STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

STRAP IN FOR THE CAR SECTOR RECOVERY

There's still fuel in the tank for retailers and financiers

PLUS

ARE TOBACCO STOCKS NOW **UNINVESTABLE?**

OUR ANNUAL STOCK PICKS ARE **UP BY 16% SO FAR THIS YEAR**

THE KEY REASONS WHY BERKSHIRE HATHAWAY IS SO SUCCESSFUL

Planning for bad times can make you stronger

Having back-up cash and not taking excessive risks could be a wise move

Investing involves some big decisions that can only be made if you think about the good and bad points.

You need to think about how much money you could lose as well as make. And when it comes to saving in general you must also think about squirreling away adequate money to cope with difficult times in life as well as funding treats in the good times.

Having this rounded view is a crucial part of the overall financial planning picture. It can help to avoid being over-confident and take excessive risks. Equally it can act as a reality check to stop you spending everything each time you build up a decent savings pot.

Banks are regularly put through stress tests to see if they have enough capital to withstand an economic shock. Any that fail a stress test have to build up more capital reserves, essentially bolster their savings so they don't get into trouble in bad times.

This is a good approach to take with your own finances. If something went wrong, such as losing your job, do you have enough money to pay the bills and other outgoings until you find a new job? In the same situation, do you have savings that can help sustain debt repayments?

Think of it as sensible financial planning rather than being overtly negative and panicking about the worst case scenario.

The Financial Conduct Authority, a regulator, has been giving these scenarios a lot of thought and says it is important to be ready for an economic downturn.

Under the latest stress test scenario from the Bank of England, UK unemployment would hit 9.2% (versus the current 3.8% rate), house prices would fall by a third and the stock market would crash by 41%. The same test also assumes UK GDP falls by 4.7% and world GDP declines by 2.6%.

Such a negative environment could leave many people unable to keep up debt repayments. They

and others would also lose access to further credit. People may struggle to keep up their mortgage payments; failure to do so would see an increase in repossessions.

Individuals who were hoping to downsize their home to help fund retirement would be in a pickle. And people losing their jobs would not only be without a salary, they would also lose out on workplace pension contributions, thereby potentially hurting their future income in retirement.

Those already in retirement would see asset values fall and potentially see severe damage to their value of their portfolios at a time when they are reliant on the markets for income. Clearly many people would struggle in such a negative environment.

These statistics are quite alarming; the FCA calls them 'severe and unlikely' but not impossible. They should be a wake-up call for the need to be more financially prepared for the worst case scenario as well as not being reckless with investment decisions.

By **Daniel Coatsworth** Editor

Contents

VIEWING SHARES AS A PDF?
CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

Are tobacco stocks now uninvestable?

Vaping woes are putting the industry under real pressure

The defensive attractions of the tobacco sector, traditionally owned for its earnings resilience and rising dividends, appear to be wafting away amid increasing political and regulatory concerns over vaping.

The promise of tighter rules on the vaping sector is bad news for the tobacco giants which have bet big on vaping and other smokeless alternatives replacing shrinking cigarette profit pools.

Marlboro-maker Philip Morris International and Altria have ended talks over their mooted $187bn merger amid rising regulatory risk around Juul Labs, the vaping upstart in which Altria owns a 35% stake.

Juul has replaced co-founder Kevin Burns as CEO with K.C. Crosthwaite, a Philip Morris veteran and most recently Altria's chief strategy and growth officer, having been hit by sales bans triggered by unexplained respiratory illness among vapers and US scrutiny amidst a teenage e-cigarettes epidemic.

> "The Trump administration plans to remove all flavoured e-cigarettes from store shelves"

The replacement of Burns with Crosthwaite signals Altria's growing influence over Juul after its $12.8bn investment last December, with the e-cigarettes firm also suspending all broadcast, print and digital advertising in the US amid vaping hysteria across the pond.

The Trump administration plans to remove all flavoured e-cigarettes from store shelves due to rising popularity among the youth demographic, while South Korea and India have become the latest countries to ban or warn about the sale of e-cigarettes.

Here, **Imperial Brands' (IMB)** shares cratered after the Davidoff, Gauloises Blondes and blu maker coughed up a profit warning (26 Sep).

Imperial Brands cut its year-to-September 2019 sales growth guidance from 2.5% to 'around 2%' and is now guiding to flat annual earnings per share, blaming US vaping hysteria for lower than expected growth in less harmful next-generation products, as well as a competitive Australian market, for the earnings alert.

UP IN SMOKE. IS THE TOBACCO SECTOR'S BET ON VAPING IN TROUBLE?

Specifically, Imperial's overall next generation product business is expected to grow by around 50% this year, below management expectations with the US market slowdown sapping demand for its myblu vape brand.

A number of wholesalers and retailers are not ordering or not allowing the promotion of vaping products.

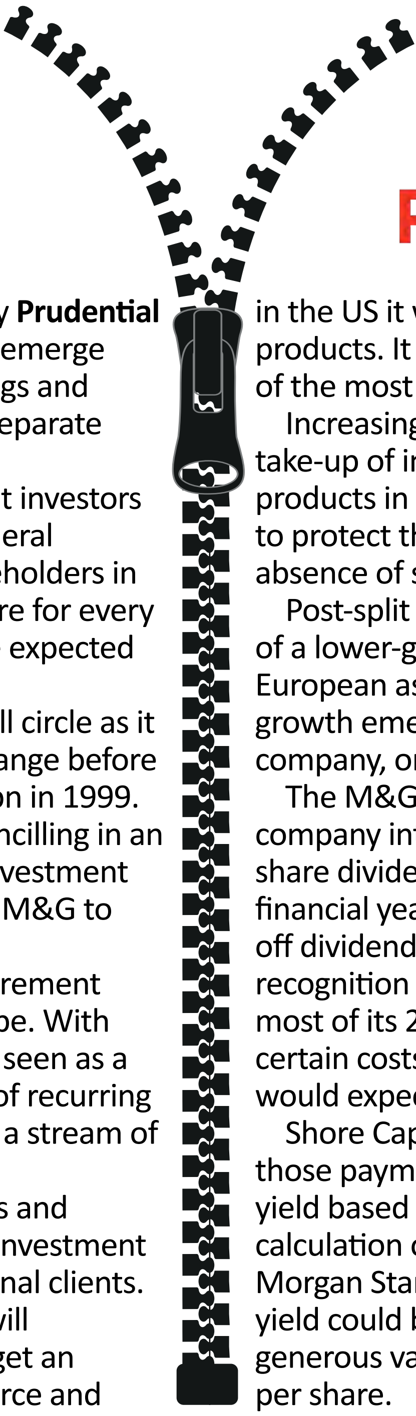
Uncertainty over the future of vaping also weighs on the valuation of **British American Tobacco (BATS)**, which recently outlined plans (12 Sep) to simplify its business and boost growth in new categories such as vapour, tobacco heating products and oral tobacco.

Recent developments may give pause for thought for investors attracted by the forward price-to-earnings ratios of 6.0 and 8.3 on offer at Imperial Brands and British American Tobacco respectively.

These are cheap ratings but they could get even cheaper judging by the perfect storm engulfing the sector.

Prudential demerger could see M&G join the FTSE 100

We explain why the companies are splitting, when it will happen and the potential dividend attractions



In March 2018 insurance company **Prudential (PRU)** announced that it would demerge **M&G**, its UK and European savings and investment business, and list it as a separate company on the London market.

Eighteen months on, assuming that investors agree the proposal at the annual general meeting (AGM) on 15 October, shareholders in Prudential will receive one M&G share for every Pru share they own. M&G shares are expected to start trading on 21 October.

In essence, M&G will have gone full circle as it used to be quoted on the stock exchange before it was bought by Prudential for £1.9bn in 1999.

Twenty years later, analysts are pencilling in an £8bn valuation for the savings and investment firm, which would be big enough for M&G to join the FTSE 100 index.

M&G will focus on savings and retirement needs for people in the UK and Europe. With more than £250bn in assets, M&G is seen as a mature business with a steady base of recurring revenues which it can use to pay out a stream of dividends.

It serves around 5.5m retail savings and investment customers and provides investment solutions to more than 800 institutional clients.

The remaining part of Prudential will concentrate on Asia where it will target an under-protected but growing workforce and in the US it will provide financial protection products. It is also growing in Africa which is one of the most under-insured markets in the world.

Increasing per-capita wealth is driving the take-up of insurance policies and savings products in emerging markets as people look to protect themselves and their families in the absence of state 'safety nets'.

Post-split Pru investors will have the choice of a lower-growth, possibly higher-income European asset management play or higher-growth emerging market-tilted insurance company, or retain shares in both companies.

The M&G prospectus says the demerged company intends to pay about 11.92p per share dividend in May 2020 relating to its 2019 financial year. It also expects to pay a special one-off dividend of about 3.85p at the same time, in recognition that the company was operating for most of its 2019 financial year without incurring certain costs, such as debt interest costs, that it would expect to bear in the future.

Shore Capital analyst Paul De'Ath says those payments equate to a 7.3% prospective yield based on his 245p per share fair value calculation of the business. Investment bank Morgan Stanley suggests M&G's dividend yield could be nearer to 6% based on a more generous valuation assumption of 310p per share.

What new fund liquidity rules mean for investors

Be prepared for a world where fund suspensions are more common

The Financial Conduct Authority (FCA) is taking measures to address concerns about liquidity in the funds market. New rules are being considered which could see more frequent fund suspensions if there is uncertainty about the value of assets.

There may also be different redemption conditions for institutional investors to avoid retail investors being hit by a large investor choosing to withdraw a large sum of money in a single day. This follows a situation with **Woodford Equity Income (BLRZQ62)** where Kent County Council's withdrawal was a key reason why dealing in that fund was subsequently suspended.

Three years ago several property funds suspended dealing following a rush of investors trying to take their money out amid concerns over Brexit hurting the UK property market.

From 30 September 2020 property funds which fall into a new category of 'funds investing in inherently illiquid assets' will have to be clearer in explaining liquidity risks to prospective investors.

They will be subject to enhanced oversight and will have to come up with detailed plans to deal with liquidity issues as they crop up.

So-called non-UCITS retail schemes which invest in illiquid assets will also have to suspend dealing if an independent valuation determines there is material uncertainty over more than 20% of a fund's portfolio.

AJ Bell head of active portfolios Ryan Hughes says: 'We welcome the FCA's decision to look further into these solutions, among others, and while sensible suggestions we'd urge the regulator to move more rapidly to make changes, as these are real problems that investors are facing today.'

Hughes says the new rules enforcing a suspension if there is uncertainty over the valuation of 20% of a fund's assets might see multi-asset funds suspend dealing if the property funds in which they invest are gated.

In turn, this could direct such funds to invest in property investment trusts or reduce exposure to illiquid assets below 20%, potentially undermining their diversification appeal to investors.

Ian Sayers, chief executive of the Association of Investment Companies, says retail investors should be able to invest in funds where they know from the outset how they will be managed and what their redemption rights are.

'These should be reliable and should not change in response to foreseeable market conditions,' he comments. 'Unfortunately, the FCA's proposals fail to achieve this. Disclosure of the many possible complex measures that might be applied is both inadequate and unfair.'

The FCA says its measures should:

- Help investors understand better any restrictions on access to their investments and the circumstances in which these restrictions will be placed on the funds.
- Reduce the likelihood of a run, which could substantially reduce the value of investments for those left in the fund and possibly destabilise the market more widely.

Pearson, Sainsbury's, WPP and the week's other big news

We look at the UK market winners and losers from the past week

Academic publishing firm **Pearson (PSN)** earned a dunce's cap from the market on 26 September. Its shares fell more than 10% to 740p as it warned earnings would be at the lower end of expectations thanks to weak sales to US universities.

Full year operating profit is expected to come in towards the bottom of the guided range of £590m to £640m.

The news suggests the structural problems caused by students transitioning away from expensive textbooks to finding materials online have not going away.

SUPERMARKET SWEEP

The departure of key **Sainsbury's (SBRY)** executive John Rogers to serve as chief financial officer at advertising firm **WPP (WPP)** was seen as a blow for the former and a boon for the latter (1 Oct).

Rogers led the digital transformation at Sainsbury's-owned Argos and previously worked as finance chief at the supermarket. He was seen as a future CEO candidate for the company.

He will now join WPP's CEO Mark Read at the beginning of 2020, marking a full reset of the media group's management since the departure of Martin Sorrell. The team may face pressure to ramp up the company's recovery after a year of consolidation in 2019.

Also on 1 October, US plumbing products firm **Ferguson (FERG)** delivered a better than expected set of full year numbers thanks to keeping tight control on its purse strings.

In the words of broker Davy: 'Ferguson's results were slightly ahead of our estimates as management's execution on cost delivered a strong margin performance. Trading remains subdued with organic sales up just 2.1% in the fourth quarter, not helped by continued weakness in Canada.'

