picture in its statement that the bank almost straitjacketed the firm, only allowing Sirius to borrow money if the bond was broadly distributed (instead of concentrated on a few big investors) and didn't have a yield over 15%, evidently difficult for Sirius in the current environment.

Shore Capital analyst Yuen Low highlights that for all its positive noises, 'when push came to shove' support from the UK Government was nowhere to be seen.

When it paused the bond offering in August, Sirius talked to the Government about $1bn in funding if, and 'if' being the key word here, it couldn't refinance the RCF it had with JP Morgan.

In addition, that Government funding would've only kicked in after another 18 months of building work at the mine and a further $2bn being invested. The Government went away, mulled it over, and then said no. This has also failed to reassure investors.

WHAT HAPPENS NEXT?

Sirius will take up to six months to conduct a strategic review, looking at all available options.

In the meantime, work at the mine will slow down because the company doesn't have the cash to continue at the current pace.

Sirius says one way forward could be bringing in a strategic partner. This could potentially be a large corporate in the same or a similar sector who takes up a large stake in a company in exchange for upfront cash.

They would invest for strategic reasons instead of purely to make a return on that specific investment. They use their expertise to help the company grow, and if it's a success, then it's easier for them to acquire all of the company later on.

Sirius says it previously identified strategic partners as a way to bring cash into the project and support its case to get investment banks to lend it money, and now intends to look at this again.

However history suggests that finding a strategic partner in mining is often harder than companies think, so that option is by no means a certainty.

SHARES' VIEW

We have to hold our hands up and admit we got it wrong on this occasion. We highlighted Sirius on 1 August as being an attractive stock to buy following recent price weakness.

At the time commentary from analysts implied there was no reason to doubt the bond issuance and that Sirius' shares had the potential to soar once the financing was done.

Arguably we failed to properly take into account the company's history in trying to raise finance, as well as the clear risks in the sector and investors' appetite towards miners that aren't generating any revenue at present.

Let this be a reminder of the very high risks of investing in the mining industry, even in the UK, as well as the big risks of investing in any company attempting to clear a major financial hurdle.

Anyone still holding the shares should know there's no guarantee of a positive solution – and six months is a very long time to wait for news from a market perspective.

Our view is that the risks are now so high for the company given the scale of the necessary funding requirement that it is best to sell the shares and claw back any money you can, rather than risk everything by clinging on in hope.

Why the sharp jump in the oil price matter to investors

We examine the impact of the Middle East oil attacks on investors, markets and economies

You may soon be counting the cost of actions thousands of miles away when you fill your car at the pump and the surge in oil prices has significant implications for markets too.

The drone attack on Saudi Arabia's Abqaiq and Khurais processing plants knocked out half the country's production capacity in one fell swoop, leading to a 5% fall in global output. At one point the Brent crude price was up as much as 20% in response, the biggest percentage move since the Gulf War in the early 1990s.

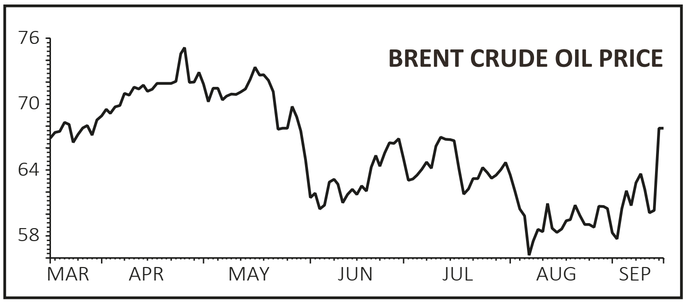
Subsequently prices settled slightly lower but they remain substantially higher than their pre-attack levels, reflecting the fact that Saudi Arabia, as broker Cantor Fitzgerald observes, 'is the world's biggest oil exporter and, with its large spare capacity, has been the supplier of last resort for decades'.

While oil producers have seen their shares move up as higher commodity prices have been factored in, and airlines have been under pressure on the assumption of a bump in fuel costs, there are wider market impacts to consider.

The resulting impact on inflation, as higher fuel costs feed into the economy, is a potential headache for central banks which have, in most cases, been cutting interest rates in an attempt to stimulate economic growth.

Lifting interest rates is one of the main tools available to combat inflation and so the situation could create a big headache for monetary policymakers.

An increase in oil prices could also send a fragile global economy into reverse, given the direct impact on motorists and as the higher fuel costs are passed on to consumers by the corporate world.



Although the level of disruption was on a different scale, the oil embargo in the 1970s did tip the world into recession.

What happens next depends on several factors which include:

- The length of the outage
- Whether the attacks lead to a material escalation in Middle East tensions
- The chances of further attacks

Saudi Arabia has moved to allay supply fears and says it will maintain exports by tapping into its reserves.

Possibly more relevant is the oil attacks' impact on simmering tensions in the Middle East. Yemeni rebels have claimed responsibility but their links with Iran has seen fingers pointed in that direction, not least by the US.

For now the Trump administration has dialled down initially aggressive rhetoric but, given the chances of further attacks are hard to predict, the markets are likely to factor this geopolitical risk into oil prices for the foreseeable future.

Why the blockbuster London Stock Exchange bid may not be over

Suitor HKEX isn't giving up despite having its takeover approach rejected

All eyes in the finance world have been on **London Stock Exchange (LSEG)** after it rejected a blockbuster £32bn takeover bid from the Hong Kong stock exchange operator HKEX.

The offer, which London Stock Exchange described as 'unsolicited', 'highly conditional' and containing 'fundamental flaws', has drawn the attention of commentators across the world.

Those in the Chinese state press were, rather predictably, scathing towards HKEX and praised London Stock Exchange's rejection, showing it highlighted the 'persistent worries' about Hong Kong.

But there was a very different note struck in the UK, with many taking the opportunity to flag how the country's 'sluggish' market for initial public offerings (IPOs) shows the London Stock Exchange is 'ailing'.

> **"The company has, on average, received a takeover approach from third parties every 2.5 years since it was listed"**

Despite the persistent and remarkably smooth share price growth from £3.80 after its first day of trading in 2001 to around £73 today, London Stock Exchange hasn't necessarily been in vogue with some investors, partly because of its high share price rating and the fact it tends to put spare cash that would otherwise be used for dividends into acquisitions instead.

The Hong Kong offer has left investors asking, what now? While London Stock Exchange has rejected the approach, citing concerns about the deal's structure, value and political risk, the Hong Kong bourse seems determined to keep trying.

Clearly a major sticking point of the original offer was the condition that London Stock Exchange had to drop its planned £22bn acquisition of Refinitiv.

According to a report in *The Times*, HKEX is trying to rubbish the Refinitiv deal behind the scenes, persuading shareholders that it's a 'terminal acquisition' of a low-growth company saddled with $12.5bn in net debt, and that shareholders should back its deal, worth £83.61 per London Stock Exchange share, instead.

However, a key part of London Stock Exchange's strategy is to reduce its reliance on index products such as the FTSE 100, demand for which has been slowing as investment funds subscribe to cheaper alternatives.

The exchange is looking to increase the already sizeable revenue it gets from the trading of financial products, something which the acquisition of Refinitiv – which has platforms trading trillions of dollars' worth of financial products a day – looks set to help it accomplish.

Even if the Hong Kong deal is indeed over, it's unlikely this will be the last bidder circling over London Stock Exchange.

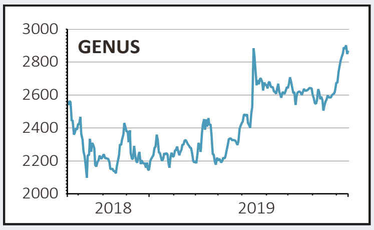
It has been consistently pointed out that the company has, on average, received a takeover approach from third parties every 2.5 years since it was listed.

Discover the reason Genus shares are worth buying right now

Animal genetics specialist is on a roll and investors should get on board

GENUS BUY
(GNS) £28.46
Stop loss: £22.77

Market value: £1.9bn



Genus (GNS) provides farmers with superior genetics that enables them to produce higher quality animal protein more efficiently and sustainably.

The business serves over 50,000 customers in over 70 countries and employs almost 2,700 people, which includes over 100 who are PhD qualified.

An opportunity to exploit Chinese restocking of its pig herd represents a big source of potential upside and while the valuation isn't cheap, at more than 30 times forecast earnings, patient investors should be rewarded with higher profits over the next few years.

AFRICAN SWINE FEVER PRESENTS UNIQUE OPPORTUNITY

China has historically produced and consumed over 50% of the world's pork, but since the outbreak of African Swine Fever (ASF) the herd is expected to be culled by 50% in 2019 and

production is expected to fall by up to 40% by 2020.

Genus reckons that this equates to around 15m tonnes of lost pork production, more than the entire global pork trade in 2018.

The production gap presents a unique opportunity for all animal protein sectors and will impact pork, beef and poultry for years.

Chinese officials have indicated that up to 80% of producers, primarily smaller ones, will ultimately not repopulate their herds, driving the industry towards larger scale, vertically integrated production.

Reduced supply has caused prices to rise to record highs in China, up nearly 80% since August 2018. From 2020 the remaining, larger, deep-pocketed farmers will be incentivised to restock herds.

This presents a significant opportunity for Genus to sell its genetics to build a higher yielding herd. The company wants to double capacity over the next two years.

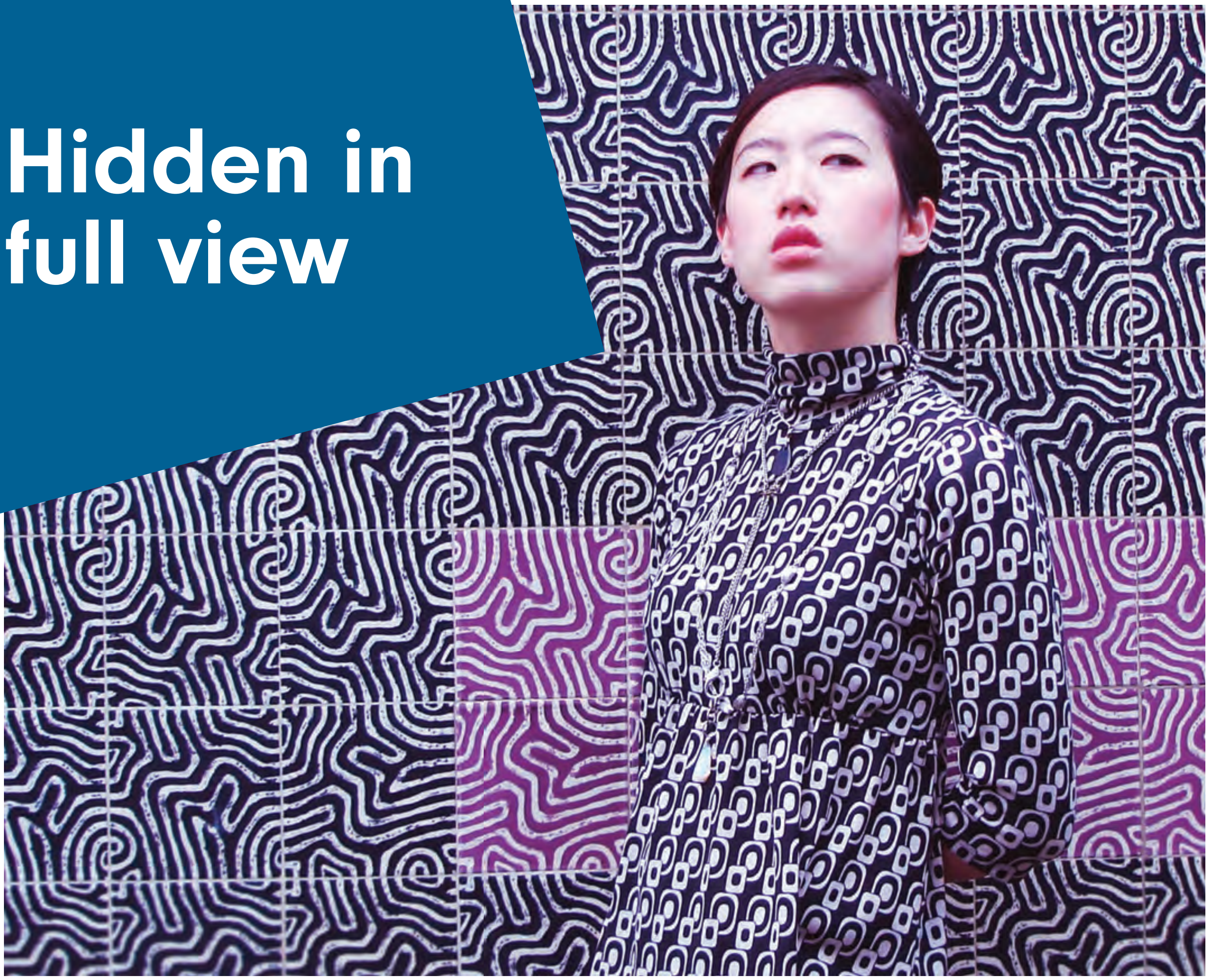
Genus has historically spent heavily on research and development (R&D), and 2019 was no exception, up 13% to £54.7m, representing around 11% of revenue. A key strategic focus is to strengthen its proprietary differentiated offerings. This has transformed the business, such that management now describes itself as an agro-biotech specialist.

The continued spend on R&D has kept the company at the forefront of science and created valuable new revenue streams, while also keeping the competition at bay. For example royalty revenues increased by 7% in 2019, and total over £100m, representing around a fifth of total sales.

Another result of the company's R&D efforts is the fast growing genetics product Sexcel, which saw volumes grow by 42% in 2019. Sexcel is unique in that it guarantees at least a 90% chance of producing female calves.

By **Martin Gamble**
Senior Reporter

Hidden in full view



FIDELITY JAPAN TRUST PLC

This investment trust uses local know-how to spot Japan's untapped potential.

90% of Japanese small and mid-sized companies get little or no analyst coverage. As under-researched companies are more likely to be undervalued, that's an opportunity.

The trust looks to benefit from the more dynamic sectors of Japan's economy, focusing on fast growing but attractively valued stocks. With an acute understanding of this unique region and economy, combined with our hands-on local research, portfolio manager Nicholas Price and our team of analysts hone in on stocks often not picked out by others.

PAST PERFORMANCE

	Jul 14 – Jul 15	Jul 15 – Jul 16	Jul 16 – Jul 17	Jul 17 – Jul 18	Jul 18 – Jul 19
Net Asset Value	**17.9%**	**22.3%**	**14.4%**	**27.5%**	**-2.8%**
Share Price	**13.5%**	**15.9%**	**26.1%**	**29.6%**	**-5.0%**
TSE Topix Total Return Index	**17.5%**	**17.5%**	**15.5%**	**10.8%**	**1.0%**

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 31.07.2019, bid-bid, net income reinvested.
 The TSE Topix Total Return Index is a comparative index of the investment trust.

The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand.

Past performance is not a reliable indicator of future returns. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies.

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

Fidelity™ INTERNATIONAL

This income fund offers a lower risk way to access emerging markets

JPMorgan Global Emerging Markets Income Trust has the right characteristics to succeed

Growth-focused investors cannot ignore emerging markets, as we discuss in [this week's *Investment Trusts* section](), yet investing in far-flung developing economies comes with volatility.

Investors seeking a smoother ride could look to **JPMorgan Global Emerging Markets Income Trust (JEMI)** as a lower risk way to access emerging markets, since it invests in stable companies with regular income and good governance structures.

Despite such reassuring characteristics, it is important to stress that emerging markets in general may not be suitable for investors with a nervous disposition or a dislike of share prices regularly moving up and down.

Trading on a modest 2.1% discount to net asset value (NAV) with a 3.6% historic yield, the JPMorgan fund generates a dividend income with long-term capital growth from a diversified book of income-yielding companies.

This income strategy, given its 'value with quality' characteristics, could see it move around less than other emerging markets funds during choppy market conditions, trade tensions and economic setbacks.

Managed by Omar Negyal, Jeffrey Roskell and Amit Mehta, the fund invests in relatively high-yielding stocks with strong fundamentals and potential for long-term growth.

Negyal says he focuses on firms which are able to invest in their businesses to generate strong earnings growth. He also pays close attention to the free cash flow required to fund a dividend policy and companies with strong balance sheets.

He says such characteristics let him form a view on dividend sustainability and the growth potential of those dividends on a multi-year view.

'The overall yield of the portfolio should be at least 30% higher than the broader market,' he adds. Negyal regards a company's desire to return cash to shareholders as a tangible and positive governance indicator too.

The core of the portfolio is comprised of stocks with yields of between 3% and 6%, yet offering 'moderate growth over time', flanked by higher yield and superior dividend growth stocks.

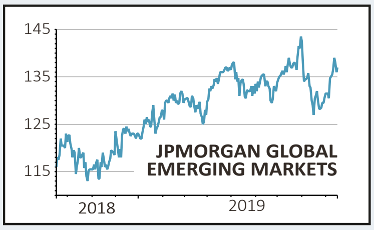
The portfolio includes stakes in Taiwan Semiconductor Manufacturing, Chinese financial services group Ping An Insurance and Mexican airports operator Grupo Aeroportuario del Pacifico.

'The emphasis on yield has led to a portfolio that is notably different from the benchmark,' say analysts at financial services group Winterflood. 'While this may lead to periods of underperformance relative to the index, we believe that the fund's emphasis on good quality companies paying attractive dividends will allow it to outperform over the longer term.'

JPMORGAN GLOBAL EMERGING MARKETS INCOME TRUST BUY

(JEMI) 136.5p
Stop loss: 105p

Total assets: £465.6m



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

A DISRUPTION BUBBLE?

by Alasdair McKinnon

When I look back, the final phases of the dotcom bubble of 1999/2000 and, separately, the financial bubble which peaked in 2007/8 were, unquestionably, the most educational periods of my career.

Both periods had very different characteristics from which specific lessons could be drawn. For example, the dotcom era taught that while investors can get very excited about a concept, a good story is not enough when confidence evaporates. Meanwhile the financial crisis demonstrated how superficial 'sustainable' profits could be. In the run up to that crisis, banks were involved in a virtuous circle of highly profitable lending, based on rising asset prices which formed the collateral for further lending, higher asset prices and, in turn, produced more 'sustainable' profit. This process lasted until the cycle turned vicious.

But the wider lessons I drew from these bubbles were not so much the specifics, for these will always be different the next time. Instead, the most interesting lessons were derived from how people behaved and the conclusions they drew as the bubble neared bursting point. It would appear that human nature doesn't change which is perhaps why financial markets have always been plagued by booms and busts.

Almost 20 years ago, the market had an insatiable demand for stocks that would give investors exposure to the internet. Indeed, companies that merely added '.com' to their name would see a positive price reaction. Noticing this, entrepreneurs and stock promoters began to rush new companies for 'beauty parades' with the intention to raise enough cash to justify a flotation.

As the callow junior analyst (this was before my time at The Scottish), I was frequently despatched to meet some of these potential newcomers. In my keenness, I went armed with questions, but it quickly became obvious that questions were neither wanted nor required. These 'internet incubators' did not really have credible plans, the founders became indignant when quizzed and there wasn't really anything of value other than the prospective cash that would be raised. The main selling point was instead the dangled prospect of a substantial return to someone who backed the flotation as the share price was expected to spike higher (or 'pop') on the first day of dealings and would trade on a 'multiple of cash' (a valuation metric a bit like someone offering to value your bank balance at a multiple of what it actually is).

Now, if this sounds crazy, it's because it was. But, shares in these companies sold like hot cakes. No doubt, some investors did believe in the long-term merits of these companies but the majority were merely confident that there was somebody behind them willing to pay more. Investors were able to successfully 'flip' several of these new businesses but, when the music stopped, the loss from a single flop more than offset the gains on the winners for many.

The reason I have dredged this anecdote from the depths of my memory is because conditions today make me draw parallels with that time. Today the buzzword is 'disruption', with an enthusiasm for privately held start-up companies valued at more than \$1bn – known as 'unicorns' – that will achieve 'profitability at scale.' Perhaps some will, but many unicorns seem to have business models that rely on constant injections of cash which have been facilitated by an easy money environment and a high level of confidence in their long-term story.

Recently, there has been a rush to bring some of these companies to market, perhaps because the backers wish to exit while the going is still good. Watching one of the well-known business channels, I was surprised to see the guests discussing not the prospects of a grossly unprofitable business but instead the 'pop' in the share price that the investment bank would engineer on the first day of trading (ominously, the share price instead flopped).

All-in-all, it is hard not to see these unicorn flotations as the apex of a renewed case of unbridled enthusiasm for all things technology. While we have nothing invested directly in this area, the fact that this mentality exists and covers a large part of the market is a cause for concern.

“Investors were able to successfully 'flip' several of these new businesses but, when the music stopped, the loss from a single flop more than offset the gains on the winners for many…”

In recent months, President Trump seems to have interpreted market levels as a real-time opinion poll on the competence of his administration. It's easy to see where he is coming from – after all the mantra of President Clinton's original campaign was 'it's the economy, stupid.'

The trouble is that overall market levels generally do not reflect the current fortunes of the economy. Market levels, in fact, better reflect the degree of confidence in the aforementioned 'disruption' bubble. As we expect this bubble to deflate, we think it is highly likely that President Trump's vociferous campaign for the US Federal Reserve to cut interest rates and print more money will ultimately prove successful.

We expect our gold miners to be one of the principal beneficiaries of this shift in monetary policy. Whereas the value of paper currency is eroded by the unrestrained printing of new money, gold has historically maintained its purchasing power over long periods of time. We also see opportunities for long term investors in many areas overlooked in the current environment. ■

20 August 2019

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LEARNING TECHNOLOGIES
(LTG:AIM) 119.8p

Gain to date: 59.7%

Original entry point:

Buy at 75p, 25 April 2019

HALF YEAR RESULTS from corporate online trainer **Learning Technologies (LTG:AIM)** continued the positive trends since we said to buy in April.

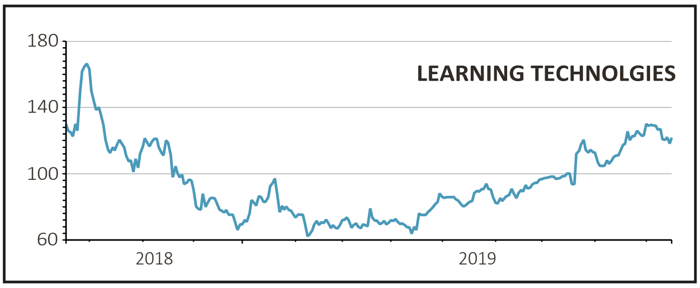
The first half numbers were solid with performance bolstered by recent software-focused acquisitions which continue to aid operating margins, rising from 24.6% to 31%.

In five months the stock has soared roughly 60%, but we see more gains to come. Further share price gains are likely to be driven by existing scope to beat current expectations this year and beyond, which call for operating profit of £38.3m and £42.2m respectively in 2019 and 2020, according to data from Refinitv.

Our optimism is predicated on securing larger contracts as the company has scaled itself, with better long-run client retention, and above all, extra profit margin improvements.

Overall, Learning Technologies averages just 1.2 products per customer at present, versus nearer four across its top 10 customers, so it is still early in the company's potential cross-selling cycle.

That would go some way to scratch one of the remaining performance itches; relatively slow organic growth.



SHARES SAYS:

Keep buying the shares.

REGIONAL REIT
(RGL) 101.8p

Loss to date: 5.4%

Original entry point:

Buy at 107.6p, 4 Jul 2019

THE NEGATIVE sentiment towards UK assets means our positive call on commercial property investor **Regional REIT (RGL)** is struggling for momentum at present.

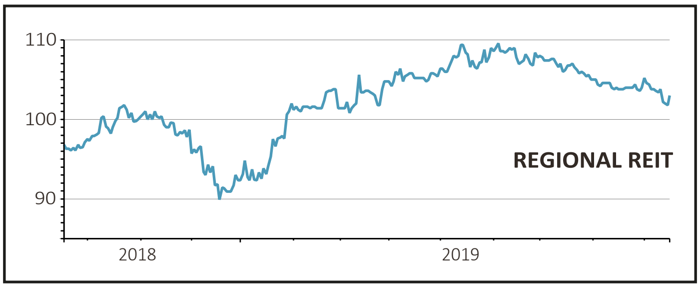
First half results (10 Sep) contained few surprises with a drop in profit and rental income due to a year-on-year decline in the value of its portfolio and recent disposals. In a show of confidence the dividend was increased by 2.7%.

While the value of its assets fell compared with the same period a year earlier, it was up from the levels seen at the start of 2019.

The company raised £50m earlier in the summer to take advantage of the opportunities to buy assets at a discount thanks to Brexit uncertainty.

In August the company announced it had acquired a portfolio of six UK office assets for a combined £25.9m. The offices are located in Birmingham, Bristol, Cardiff, Chester, Glasgow and Manchester, reflecting the company's focus on markets outside London or 'in the regions'.

Such locations often have a lack of supply in terms of office space thanks to the limited number of new developments built since the financial crisis.



SHARES SAYS:

Despite the pressure on the share price we still back Regional REIT's approach and believe the current 7.4% discount to net asset value should unwind over time.

What the sharp move out of momentum into value means for your portfolio

The market has seen a sudden rotation in terms of the style of companies in and out of favour

On a normal, relatively quiet Monday afternoon on 9 September, some shares experienced a sharp move with no associated corporate news flow attached. As it later turned out, the same thing was happening to stocks with similar characteristics across global stock markets. Momentum was suddenly out of favour and investors rapidly switched to value trades.

Below is a snapshot of the biggest risers and fallers from that afternoon. All of the losers have outperformed the market over the last year, while all of the gainers have underperformed. Before the rotation, one set was 'loved' and trading on high earnings multiples, while the other was 'hated' and trading on low multiples.

On closer inspection the winners/losers have something in common, from a quantitative perspective, at least.