There was no update on recently-announced plans for a demerger of its modest UK operations and a potential move of its listing to the US or dual listing.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS		
STOCK	**SHARE PRICE RISE**	**REASON**
PureTech Health	9.6%	Affiliate company reveals strong funding round
Next	9.4%	Continuing bullish sentiment in the wake of first half results
Rank	7.5%	Rebound in the gambling sector

WORST PERFORMERS		
STOCK	**SHARE PRICE FALL**	**REASON**
Pearson	-14.0%	Weak university sales lead to disappointing earnings guidance
Imperial Brands	-10.8%	Profit warning driven by US vaping issues
Fresnillo	-9.3%	Fall in precious metal prices

Source: Shares, SharePad. Date to 1 Oct 2019

IWG could be the next big market cash machine

The serviced office provider is moving to a franchise model that could greatly enhance shareholder returns

Serviced office group **IWG (IWG)** is undergoing a significant transformation that could result in enhanced returns to shareholders in the coming years.

IWG is moving to an asset-light strategy where it becomes a master franchise owner, similar to the model used by **Domino's Pizza (DOM)** and McDonald's. IWG is selling its operating businesses to partners in exchange for cash and future licensing and services revenue.

Franchising ultimately provides a cost-effective way for IWG to take advantage of the structural growth of the flexible, co-working market.

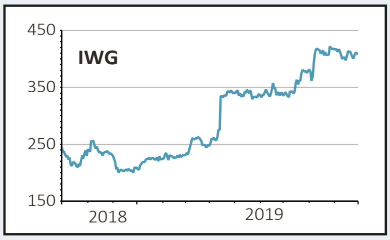
A £320m deal was struck earlier this year in Japan where Tokyo-listed TKP will operate 130 flexible working centres using IWG's brands Regus, Spaces and OpenOffice. The pair has since struck similar deal for IWG's Taiwanese operations for £22.7m.

Chief executive Mark Dixon said at IWG's half year results in August that discussions were being held with other prospective partners, with an update expected to be given to the market later this year.

Three private equity firms tried to buy IWG last year but talks ended on a disagreement about valuation. Fund manager Mark Slater who holds the stock in **Slater Growth Fund (B7T0G90)** says this bid interest made Dixon 'more engaged'. He adds: 'IWG's chief executive realised the business could be run a lot better. Having a franchise model could see huge amounts of capital returned to shareholders.'

IWG BUY
(IWG) 409.3p
Stop loss: 287p

Market cap: £3.65bn



Some investors may be put off by IWG's valuation. It is trading on 31.4 times forecast earnings for the next 12 months and five times book value.

Numis analyst Steve Woolf believes the current valuation does not fully reflect the potential for incremental growth, lower risk and higher cash generation as the franchise model becomes more established.

'While the next catalyst could lie with the announcement of a new franchise buy-in, our sum-of-the-parts indicate fair value of 515p per share,' he adds.

IWG has delivered 11% compound annual growth in dividends since 2010. 'If IWG adopted a fully franchised model, we believe there would be significant scope for additional capital returns to investors,' says Woolf.

'If a sale price of around two times market value-to-sales was achieved, this would represent a cash inflow of c.£5.3bn, increasing to £6.6bn for a multiple of 2.5-times.

'Including the proceeds from Japan, and adjusting for revised net debt and repayment of customer deposits, this would leave IWG with a net cash position of c.£4.5bn to £6.6bn. This equates to 490p to 640p per share, and provides significant scope for share buybacks during the franchising process.'

By **Daniel Coatsworth**
Editor

Investors are underpricing Alliance Pharma's growth potential

The firm is highly cash generative and is achieving attractive levels of profit growth

Pharmaceutical specialist **Alliance Pharma (APH:AIM)** runs an asset-light business model, making it unique in the sector and very cash generative.

Alliance Pharma owns or licenses over 90 pharmaceutical and healthcare products and sells them in more than 100 countries. Unusually the company outsources all the capital intensive activities such as manufacturing, storage and logistics.

Management focuses on the activities they believe will deliver the greatest value, such as marketing and product sourcing. Expertise in medical regulation matters are kept in-house.

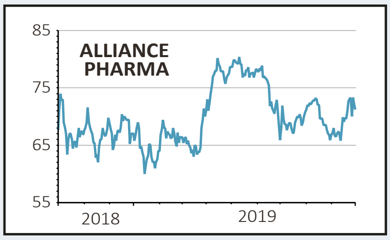
Over the past 20 years the company has grown through selective promotion of what it calls 'star brands' as well as making 35 acquisitions.

It has built a balanced portfolio of products with growth potential and stable cash-cow characteristics. Alliance Pharma is not exposed to research and development risk as all of its products are proven and well established.

The company splits its business into international star brands and local brands. The star brands are predominately healthcare products with international reach offering significant growth.

ALLIANCE PHARMA BUY
(APH:AIM) 71.6p
Stop loss: 53.7p

Market cap: £374m



The fastest growing brand is Kelo-Cote which was purchased in 2015 from Sinclair Pharma. This product is a patent-protected silicone gel treatment for keloid and hypertrophic scars, sold in more than 65 countries. The scars treatment market was valued at $4.8bn in 2017 and is expected to grow around 10% per year for the next six years.

Since purchase the company has seen a three-fold increase in revenue, driven by marketing support, the launch of a global website and promoting best practice in scar management.

For the first six months of 2019 Alliance Pharma reported like-for-like revenue growth of 21% for the star brands to £30.9m, representing 44% of total sales. Eye supplement product MacuShield was the standout performer growing revenue by 27% to £4.7m.

The local brands portfolio includes established therapeutic niches with strong heritage, albeit without the potential to be marketed internationally. Collectively they generate significant profit and cash flows because they do not require a lot of promotional spending.

This dynamic undoubtedly contributed to the 40% increase in the firm's first half free cash flow of £14.5m, which allowed the company to reduce net debt by £11.7m to £74.1m.

The company grew its total revenue by 29% which helped push earnings before interest, tax, depreciation and amortisation (EBITDA) up 34%. Underlying earnings per share grew by 15% and the dividend increased by 10%. Leverage fell to 1.95 times debt-to-EBITDA.

Given the company's strong track record of revenue and profit growth, which have averaged 21% a year for the last five years, the share rating is too cheap, trading on only 13.4 times next years' earnings.

By **Martin Gamble**
Senior Reporter

REDUCING RISK THROUGH EXPERTISE, DIVERSIFICATION AND A PROVEN INVESTMENT STRATEGY

International Biotechnology Trust plc

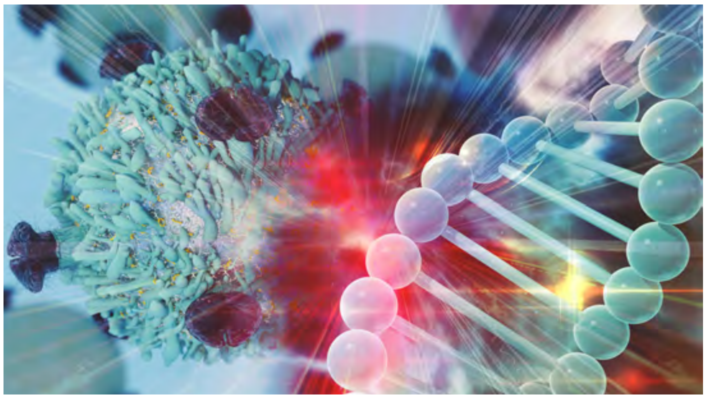
Biotechnology is a high-growth sector so it's understandably alluring for many investors. Many, however, are put off by the perception that it is risky. Success in drug trials can lead to a company doubling its market cap overnight, but failure can lead to capitulation. The swings from fortune to failure can be brutal. So how can investors reap the benefits of the anticipated growth in the biotech market without unacceptably high risks?

International Biotechnology Trust believe there are three key elements to minimising the risk investors face: diversification, manager expertise and a rigorous investment strategy.

The Trust employs three diversification strategies. Diversification through ownership of a large basket of over 75 stocks, all carefully picked by its expert managers. Diversification through stock-selection all along the spectrum of the sector – some early stage unquoted stocks, some profitable mega-cap companies and some in all the stages in between. Finally, diversification across medical technologies, medical services and therapeutics. Within the latter, there is a further spread across treatment areas such as oncology, central nervous system, rare diseases and many more. The result is a level of diversification far greater than one could achieve through a biotechnology index tracker fund.

But the expertise of the managers is also crucial. International Biotechnology Trust is managed by Dr Carl Harald Janson, a medical doctor turned research scientist, who has spent the last 30 years as both fund manager and industry expert. He leads a team of scientifically-trained experts, meaning they can interrogate companies and their scientific data, thereby avoiding as many of the sector's pitfalls as possible.

But even these expert managers don't get it right all of the time. Those sharp capitulations when a drug fails can happen when a clinical trial is supported by even the best science. To avoid exposure to these events, the team carefully monitors the news-flow of portfolio companies in order to anticipate the likely timing of any clinical trial readouts or other stock moving events. In the run up to these



announcements, the inherently optimistic market usually drives the price up in anticipation of positive news. International Biotechnology Trust aims to lock in the anticipatory price rise but sell down in advance of the announcement. That way, in the event of positive news, they can buy the shares back in the aftermarket, often at a cheaper risk-weighted valuation. Crucially, in the event of a negative outcome, they are not left clutching a stack of worthless shares. The managers call this "binary event trading."

However, macroeconomic and political risks will still cause short-term volatility in a high-growth sector. While the managers can do little about Brexit or US rhetoric on China and drug pricing, biotech's long-term outlook remains favourable, not least because many companies have sales in many different territories. And despite it being an unpleasant fact of life, our population will get old and sick regardless of historical growth. Thankfully, for all of us, the unstoppable force of scientific innovation is ensuring supply keeps pace with demand.

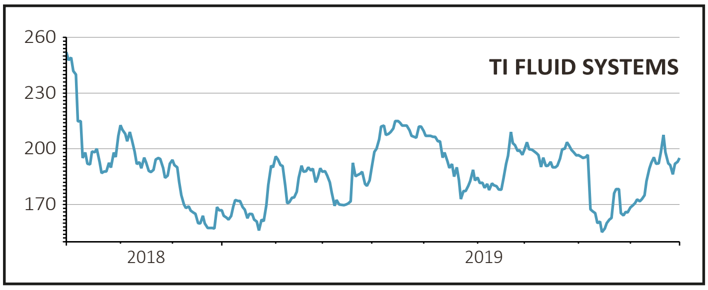
There are still risks out there. For example, a trial can be unexpectedly halted in the event of lack of efficacy or the market can overreact to political noise about the sector. But the managers of International Biotechnology Trust have shown that their risk-mitigation strategies have successfully enabled shareholders to gain exposure to a high-growth sector, through a vehicle which reduces the risk to investors while delivering higher returns than its index.

TI FLUID SYSTEMS
(TIFS) 195.6P

Loss to date: 5.5%

Original entry point:

Buy at 207p, 9 May 2019



THE LONG-TERM drivers of increasing globalisation, tighter regulations and electrification remain in place for **TI Fluid Systems (TIFS)**.

Against that positive backdrop, slowing growth exhibited by China and fears of a global slowdown has weighed on the shares. Analysts have recently downgraded their revenue and profit projections by around 5% to 7%.

TI Fluid Systems is able to mitigate softer markets due to its flexible cost base, where fixed costs only representing 15% of revenue.

The company's leading market positions in performance and safety critical products mean that it can grow faster than the underlying market and achieve higher operating margins and substantial free cash flow.

The total addressable market will rise from €1.3bn in 2018 to between €13.6bn to €19.5bn in 2026 according to IHS Markit and the company's estimates.

Although this sounds dramatic, it will only take the market share of hybrid to 38% and electric to 11% of the total market.

SHARES SAYS:

The company's global footprint, with leading market positions, puts it on the front of the grid in the race to deliver a greener future. The shares remain too cheap and don't reflect the quality of the business. According to broker Peel Hunt the shares offer a free cash flow yield of 11.1%. Keep buying.

Our annual stock picks are up by 16% so far this year

Shares' selection of stocks is beating the market by 61%

After a roaring start to the year for our 'fantastic stocks for 2019' portfolio, it has been a more testing time in recent months. We've faced earnings setbacks, fall-out from other stocks, and the pressures of a weaker global economic outlook.

Fortunately we are still streets ahead, having delivered 61% outperformance versus the broader stock market as measured by the FTSE All-Share. We're up 16% versus 9.9% from the benchmark.

With just under three months left to run before the end of our 12 month exercise, we are certainly not complacent as many of the negative pressures still hang over some of our selections.