FTSE 100 RISERS 9 SEPT 2019	
Aviva	2.3%
Kingfisher	1.9%
Prudential	1.4%
ITV	1.3%
Royal Bank of Scotland	1.2%
Carnival	1.2%
NMC Health	1.0%
Legal & General	0.9%
Standard Life	0.8%
Phoenix	0.9%

Source: AJ Bell

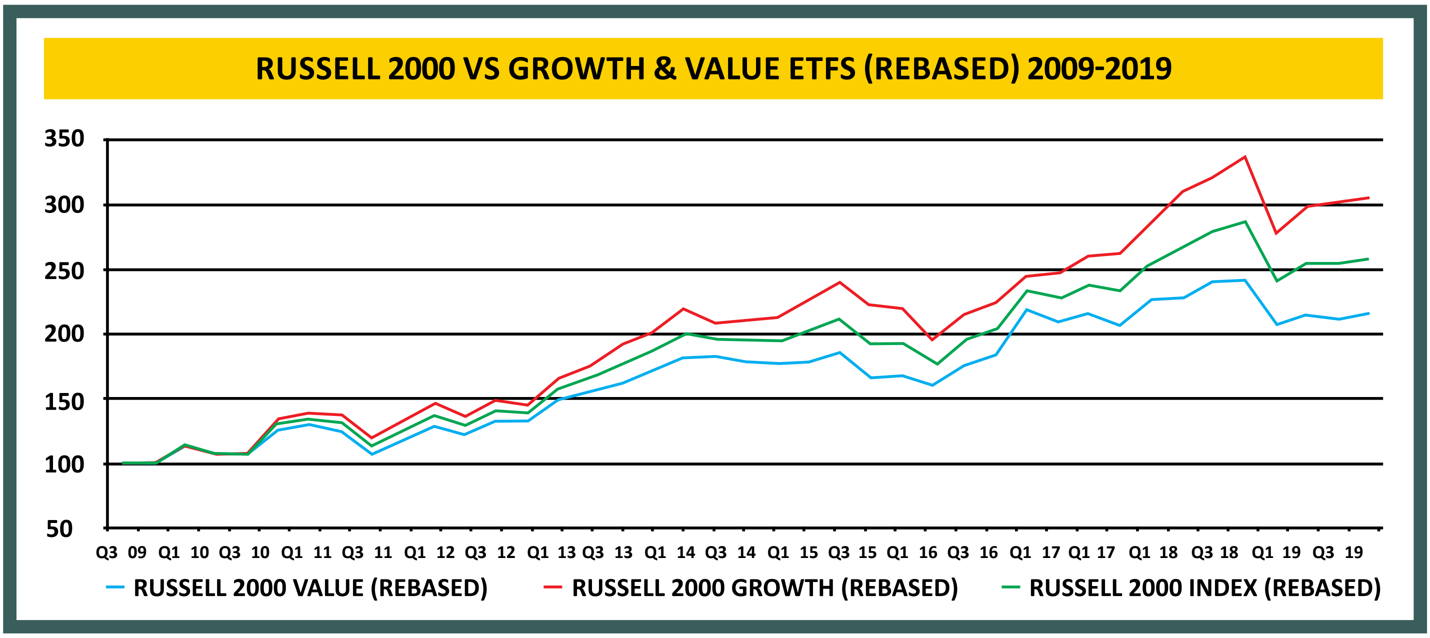
FTSE 100 FALLERS 9 SEPT 2019	
Compass Group	-4.0%
AstraZeneca	-3.8%
Rentokil Initial	-3.8%
Fresnillo	-3.4%
Coca-Cola HBC	-3.3%
Evraz	-3.2%
Just Eat	-3.0%
Associated British Foods	-2.9%
Smith & Nephew	-2.7%
Barratt Developments	-2.6%

Source: AJ Bell

Shares in international catering firm **Compass Group (CPG)**, which set an all-time high as recently as 4 September of £21.49, have been in demand because of the relatively high predictability of the company's earnings and low volatility of its shares.

On the other side of the table is home improvements company **Kingfisher (KGF)**, one of the poorest performers over the last year; in fact, its shares registered a new eight-year low in August of 186.7p. This type of business has been shunned by investors because of the unpredictability of its earnings and its cyclicality and low quality.

In times of economic uncertainty, as well as political turmoil, investors tend to favour companies that offer more visible, predictable earnings, partly because their share prices tend to be less volatile. For the same reasons investors



Source: Bloomberg

Shares in catering group Compass have suffered from the switch from momentum to value stocks

tend to have a low appetite for companies whose earnings are less predictable and can be hurt by a sluggish economy.

QUANT INFLUENCES

One factor that explains the reversal of fortunes for the two companies on that Monday afternoon was the actions of a group of investors who call themselves 'quants'. In total over $1trn of assets are managed using quantitative techniques, double the level just nine years ago.

Some of the biggest quant firms in the world like Renaissance Technologies don't hire finance professionals but instead look to take on talented graduates with advanced degrees in data science and statistics.

> **"Rather like stretching an elastic band to the point where it snaps back, the huge outperformance of quality stocks and underperformance of value reached a tipping point, and 'snapped' back hard"**

Their role is to find hidden patterns in the movement of stock and commodity prices by applying complex statistical techniques, in order to exploit price anomalies.

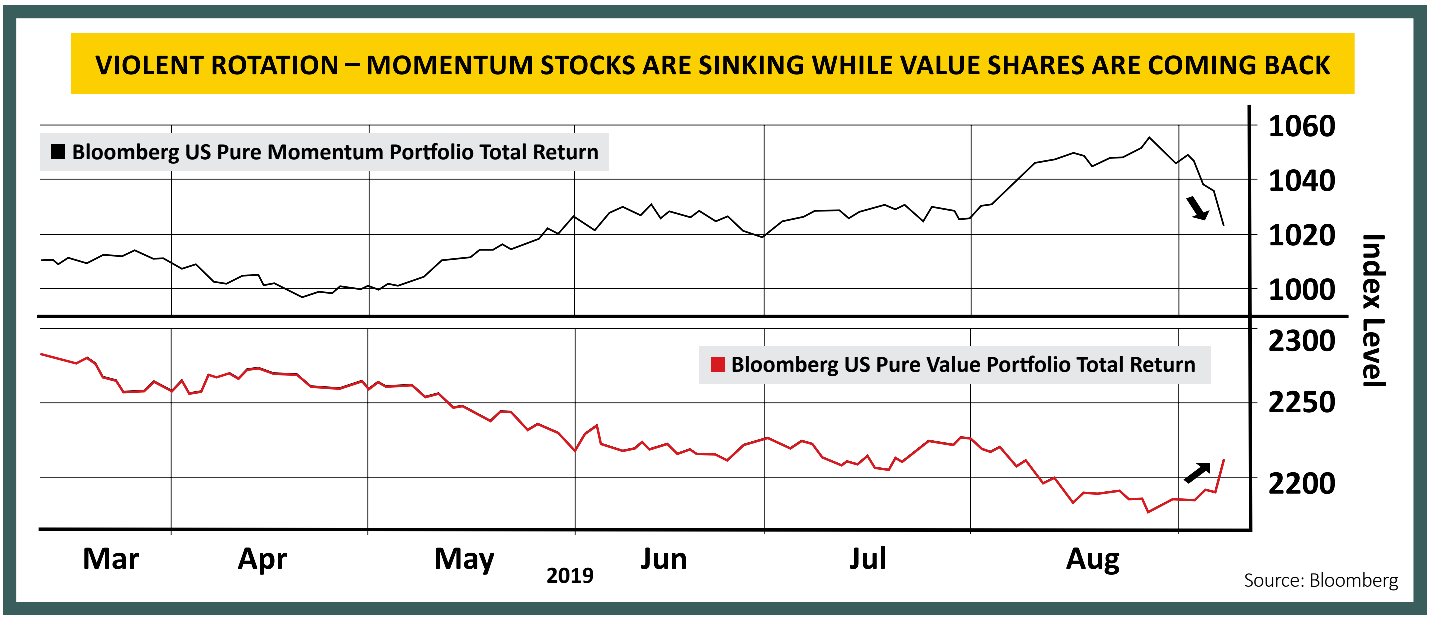
One of the most successful quant strategies historically has been the momentum factor. This simply states that stocks tend to maintain their recent price trends into the future. Winning stocks continue to be winning stocks and vice-versa. At least, that is, until they don't.

Rather like stretching an elastic band to the point where it snaps back, the huge outperformance of quality stocks and underperformance of value reached a tipping point, and 'snapped' back hard.

POOR BREADTH

Breadth measures the number of rising stocks compared to falling stocks and a healthy market normally has lots of companies participating in the rising trend and the winning/losing stocks rotate.

What has been unusual about



the market since the financial crisis is that the rising market has been driven by relatively few shares, underlining the risk-averse stance taken by investors. Quality and momentum has been the only game in town for many years.

The underperformance of value has been so stark that some people had begun to utter what famed investor John Templeton described as the most dangerous words in the world of investing, 'this time it's different'.

Then Monday happened and remarkably, months of outperformance were wiped out in just two days.

The speed of the snap back caught the markets by surprise. According to investment bank JP Morgan, value stocks saw one of their biggest single-day rallies ever, relative to momentum stocks and represented a 'five standard deviation event'.

Standard deviation simply measures how far the most extreme points are from the average. Five standard deviations are so rare an event that in


Kingfisher has suddenly found itself the centre of attention following the market rotation

theory they only happen every 30 years.

And this wasn't just a UK phenomenon, it happened across other stock markets too. The quant team at investment bank Nomura described the 'momentum shock' in the US market as the second largest drawdown in history, going back to 1984.

SHORT INTEREST

The biggest winners on 9 September also had something else in common; some of them were heavily 'shorted'. Fund managers short stocks that they believe will fall in price because the business is in trouble or will continue to underperform. They profit from any reduction in value of the stock.

Kingfisher is one of the most heavily shorted stocks in the UK, with around 5% of its shares held short according to shorttracker.com. It's likely that some of the move in Kingfisher was related to investors closing their short positions in order to control risk.

IF THE UNWIND CONTINUES, WHICH STOCKS ARE MOST AT RISK?

We have created a screen to find the stocks most at risk to further mean reversion as well as some value stocks which might benefit if the rally continues.

We screened for those stocks within the FTSE 350 which

STOCKS WITH POOR MOMENTUM AND QUALITY AND GOOD VALUE

Name	Value Rank*	Quality and Momentum Rank*	Price Chg % 1w
Lloyds Banking	87	26	3.8
Royal Bank Of Scotland	87	12	3.9
Aviva	94	22	7.2
J Sainsbury	76	20	7.3
Centrica	80	7	8.2
Dixons Carphone	85	23	4.2
Charter Court Financial Services	78	22	14.0
Premier Oil	95	26	0.2
Bank Of Georgia	81	14	0.2
Metro Bank	86	6	2.2
Amigo Holdings	77	11	0.8
Average Gain			4.7

*As per Stockopedia's vale ranking system (0 to 100, high is good, low is bad)
Data 1 week to close on 12 Sept 2019

Source: Stockopedia

STOCKS WITH HIGH MOMENTUM AND QUALITY AND POOR VALUE

Name	Value Rank*	Quality and Momentum Rank*	Price Chg % 1w
Astrazeneca	13	97	-4.0
Diageo	15	97	-3.1
Relx	19	98	-2.3
Burberry	19	99	-4.0
Halma	7	99	0.6
Aveva	8	99	-6.0
Rightmove	10	98	-0.4
Homeserve	12	97	0.6
Dechra Pharmaceuticals	7	96	-3.2
Rotork	18	99	0.4
Softcat	14	99	-6.0
Udg Healthcare	18	96	-5.3
Diploma	15	97	-2.6
Games Workshop	19	99	-1.8
4imprint	22	99	2.4
Average Gain			-2.3

*As per Stockopedia's vale ranking system (0 to 100, high is good, low is bad)
Data 1 week to close on 12 Sept 2019

Source: Stockopedia

ranked high on momentum and quality, while also ranking poorly on value. This group of shares lost 2.3% on average over the week.

We also screened for those stocks with the opposite characteristics, scoring high on value and low in momentum and quality. This group of shares rose by 4.7% on average.

Interestingly, there are three names out of 15 on the high momentum list that have, so far at least, held up relatively well.

Electric equipment maker **Halma (HLMA)**, oil and gas engineering specialist **Rotork (RTRK)** and promotional products specialist **4imprint (FOUR)** have not succumbed to the momentum tantrum.

While these names have some characteristics of high quality shares, they may eventually be at risk of short term selling if the reversal from momentum continues.

On the 'poor value' list every single share posted a positive return over the week, with **Charter Court Financial Services (CCFS)** and **Centrica (CNA)** the standout performers, up 14.2% and 8.2% respectively.

DOES IT HAVE FURTHER TO RUN?

The consensus view seems to be that investors will continue to abandon investing in more risky, cyclical businesses like banks and airlines while the economic backdrop is not supportive and inflation remains subdued.

In a low growth world, where over $15trn of bonds yield negative interest rates, buying growth and quality at any price may seem more sensible than buying cyclical businesses at a seemingly low price.

It would seem that more sustainable economic growth and higher interest rates are required to tempt investors away from so called predictable growth companies.

By **Martin Gamble**
Senior Reporter

Nagging cash flow concerns mean Netflix's shares aren't worth owning

The valuation is too high when you consider the risks to the investment case

US streaming TV giant Netflix is one of those stock market 'marmite' stories; investors tend to either love or hate it.

Even at a glance the bear argument is easy to grasp. Subscriber growth is slowing, competition is intensifying and large amounts of cash are needed to keep content fresh, while it already has enormous debts to service, forecast to top $10bn by the end of 2019.

For many, to say this situation leaves the firm's $295.27 share price and $126.5bn market value looking stretched would be an understatement of epic proportion.

This implies a 2020 EV/EBITDA (enterprise value-to-earnings before interest, tax, depreciation and amortisation) multiple of nearly 30-times (mid-teens is typically considered racy) and a price-to-earnings (PE) multiple of over 50.

The Netflix fans' view can be summarised like this. Competition isn't that fierce, cash burn is set to dramatically reverse over the next year or two, most of its $8.4bn net debt is long-dated while the company has only scratched the surface of its global growth opportunity so far.

ARE THE RAPID GROWTH DAYS OVER?

From its origins as a DVD rental by mail service, Netflix has morphed into a pioneer in subscription video-on-demand and the largest online TV and film provider in the US, where it has more than 60m subscribers. Today it has more overseas customers than in its US backyard, about 10m in the UK and 151.56m worldwide.

According to Sandvine's *2018 Global Internet Phenomena Report*, Netflix accounted for 26% of all global video streaming traffic, beating YouTube at 21% and Amazon at 6%. The average Netflix user worldwide now watches more than 90 minutes of video per day.

Subscriber growth disappointed in Netflix's second quarter to 30 June 2019 with only 2.7m new customers added. This was one of the few times the subscriber count has missed the company's own target, with 4.7m anticipated in the period (5m was forecast by analysts).

Netflix argued this was a blip, fuelled by subscription price increases and some top shows being pulled from the roster by rights owners (such as re-runs of *Friends* and *The Office*) ahead of the launch of new rival streaming services.

The company believes it will add 7m new subscribers in the third quarter. The big question is whether it has reached saturation point. Netflix's 60m

MONTHLY FEES IN THE UK

NETFLIX	Premium	£11.99
	Standard	£8.99
	Basic	£5.99
NOW TV	Sky Sports	£33.99
	Entertainment	£7.99
	Sky Cinema	£9.99
prime video	Amazon Prime Video	£7.99
tv+	Apple TV+	£4.99+
Disney+	Disney+	£6.99*

+Launches in November 2019. * Pricing TBC, service yet to launch

US subscribers figure is set against an estimated target market of 128m homes, so a 47% penetration rate. Cable TV subscriptions peaked at 87% of all US households with access to cable as recently as 2012 – thus implying Netflix still has a lot of room to grow.

Worldwide the opportunity is much larger with estimated 1.4bn potential homes to target leaving its global penetration rate below 11%.

NEW STREAMING COMPETITION

Netflix has used its scale to construct a large data set that tracks every customer interaction, then leverages this data to better purchase content as well as finance and produce original material, such as hit series like *Stranger Things*, *Orange Is the New Black* and *House of Cards*. Netflix has also been building out its foreign language library.

Original content has become increasingly important to Netflix and it will remain so with competition intensifying. Amazon Prime Video has been around for a while and the November launch by Disney of its new Disney+ streaming service (including all those Disney animated favourites plus *Star Wars* and *Marvel* franchises) will be the latest Netflix rival. AT&T's Time Warner is also lining up its own streaming service.

Netflix losing some valuable content from its former partners and emerging streaming rivals may well have an impact on subscriber growth in the short term. However, it is quite feasible that people end up subscribing to more than one streaming service in the long run.

Monthly pricing is relatively incidental – for example, Netflix's £8.99 is effectively the same price as a cheap cinema ticket or a pie and a pint. Many may feel that spending an extra £7 to £9 a month is worth it for the extra choice, if they watch a fair bit of TV.

FINANCIAL PRESSURES

The balance sheet and cash flow remain the elephants in the room. Netflix pays for and develops content as a fixed cost, so the more subscribers it has, the lower the costs relative to revenue and the higher its profit and cash flow, which explains why Netflix's profit continues to surge.

The company is forecast to report $1.47bn of net income this year to 31 December, up 21% on 2018 and that's including the weak second quarter. Analysts estimate net income of more than $2.6bn in 2020; the same year free cash outflow is set to reverse after years of cash burn.

Analyst predict $3.3bn outflow this year (below the company's own $3.5bn guidance), falling to $2.4m in 2020 and below $1bn by 2021. That's as far out as forecasts go right now but presumably free cash flow should turn positive thereafter.

SHARES SAYS:

The ongoing investment in content required to continue powering user growth and fight emerging competition could cap long-term profitability, and the risk is too great to invest at these levels. Avoid.

By **Steven Frazer**
News Editor

BLACKROCK®

THINKING **BIG** ON SMALL COMPANIES

BLACKROCK THROGMORTON TRUST PLC

Certain beliefs persist around smaller companies: they are domestic in focus, can be volatile and may be illiquid. For these reasons, many investors often avoid this area of the market. In our view this is a mistake. For investors that can take a long-term view, UK smaller companies offer a wealth of opportunities for investors.

Daniel Whitestone
Portfolio Manager

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.

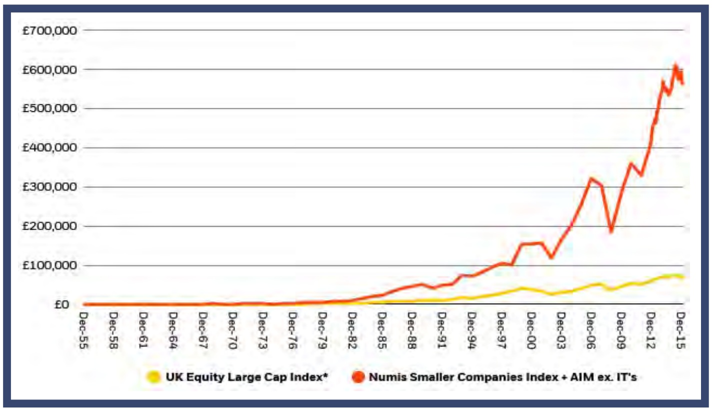
Smaller companies have an impressive long-term track record of outperforming their larger peers, with 4% annual compound outperformance over more than 63 years[1]. That level of outperformance isn't luck or chance. There are many reasons behind it, but the most important is that small and mid-cap companies have consistently demonstrated greater earnings growth. The small cap universe is home to many dynamic companies that are opening up new markets with exciting products and/or technologies, disrupting existing markets and influencing consumer behaviour.

While the long-run attractions of UK small and mid-caps are clear, this is also an area of the market where it pays to be active. The dispersion of returns in small and mid-caps is very high. While there are many successful companies that see their market value multiply several times over, there are others for whom things go wrong. And when they go wrong, they can go seriously wrong; companies can see their market values collapse and in some cases fall to zero, even after many years of success. At the same time, the UK small and mid-cap market has a lot of choice, with exposure to businesses that are operating and selling globally, enabling us to build a truly diversified portfolio. It is also an inefficient and under-researched investment universe compared to large caps.

More recently, small caps have been hit by the view that they are dependent on the UK economy at a time when uncertainty about the economy is high. We don't share this view. There are successful small and mid-caps which have the ability to manufacture their own growth and are not as reliant on the wider economy as might be believed. This is particularly true for differentiated companies with small shares in fragmented industries, perhaps where they are the consolidator, but also true when it comes to disruptive business models. Our view is that we are in an upswing of technological innovation and disruption, and small and mid-caps provide fertile hunting ground for these opportunities. These are many young innovative companies that are disrupting industries and taking market share from legacy incumbents. This makes investing in smaller companies an attractive place to be as we can gain exposure to companies that can continue to grow regardless of the wider economy.

What makes a good smaller company? We focus on two types of companies: the first are differentiated long-term growth investments. These are companies that have strong management teams, a protected market position, unique and compelling products with an attractive route to market, perhaps benefitting from structural growth, and that are well financed with clean accounting. The second type are those that are leading industry change, the "disruptors". The transformation that we have witnessed across so many industries in the last ten years is staggering. For example, the smartphone is little more than eleven years old but think of all the apps that have fundamentally changed consumer behaviour, from internet food shopping to ordering a taxi, a pizza, or watching a TV box set. This has had a profound effect on a number of incumbent industries that have lost market share to new platforms. How many industries have seen revenues and profits pressurised by the need to invest and to adapt and change business models?

THE CASE FOR INVESTING IN SMALLER COMPANIES



Source: Datastream, UK Equity Large Cap Total Return Index and Numis Smaller Companies Index + AIM ex. Investment Trusts Total Return Index as at 30 November 2018

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged, and one cannot invest directly in an index. Smaller company investments are often associated with greater investment risk than those of larger company shares. *Large Cap performance represented by Barclays UK Equity Large Cap Index until December 2010. In January 2011, Barclays began to use FTSE All-Share Index to track the performance of UK large cap companies.

[1]Source: Datastream, UK Equity Large Cap Total Return Index and Numis Smaller Companies Index + AIM ex. Investment Trusts Total Return Index as at 30 November 2018.

We try to incorporate the thinking outlined above into shorting the "disrupted" victims of industry change. We also like to short the opposite of what we look for in differentiated successful growth companies - those businesses facing structural or cyclical industry pressures, with weak financials such as too much debt or poor cash flow.

Our skill set is certainly not market timing, and we don't know if small and mid-caps will have a great year, a good year or a poor year in absolute terms or relative to larger companies or other asset classes. However, the longer-term prospects are sound. Regardless of the latest macropolitical debate, we aim to spend our time understanding, researching and connecting with small and medium-sized businesses, looking for the next wave of exciting emerging companies before the market realises their true potential.

For more information on BlackRock Throgmorton Trust and how to access the potential opportunities presented by smaller companies, please visit www.blackrock.com/uk/thrg

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Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Trust Specific Risks

Liquidity risk: The Fund's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

Complex derivative strategies: Derivatives may be used substantially for complex investment strategies. These include the creation of short positions where the Investment Manager artificially sells an investment it does not physically own. Derivatives can also be used to generate exposure to investments greater than the net asset value of the fund / investment trust. Investment Managers refer to this practice as obtaining market leverage or gearing. As a result, a small positive or negative movement in stock markets will have a larger impact on the value of these derivatives than owning the physical investments. The use of derivatives in this manner may have the effect of increasing the overall risk profile of the Funds.

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20 YEARS OF GREAT RETURNS

Are the best performing FTSE 350 stocks still worth buying today?

By Tom Sieber, James Crux, Ian Conway, Steven Frazer and Martin Gamble

Name	20-year total return (%)	Shares rating
JD Sports Fashion	9,590	BUY
Clarkson	4,830	BUY
Aveva	4,700	BUY
Diploma	4,080	BUY
Fisher (James) & Sons	2,580	SELL
Hill & Smith Holdings	1,950	BUY
Cranswick	1,770	BUY
Antofagasta	1,740	BUY
CLS Holdings	1,710	HOLD
Croda International	1,590	SELL

Source: Data, SharePad, 11 September 2019

Anniversaries are often a time to pause and reflect and as this publication enters its third decade we felt it would be an excellent excuse to take a look back at the best performing UK stocks from the last 20 years of our existence.

The table shows the top 10 performers which are currently constituents of the FTSE 350 index. In this article we examine each of these names in turn and determine whether investors should buy more, sell or hold on to the shares.

This is always a good discipline to exercise when investing, and is a lesson you can apply to other names in your portfolio which may have served you well over a long period and thus become favourite stocks where it can be hard to let go.

Impressive returns have been served up – although the best performer by a long chalk is sports fashion retailer **JD Sports (JD.)** which has delivered a fantastic total return of nearly 10,000% since 1999.

This is a company which really seems to know its onions in terms of serving up exactly what its customers want.

It was ahead of the curve with the 'athleisure' trend which has seen the distinction between what millennials wear at home, to socialise and in the gym become increasingly blurred.

Now investors need to decide if the company's next growth phase, including a stab at the US market through the 2018 acquisition of Finish Line, will be equally as successful. Read on to get the view of *Shares'* retail expert James Crux.

A look at a slightly longer list of top performers reveals a diverse set of names. The presence of flow control specialist **Spirax-Sarco (SPX)** is testament to how the UK engineering sector has moved on from its metal bashing past to become a more sophisticated collection of companies.

Not all of this FTSE 350 best of the best have been consistent. One of our favourite stocks – US marketing products outfit **4imprint (FOUR)** produced a negative total return of -41.2% in the 10 years leading up to September 2009 as it was hit by the financial crisis.

Yet over 20 years it has delivered a very pleasing total return of 860%. It demonstrates that while you should be vigilant in taking a second look at the prospects for the best firms, there is also value in being patient.

ANTOFAGASTA (ANTO) 934.6P

20-YEAR TOTAL RETURN: 1,740%

Miners are mostly cyclical businesses which tend to do really well when the economy is up and everyone is buying stuff, and can do poorly when the proverbial hits the fan.

So it may come as a surprise that Chilean copper miner **Antofagasta (ANTO)** has been one of the top performers in the FTSE 350 over the past 20 years.

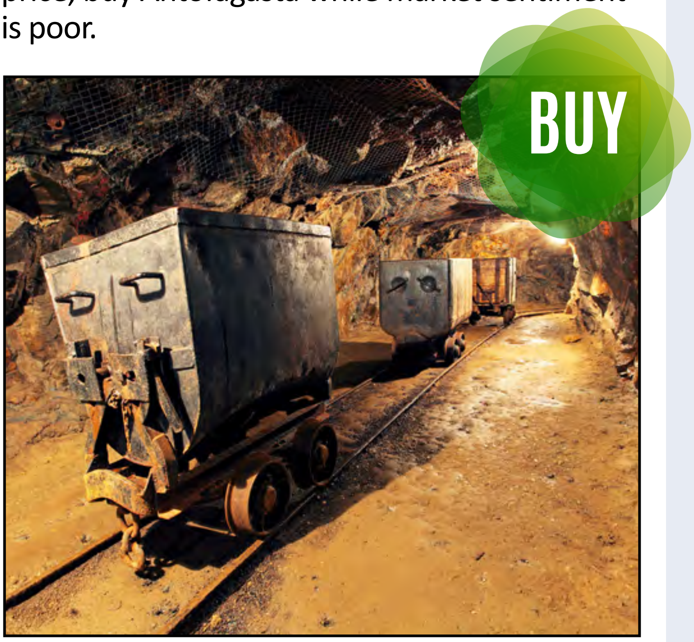
Copper is used in practically everything you can think of, so unlike its big diversified rivals like Glencore, Rio Tinto and BHP, the firm hasn't had as many issues selling its product over the years that rivals who dig lots of other metals out of the ground have had.

A well-run business which focuses on low-cost copper production at four mines in its native Chile, Antofagasta does have an international exploration programme and looks for opportunities across the world.

But it always has a level-headed approach to growth, and has preferred to prioritise the lower risk options in recent years of expanding operations at its current mines.

Its consistently strong balance sheet and regularly strong dividend pay-out ratio, combined with the quality of its assets and operations, means it has long been a favourite with investors over the years.

A best-in-class company at a relatively cheap price, buy Antofagasta while market sentiment is poor.