STAR PERFORMERS

Shares in high street clothing giant **Next (NXT)** are up 51.2% year-to-date with the retailer coping with the structural

challenges facing the sector. Group sales increased by 3.7% to £2.06bn in the six months to 31 July and shareholders were treated to a 4.5% rise in the dividend to 57.5p.

Its growth strategy includes offering third party products and making sure that online shopping is about choice rather than home delivery or price.

Shares in legal services firm **Keystone Law (KEYS:AIM)** have bounced back after a small lull during the summer. Revenue and profit were both up 15% for the six months to 31 July as the Keystone platform attracted more high-calibre senior lawyers.

As well as adding more fee-earners, Keystone's platform model allows it to cross-sell legal services to its clients thereby deepening its ties with them.

The UK legal 'mid-market' is worth an estimated £9bn in annual revenue and Keystone believes the firm's model is 'absolutely scalable' with a minimum of investment.

STRONG GAINS

Despite some up and down moments our positive call on media group **Euromoney (ERM)** is comfortably in the money, up by more than a quarter on our entry point. The shares have been driven higher by robust financial results and the removal of a significant share overhang as **Daily Mail & General Trust (DMGT)** returned its 49% stake to shareholders.

In the six months to 31 March, earnings before interest, tax, depreciation and amortisation came in at £46.2m against a forecast £40m, driven by its pricing and data business. The company recently commenced a strategic review of its underperforming asset management-focused arm.

SMITHSON BUYS INTO FEVERTREE

Shares in carbonated drinks-maker **FeverTree (FEVR:AIM)** have had a quiet quarter after tumbling 30% during May and June due to concerns that summer trading would be weaker than hoped.

SHARES' 2019 PORTFOLIO			
Company	Entry price (p)	Price now (p)	% gain / loss
Next	4191.0	6336.0	51.2
Keystone Law	370.0	523.8	41.6
GB Group	422.5	544.0	28.8
Euromoney	1172.0	1478	26.1
Fevertree Drinks	2210.0	2405.7	8.9
Hollywood Bowl	219.5	236.2	7.6
On The Beach	362.0	382.5	5.7
Renishaw	3804.0	3690.0	-3.0
Rolls-Royce	801.8	776.8	-3.1
Coats	77.3	74.7	-3.3
AVERAGE			**16.0**
FTSE All-Share	3686.0	4052.5	**9.9**

Source: SharePad. Data to 1 Oct 2019

When the company announced its results in July the shares dropped sharply as UK sales were up just 5% on last year. However, given last year's unusually hot summer and the effect this had on sales, the shares soon recovered as investors turned their focus to the potential for sales to grow in the key US market.

The US mixer market is many times the size of the UK and sales growth seems to be accelerating with the launch of new products and brand tie-ins.

Interestingly, we note that popular investment trust **Smithson (SSON)** took a position in Fevertree in July. Its approach is to invest in high quality businesses with a view to holding them for the long-term.

DEALING WITH HEADWINDS

Shares in On the Beach are still sitting higher than our entry price despite two setbacks this calendar year. The stock took a big hit in August when it revealed that consumers were delaying their holiday

purchase due to Brexit uncertainty.

Thomas Cook's collapse is also causing a near-term increase to costs as it helps customers organise alternative travel arrangements.

Analysts at investment bank Berenberg believe On The Beach has the opportunity to deliver as much as five years' worth of growth in 12 months now that Thomas Cook has been removed from the holiday market.

However, this is a medium-term opportunity and On The Beach might first have to clear some short-term hurdles, particularly as it could be difficult to rebook customers previously booked to fly with Thomas Cook's airline onto alternative flights if prices have shot up. These individuals may cancel bookings altogether and so On The Beach would lose out.

WAITING FOR NEWS

Elsewhere, **Hollywood Bowl (BOWL)** hasn't updated on trading since issuing half-year results on 23 May. However, it did say in August that Rochdale would be the third test site for its new golf concept called Puttstars. It is too early to tell how this brand could enhance earnings. The company has historically updated the market on trading every October so we may get some news very soon.

New problems caused by a fault in its Trent 1000 engines have cast a cloud over **Rolls-Royce (RR.)**. This will frustrate Boeing's hopes of getting its 787 planes, grounded by the glitch, flying again and it has done precious little for investor confidence.

By **Daniel Coatsworth**
Editor

DISCLAIMER: Editor Daniel Coatsworth owns shares in Smithson referenced in this article

THIS IS AN ADVERTORIAL

Looking at UK markets **differently**

Alex Wright, Portfolio Manager of Fidelity Special Values PLC, explains the benefits of contrarian investing.

In November 2019, Fidelity Special Values PLC celebrates its 25th birthday and, at that time, I will be only the third Portfolio Manager to have been responsible for the company. Since I took over the trust in 2012, I have continued to invest on behalf of the company's shareholders using the same value-focused, contrarian approach used since it was established under Anthony Bolton back in 1994.

As a contrarian, I'm drawn to unfashionable stocks that are out of favour and trade on cheap valuations. I'm looking for potential positive change that others haven't seen yet. I also look to invest in companies where I understand the potential downside risk, to limit the possibility of future losses.

Ideally, I want to invest in companies that are exceptionally cheap on relevant measures, or which have some kind of asset that should prevent their share prices falling below a certain level - this can be anything from inventory to intellectual property. From this, I then look for opportunities where I believe the market's perception can shift due to changes in the company's competitors or market, a new product line or an expansion into new business areas. I also impose a strict sell discipline on myself once the recovery has taken place.

Finding these types of overlooked and underappreciated opportunities is not easy and requires extensive research. Central to the long-term success of our approach has been the insight and expertise of our large team of analysts. Fidelity's philosophy is to base investment decisions on company fundamentals such as competitive position, management strength, growth opportunities, valuation and so on. Overarching trends in the economy play a supplementary rather than primary role in our investment decisions.

Looking at markets today, ongoing political uncertainty has created a challenging environment for UK equities. A cautious approach is needed, but attractive valuation opportunities are out there. Against this backdrop, I am increasingly finding attractive opportunities among stocks with defensive characteristics and the ability to control their own fate and drive positive change irrespective of the prospects for the domestic economy.

The UK market is a good source of defensive companies, both classically defensive and others with more hidden defensive qualities. Imperial Brands is an example of

the former. Valuations in tobacco companies have fallen significantly over recent years and I favour Imperial over competitor BAT due to its stronger balance sheet and its promising new vapour innovations which I believe are underappreciated by the market. Amongst the "hidden" defensives I have added to Pearson which continues its transformation from print to digital and is countercyclical; it performs well in a US economic downturn as education enrolment picks up.

On the flip side, I have been reducing the trust's exposure to economically-sensitive areas like banks over recent months. The significant move down in global bond yields will put major pressures on net interest margins and for most banks there are few avenues left to offset this pressure. At the company level, I recently moved to sell out of my holding in Lloyds. In line with our original thesis, the company was successful in cutting costs and driving efficiencies, but I now see limited upside at its current valuations. It has become a bellwether for the UK economy with its future performance tightly linked to the UK mortgage market and interest rate movements. By contrast, I continue to hold RBS as I see a more favourable risk-return profile - it is at an earlier stage of its recovery relative to Lloyds and still has room to go in its evolution towards becoming a high return bank with excess capital.

Important information

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 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. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. This information does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a personal recommendation for any investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only. Investors should note that the views expressed may no longer be current and may have already been acted upon.

The key reasons why Berkshire Hathaway is so successful

Everything you need to know about Warren Buffett's investment vehicle

Best known as the investment vehicle of legendary value investor Warren Buffett and his business partner Charlie Munger, Berkshire Hathaway has also produced remarkable returns for outside investors since the pair took over running the firm more than 50 years ago.

Berkshire says its total gain in market value from 1964 to 2018 is a staggering 2,472,627%, or an average compound annual growth rate (CAGR) of 20.5%. In comparison, the S&P 500 index of US companies 'only' grew by 15,019% over the same period including dividends. This works out as a 9.7% CAGR.

Although officially classed by Standard & Poor's as an insurance company, only a quarter of Berkshire's revenue came from insurance in the first half of 2019. A similar amount came from manufacturing, with the rest coming from the group's significant holdings in energy, road and rail freight, retailing and services.

Over the past five decades Berkshire has gradually morphed from a company whose assets were largely concentrated in stocks to one whose major value is now in the operating companies it owns. When viewed as a whole, Berkshire actually owns a large slice of the American economy and its infrastructure.

However, rather than diving into the detail of each and every business Berkshire owns, which vary enormously in size and profitability, Buffett believes investors should look at them as five distinct groups each with a focus on their operating performance.

BERKSHIRE HATHAWAY'S REVENUE BY BUSINESS AREA IN FIRST HALF OF 2019

Sales by division	H1 2019 ($bn)	Proportion
Insurance, Corporate & Other	32.76	26%
Manufacturing	31.25	25%
Berkshire Hathaway Energy	9.64	8%
Burlington Northern Santa Fe	11.58	9%
Service & Retail	14.44	12%
McLane Company	24.61	20%
Total	**124.276**	**100%**

Source: Berkshire Hathaway, Shares

OPERATING AND RETAINED EARNINGS

The non-insurance businesses – usually 100% owned and never less than 80% owned – generated earnings of $16.8bn last year after costs, taxes, depreciation, amortisation and interest payments.

By comparison, Berkshire's portfolio of equities – which were worth c$173bn at the end of 2018 – paid it dividends of $3.8bn last year.

More important than the

BERKSHIRE HATHAWAY'S SHARE OF DIVIDENDS AND RETAINED EARNINGS FOR TOP FIVE HOLDINGS AS OF DEC 2018

Company	Ownership	Dividends ($m)	Retained Earnings ($m)
Wells Fargo	9.8%	809	1,263
Apple	5.4%	745	2,502
Coca-Cola	9.4%	624	-21
Bank of America	9.5%	551	2,096
American Express	17.9%	237	997
Totals		**2,966**	**6,837**

Source: Berkshire Hathaway, Shares

dividends, in Buffett's view, are the earnings which these companies retain each year.

Dividends from Berkshire's top five equity holdings amounted to just under $3bn last year whereas the firm's economic share of their 'retained earnings' – money that is left after taxes, interest costs and dividends have been paid – was closer to $7bn.

The reason for looking at retained earnings rather than dividends is that among the things which investee companies can do with their money is buy back shares, which increases the economic value of investors' holdings without them having to do anything.

As an example, Berkshire's holding in American Express hasn't changed in the last eight years in terms of number of shares, but thanks to buybacks by the company its ownership of the company has risen from 12.6% to 17.9%.

Last year, Berkshire's share of American Express's retained earnings was just under $1bn compared with its purchase price eight years ago of $1.3bn. As Buffett likes to say, when earnings increase and shares outstanding decrease, over time owners usually do well.

A FINANCIAL FORTRESS

The third group of assets are ones where Berkshire owns 50% or less of the shares but jointly manages the businesses.

The four companies in this category are food producer Kraft Heinz, where Berkshire holds 26.7% of the shares; mortgage and financial services firm Berkadia, where it has a 50% stake; utility firm Electric Transmission Texas, where it also owns 50%; and truck-stop and service centre operator Pilot Flying J, where it owns 38.6% of the shares.

Using operating earnings, Berkshire's 'split' of these firms' income last year was about $1.3bn.

The fourth part of the business holds cash, Treasury bills and other fixed-maturity securities, which as of June 2019 amounted to $200bn or close to 40% of Berkshire's current market value, making it 'a financial fortress' in Buffett's words.

At least $20bn of that money is untouchable, 'to guard against external calamities', but the hope is that the bulk of it can be put into businesses that Berkshire will permanently own.

The problem is that for now prices for good businesses with decent long-term prospects are 'sky-high'. Therefore the more likely option is that some of that money will continue to trickle into stocks.

That doesn't mean that Buffett is making a market call. He says: 'Charlie and I have no idea as to how stocks will behave next week or next year. Our thinking is focused on calculating whether a portion of an attractive business is worth more than its market price.'

INSURANCE FUNDS ARE A 'FLOAT'

The fifth part of the business is the insurance companies which Berkshire owns and the considerable funds which they generate.

Buffett refers to these funds as 'float', or a source of funding that he calls 'cost-free, or even better than that, over time'.

Understanding such thinking is crucial to appreciating how Berkshire has achieved such stellar returns for more five decades.

Property and casualty insurers receive premium payments upfront and pay out on claims at a later date, which leaves them holding large sums of money to invest for their own benefit.

While individual policies and claims come and go, the amount of the 'float' tends to remain fairly stable in relation to premium volumes. As premiums grow, so does the 'float'.

As the table shows, Berkshire's 'float' has increased by roughly 20% a year since 1970 which is quite remarkable. This is partly down to the fact that its insurance businesses have an excellent underwriting record so each year they typically add profits to the investment income which the 'float' produces.

Berkshire is now the seventh largest reinsurer by premiums in the world, just behind Lloyd's of London.

Buffett describes risk evaluation in its insurance businesses as 'a religion, Old Testament style', with managers keenly aware that poor underwriting results cannot be allowed to undo the benefit of the 'float'.

So rather than having to pay for funds to finance its other investments, Berkshire has actually been paid in most years for holding and using other people's money.

Buffett accepts that big risks can take many years to surface (as in the case of asbestos) or they can be sudden (as in the case of Hurricane Katrina). He is also under no doubt that a major event will come sooner or later, either natural (earthquake or hurricane) or man-made (cyber-attack), and the whole industry will suffer.

The difference is that while Berkshire can expect to take its share of losses, unlike other insurers it 'will be looking to add business the next day' while others are constrained.

HOW DO YOU INVEST IN BERKSHIRE?

Shares in Berkshire Hathaway trade on the New York Stock Exchange and can be easily bought on most UK investment platforms. There are two classes of shares. The 'A' shares currently cost $310,250 each which is probably beyond most investors' means. That is why Berkshire has also issued 'B' class shares which are cheaper but have lower voting rights. These currently trade at $206.90 each.

We think this is a great business and its shares are well worth buying. The valuation isn't as high as you might think – the price-to-book ratio is 1.2 and the price-to-earnings ratio is 19.2, based on consensus forecasts for the next 12 months published by Refinitiv.

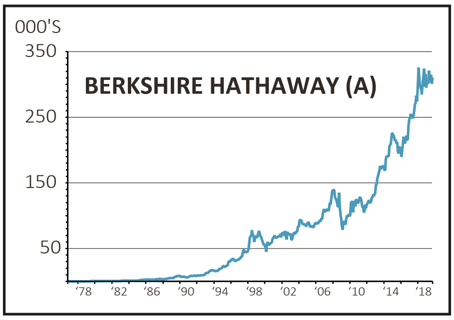
An alternative way of getting exposure is through investment funds which have a stake in Berkshire. However, you would have to appreciate Buffett's company would only represent a small part of a much larger portfolio.

Fidelity American Special Situations (B89ST70) has 5.8% of its assets in Berkshire. Among investment trusts, **Personal Assets Trust (PNL)** has 1.9% of its assets in the company and Berkshire represents 1.6% of **Bankers Investment Trust's (BNKR)** assets.

GROWTH IN BERKSHIRE HATHAWAY'S INSURANCE 'FLOAT' SINCE 1970

Year	Float ($m)	CAGR
1970	39	
1980	237	19.7%
1990	1,632	20.3%
2000	27,871	24.4%
2010	65,832	20.4%
2018	122,732	18.3%

Source: Berkshire Hathaway, Shares



By **Ian Conway**
Senior Reporter

STRENGTH IN ADVERSITY

BLACKROCK GREATER EUROPE INVESTMENT TRUST PLC

The Eurozone economy has been lacklustre, having suffered collateral damage from the US/China trade war. However, argues Stefan Gries, Co-Manager of the BlackRock Greater Europe Investment Trust plc, central bankers are on the case and there are plenty of high-quality companies with unique products or services to keep investors interested.

Stefan Gries
Co-Manager, BlackRock Greater Europe Investment Trust plc

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.

European economies have been caught in the cross-fire of the US/China trade war. This has hurt both economic data and sentiment. Politics have also been unhelpful, as the rising tide of populism has forced policymakers' hands, stalling economic reform.

This has left European assets widely unloved by global investors. The most recent Merrill Lynch Bank of America Fund Manager Survey showed investors rotating away from areas they considered to be 'cyclical', which included European equities[1].

We don't expect a significant revival in the global economy. Some resolution in the US/China trade talks would be welcome, but in our view, this will probably be a lengthy tussle about economic power across the globe and unlikely to be solved in the short term. A resolution on trade tariffs between the EU and the US, a Brexit deal and the Italian debt crisis would also be useful for European stock markets, but we are not holding our breath.

The monetary policy outlook looks more promising. Mario Draghi's recent comments at the European Central Bank's (ECB) annual symposium in Sintra, Portugal, that the bank could relaunch its €2.6tn quantitative easing programme if the economic outlook worsened, were well-received by markets[2]. Christine Lagarde, Draghi's likely successor, appears likely to continue the same policy. Further economic stimulus through tax cuts and spending is a possibility.

Stock market impact

However, the economy is not the stock market and we do not necessarily need any of these things to happen for share prices to make progress. More importantly, while sentiment towards European equities is still poor, it is creating opportunities. Valuations are lower. We are looking for quality companies, whose strength is not represented in their share price. There tend to be more of these to choose from when sentiment is weak.

When we are looking at a stock, we base our decision on a number of key criteria: we want to find those businesses with a unique product, brand or contract, which provides a competitive moat and allows a company to generate attractive returns. This needs to come with a quality management team with a clearly defined strategy for creating value from that unique product.

We accept that there will be times when these companies are in and out of favour. For example, during the recent bout of market volatility, the market favoured utilities as a 'safe haven' asset in troubled times. While these companies undoubtedly have predictable earnings – people heat their houses whatever the economic climate, they carry high levels of debt and aren't particularly profitable. This isn't the type of business we want to hold even if it is seeing positive momentum in the short term.

Opportunities amid uncertainty

At the same time, at times of market dislocation, investors can overlook the type of companies we like. During the recent bout of turbulence, we bought Amadeus Group, a Spanish IT provider for the global travel and tourism industry. The recent volatility allowed us to add it to the portfolio at a more reasonable price.

[1]Investment Week, June 2019
[2]Financial Times, June 2019

BLACKROCK®

The recent political disruption in Italy has had a particular impact on Italian assets. Investors, in general, have decided to look elsewhere rather than take the risk on Italian companies. This too has turned up some opportunities. We added a position in FinecoBank which has done well in a challenging environment for Italian financial services companies.

We find many of the companies in which we invest reporting 'business as usual' in spite of the economic and political headwinds. A speciality chemical distributor which is successfully growing market share and pricing, for example, won't necessarily feel the heat when the European economic environment weakens.

We cast our net wide when looking for companies. We can hold up to 15% of the trust in Eastern European domiciled companies. These add something new to the portfolio, diversifying it away from the largest developed economies in Europe and the Eurozone as a whole.

In markets that are flighty, we believe it is important to be selective and stick to the approach that has served us well over the years. European markets continue to face a number of challenges this year. We are exceptionally selective in our investments, looking for those companies which we believe are global leaders in their field and have enough resilience to withstand a more difficult environment.

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

TO INVEST IN THIS TRUST CLICK HERE

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

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

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.

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

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STRAP IN FOR THE CAR SECTOR RECOVERY

There's still fuel in the tank for retailers and financiers

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

Britain's automotive industry has stalled as low global demand and weak domestic consumer confidence weigh on sales, profits and sentiment.

Disruption is impacting the global car industry and many of the businesses whose fortunes are tied to the automotive sector are in for a very bumpy ride. Yet those able to adapt to the shifting landscape could see exciting times down the road.

In this article, *Shares* examines the headwinds putting the brakes on growth and poses the question, 'is there value in the broader automotive sector for contrarians?'

GLOBAL GRIND

Automotive is among the globe's most challenged industries with air quality and CO2 reduction at the top of the priority list.

Diesel sales have slumped following emissions scandals – Volkswagen is still trying to repair the reputational dent – while the trade war between the US and China is triggering slowdowns in the European and Chinese markets.

Original equipment manufacturers are cutting costs while investing in new product developments in the area of vehicle electrification – everything from hybrids to full battery electric vehicles, connected vehicles, vehicles with greater autonomy and virtual product development.

COLLISION COURSE

Alarmingly, the CEO of car parts supply colossus Continental, Elmar Degenhart, has warned of an 'emerging crisis' in the auto industry as his charge drives through a major restructuring.

1 YEAR SHARE PRICE MOVEMENT FOR STOCKS RELATED TO THE CAR SECTOR

Cambria Automobiles	7%
Motorpoint	4%
Marshall Motor	-2%
Caffyns	-4%
Inchcape	-5%
TI Fluid Systems	-20%
Vertu Motors	-21%
Autins	-44%
Lookers	-47%

Source: SharePad. 1 year data to 30 Sep 2019

The company is responding to a decline in global automotive production fuelled by digitalisation and the rapid shift to battery-powered vehicles, boosted by stringent emissions and fuel-efficiency regulations.

On the home front, Brexit uncertainty has meant investment in British factories has stalled. **Aston Martin Lagonda's (AML)** shares recently hit the skids again after the luxury brand announced (25 Sep) it had raised $150m from a bond issue on a very high rate of interest, with the option to raise another $100m if order targets are met, to bolster its cash position against a dire backdrop for car makers.

YEAR-TO-DATE DEFICIT

British car factories make vehicles for companies including Jaguar Land Rover, Nissan and Mini, yet many car industry executives believe Brexit will be damaging for the sector.

UK car production grew 3.3% in August, according to figures from the Society of Motor Manufacturers and Traders (SMMT), to 92,158 units. But this monthly growth couldn't offset substantial April losses, meaning there is a year-to-date deficit of 17% with output failing to reach 1m units by August for the first time in five years.

August's increase, the first in 15 months, was largely down to several key plants pulling forward planned summer shutdowns to April to guard against the disruption of the-then 29 March EU withdrawal date, which then kept their production lines rolling through the summer.

Exports registered negligible 0.6% growth in August, but even this disguised weakness in major global markets with production for China down 43.8%, exports to the US falling 9.1% and those to the EU declining 13.7% in the first eight months.

Industry representatives from 17 of the EU's biggest car producing and buying countries, including Germany, Italy, France, Belgium and Spain, have joined forces in united opposition to a no-deal Brexit, spooked by tariffs threatening affordability on both sides of the Channel and the end of barrier-free trade bringing disruption to efficient just-in-time supply chains.

CAR MANUFACTURING

	August 2018	August 2019	% Change	YTD 2019	% Change
Total	89,255	92,158	3.3%	866,918	-17.0%
Home	16,261	18,725	15.2%	173,296	-11.1%
Export	72,994	73,433	0.6%	693,622	-18.4%
% Export	81.8%	79.7%		80.0%	

Source: SMMT

SPLUTTERING GROWTH ENGINES

OTHER BUSINESSES BEING impacted by global automotive industry headwinds include engineering-to-environmental consultancy **Ricardo (RCDO)**.

With car manufacturers distracted by Brexit and market slowdowns in Europe and China, Ricardo has seen reduced levels of orders across its global automotive businesses amid 'uncertainty in outsourcing trends'.

This summer (8 Aug), specialist automotive firm **TI Fluid Systems (TIFS)**, which makes automotive fluid storage, carrying and delivery systems for light vehicles, posted a drop in first half sales and earnings. Given challenging market conditions, the company said it expected revenue to continue to outperform global light vehicle production volume levels, although it anticipated this revenue outperformance for the year to be lower than the prior year.