AVEVA (AVV) £35.80

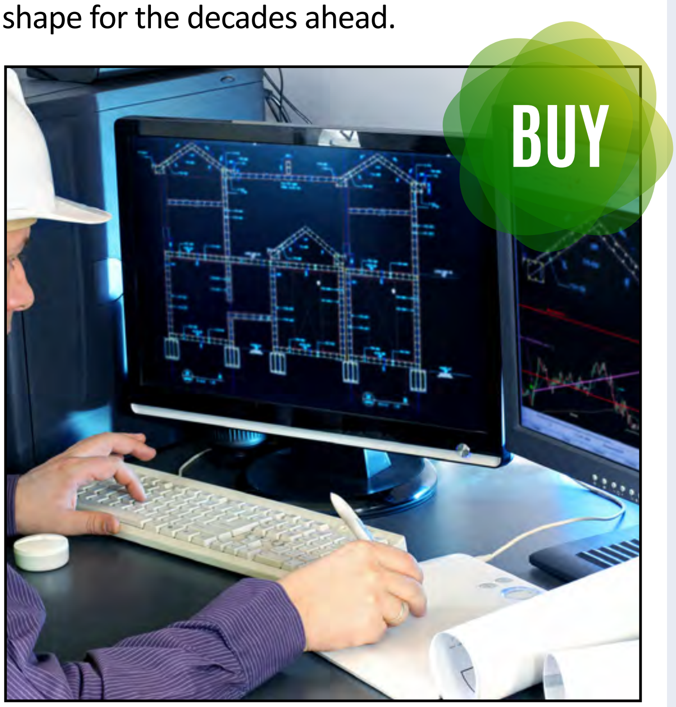
20-YEAR TOTAL RETURN: 4,700%

Computing has a come a long way in the past 20 years and Cambridge-based **AVEVA (AVV)** has emerged as one of the world leaders in putting digital design tools in the hands of engineers around the world.

AVEVA sells computer-aided design software used by engineers to plan, design and build large infrastructure projects. Think huge oil rigs and nuclear power stations that fuel the world's economy, massive transporter ships that move goods all over the globe and assisting smart manufacturing of everything from steel, chemicals, food and pharmaceuticals.

It has grown into today's £5.7bn FTSE 100 company by partnering with the biggest and best in its industry segments, and has done so almost entirely through organic means. The exception is in 2017 when it merged with the software arm of French firm Schneider Electric to effectively double the firm's scale at a stroke.

In September 1999 you could have bought shares for 75p, making for a capital return in excess of 4,600% to date, but it has also paid modest dividends for years, including a £10 per share one-off cash return as part of the Schneider deal. Pushing the development boundaries into new technologies, such as digital twin simulations, leaves AVEVA in great shape for the decades ahead.



CLARKSON (CKN) £22.45

20-YEAR TOTAL RETURN: 4,830%

Called the 'undisputed heavyweight of the shipbroking market', **Clarkson (CKN)** has long been a favourite with investors.

The company has four main divisions – ship broking (the biggest at 74% of revenue), financial services for the shipping industry, port support services and research.

Having delivered a whopping total return of 4,830% over the past two decades, the firm has been the second best place in the current FTSE 350 index to put your money, behind only JD Sports, and has paid 16 consecutive years of increasing dividends.

Clarkson's fortunes really changed from 2004 onwards, following the appointment of Richard Fulford-Smith, one of the most well-known characters in London's shipping community, as chief executive.

Fulford-Smith became central to the firm's emergence as the world's largest shipbroker, and in his four years in charge helped the company's share price to double.

But he departed abruptly in 2008 after complaints over his handling of legal action against the firm by two Russian oil tanker operators.

He was replaced by current chief executive Andi Case, another highly respected figure in the ship broking world.

Under Case's leadership, the firm's share price has trebled as it weathered the cyclical nature of the shipping business – affected over the years by the financial crisis, oil slump, trade wars, etc – to record consistent growth, with the reputation of its ship broking arm meaning it could brush off any issues weighing competitors down.

A proven long-term winner with a good dividend history, Clarkson still has scope for growth and current investor nervousness could present a good buying opportunity.

CLS (CLS) 244P

20-YEAR TOTAL RETURN: 1,710%

Listed on London's Main Market since 1994, European commercial property investor **CLS (CLS)** has a long-term track record of outperforming the UK real estate sector.

A series of studies suggest family-run businesses beat the market. CLS falls into this category having been founded by the Mortstedt family in 1992 and with Swede Sten Mortstedt holding the position of executive chairman until March 2016. He still serves as an executive director.

Another family member is on the board and the Mortstedts own more than half the shares. Less positively this does somewhat limit the liquidity in the shares.

The most high profile development in the company's history is probably London's Shard tower. It was one of the three original backers of the project but sold its interest for £30m in January 2008.

The company is opportunistic but adopts a conservative approach. It has a diversified portfolio, primarily located in major European cities and focused on more affordable office space.

Nearly half of rents are indexed to inflation and more than half are derived from governments and/or major corporations, reducing the risk of default.

In the aftermath of the financial crisis investors enjoyed strong capital gains from buying property firms and CLS was no exception. While these might be harder to come by, the firm looks an attractive name to hold on to for income, with Liberum's forecasts implying a decent forward yield of 3.3%.

CRANSWICK (CWK) £29.10

20-YEAR TOTAL RETURN: 1,770%

Food manufacturer **Cranswick (CWK)** has served up a stunning 1770% total return over the past 20 years, the shares powering higher on the delivery of consistent sales and profit growth.

Tapping into the British public's insatiable appetite for bacon, pork and sausages has proved a profitable line of business for Cranswick, whose growth has been supported by tasty levels of capacity-boosting capital expenditure and in more recent years, a rapidly growing export business.

Cranswick has proved increasingly popular among yield-starved income seekers, the cash-generative concern having racked up 29 years of unbroken dividend growth. Formed in the 1970s by farmers in East Yorkshire to produce pig feed, Cranswick evolved through organic development and acquisitions into a high-quality fresh pork, poultry and gourmet products supplier to the supermarket and 'food to go' sectors.

Over the past 10 years, Cranswick's UK pork sales have increased from roughly £600m to more than £1bn per year, while the company has also built scale in the poultry market through two acquisitions.

With an eye on future-proofing its profit streams, Cranswick recently acquired Mediterranean food products business Katsouris Brothers, a London-based supplier of continental foods. Katsouris's products are all non-meat, meaning half of Cranswick's continental products revenue is now derived from non-meat categories, a canny strategic move given rising demand for vegetarian foods.

Given near-term challenges including a subdued retail market, potential margin pressure from rising domestic pig prices and the impact on migrant labour from Brexit, Cranswick isn't optically cheap – the shares swap hands for 20.8 times Berenberg's 2020 139.6p earnings per share estimate – although long-term investors should feast on the food producer for its cash generation and dependable dividends.

BUY

CRODA INTERNATIONAL (CRDA) £48.96

20-YEAR TOTAL RETURN: 1,590%

Chemicals companies have historically been a good place to invest with significant share price gains and occasionally generous dividends, and no firm in the sector epitomises this quite like **Croda (CRDA)**.

Its biggest area of business is providing speciality chemicals for the personal care market – health and beauty products like moisturisers, sun cream, deodorants and colour cosmetics – which has grown by an estimated 5.5% a year from 2004 to 2018.

The firm's focus on premium, faster growth niches in the personal care market mean it has been able to keep up with that momentum over the past couple of decades.

While revenue growth has been subdued in the past few years, the group actually has a history of prioritising profit over market share gains and volume growth. That's why past results have often shown solid profit despite weak sales.

Combined with consistent dividend growth since 2001, it's no wonder the East Yorkshire-based company has delivered a total return to shareholders of 1,590% over the past 20 years. A lot of headwinds face the company with wider problems affecting all its markets, so while there are no structural issues with the business we think now might be a good time to exit.

SELL

DIPLOMA (DPLM) £16.51

20-YEAR TOTAL RETURN: 4,080%

Distribution group **Diploma (DPLM)** supplies products that companies *must* have rather than would merely *like* to have. If you combine this situation with a very well-run business that serves a diversified range of industries then it is possible to understand why it has done so well over the years.

Diploma focuses on sophisticated healthcare and industrial equipment, operating through three divisions.

The Healthcare division has exclusive distribution deals with manufacturers to supply high-end kit to hospital operating theatres and clinical and industrial testing laboratories.

The Seals division supplies original equipment parts for heavy industrial machinery ranging from construction kit to wind turbines, while the Controls division supplies high-end equipment for use in machines as diverse as F1 racing cars, fighter jets and satellites.

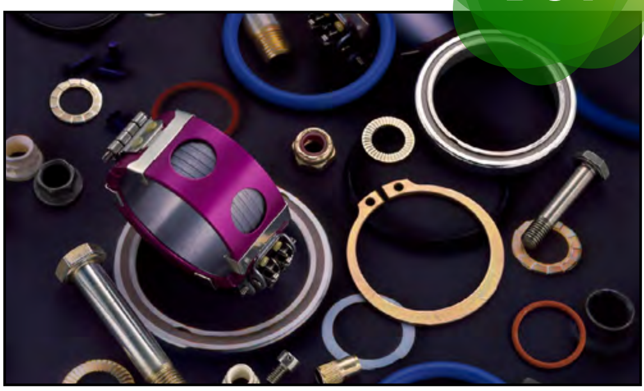
By distributing equipment rather than making it Diploma is an 'asset-light' business, so it enjoys strong margins. Return on adjusted trading capital has averaged just under 24% over the last five years.

By focusing on products essential to its customers, it has a greater degree of revenue visibility than many firms thanks to repeat business.

Over the last two decades the firm has expanded geographically within its product segments with targeted acquisitions, building a global business.

We think the shares are worth buying as a core holding for a diversified portfolio.

BUY



HILL & SMITH (HILS) £11.72

20-YEAR TOTAL RETURN: 1,950%

The world's road and rail networks provide us all with the day-to-day necessities of modern life, and these vast infrastructure arteries need huge investment to build and maintain. **Hill & Smith (HILS)** has become one of the go-to engineering experts for government transport planning departments across the globe, particularly in the UK, Europe and in the US.

The £917m FTSE 250 company manufactures roadside crash barriers that run along the central reservation of motorways, appear on bends in the road and alongside railway tracks, particularly bridge-side fencing. It also supplies street lighting and pipe network supports and runs a galvanising business that provides zinc corrosion coating protection against rust.

Providing these safety precautions is not terribly glamorous work but it is vital in our increasingly de-risked lives and it has earned Hill & Smith a long run track record as a capital growth and income story, with the shares running up from 68.5p in September 1999 to today's price more than 1,600% higher.

The stock has put up a total return (including dividends reinvested) that averages 15.6% every year over the past 10 years, according to Morningstar. A 2020 price-to-earnings multiple of 14.5 continues to look good value for a business noted for its 'strong medium-term outlook,' as one analyst puts it, even with the uncertainties surrounding Brexit.

BUY

JAMES FISHER & SONS (FSJ) £20.63

20-YEAR TOTAL RETURN: 2,580%

After listing in 1996, the fortunes of marine engineering company **James Fisher & Sons (FSJ)** really took off from around 2003 onwards, minus a drop around the time of the global financial crisis.

Having hovered around the 100p to 150p mark for the first seven years after listing, the firm's shares have rocketed to around £20.10 today. A lot of that is due to a change in the company's strategy.

Approximately 20 years ago, the grand old business set up in 1847 by James Fisher moved away from heavy shipping to refocus on its more lightweight coastal transportation business as well as marine services.

Chief executive Nick Henry and former chairman Tim Harris joined from P&O with the aim of repositioning the company's strategy to higher margin services.

With dividends reinvested, the stock has gained 14.1% annually since the middle of 2006, as it diversified away from solely focusing on oil and gas.

Huge improvements in the profitability of its tankships and marine support services divisions in recent years means it was able to easily overcome slumps in the offshore oil industry.

It's part of the reason why the business also has one of the best dividend track records on the market, increasing its dividend consistently for the last 20 years.

Solid revenue growth in its latest results, but the business has been affected by a number of operational issues. Having always been expensive thanks to its long-term track record, now might be the time to take profit.

SELL

JD SPORTS FASHION (JD.) 708.8P

20-YEAR TOTAL RETURN: 9,590%

The best total return performer over *Shares*' two decade-long history is JD Sports Fashion, the branded sports and casual wear star turn having delivered a stellar 9,590% total return.

The company behind outdoor retailers Go Outdoors, Blacks and Millets was recently promoted into the FTSE 100 for the first time, the market rewarding the successful transfer of the 'JD DNA' into global markets. This was a momentous milestone for JD Sports, established in 1981 with a single store in the North West of England, floated on the stock market in 1996 with 56 stores and subsequently expanded organically and via acquisitions.

Guided by executive chairman Peter Cowgill, in recent years JD Sports has defied the wider UK retail sector doom and gloom. Like-for-like growth in the core sports fashion business has been driven by the successful mining of an athleisure boom among youthful gym-goers and fashion-savvy consumers.

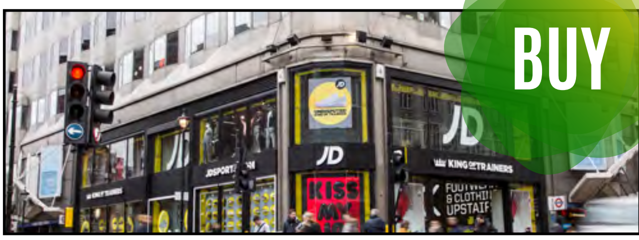
At a time when many UK retailers are fighting for survival, JD Sports is thriving by providing a differentiated proposition to the consumer with an attention-grabbing theatre in stores and online.

Close ties with powerhouse brands Nike and Adidas have helped JD Sports to see off the threat from Mike Ashley's **Sports Direct International (SPD)**, while the acquisition of the Finish Line business provided a platform for growth in the US, the world's largest market for sport lifestyle footwear and apparel.

Recent first half results revealed revenue up 47% to more than £2.7bn with profit before tax and exceptional items sprinting 36% higher to £166.2m.

Some investors may fear they've missed the boat, but we are staying bullish with the retailer going from strength to strength.