ELECTRIC DREAMS

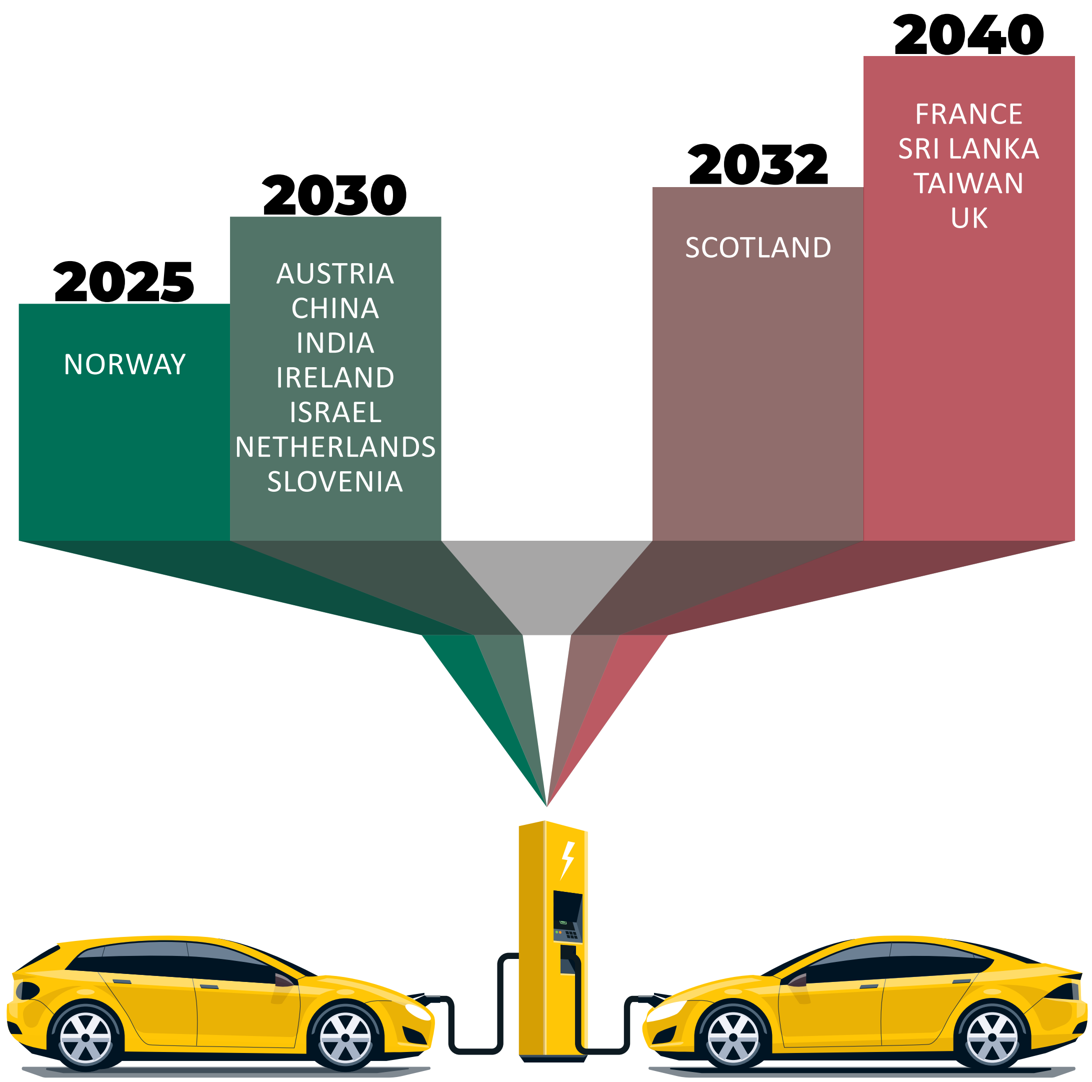
GOVERNMENTS INCLUDING China, India and the UK have committed to bans of new gasoline and diesel vehicles, leaving electric vehicles as the obvious market replacement.

Bloomberg New Energy Finance has forecast that new sales of electric vehicles will overtake internal combustion engine vehicles by 2038. In the UK, electric vehicles are forecast to grow rapidly with National Grid's scenarios suggesting more than 35m vehicles by 2050 with 80% of this figure hit by 2037 in the two most aggressive scenarios.

One radical question some are now pondering is whether we are nearing 'peak car'. Neil Brown, co-manager on the Liontrust Sustainable Investment team, says: 'Short-term problems in our auto industry are well known but we look beyond the profit warnings of 2018 and trade war tweets of 2019 to the underlying drivers.

'Emissions controls have been an issue for decades but we believe something more fundamental is at work: the problem is not should we buy a diesel, petrol, hybrid or full electric but rather whether to own a car at all'.

GOVERNMENT COMMITMENTS TO THE END OF SALES OF CONVENTIONAL VEHICLES



SHOULD YOU INVEST IN A CAR RETAILER?

Risk-averse investors may recoil at the thought of climbing behind the wheel of the quoted UK motor retailers, though the sector has deep value appeal.

Car dealers are cyclical businesses with skinny margins, making money from the sale of new and used cars, higher margin car servicing and repairs and through commissions from selling credit and insurance products.

Selling new cars is crucial, because they eventually become the used cars that will require periodic (and higher margin) servicing and repair.

Until a few years ago, the UK new car market was motoring ahead thanks to easy credit in the form of so-called personal contract plans (PCPs), under which motorists rent rather than buy a car.

Consumers usually signed up to three-year PCPs where they paid the depreciation on the car plus interest, with the monthly payments reduced by any money they provided upfront via a deposit.

Some doom-mongers fear this build-up in credit is a bubble that could go pop. This is why the Financial Conduct Authority (FCA) reviewed the market, although it concluded PCP is not yet a threat to UK economic financial stability.

DEALERSHIP PROBLEMS

As for the quoted dealerships, their challenges are legion. Consumer and business confidence has deteriorated due to uncertainty caused by the seemingly unending Brexit process.

Big ticket purchases including cars have been put on the back burner despite record high

employment, with a knock-on impact for the new and used car markets, not helped by weak sterling and sharply reduced demand for diesel cars amid environmental concerns and stricter emissions regulations affecting supply.

The removal of incentives to buy plug-in hybrid vehicles has thrown up yet another roadblock.

VALUE IN THE WRECKAGE

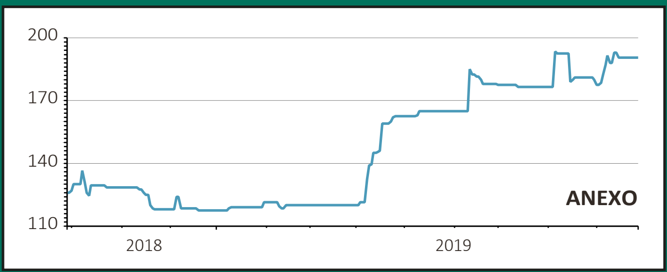
Investors looking for contrarian opportunities among quoted car retailers need to consider if

CAR FOR HIRE

A LESS OBVIOUS way of looking at the car sector is **Anexo (ANX:AIM)**, a specialist credit hire and legal services provider for not-at-fault drivers involved in an accident.

As well as handling the customer's claim through its legal department, Anexo provides a replacement hire car while its appointed garages repair the damaged vehicle, taking all the burden off the customer.

In the six months to 30 June turnover grew by 55% to £36.7m and pre-tax profit jumped by 63% to £11m as the firm handled a higher volume of customers and a higher volume of high-value claims.



all the bad news is now priced into the shares and whether the companies have strong enough balance sheets to withstand the storms.

Interestingly, many of the car retailers have freehold and long leasehold property and their shares are now trading at less than the value of their tangible assets.

Free cash flow could start to steadily build as the capital expenditure cycle for most dealers comes to a close.

'Looking longer term, we do believe there is a clear future for mid/large well-capitalised dealer groups and believe there is strong value on offer for long-term investors,' wrote Zeus Capital's sector expert Mike Allen in a recent research note.

He added: 'Free cash flow yields are healthy across the sector and a sign of strong value emerging – we believe this will be the key catalyst to any share price recovery coupled with the stabilisation of earnings.'

WHAT IS THE STATE OF PLAY WITH LISTED COMPANIES?

The biggest car retailer on the London Stock Exchange is **Inchcape (INCH)**, which is a global player. It has partnerships with high-end car brands and a higher margin distribution business at its core. Its shares have traded in a fairly narrow band this year.

Pendragon (PDG) is the largest London-listed UK car retail player whose first half results (18 Sep) revealed a bigger loss than expected and the dividend was scrapped.

Pendragon has issued a string of profit warnings amid new car market weakness and the cost of clearing legacy used car stock, while a monster cost base and management flux partially explain prevailing poor sentiment.

Investors were left reeling by the relatively recent shock departure of chief executive Mark Herbert after just three months in the hot seat following a review of the group's profitability and strategic focus.

Pendragon's peers include dealership **Lookers (LOOK)** which is facing higher costs over the next few years as it fixes issues uncovered in its sales practices.

Lookers is being investigated by the financial regulator into how it incentives staff selling car finance packages, having flagged up issues in its sales practices during an independent review of its internal control and audit processes.

Motorpoint (MOTR) in July said it was seeing market share gains against a declining market and that it remained confident. That triggered a sharp rally in the shares although they've since come back.

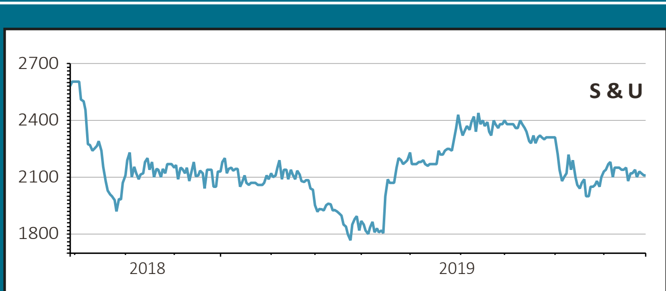
Cambria Automobiles (CAMB:AIM) said on 4 September that its results for the year to 31 August would be ahead of market expectations and the management gave fairly upbeat remarks about the company's prospects.

AN ALTERNATIVE WAY OF INVESTING IN THE CAR SECTOR

S&U (SUS) owns of one of the UK's leading car finance providers, Advantage, which serves the huge 'non-prime' market for cars up to £6,000 which are typically non-discretionary purchases by people who need a car for work or the school run.

In the six months to 31 July Advantage received a record 680,000 applications for credit, such is the demand for used-car finance.

Its credit criteria are so strict that only 1.8% of applications were approved, taking its total customer base to around 62,000. Turnover in the six month period was up a steady 7% to £47.7m while pre-tax profit was up 4% to £17.1m, meaning a respectable 35.8% return on sales.



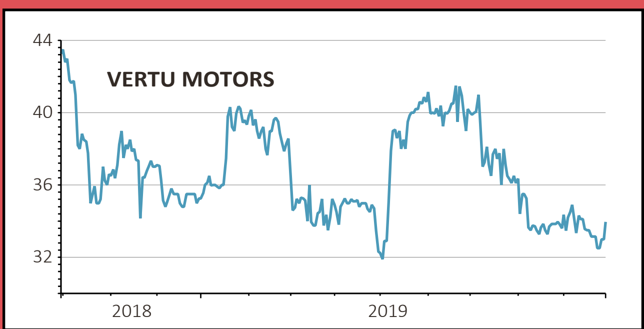
Considering that the total used car market is worth over £40bn per year, and the number of used car sales on finance was up 3% in the year to July while new car sales were down, the potential market for S&U is still huge relative to its current size. We have a 'buy' rating on the stock.

OUR TOP 2 CAR RETAIL STOCKS TO BUY

VERTU

Shares remains bullish about the longer term prospects of freehold property-backed **Vertu Motors (VTU:AIM)**, the UK's fifth largest car retailer, currently languishing at 33.7p. That is a major discount to last reported tangible net assets per share of 44.9p.

Vertu has performed resiliently in the face of industry challenges. No-nonsense boss Robert Forrester is understandably cautious about the short-term outlook, but Vertu is well positioned to consolidate a fragmented market given its strong track record and balance sheet. Tough industry conditions mean that acquisition opportunities, including distressed assets, are increasing.

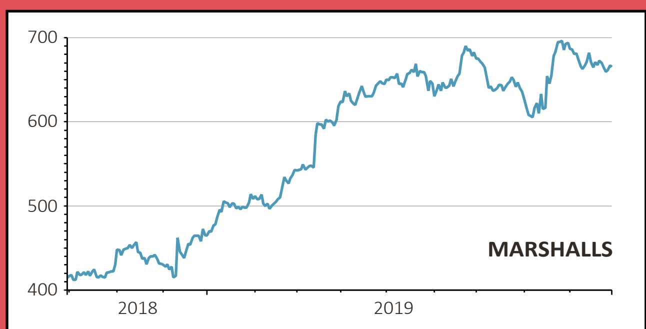


MARSHALL MOTORS

Daksh Gupta-steered **Marshall Motor (MMH:AIM)** also has deep value allure, reporting net assets of £200.7m or 257p per share at the 30 June balance sheet date versus a 144p share price at the time of writing.

Its first half results (13 Aug) demonstrated another sector-leading performance with healthy underlying pre-tax profit of £15.2m, albeit down 5.3% year-on-year, driven by a strong outperformance in used vehicles and a 'very respectable performance in new cars', to quote Investec Securities.

Zeus Capital says it remains happy with the long term investment case, aided by a robust balance sheet and solid track record of execution and outperforming the wider market.



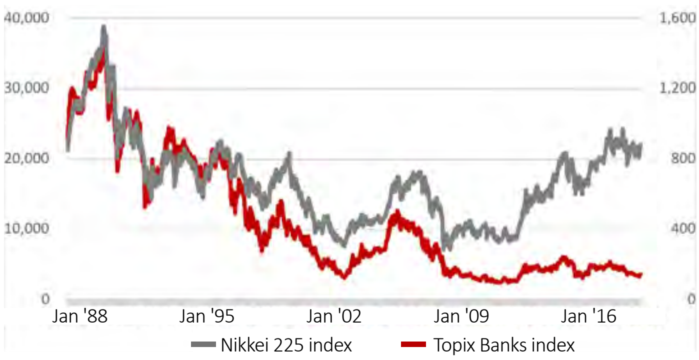
Can Japan tackle global trade concerns?

Some investors are starting to see value in its stock market despite a volatile backdrop

Investors with exposure to Japanese equities are enjoying the 'Abenomics' area, which dates back to Prime Minster Shinzō Abe's general election victory in December 2012. Since then, the Nikkei 225 index has soared by 125% in local currency terms and 126% in sterling, compared to a 30% gain in the FTSE All-Share over the same period.

Yet the same Nikkei 225 still trades 44% below its all-time high of 38,916, reached on 29 December 1989. The Japanese banks sector is also down by 90% from the peak attained on the same day.

JAPANESE EQUITIES HAVE DONE WELL THIS DECADE BUT THEY HAVEN'T BEEN AS GOOD GOING BACK TO 1989



Source: Refinitiv, AJ Bell

Economic growth remains patchy and inflation continues to run way below the 2% target laid down by the Bank of Japan, despite more than two decades of zero or negative interest rate policies and multiple rounds of quantitative easing.

Huge bouts of fiscal stimulus and government spending have yet to make more than a temporary difference. Any spurts in growth and inflation have quickly receded after the central bank or the government tried to throttle back on any monetary or fiscal stimulus, let alone withdraw it.

So if investors are wondering why the policy pivot by the Federal Reserve, in the form of fresh interest rate cuts, and the European Central Bank,

via a return to quantitative easing, are receiving such a quizzical response from global equity markets now they know why.

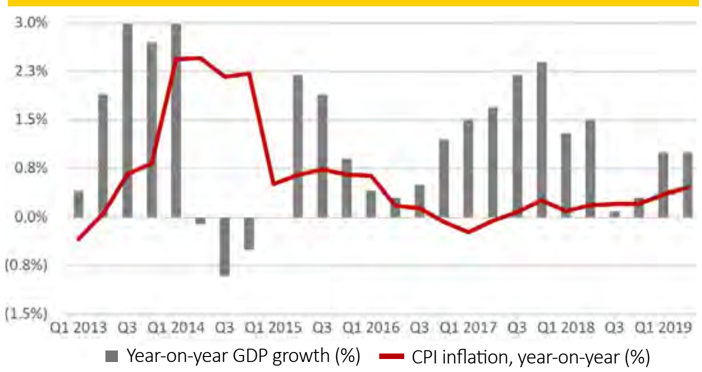
Japan has been here before. And its failure to fuel either growth or inflation on a sustainable basis means that Japan remains the place where, metaphorically speaking at least, no Western central banker wishes to go.

THREE-POINT PLAN

That said, the Abenomics programme of monetary stimulus, fiscal stimulus and social, economic and corporate reform has boosted the Nikkei.

It is also possible to argue that Japan's economy is doing very well, given the number of obstacles that it faces, including the loss of the bulk of its supply of cheap nuclear fuel; a currency which has rallied by 15% against the dollar from its low of almost ¥126 to dollar in 2015; a string of natural disasters, including earthquakes and typhoons; and global trade tensions, which are seemingly

GROWTH AND INFLATION HAVE BEEN UNEVEN AT BEST, EVEN DURING THE ABENOMICS ERA



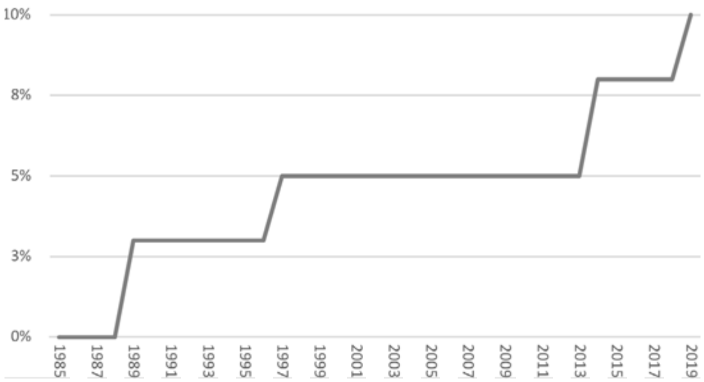
Source: Refinitiv data, FRED – St. Louis Federal Reserve database, AJ Bell

starting to hit the world's economy and therefore Japanese exports.

Global trade tensions are still a potential challenge for Japan, especially as relations with South Korea remain frosty, even if there are signs of an agreement with the US.

On 1 October, Japan increased consumption tax (its version of VAT) to 10% from 8%, after two delays. The postponements reflected worries over the impact on Japanese consumers and the broader economy. Japan fell into a recession after 2014's increase from 5% to 8% and after 1997's hike from 3% to 5%.

JAPAN HAS JUST INCREASED ITS CONSUMPTION TAX FOR THE FOURTH TIME IN JUST OVER 20 YEARS



Source: Nikkei Asian Review, AJ Bell

Abe's time in office is drawing to an end. The Prime Minister has already bent his Liberal Democratic Party's rules once, when a change permitted him to stand for the party presidency for a third, three-year spell in 2018. He will not stand for a fourth time in September 2021 and the next general election is due shortly afterwards for good measure.

FOREIGN INVASION

The darkest hour comes before the dawn and on 15.5 times forward earnings with a yield of 2.1% Japan does not look particularly expensive relative to its 20-year history, according to consensus analyst forecasts.

It may not look knock-down cheap but real bulls of Japanese stocks will point out how foreign private equity firms are swarming to the Tokyo market.

For example, KKR is flagging how Japan is its favourite arena right now when it came to looking for assets to buy and this reflects what could be a strong internal dynamic to the Nikkei and Topix indices, as corporate governance improves and shareholder returns become an area of much greater focus for management teams.

In 2018 Japan overhauled its corporate governance code and in 2019 the Ministry for Economy, Trade and Industry made the first changes to the rules that pertained to mergers and acquisitions for over a decade.

As a result, takeover activity is picking up, as evidenced by a bid battle for hotel group Unizo. Activist investors are also starting to get traction. Sony sold its 5% shareholding in Olympus in the face of pressure to do so from American activist Third Point. Another US activist, Value Act, had already managed to force a change of chairman at the accounting-scandal-scarred Olympus and get three independent (and foreign) directors elected to the board.

Someone clearly thinks there is value to be had and bulls will argue that Japanese equities may be poised for further gains, especially if global trade relations settle down and global growth expectations start to surprise on the upside once more.

Equally, if global fixed-income markets are right and a global downturn or recession is due in 2020, then equities could struggle, even relative to Japanese government bonds, where yields may be nugatory but there is a guaranteed buyer of last resort, in the form of the Bank of Japan.

By **Russ Mould**
AJ Bell Investment Director

What does a good and bad portfolio look like?

We discuss ways in which to improve your portfolio construction

Portfolio construction has an important part to play in the investment world, but receives very little attention. It's a shame because it can make a huge difference to long-term performance as well as reduce stress to help investors stay the course.

This article looks at the benefits of building a balanced portfolio and the different ways it can be done.

It might sound obvious, but a good starting point when building a portfolio is to have a clear idea of the returns you are aiming for, the time frame involved and how much risk you are prepared to take to achieve your goals.

There are many different types of assets to choose from beyond equities, including fixed-income securities (bonds), commodities such as gold and oil, private equity, property and alternative assets. Each will have different expected long-term return and risk profiles.

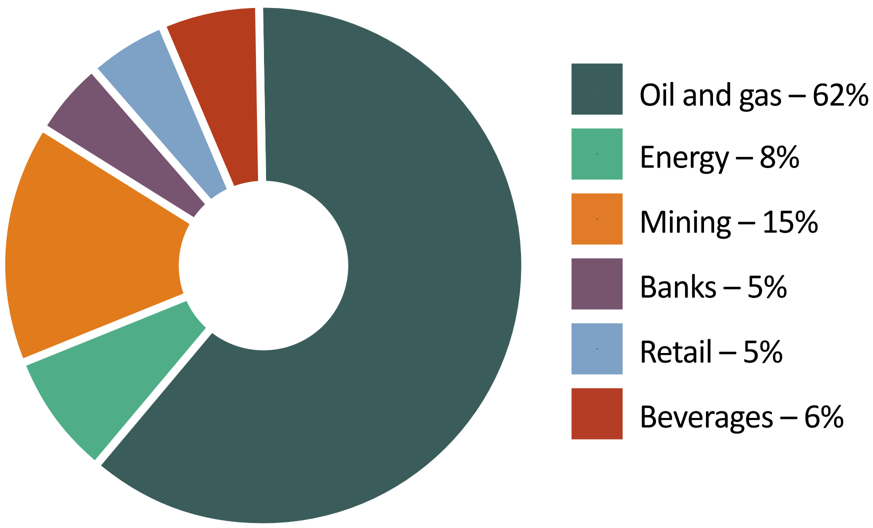
For this article we will focus on stock portfolios but look out for future articles where we will discuss the same principles as they apply to portfolios containing funds and multi-assets.

Let's start by looking at a badly constructed portfolio to highlight some common mistakes and then offer some simple remedies.

AN EXAMPLE OF A BAD PORTFOLIO
(it isn't diversified enough with too much oil exposure)

Name	Value (£)	% of Portfolio	Sector
Company A	£300	5%	Banks
Company B	£300	5%	Retail
Company C	£400	6%	Beverages
Company D	£1000	15%	Oil & Gas
Company E	£1000	15%	Oil & Gas
Company F	£2000	31%	Oil & Gas
Company G	£500	8%	Energy
Company H	£1000	15%	Mining
Total	**£6,500**	**100%**	

SECTOR WEIGHTS



WHAT IS A BAD PORTFOLIO?

Our hypothetical portfolio has a very large weighting in oil and gas shares with a particularly large position in Company F.

It might seem logical to put more money into the shares where you have the greatest confidence. It could be that you work in the oil industry and have a greater knowledge base.

There are two big problems with this approach, one psychological and one mathematical. In many experimental tests, so-called experts not only make poor forecasters relative to the lay person, but they also display massive overconfidence. So when they are wrong, they are very wrong.

Secondly, the heavy weighting in oil and gas means that the performance of three shares will determine the return of the whole portfolio, swamping the contribution from the other holdings. Any setback in the oil and gas sector could be devastating to your returns.

> "A 33% loss requires a subsequent 50% gain just to get back to breakeven"

In addition, this portfolio is likely to fluctuate a lot, and academic evidence shows that this detracts from long-term performance. To illustrate the problem, a 33% loss requires a subsequent 50% gain just to get back to breakeven.

FIVE WAYS TO BUILD A BETTER PORTFOLIO

1 DIVERSIFICATION

As the word suggests, diversification means simply spreading bets across a wide range of assets that behave differently to each other. It is a key part of the tool box that helps to reduce the fluctuation of the portfolio without detracting from its future returns.

Our bad portfolio doesn't have any exposure to industrials, healthcare, telecoms, technology or utilities which would bring added variety to the line-up.

In addition, healthcare and utility shares tend to move around less than other areas of the market and provide good protection when market volatility increases.

2 20 IS THE MAGIC NUMBER

Academics discovered long ago that adding more companies to a portfolio has the effect of decreasing its volatility. But, crucially there is a limit to the benefits, and that line is roughly 20 to 30 names. After that, adding more stocks will simply add cost without lowering the risk by very much. This is known as diseconomies of scale.

Simply speaking, portfolios that have more stocks are less prone to extreme performance.

Our bad portfolio needs far more companies in it to be considered properly diversified and is prone to extreme fluctuations.

3 CONCENTRATION RISKS

One way of thinking about concentration risk is to look at the sector weightings of the benchmark and compare them to your portfolio.

A good rule of thumb is to limit exposure to the major sectors to plus or minus 50%. Applying something along these lines will act to reduce the volatility of the portfolio, without necessarily reducing returns.

For example, the oil and gas sector is around 16% of the FTSE 100 index, so using our guidelines the maximum weight in our bad portfolio would be 24% and the smallest weight would be 8%.

4 SENSIBLE SIZING

It is important not to put too much of the portfolio into a single position. If you have a 30 stock portfolio and weight them equally, each stock would represent 3.3%.

A 20% fall in any single stock would only shave 0.66% off the value of the portfolio, and assuming that some of the others went up a little and some down a little, the overall performance would be acceptable, slightly up or down on the day.

It would be a different story with our hypothetical bad portfolio. Let's say company F fell 20%; it would mean the portfolio was down 6.2% on a single day, and that's before contributions from the other holdings.

Moreover if the reason that the company fell was oil sector-specific, then it's likely that the other oil and gas names would fall in sympathy, exacerbating the loss.

5 OTHER THINGS TO THINK ABOUT

Different investing styles come and go out of fashion and sometimes those trends can last for months and years. Growth and quality styles have been very popular since the financial crisis, at the expense of value, resulting in a wide performance gap.

It can therefore make sense from a diversification point of view to own a variety of styles of stocks, such as value, growth and momentum.