BUY



BIOTECHNOLOGY: AN ALTERNATIVE ROUTE TO SOCIALLY RESPONSIBLE INVESTING

International Biotechnology Trust plc

Socially responsible investing has become a genuine consideration for many investors. The objective is two-fold: to make ethical investments and to generate returns. While it is easy to select companies with good environmental and governance records, selecting those with a demonstrable social impact is less straightforward. Generating the required returns from these companies is even harder.

A biotechnology allocation is one possible way to achieve both objectives. From an ethical standpoint, investing in the future of human health is beneficial to society. From an economic standpoint, International Biotechnology Trust's share price has returned 130.0% over the five years to 31 August 2019, compared with a return of 31.1% for the FTSE All-Share Index.

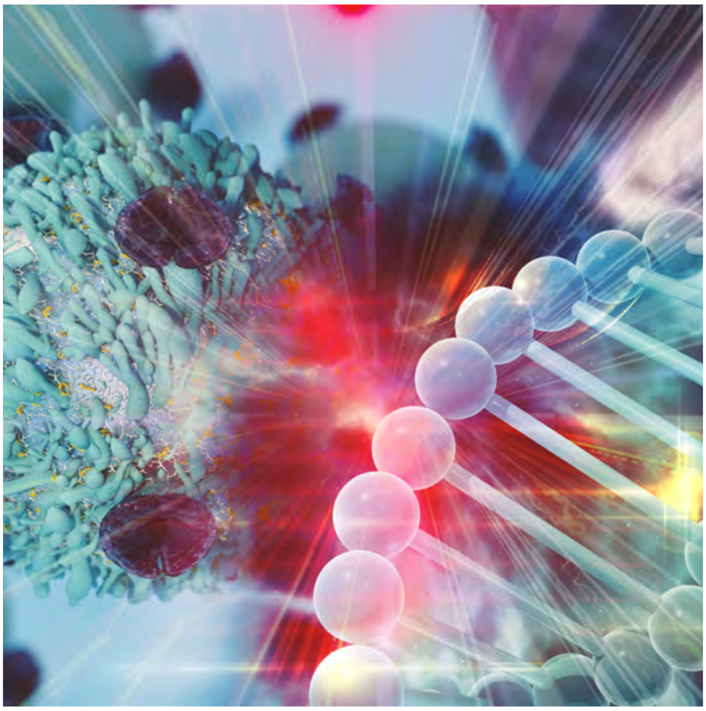
The Trust operates in an industry where there is an implicit collaboration between companies and governments for the benefit of consumers.

The industry spends billions of pounds on developing treatments for unmet medical needs across society. Once proven to be safe and effective, laws and regulation allow the company to charge a price reflective of the development spend.

After the legal and regulatory protection falls away, the treatment's new price is a fraction of the original. These measures reward innovation and encourage companies to reinvest the profits. The effect is perpetual.

However, there are no guarantees a company will have a viable product, no matter how many billions it spends. Human biology is complex and unpredictable, meaning the regulatory bar is high. For ethical investors, this fosters the higher governance standards investors crave.

However, the heightened risk can jeopardise investment return, the second objective of responsible investing. Expertise is crucial. International Biotechnology Trust is managed by Dr Carl Harald Janson, who practiced as a medical doctor before a stint in biomedical research. He managed the world-leading Carnegie Biotech fund for six years before returning to industry. He has led the Trust since 2013, over which time it has outperformed the NASDAQ Biotechnology Index and its closest competitor. He is supported by two other investment managers, both of whom are biotechnology industry experts.



The case for investing in biotechnology is underpinned by strong fundamentals. Future population growth and improving life-expectancy mean healthcare spending will have to increase. This is just one of the reasons global regulators are approving more drugs than ever before. The sector's long-term economic outlook isn't related to short-term market sentiment but instead driven by an ever-increasing demand for new treatments. This demand simply isn't a factor of the current economic cycle.

Overall, the system is working and benefitting global populations. Improvements in medical treatment have driven increases in longevity. Diseases which used to kill people can now be cured and the improving survival rates for cancer are a testament to the positive impact of biotechnology. Who knows how far the sector can push scientific boundaries to help society in the future?

Using ETFs to invest in quality companies

The trackers which offer exposure to companies of a higher class

You can use exchange-traded funds (ETFs) to access many different types of shares, grouped according to whatever criteria you like. For example, you can use screening tools to narrow down the ETF universe to those funds which only invest in quality stocks. But what are quality stocks and why would you want to hold them?

Broadly, quality companies are those which use their capital to generate sustainable earnings and maintain strong cash flows in the future. The indicators a quality screen will look for are:

- Profitability
- Earnings quality
- Growth in earnings
- Stable dividend yields
- Low debt

The popularity of this type of stock means many trade on high valuations which arguably makes them riskier investments, particularly in the short term, although over the long term investing in quality businesses is an approach which has merit.

HOW TO FIND 'QUALITY' ETFS

On ETF platform JustETF.com, for example, there is an option to search for funds by 'Fundamental/Quality'. This brings up a list of 27 ETFs, and the platform suggests the ones with 'quality' or 'leaders' in their name are the ones to investigate further.

Unilever is often seen as having bond-like returns

Below are the three best performers from that list ranked by percentage terms over three years, to give you an example of what a 'quality' ETF screen could give you.

All three names in the table are London-listed US-focused ETFs. Among their top 10 holdings you would find Apple, Microsoft and Facebook, as well as Johnson & Johnson, ExxonMobil, Applied Materials, Comcast and T Rowe Price.

Examples of non-US 'quality' ETFs are **BMO MSCI UK Income Leaders (ZIEU)**, **iShares Edge MSCI Europe Quality Factor (IEQU)** and **iShares UK Quality Dividend ETF (IUKD)**.

So why would you want to screen for quality when selecting an ETF? Peter Sleep, senior portfolio manager at Seven Investment Management, explains why a 'cult of quality' has emerged in investment circles over the last decade: 'When we talk about quality in financial markets, we are talking about companies that have certain characteristics that people find attractive like steady profitability, and often high returns.

'With a company like **Unilever**

ETFS TRACKING 'QUALITY' COMPANIES

ETF	Three-year performance
UBS ETF Factor MSCI USA Quality	67.1%
VanExk Vectors Morningstar US Wide Moat	53.0%
BMO MSCI USA Income Leaders	49.9%

Source: JustETF

Vodafone recently slashed its dividend

(ULVR), for instance, that makes products we use every day, its profitability does not fluctuate much versus, for example, a steel company which would be enormously cyclical. It would make money in the good times and lose money in the bad times but it would never be steady.

'Market professionals like myself tend to like quality because a lot of long-term evidence-based research suggests these companies tend to outperform with lower volatility in the longer term.'

BOND PROXIES

As well as Unilever, FTSE 100 stalwarts like **British American Tobacco (BATS)** and **AstraZeneca (AZN)** are also known as 'bond proxies', because their steady and often predictable profitability means they have bond-like returns.

These companies are often found in equity income funds because they are the cash-rich, stable dividend payers that yield-seekers are looking for.

So why not just buy an actively managed UK equity income fund to access these stocks? You could, but you would miss out on some key advantages ETFs have compared to active funds, says Hector McNeil, co-founder of ETF platform HANetf, namely low cost, transparency and tradability.

'From an index perspective, it's a fairly easy strategy to put together, like equity income,' says McNeil. 'If your alternatives are active funds, we've definitely seen where these things can go wrong – with Neil Woodford, for instance. You've got the same risks in the active world with an active fund manager going off-piste.

'With an ETF, it does what it says on the tin, and if you look at the track record of the index you can see what it's done, transparency is quite important in that respect.'

SUSTAINABLE PROFIT

AJ Bell's head of passive portfolios, Matt Brennan, says he selects quality companies when he is building an income-generating portfolio. However, he notes that the ETFs which pick the highest-yielding stocks are not likely to hold quality companies.

'They might be full of energy companies or banks with unsustainable yields. If you are investing passively and you are buying a product looking for the highest-yielding companies without a view on quality, there's a risk that yield could get smaller over time as you go through a round of dividend cuts, profit warnings and things like that.'

He points to **Vodafone (VOD)** as an example of a company that recently slashed its dividend after two decades of rising payouts.

Sustainability of profit is important to be considered as a quality company, as well as low leverage (borrowing) and modest payout ratios, so the business is not paying out more cash to shareholders than it has generated in profit.

For example, software firms could make the cut if they sell products and services that provide multi-year revenue streams.

AN 'EXTRA LAYER OF COMFORT'

'We think having that quality filter gives a passive investor an extra layer of comfort that they're not going to end up in Carillion or companies which pay a high yield but are low quality and have uncertain features,' Brennan says.

'Even if you're not seeking income, an investor might want that quality bias over the long term because repeatable earnings are a good feature to have. The trade-off with ETFs is how much more you are paying in fees to get that quality tilt.'

By **Hannah Smith**

The 10 highest rated UK fund managers

We examine how to assess the people steering investors' money

Choosing which funds to put in your portfolio is never easy. That's why companies who help you invest your money come up with best buy or favourite funds lists.

And to help both you and those companies, others come up with systems for rating funds, based on how well they perform against others that do the same or a similar thing.

This can be very useful in helping to pick out a good fund.

But there's another school of thought when it comes to ratings. Fund managers and their stock or bond picking abilities are possibly the key determining factor in why their funds either perform well or poorly. But like everyone else in the workplace, they don't always stay with the same employer – and therefore same fund – for eternity.

So perhaps it's worth following the manager and not the fund? That's something that financial information company Citywire believes, arguing that a fund manager's track record is the most important thing to consider when picking an active fund.

A-STAR RATED

Citywire tracks over 16,000 managers globally and looks at their three year rolling risk-adjusted performance across all the products the manager runs.

In order to be eligible for a rating, the manager must also run the funds in at least one of 270 Citywire sectors and operate in the 42 countries Citywire operates in as well. Updated on a monthly basis, there are four levels of rating:

- **Citywire AAA** – The top 10% of outperformers are awarded AAA rating
- **Citywire AA** – the next 20% of outperformers
- **Citywire A** – a further 30% of outperformers
- **Citywire +** – The final 40% of outperforming managers are rated Citywire +

Citywire says its ratings are a 'totally objective, analytical and unbiased way to choose investments'. They track the manager, not the fund, examining how they've performed across all the funds they have run, and wherever they have run them, over the past three years.

Again, the methodology is purely quantitative – an objective and statistical way of showing the outperforming managers – and rewards managers for superior risk-adjusted returns. To qualify for a rating, a fund manager has to deliver positive risk-adjusted performance over a rolling 36 month period, averaged across all the funds they run.

If a manager is AAA rated, they are in the top 2.5% of all the fund managers tracked globally. And to be rated at all by Citywire, no matter what the rating type, places a manager in the top 8% of all money managers globally.

Citywire rates all eligible managers across the whole of the market and no one pays to get rated.

TOP RATED MANGERS

At the top of the list of the longest Citywire AAA-rated managers in the UK is Paul Jourdan, the co-founder of Amati Global Investors, famed for his stewardship of the **TB Amati UK Smaller Companies (B2NG4R3)** fund.

This fund has delivered a

TOP 10 HIGHEST RATED FUND MANAGERS IN THE UK		
Consecutive AAA Months	Manager	Funds managed include:
45	Paul Jourdan	TB Amati UK Smaller Companies
45	David Stevenson	TB Amati UK Smaller Companies
41	David Tovey	BlackRock European Absolute Alpha, BSF European Absolute Return, BSF European Opportunities Extension
34	Paola Binns	Royal London Sterling Credit, Royal London
34	David Pinniger	Polar Capital Biotechnology
28	Mark Dowding	BlueBay Global Sovereign Opps, BlueBay Inv Grade Abs Return Bond, BlueBay Inv Grade Euro Govt Bd
28	Russel Matthews	BlueBay Global Sovereign Opps, BlueBay Inv Grade Abs Return Bond, BlueBay Inv Grade Euro Govt Bd
23	Bin Shi	UBS Equity - All China, UBS Equity - Greater China, UBS Equity - China Opportunity
23	James Baker	MI Chelverton UK Equity Growth
23	Gregory Finck	Global Asset Backed Securities (Morgan Stanley)

Source: Citywire. AAA refers to the Citywire rating.

total return of 58.5% over those past three years, well above the sector average of 37.7% according to Citywire.

The fund has also performed strongly over five and 10 years, returning 102.3% and 443.4% respectively, compared to the peer group averages of 54.1% and 258.9%.

Investing in smaller companies on the UK stock market, Jourdan's approach focuses on finding the hidden gems, but he also mixes recognisable names with lesser known companies.

For example, two of his best performing holdings have been mixer drinks group **Fevertree Drinks (FEVR:AIM)**, and power switching technology developer **XP Power (XPP)**.

TOP RANKED FEMALE

A well-known fund manager on these shores when it comes to bond investing, Paola Binns has built her reputation on taking advantage of anomalies in the market.

Binns runs the popular **Royal London Sterling Credit (B8GJ8S05)**, which invests mainly in sterling denominated bonds issued by companies, called corporate bonds, as well as a small amount in UK gilts.

The fund has returned 36.7% over five years compared to the sector average of 28.2%, and over 10 years has delivered a total return of 132.1%, well ahead of the 94% delivered on average by the peer group.

Binns has long argued that the market does not price credit risk correctly and that rating agencies can often be inefficient. Based on her long-term track record, it's hard to argue with that.

SCIENTIFIC APPROACH

By far the pick of the bunch when it comes to investing in biotech, according to Citywire's ratings, David Pinniger has given investors a more than 50% better return over five years than his nearest competitor.

Pinniger's **Polar Capital Biotechnology (B427453)**, in five years to the end of July 2019, has returned 151.5%. Its closest rival over that timeframe is HBM Global Biotechnology, which has returned 96.8%, while the overall sector average is 86.6%.

A well-known fund manager in the healthcare sector, Pinniger has spent 19 years' investing in biotech and pharmaceutical companies and covering the sector as an analyst.

While biotech isn't for the faint hearted, Pinniger believes experienced managers can do well in the sector, and targets companies that have good brands and effective risk management. He also tries to take advantage of M&A in the sector.

By **Yoosof Farah** and **James Crux**

Taking advantage of an emerging markets opportunity

Investment trusts offer a means of tapping into the potential of the globe's developing economies

Emerging markets (EM) investing is far from risk-free, yet investors who shun this exciting asset class are missing out on some of the fastest growing opportunities in the globe today.

Indeed, EM countries are becoming the long-term winners in the current economic climate, a volatile backdrop that includes Brexit, trade wars and the early signs of global economic slowdown.

So posits a new study – The Changing Nature of Emerging Markets – by the Franklin Templeton-managed **Templeton Emerging Markets Investment Trust (TEM)**.

Thirty years ago, emerging markets were a mixed collection of commodity exporters and low-cost manufacturers. Yet today, they play an increasingly important role in driving global growth.

As TEMIT's study highlights, the technological transformation and relative economic and political stability has driven a sharp rise in the proportion of high value-add exports coming from emerging markets, which are also playing a crucial role in renewable energy generation too.

China produces more than 2.5 times the amount of renewable power that the US produces, while Brazil, India and Russia are all generating far higher levels of renewable electricity than the UK, Germany and Italy.

Chetan Seghal, TEMIT's lead portfolio manager, explains: 'Since we first began investing in emerging markets, the nature of these economies has changed dramatically. Yet unfortunately, first impressions tend to last, and some investors still associate emerging markets with the "stack it high, sell it cheap" models of the past.'

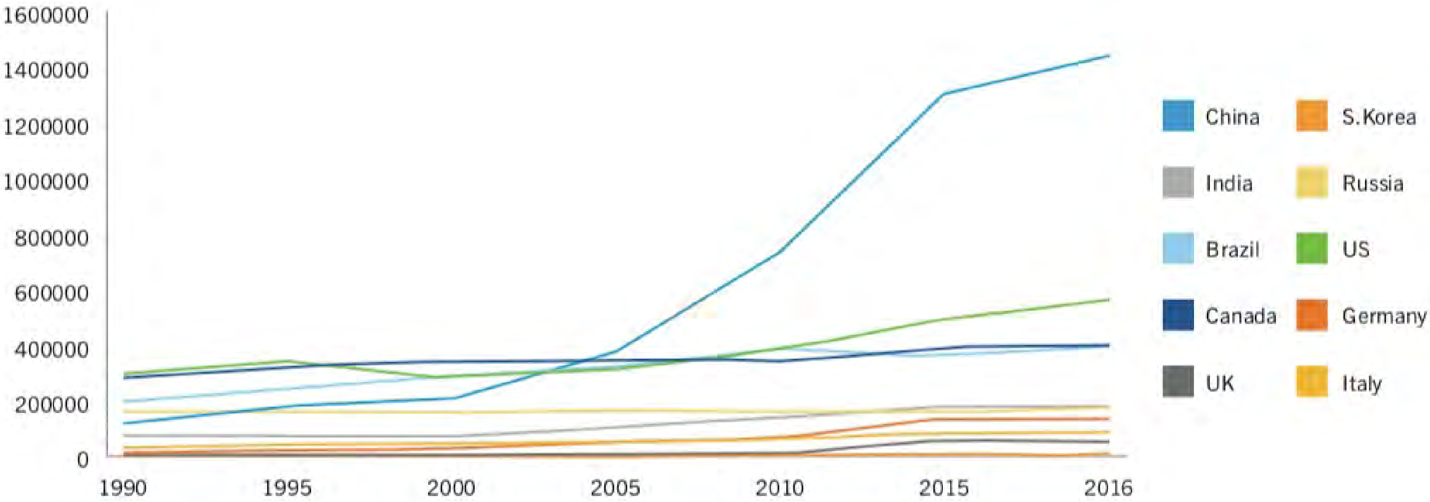
TEMIT's research shows that UK consumers are far more exposed to high-tech and value-add products and services coming out of emerging markets than they realise. 'It is encouraging to see recognition of this change beginning to take shape, particularly among younger consumers, with 50% of 18 to 39-year olds noting that they are increasingly interacting with emerging markets goods and services on a daily basis.'

DIFFERENT FUNDS

Investors seeking exposure to the asset class are well served by the Association of Investment Companies' (AIC) Global Emerging Markets sector, trading at an average discount of 9.3% to net asset value.

The sector is home to trusts including **Aberdeen Emerging Markets (AEMC)** on a 15%

ELECTRICITY GENERATION FROM RENEWABLES OVER TIME IN GWH



Source: International Energy Agency

discount, **Ashmore Global Opportunities (AGOL)** on an even wider 20% discount, the aforementioned Templeton Emerging Markets on a 10.9% discount and the Terry Smith-steered **Fundsmith Emerging Equities (FEET)** on a 9.7% discount to NAV.

Investors seeking a smoother ride could look to **JPMorgan Global Emerging Markets Income (JEMI)** which trades on a more modest 2.9% NAV discount. The trust is the sector's best one-year performer in share price total return terms and generates a dividend income plus the potential for long-term capital growth from a diversified portfolio of income-yielding companies – for further illumination, see this week's *Great Ideas* section.

DARING TO BE DIFFERENT

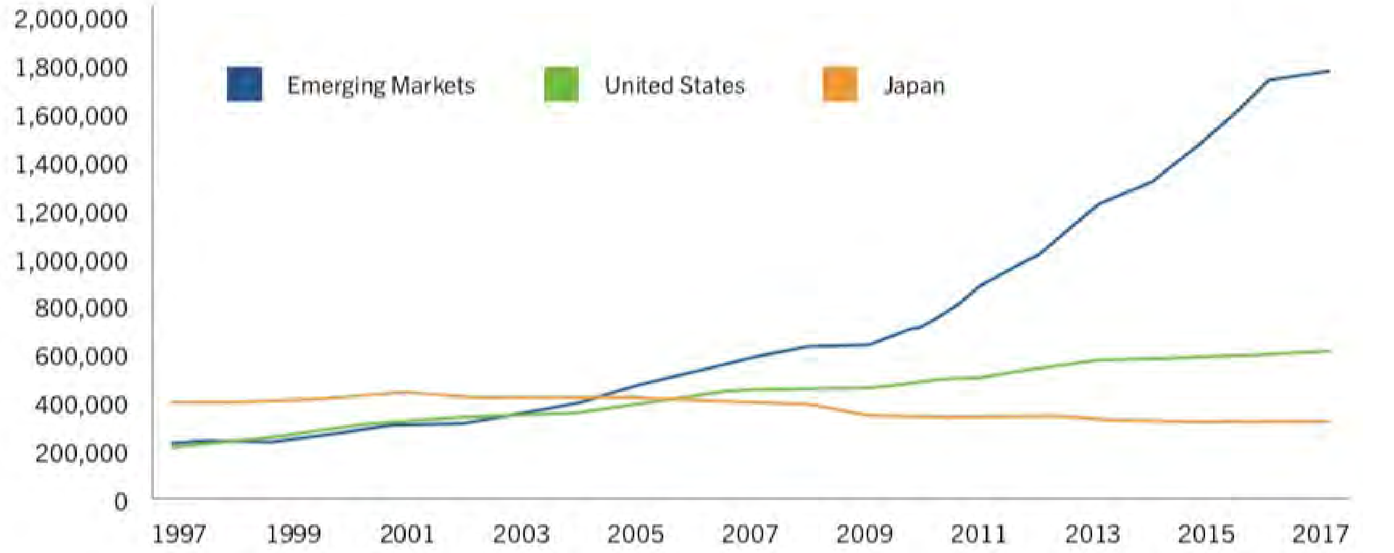
A relatively recent addition to the fold is **Mobius Investment Trust (MMIT)**, launched in October 2018 and managed by eponymous emerging markets investing legend Mark Mobius alongside Carlos Hardenberg and

EMERGING MARKETS INVESTMENT TRUSTS

Fund	Discount to NAV	Share Price
AIC SECTOR – GLOBAL EMERGING MARKETS		
Aberdeen Emerging Markets	15.0%	582p
Ashmore Global Opportunities	20.0%	3p
BlackRock Frontiers	2.6%	132.5p
Fundsmith Emerging Equities	9.7%	1142.5
JPMorgan Global Emerging Markets Income	2.9%	136.5p
Jupiter Emerging & Frontier Income	8.2%	96.6p
Mobius Investment Trust	-5.3%	86p
Templeton Emerging Markets	10.9%	794p
AIC SECTOR – ASIA PACIFIC		
Aberdeen New Dawn	11.4%	253p

Source: AIC/Data taken on 12 September 2019

INTELLECTUAL PROPERTY PATENT APPLICATIONS (1997 – 2018)



Source: WIPO. As of June 2019, Emerging Markets-based on the markets in the MSCI Emerging Markets index

Grzegorz Konieczny.

Seeking to deliver long-term absolute returns from emerging and frontier market equities, Mobius Investment Trust aims to put money to work with undervalued small companies with resilient business models.

Mobius Investment Trust has a two pillar approach to investing. The first is to buy companies at a discount to intrinsic value and the second pillar is to catalyse a re-rating through active engagement with its investee companies, dubbed 'projects' by the team.

Highly concentrated, with just 23 holdings across 10 countries as at 31 July – China (16.2%), India (15.1%), Brazil (13.4%) and South Korea (11.7%) being the largest country allocations, the trust has a high active share of 99.6% against the MSCI EM Index and 99.4% versus the MSCI EM Mid Cap Index.

'We are looking at the long term and avoid being distracted by a lot of the short term noise,' Hardenberg informs *Shares*. 'Most of this noise is coming from the western nations and all of these things cause people to be very cautious.

'The US dollar is the most favoured trade and emerging market currencies reflect a lot of pessimism, and almost capitulation.' Hardenberg believes the only answer is to understand companies and what they will do over the next 10 years.

The Mobius investing team are obsessed by details on the stock level. 'We try to understand the story, the people behind the business and the alignment of management interests. And we have very high active share, which means the fund looks very different and there is very low correlation between us and the index.'

Prospective investors are buying into the fortunes of the likes of Yum China, the operator of Pizza Hut, KFC and Taco Bell restaurants across the Middle Kingdom, not to mention Brazilian retailer Lojas Americanas and Indian IT firm Persistent Systems.

OTHER RELEVANT TRUSTS

Away from the Global Emerging Markets sector, investors can access country specialists or the likes of **Aberdeen New Dawn (ABD)**, a denizen of the AIC Asia Pacific sector offering a play on Asia's compelling structural growth.

Trading on an 11.4% discount despite its NAV growth, this capital growth-focused trust celebrated its 30 year anniversary in May 2019.

Since inception, Aberdeen New Dawn has returned roughly 1,840%, significantly outperforming its benchmark, with £1,000 invested at launch mushrooming into £19,400 today.

'We're long-term buy-and-hold investors,' explains investment manager James Thom. 'And our process is to find the highest-quality companies in Asia, build a portfolio from the bottom up and not overpay for those quality companies and then hold them for the long term.'

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

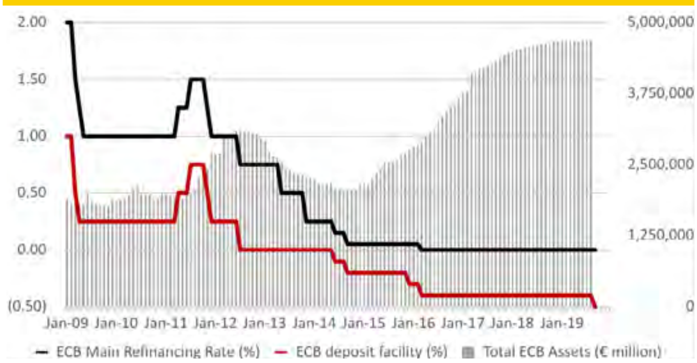
Is the EU turning Japanese?

The slide in the European banking index is a concern

Outgoing European Central Bank (ECB) president Mario Draghi talked a big game over the summer that only served to ratchet up the expectations of financial markets greedy for more cheap cash.

In the end, Draghi provided a 10 basis point (0.1%) cut in the deposit rate to -0.5%, charging banks more to park their cash with the ECB, in an attempt to get them to lend. He also resumed quantitative easing (QE) where the ECB sanctioned a €20bn-a-month programme, without any time limit.

ECB CONTINUES WITH ITS UNORTHODOX MONETARY POLICY EXPERIMENT



Source: ECB, FRED – St Louis US Federal Reserve database, Refinitiv, AJ Bell

Market reaction was initially muted. Bond prices fell as yields increased, equity markets did little and the euro went up against the dollar.

This is the opposite of what Draghi would have wanted to happen and suggests that faith in his policies has begun to ebb.

The EU's economy has proved able to stand on its own two feet for barely nine months, as it was only last December that the ECB stopped adding to QE.

MORE TO DO

An inflation rate of 1% is way below the 2% target and economic growth across the EU is still anaemic – the ECB cut its forecasts again, alongside Draghi's policy announcement. The euro has lost 10% of its value against the dollar, even if it has gained 14% against the pound since the ECB president first swore he would do 'whatever it takes' to defend the single currency on 26 July 2012.

Even European share prices seem unconvinced, which must be particularly galling for an ECB president who once said that the first thing he looked at in the morning was stock markets.

Yes, the Euro Stoxx index is up by 75% since Draghi's infamous commitment to the euro. But at 383 the benchmark equity index is no higher now than it was in December 1999 and the Euro Stoxx banks index is back at 1993 levels.

This has very uncomfortable echoes of the 'lost decades' suffered by Japan since the bursting of its debt-fuelled property and stock market bubble in 1989.