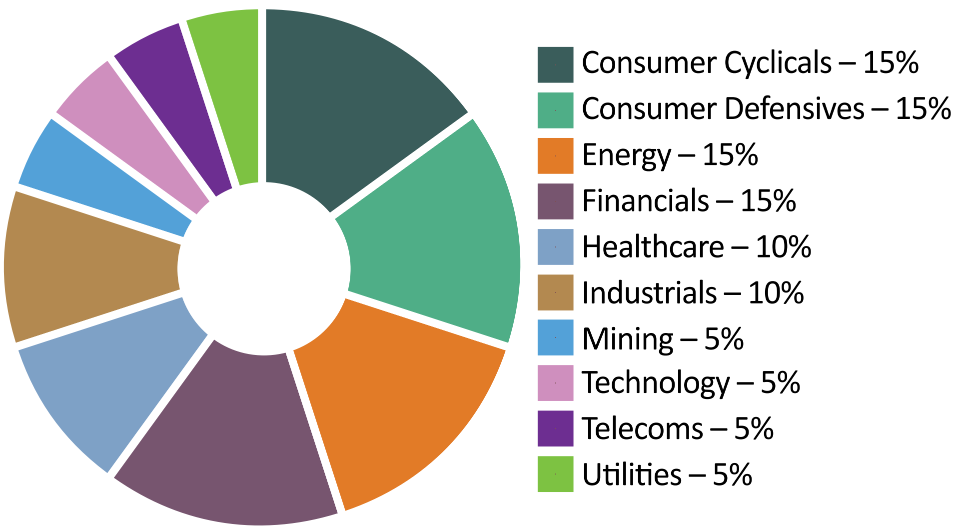
By applying a few simple concepts, it's possible to reap the rewards from a well-constructed portfolio without detracting from good stock-picking skills.

By **Martin Gamble**
Senior Reporter

AN EXAMPLE OF A GOOD PORTFOLIO

Name	% of Portfolio	Sector
Company 1	5.0%	Consumer Cyclicals
Company 2	5.0%	Consumer Cyclicals
Company 3	5.0%	Consumer Cyclicals
Company 4	5.0%	Consumer Defensives
Company 5	5.0%	Consumer Defensives
Company 6	5.0%	Consumer Defensives
Company 7	5.0%	Energy
Company 8	5.0%	Energy
Company 9	5.0%	Energy
Company 10	5.0%	Financials
Company 11	5.0%	Financials
Company 12	5.0%	Financials
Company 13	5.0%	Healthcare
Company 14	5.0%	Healthcare
Company 15	5.0%	Industrials
Company 16	5.0%	Industrials
Company 17	5.0%	Mining
Company 18	5.0%	Technology
Company 19	5.0%	Telecoms
Company 20	5.0%	Utilities
Total	**100%**	

SECTOR WEIGHTS



The demise of the bank branch

We look at the alternatives if your local bank shuts down

You'd be very lucky if you live in an area where no banks have closed branches in the past few years – new figures show that a third of banks have shut over the past five years.

The calculations, from consumer champion Which?, found that more than 3,000 bank branches have closed down since the start of 2015. Royal Bank of Scotland is the worst offender, shuttering almost three quarters of its branches, while NatWest closed half.

What's more, if you live in the Yorkshire area of Wentworth and Dearne you will be in the first constituency to have no bank branches left at all. Eight other constituencies are on the brink, with just one branch left.

It's not just closures that have hit customers, with other branches reducing the hours or days of the week they're open. So if your local branch has closed and you don't want to bank online, what are your other options?

Royal Bank of Scotland has shut almost three quarters of its branches since the the start of 2015

POST OFFICE

The Post Office is the biggest lifeline for those who have been cut off from their bank. You can do your basic banking at these branches, including withdrawing money and checking the balance on your UK bank accounts, while most customers will also be able to pay money in.

But you won't be able to transfer money to another account or get help with any questions you have about your savings or current account.

SWITCH TO THE SUPERMARKET

A number of supermarkets are now offering banking services, with a small number even having a mini bank branch in store. Sainsbury's, Tesco and M&S all offer bank accounts, with their ATMs in store letting you withdraw cash, check your balance and deposit money.

M&S has actual bank branches in a number of its stores, but unfortunately they tend to be in larger towns and cities, which are likely to already have other bank services.

BANK IN A VAN

NatWest and Lloyds offer a travelling bank, with a van going to different locations throughout the UK six days a week. In the van you can make deposits, pay bills and withdraw cash, and also talk to staff. Customers can check online to see when the van will next be in their area.

A FLYING BANKER

Bank branches in remote areas in Scotland are only open for a few hours each week, with a banker flying between the different locations to staff the bank. In the Orkney Islands, RBS's 'flying banker' travels by air (or ferry if needed) to man branches on the remote islands of South Walls, Westray, Sanday and North Ronaldsay.

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

How much are you taking from your pension?

New figures show the latest trends for withdrawal rates and the number seeking advice

Half of people who are taking money from their pensions are doing so without taking any advice, new figures show.

Data from the Financial Conduct Authority, a regulator, showed how people in retirement are making use of the pension freedoms – the reforms in 2015 that allow people to access their pensions more freely.

For the period from April 2018 to March 2019 it found that 48% of people took money out of their pension after taking no advice or guidance, while 15% took no advice but did consult the Government's PensionWise guidance service.

The remaining 37% of people took financial advice before taking money. The figures also showed that four in 10 people who accessed their money had a pension worth £10,000 or less, meaning some may not think their pot is large enough to warrant getting advice.

What's more, 355,000 pensioners took their entire pension in one go when they first accessed it. While some may be doing so because they only had a small amount in that pension pot, others may be falling foul of high tax bills just to access their money.

VALUE OF PENSION POTS FULLY WITHDRAWN

Pension pot size	Number fully withdrawn
Less than £10,000	223,461
£10,000 - £29,999	93,144
£30,000 - £49,999	23,484
£50,000 - £99,999	12,046
£100,000 - £249,999	2,354
£250,000 and above	355

Source: FCA, covers period April 2018 to March 2019

WATCH OUT FOR TAX ISSUES

The way tax is paid on pension withdrawals is clumsy, and means that your [first withdrawal is taxed as though that sum will be taken monthly]. It means that many people who make a one-off withdrawal from their pension are charged far too much tax and have to go through an onerous process of claiming it back.

The new data shows that while 90% of the pension pots that had been withdrawn entirely were worth less than £30,000, many took much higher sums. In the most extreme cases, 355 people withdrew pots worth £250,000 or more, while 2,354 people took out pots worth £100,000 to £250,000.

Tom Selby, senior analyst at AJ Bell, says: 'For some of these people there could be legitimate reasons they would want to

INCOME LEVEL (NUMBER OF PENSIONS)

Pension pot size	Less than 2%	Between 2% - 3.99%	Between 4% - 5.99%	Between 6% - 7.99%	Greater than or equal to 8%
Less than £10,000	846	673	951	1,098	10,390
£10,000 - £29,999	1,424	2,374	5,329	5,943	29,263
£30,000 - £49,999	2,006	3,851	7,210	6,909	24,728
£50,000 - £99,999	4,422	9,307	15,092	12,506	29,912
£100,000 - £249,999	8,575	16,099	19,390	13,928	22,767
£250,000 and above	14,610	17,184	12,862	6,741	8,019

Source: FCA, covers period April 2018 to March 2019

access this money, for example being in ill health and having no desire to leave money to beneficiaries. But for some it will simply be a desire to get their hands on the cash.

'Far too few people are seeking advice or guidance about crucial retirement decisions across the board, and boosting these numbers needs to be a priority for the regulator. The nature of the pension freedoms means while some will use their new found flexibility responsibly, others risk sleepwalking into disaster. Increasing take-up of advice and guidance is crucial to help mitigate this risk.'

Keith Richards, chief executive of the Personal Finance Society, says: 'The Government and the FCA [should] do more to make sure providers are signposting guidance services and advice and explaining the potential ramifications if you don't seek assistance. We want to make sure that nobody ends up making the wrong retirement income choice."

ANNUITIES CONTINUE TO DWINDLE

People are continuing to favour keeping their pension pot invested rather than buying an annuity. A big part of the pension freedoms was removing the requirement for people to buy an annuity when they retired. It meant that many more people chose to keep their pension invested and take an income from the pot.

The figures show that 74,000 people chose to use their pension to buy an annuity in the year, compared to the 191,000 people who started taking an income from the pot.

However, the regulator did flag that some people are taking very large income from their pension pot – in total 40% of withdrawals were 8% of the pension pot or higher. The number taking such large incomes from their pots reduces as the size of the pot grows, for example, 14% of people with pots worth £250,000 or more are taking withdrawals of 8% or more, compared to 74% of those with pots worth £10,000 or less.

> "Far too few people are seeking advice"

It is impossible to know whether these withdrawals are sustainable for individuals without knowing their specific circumstances. Someone with a significant defined benefit pension pot, for example, might be able to draw from a second pension at a faster rate without putting their retirement future at risk.

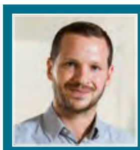
Some may have seen strong investment performance in their pension that they want to benefit from. Others may be taking far smaller incomes from their pot as they are relying on ISA savings, or attempting to preserve the pension pot to pass on to future generations.

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

'How would an election affect my pension?'

Our expert helps a reader concerned about the impact of a new government on his retirement savings

I'm 58 and concerned about the impact a general election and change of government could have on my finances. Are we likely to see any big changes to the pension rules and is there anything I can do to protect myself? One option I'm considering is taking my entire SIPP (worth about £60,000) out and investing in an ISA instead.
Paul



Tom Selby
AJ Bell
Senior Analyst says:

As with Brexit, when it comes to other periods of short-term instability such as a general election it's worth bearing in mind the pensions are for the long-term. You should therefore avoid making any panic decisions with your fund based on what you think may or may not happen as a result of such events.

Taking all of your money out of your pension and investing in something like an ISA almost certainly isn't advisable.

While a quarter of your pension withdrawal will be tax-free, the rest will be taxed in the same way as income, so if you take a large chunk out you risk paying more income tax than is necessary. In addition, if it is your first taxable withdrawal you'll trigger the money purchase

annual allowance, reducing the amount you can save tax-free each year from £40,000 to just £4,000.

Furthermore, pensions and ISAs enjoy exactly the same tax-free investment growth and usually provide a similar level of investment choice too. So there would be no obvious financial benefit to swapping one product for another.

It is, however, worth keeping an eye on party manifestos and other election promises so you are prepared for any possible changes that could impact your finances.

There have been few specific pledges made in relation to pensions so far, although that is likely to change if we get into a general election campaign.

Historically, governments have tended to protect the pensions people have already saved – sometimes referred to as 'accrued rights' – so if there are any big announcements they should only apply to future retirement contributions.

Perhaps one of the biggest electoral battlegrounds will be around the state pension. While the Conservative Government has set out plans to increase the state pension age to 67 by 2028 and 68 by 2037, Labour has previously said it will stop all increases beyond 66 and review future increases.

The costs of state pensions are spiralling and savers should prepare for a world where they have to work longer regardless of who eventually gets the keys to Number 10.

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.

AJ Bell Awards 2019

Approximately 8,200 votes were cast for the best funds, investment trusts and exchange-traded funds in AJ Bell's Fund and Investment Trust Awards 2019. Now in its third year, the awards are a chance for retail investors and financial advisers to have a say on their favourite funds across both the active and passive fund categories. Congratulations to all the winners.

CATEGORIES	WINNERS
ACTIVE	
UK Equity	**Finsbury Growth & Income Trust**
European Equity	**Fidelity European Values**
North American Equity	**Baillie Gifford American**
Asian Equity	**Stewart Investors Asia Pacific Leaders**
Japan Equity	**Baillie Gifford Japanese**
Emerging Markets Equity	**JPMorgan Emerging Markets Investment Trust**
Global Equity	**Fundsmith Equity**
UK Smaller Companies	**Invesco Perpetual UK Smaller Companies Investment Trust**
Commodities/Resources	**BlackRock Gold and General**
Technology/Biotech	**Polar Capital Global Technology**
Property	**TR Property Investment Trust**
Bonds	**TwentyFour Corporate Bond**
Income	**City of London Investment Trust**
Ethical/Sustainable	**Liontrust Sustainable Future Global Growth**
Specialist	**First State Global Listed Infrastructure**
PASSIVE	
UK Equity	**Vanguard FTSE 250 ETF**
European Equity	**Vanguard FTSE Developed Europe ex UK ETF**
North American Equity	**Vanguard S&P 500 ETF**
Asian Equity	**iShares Core MSCI Pacific ex-Japan ETF**
Japan Equity	**Vanguard FTSE Japan ETF**
Emerging Markets Equity	**Vanguard FTSE Emerging Markets ETF**
Global Equity	**Vanguard FTSE All-World ETF**
Commodities/Resources	**ETFS Physical Gold**
Technology/Biotech	**iShares S&P 500 Information Technology Sector ETF**
Property	**Legal & General Global Real Estate Dividend Index**
Bonds	**iShares Core £ Corp Bond ETF**
Income	**iShares MSCI World Quality Dividend ETF**
Ethical/Sustainable	**UBS ETF MSCI World Socially Responsible ETF**

Mark Slater: the fund manager who keeps on delivering

We reveal how the growth champion looks for stocks and has achieved long-term outperformance

If you chart Mark Slater's run as a fund manager back to the start of 2000, you will see a significant outperformance versus his peer group over the subsequent years. According to financial data group FE, collectively across his funds Slater has delivered more than twice the amount of returns to investors than his peer group (400% versus 145% respectively).

The son of the late Jim Slater, a famous financier and author of best-selling investment book *The Zulu Principle*, Mark now runs three funds focused on growth and income. His asset management business Slater Investments also manages a hedge fund and portfolios for pension schemes, charities and high net worth individuals.

THE SEARCH FOR GROWTH

The flagship fund is **Slater Growth (B7T0G90)** which invests in UK stocks and which has been running since 2005. It adopts the same principles discussed in Slater senior's book, namely having a tight focus on something rather than trying to do everything.

'Our tight focus is having a methodology to find growth companies using value filters,' explains Slater junior.

The PEG valuation metric is used as a starting point to find shares which have a proven track record of earnings growth and which are inexpensive. The metric compares the price-to-earnings ratio with a company's earnings growth.

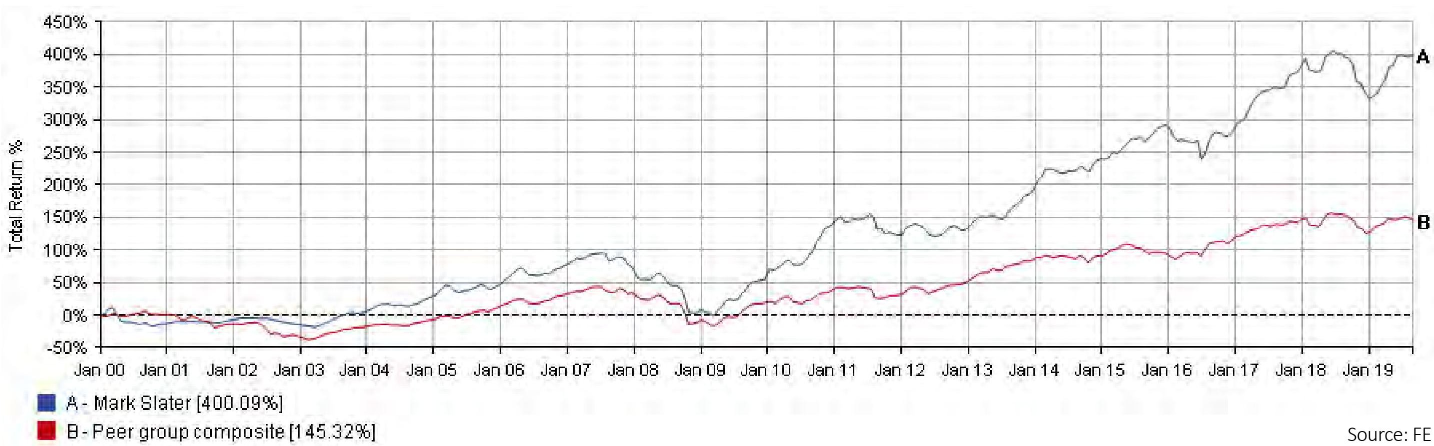
'We use PEG as a screening tool, not as a share selection tool,' says Slater.

Once the PEG screen has helped to reduce the investable universe, other measures are then overlaid such as cash flow screens. The fund manager also looks for companies with a competitive advantage such as a high market share, as well as positive signs in recent trading updates and directors preferably buying rather than selling stock.

TAKEOVERS GALORE

The growth fund typically has a concentrated portfolio of between 25 and 50 stocks, primarily in UK equities. This year alone has seen six portfolio holdings receive takeover offers including media content specialist **Entertainment One (ETO)** and insurance services group **Charles Taylor (CTR)**.

TOTAL RETURN PERFORMANCE FOR MARK SLATER



Source: FE

FE's view of Mark Slater as a fund manager

'OVER A LONG track record, the manager has outperformed the peer group more often than not. Good stock picking has had a material positive impact on results, which have not been particularly exposed to falling markets.'

A second fund called **Slater Recovery (B90KTC7)** has approximately 80% of the same holdings as Slater Growth. The name is a bit misleading as the manager isn't targeting broken businesses which could be fixed, as per the normal definition of a recovery fund. Instead, the name relates to the period in which it launched.

'It started in 2003 where we hoped for a recovery in share prices in the wake of a bear market. It isn't about looking for deep value,' he explains.

Slater Recovery fund differs from Slater Growth in that it also holds very small growth companies, such as £200m fire and safety expert **Marlowe (MRL:AIM)**. Slater Growth tends to hold stocks in the upper end of the small cap space and mid-caps. 'Since the financial crisis most growth opportunities have been found outside of the FTSE 100. We're looking for double digit earnings growth, but the large caps may only have single digits.'

The third fund is **Slater Income (B905XJ7)** which only uses the PEG valuation metric to help construct a small part of its portfolio. The majority of its holdings are dictated by cash flow appeal and yield. Like the other funds, blue chips are rare in this product. 'Ninety percent of the opportunity set for equity high income is outside of the FTSE 100,' says Slater.

CONSISTENT PROCESS

The fund manager attributes his long-term outperformance to having a consistent investment process. He says other managers are easily distracted when their style is out of favour and they foolishly change their process to try and catch up.

It is widely appreciated that UK stocks are trading on low valuations relative to history and other parts of the world, and that overseas investors aren't interested in the country's stock market opportunities because of Brexit fears.

Slater believes the companies identified by his investment strategy aren't really talking about Brexit and, like many consumers, 'they are just getting on with the job'.

He is confident that the UK market will attract more interest once there is a resolution to some of the Brexit issues. 'Capital will then start to flow back into the market. Valuations are attractive and if you take a three to five year view the outlook is pretty good.'

The fund's investment committee met at the end of September and had a longer potential 'buy' list than stocks it wanted to sell, illustrating confidence despite a difficult market backdrop where the political noise is loud and the economic data (around the world) often disturbing.

Slater believes his approach is very effective and calls it a 'sleep at night' strategy, implying that anyone owning his funds shouldn't have to worry about their money every day.

'We're investing in real businesses, we get to know them very well, and we hold for a long time.'

ANNUALISED TOTAL RETURN (%)

Fund name	3 years	5 years	10 years
Slater Growth P Acc	11.10	10.59	18.01
Slater Income P Inc	3.27	4.87	n/a
Slater Recovery P Acc	14.43	11.66	12.07

Source: FE. As of 27 Sep 2019

By **Daniel Coatsworth**
Editor

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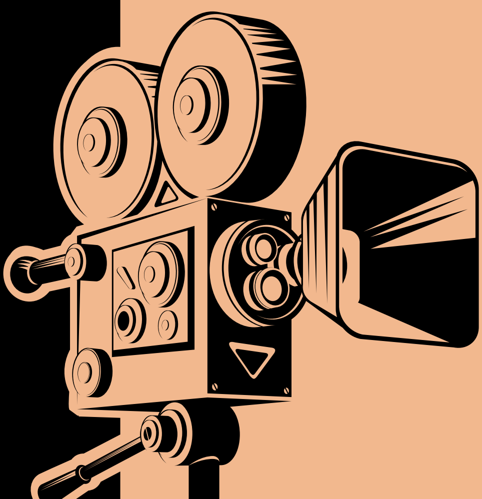

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Have global investment trusts been the ticket to strong returns?

Investors are increasingly opting for geographic diversification

Political and economic turmoil continues to grip the UK. Many investors have been sent running for safer places to stash their cash. Bond markets have soared, gold is close to record highs and money continues to flood out of UK equity funds.

UK investors have been struggling to get much bang for their buck ever since the FTSE 100 first cracked the 7,000 ceiling in December 2016. In the near three years since, investors have earned just 17.5%, including dividends. The Thomson Reuters Global Total Return index has rallied 29.5% over the same spell.

The FTSE 100 is no higher now that it was in early 2017. Even the September rally is said to be no more than bargain hunting rather than any real change in the market mood.

It is therefore time to consider going global as a way to build diversification and spread risk, and investment trusts offer plenty of useful opportunities.

EIGHTEEN OPTIONS

There are 18 trusts in the global sector of the Association of Investment Companies (AIC) including **Lindsell Train (LTI)**, **Manchester & London (MNL)**, **Mid Wynd International (MWY)** and **Scottish Mortgage Investment Trust (SMT)**, all of which have put up triple-digit share price returns over the past five years, far outstripping the investment trust global sector average of 95.3%.

The beauty of a global investment mandate is that the trust can invest in world class companies wherever they are, rather than being hamstrung by what is available on the London Stock Exchange.

Technology giant Microsoft is one of the most popular stocks to appear in portfolios of the global investment trust universe, offering a combination of growth and income. Amazon is also in many portfolios, as are payments firms like Visa and PayPal. Investors can also gain access to companies such as Swiss pharma group Roche, Estee Lauder of France and Japanese games maker Nintendo via global investment trusts.

WHERE MANAGERS SEE OPPORTUNITY

The US is the most popular place to invest among global trusts. The S&P 500 has rallied nearly 52% over five years.

Europe is still popular but Japan, China and the Far East in general remain niche markets for most trusts.

Loyalty to the UK companies remains strong despite the lacklustre performance from the London market as a whole. Another important factor is that share prices of some very good UK businesses are artificially depressed because of the political and economic worries,

GLOBAL CATEGORY INVESTMENT TRUSTS

Name	% Total Return 1 Year	% Total Return 5 Year
Lindsell Train	11.7	291.0
Monks	8.2	146.0
Manchester & London	5.8	134.0
Scottish Mortgage	-7.6	127.0
Mid Wynd	9.5	117.0
Independent Investment Trust	-17.6	96.8
F&C Investment Trust	-1.0	95.6
Alliance Trust	5.3	93.3
Bankers	7.6	89.2
Martin Currie Global Portfolio Trust	11.1	80.7
Brunner	9.2	75.1
Witan	-0.1	69.7
JPMorgan Elect	1.8	64.8
Scottish Investment Trust	-1.1	62.4
AVI Global Trust	0.4	60.1
EP Global Opportunities Trust	-2.6	47.3
Law Debenture	1.4	33.7
Majedie	-5.5	31.4

Source: SharePad. Data to 1 Oct 2019

and that means bargains can be had.

Brunner has nearly a quarter of its portfolio invested in the UK, with similar conviction shown by **Bankers (BNKR)** and and **Witan (WTAN)**.

THE UNDERPERFORMERS

So what about the laggards as surely being in the global sector doesn't automatically equate to superior returns? **AVI Global (AGT)**, for example, has a five year total return of 60.1%, putting it among the bottom performers in the global category. Its focus on value stocks, which tend to trade at discounts to underlying net assets, has clearly been a tough space during the market's fixation with go-go growth stocks.

JPMorgan Elect (JPE) has also disappointed. It invests in a range of other investment trusts, tapping into a greater pool of manager's stock-picking expertise. Yet this strategy can expose the trust to widening discounts to net asset value as well as falling underlying stock prices, a twin-pronged threat that seems to have dragged on its own five year total return of 64.8%. That's a decent enough return, just not as good as many of its peer group.

"Just remember an investment that has done well in the past isn't guaranteed to do the same in the future"

More encouraging is the performance from **F&C Investment Trust (FCIT)** which started life more than 150 years ago. The fund initially invested in emerging market government bonds but today puts shareholder money to work in businesses listed all over the world, in privately owned companies and in private equity.

Over five years F&C has delivered a 95.6% total return. Amazon, Microsoft, Facebook and Alphabet are among its biggest stakes.

Just remember an investment that has done well in the past isn't guaranteed to do the same in the future, so don't pick investment trusts purely on past performance.

By **Steven Frazer**
News Editor

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Amryt Pharma

Speaker – Kieran Rooney, VP, Strategic Alliances and Licensing

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.

Ncondezi Energy

Speaker – Hanno Pengilly, Chief Development Officer

Ncondezi Energy (NCCL) is a large thermal coal resource, strategically located in the Tete Province of Mozambique which is capable of supporting a long life, open pit mining and power plant operation.

Open Orphan

Speaker – Maurice Treacy, CCO

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.

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:

- Discover new investment opportunities
- Get to know the companies better
- Talk with the company directors and other investors

Event details

Registration 17:30
Presentations to start at 18:00
Complimentary drinks and buffet will be available after the presentations

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- Investment Trust
- Fund
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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

7 October: Sensyne Health. **8 October**: YouGov.
9 October: PageGroup.

Half year results

10 October: N Brown.

Trading statements

8 October: EasyJet, Stock Spirits. **9 October:** Volution.
10 October: Dunelm, Hargreaves Lansdown, Mondi.

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