EUROPE'S KEY STOCK INDICES HAVE NOT PROGRESSED FOR 20 YEARS – OR LONGER

Source: Refinitiv, AJ Bell

Draghi can hardly be held responsible for the overbanked nature of many European markets, the fragmented state of the EU bank industry (which means too many players lack scale) or bank bosses' reluctance – or inability – to clean up their balance sheets and tackle non-performing loans as ruthlessly as the Americans did a decade ago.

But the slide of the banking index is a concern and even Draghi himself seems to be finally recognising that his negative interest rate policy and QE may be doing as much damage as harm. Perhaps in response, last week he moved to exempt some of European banks' excess reserves from the -0.5% deposit rate.

The ECB wants banks to lend. But by charging them -0.5% on their excess reserves, the central bank is compressing margins and eroding capital bases, limiting banks' ability and desire to lend. By contrast the US Federal Reserve is still paying interest to American banks on their excess reserves, helping to support margins, buttress capital bases and facilitate lending.

CHEAP AT THE PRICE?

It is easy to paint a gloomy picture. But some investors may take the view that little or none of this constitutes news and that if an index is where it was 20 years ago there may be some contrarian value to be had.

The good news is that European stocks trade at a discount to their global peers, although less encouragingly this is not unusual if you look back over time, especially relative to the all-conquering US equity market.

Data from Bloomberg suggests the Euro Stoxx is cheap relative to its own history on an earnings and dividend yield basis. That may tempt some but it also begs the issue of what will prompt investors to reappraise Western Europe as a portfolio option.

A settlement to the vexed issue of Brexit is one possibility but that would still leave the EU facing fractious regional political issues in Belgium, Spain and Italy to name but three.

Some improved economic momentum would be very helpful, if the bloc is to really shake off the 'Japanification' tag, especially as that would also soothe unhappy electorates.

Time-pressed investors are hardly short of indicators when it comes to the EU's economic health but this column's favourite remains Belgium's Courbe Synthétique.

EUROPE LOOKS CHEAP RELATIVE TO ITS OWN HISTORY AND GLOBAL PEERS

PRICE/EARNINGS RATIO

	2020E	20-year forward average	20-year trailing average
USA	18.1	16.5	18.1
Japan	15.5	18.4	21.7
Western Europe	**14.7**	**13.4**	**18.8**
Asia ex-Japan	14.5	13.3	14.5
Latin America	13.7	13.2	14.9
UK	12.7	12.6	21.0
Africa & Middle East	10.2	10.5	11.9
Eastern Europe	6.8	7.6	8.7

DIVIDEND YIELD (%)

	2020E	20-year forward average	20-year trailing average
USA	2.0%	2.1%	1.9%
Japan	2.1%	1.8%	1.5%
Western Europe	**3.8%**	**3.6%**	**3.2%**
Asia ex-Japan	3.1%	3.1%	3.0%
Latin America	3.1%	3.1%	2.7%
UK	4.6%	3.8%	3.5%
Africa & Middle East	6.6%	3.5%	2.8%
Eastern Europe	12.5%	4.2%	2.3%

Source: National Bank of Belgium, Refinitiv, AJ Bell

THE BELGIAN INDUSTRIAL INDEX OFTEN MOVES IN LINE WITH THE STOXX EUROPE INDEX

Source: Source: National Bank of Belgium, Refinitiv, AJ Bell

For whatever reason the survey of several thousand Belgian industrials has an uncanny long-term link with the Stoxx Europe index and even if the past is no guarantee for the future it will be worth watching. The next monthly survey result is due on 24 September.

By **Russ Mould**
AJ Bell Investment Director

'How much can I pay into my SIPP?'

Our pensions expert helps with a query on the level of pension contributions receiving tax relief

I understand the amount you can pay into a pension and qualify for tax relief is limited to £40,000 or your taxable income, whichever is lower.

But what is deemed taxable income? I have no earned income whatsoever but I do receive £14,000 a year in dividends and interest?

If I were to take out a SIPP, what would my contributions be limited to and could I back date any years?

Caroline

Tom Selby
AJ Bell
Senior Analyst says:

The SIPP contribution limits are typically described how you describe them. Strictly speaking, however, there are two factors at play here. They are separate from each other, but they are both relevant to the overall picture.

In terms of tax relief limits, personal contributions* are limited to your income. For example, if you had income of £20,000, the most you could pay in is £16,000 and HMRC would top it up with £4,000 tax relief, making £20,000 in total.

But it's only certain types of income that count. The rule of thumb is that (a) it was *earned* in some capacity and (b) has been subject to UK tax.

In terms of common forms of

income, this realistically limits it to salary, self-employed and partnership income.

Income sources that don't count include investment income, buy-to-let income, cash-in-hand work, interest on cash deposits and pension income.

If you have no earned income at all you can still save up to £2,880 into a pension, with tax relief topping this up to £3,600.

The £40,000 figure relates to something called the annual allowance, and this is a separate concept to tax relief. If you pay in more than this, you may get a tax charge.

Where it gets complicated is that you can use up any unused annual allowance from the three previous tax years. (Also, some SIPP investors may actually find their annual allowance is reduced if they have accessed their SIPP or if they have income of more than £150,000.)

While you can carry forward annual allowance from previous tax years, it's important to note that you can't carry forward earnings.

Therefore, for many SIPP investors it may well be academic that they have several years of annual allowance, because they won't have the earnings in the current tax year to make a bumper contribution.

On the face of it, your income from dividend and interest doesn't fall within acceptable forms of income for tax relief purposes. Therefore, the amount you could pay in this tax year would be limited to £2,880.

**Employer contributions are not limited in the same way.*

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.

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Allergy Therapeutics (AGY)

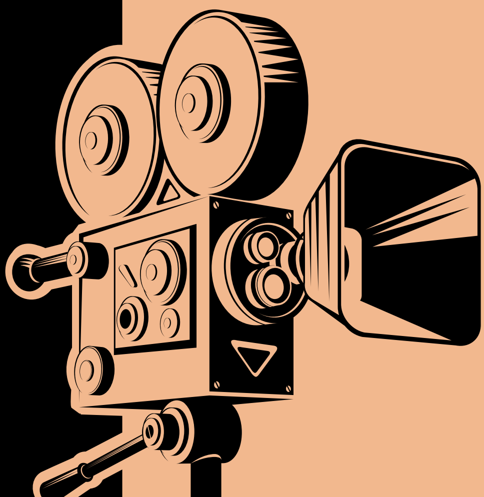
Nick gives an overview of the business and up-to-date information on its latest results.

Dorian Gonsalves, CEO
Belvoir Group (BLV)

Dorian presents a general overview of the property group following its half-year results which shows a 48% increase in revenue.

Cathal Friel, CEO
Open Orphan (ORPH)

Cathal outlines the investment case for Open Orphan and its future plans.



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The financial impact of term-time holidays

Can you save money by taking your child out of school?

Many parents will just have come back from their annual summer trip and will still be wincing at the cost of going away in the school holidays. You're now fined for taking your children out of school in term time, but could it still pay to take a holiday once everyone else has gone back?

Soaring prices in the school holidays are a pure case of supply and demand, with more families wanting to travel in July and August, meaning flight and accommodation prices shoot up.

There are lots of things to consider when deciding whether to take your child out of school, and some parents with kids in crucial exam years wouldn't even consider it. But here we look at just the financial implications and the information you need to know if you're considering it.

WHAT ARE THE FINES?

In England you can be fined £60 per child for any absence, and in some cases both parents are fined, although this varies by local authority. This fine doubles to £120 if you don't pay within 21 days, and if you take longer than 28 days to pay you can end up being taken to court, where the fine will escalate and you could even get a jail sentence of up to three months.

If you decided to take a child out of school during term time you wouldn't be alone, with almost 223,000 fines issued in 2017-18 for unauthorised absences, according to figures from the Department for Education. This was a massive leap on the previous year when 107,000 fines were issued – perhaps because local authorities are now stricter on issuing the penalties.

You might pay nothing though, as you won't be fined for any absence approved in advance by the headteacher – but usually this would only be for exceptional circumstances, rather than the annual family holiday.

ABSENCES

Year	Number of unauthorised absence penalties issued
2017/18	260,877
2016/17	149,321
2015/16	157,879
2014/15	151,125
2013/14	98,259
2012/13	52,370
2011/12	41,224
2010/11	32,641

Source: Department for Education

DOES IT PAY?

Assuming you have two children that you take out of school, your total fine is likely to be £120, or £240 if you're in an area where both parents are issued with fines. Anyone who has faced peak summer holiday prices to fly abroad will assume that amount could easily be saved on flight and accommodation costs, but does it add up?

Someone booking a trip to Longleat Centerparcs for a seven-night stay in early August next year, for two adults and two children, will pay £2,048 for a two-bed lodge. If that same family visited in the second week of September, for the same seven-night stay in the same accommodation, they would pay just £1,018. Even if you assume the maximum penalty of £240 for two children, you'd still save almost £800.

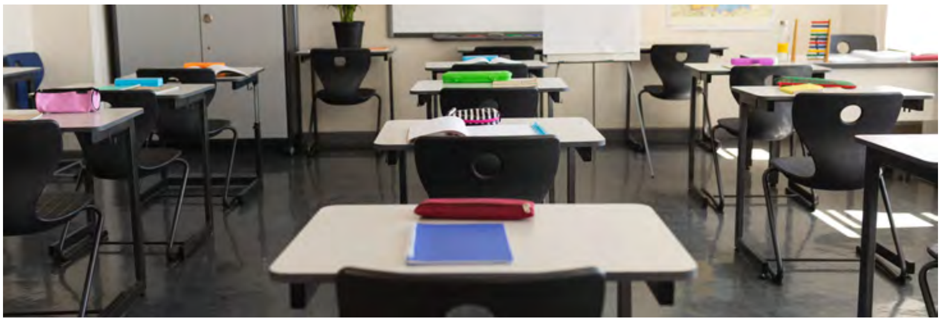
However, it doesn't always pay. Those aiming for a cheaper break away and getting the ferry to France could still see savings, but not enough to cancel out the fine.

Getting a return ferry ticket from Dover to Calais, returning after a week, for a car, two adults and two children would cost £160 in August next year, while in September it would cost £110 – only saving £50.

Camping fees on some campsites don't vary between August and September, meaning that you wouldn't save enough to compensate for even one child being out of school for the week.

WHAT ABOUT GOING FURTHER AFIELD?

That same family travelling to the Algarve in Portugal from Manchester in August next year for a week's holiday would pay £2,435 in self-catering accommodation on a package holiday with TUI, including



flights. If they booked to go a month later, and so missed the first week of school, they'd pay £1,772. That's a £550 saving if you get fined £120, or more than £400 saving if you get fined the full £240.

The same family of four going on a seven night Disney cruise from Florida around the Caribbean departing in August would pay £7,000 for an Oceanview cabin. The same cruise in the same cabin a month later would cost £5,500 – saving more than £1,500. And that's before you pay for the flights to America.

If you stay closer to home and go to Disneyland Paris for a week you can still save cash. Staying in the Disneyland Hotel and getting access to the park every day would cost £5,600 in mid-August, compared to £3,800 in September, saving £1,800 before travel costs.

Ultimately the bigger the holiday the bigger the potential saving, meaning if you're planning that once-in-a-lifetime trip to Disney in Florida you're likely to be able to save hundreds of pounds, while if you're going for a lower cost camping trip in France you probably won't save enough to pay the fines.

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

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Amryt Pharma
Speaker – Kieran Rooney, Vice President
Amryt Pharma (AMYT) is a revenue-generating orphan drug company focused on acquiring, developing and commercialising products that help improve the lives of patients.

Belvoir Lettings
Speaker – Dorian Gonsalves, CEO
Belvoir Lettings (BLV) is uniquely positioned within the property sector, benefiting from the agility of a franchise business model compared with the larger corporate players.

Open Orphan
Speaker – Cathal Friel, CEO
Open Orphan (ORPH) is a European-focussed, rare and orphan drug consulting services platform. The Company targets the orphan drug services market in Europe.

ReNeuron Group
Speaker – Michael Hunt, CFO
ReNeuron Group (RENE) is a leading, clinical-stage stem cell business. Our primary objective is the development of novel stem cell therapies.

SkinBioTherapeutics
Speaker – Stuart Ashman, Chief Executive
SkinBioTherapeutics (SBTX) is a life science company who's proprietary platform technology, SkinBiotix®, is based upon discoveries made at The University of Manchester.

VolitionRx
Speaker – Cameron Reynolds, President and CEO
VolitionRx (VNRX) is a multi-national life sciences company developing simple, easy to use blood-based cancer tests to accurately diagnose a range of cancers.

During the event and afterwards over drinks, investors will have the chance to:

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

23 September: PureCircle, Seeing Machines. **24 September:** Blancco, Close Brothers, Diurnal, InnovaDerma, Town Centre Securities. **25 September:** Allergy Therapeutics, PRS Reit.

Half year results

20 September: Mainstay Medical International, Applegreen. **23 September:** ASA International, Billington, Deltex, Destiny Pharma, Faron Pharmaceuticals, Gama Aviation, Instem, Keystone Law, Microsaic Systems. **24 September:** AA, Alliance Pharma, AG Barr, Card Factory, Moss Bros, M&C Saatchi, Serica Energy, Tremor International, Versarien. **25 September:** Ergomed, Mi-Pay, The Mission Marketing Group, WANdisco, XLMedia. **26 September:** Allied Minds, Crawshaw, Ebiquity, Northbridge Industrial Services, Pelatro.

Trading statements

20 September: Investec. **23 September:** Northgate. **25 September:** Babcock, Halma, PZ Cussons, United Utilities. **26 September:** Mitchells & Butlers, Mitie, SSP.

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