TRUSTNET magazine

Issue 26 / February 2017

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Pump up your investment trust returns

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EDITOR'S LETTER

WITH THE FTSE 100 AND S&P 500 AT CLOSE TO RECORD HIGHS, you may think this month's cover story on super-sizing returns has come at an odd time – after all, even relatively inexperienced investors will tell you that buying in at the top of the market means you risk bearing the brunt of any correction.

However, the use of gearing and discounts also acts as an important barometer of investor and manager sentiment. And, as Adam Lewis finds out in this month's sector focus, not all areas of the market are looking expensive – for example, the discount on the average AIC UK Smaller Companies trust has more than doubled over the past year.

Of course, just because something is trading on a wide discount this doesn't necessarily make it undervalued and the reverse is also true – as I discover when trying to find an alternative to infrastructure trusts. In our final investment trust story of the issue, Emily Perryman offers advice on how to react to a change at the top of one of your holdings.

In our regular features, Nigel Thomas picks three stocks set to benefit from the greater focus on fiscal stimulus, Neil Shillito reveals why he decided to buy the Alquity Asia fund and John Blowers explains why it is better to avoid temptation and refrain from taking a tax-free lump sum from your pension when you reach 55.

Enjoy reading,

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IN THIS ISSUE

SUPER-SIZE ME!

Daniel Lanyon looks at two powerful techniques for pumping up your investment trust returns

MORE THAN 400 YEARS AFTER POLONIUS TOLD HIS SON LAERTES "neither a borrower nor a lender be" in William Shakespeare's Hamlet, closed-ended fund managers – particularly those with a high conviction – don't seem to have received the message.

Unlike the more "vanilla" open-ended funds, investment trusts offer two potential routes for investors to ratchet up their long-term returns, the most important of which is gearing. This is the process by which the managers of these vehicles can borrow money and invest it on behalf of their shareholders, thereby increasing returns.

The flipside is that it will also increase losses if the market tanks or their investments fail – meaning greater volatility is a natural by-product of this process.

JP Morgan Asset Management's head of investment trusts Simon Crinage says gearing is one of the most important tools available to closed-ended funds in terms of giving them an edge over their open-ended counterparts. Simon Evan-Cook, a fund manager in the multi-asset team at Premier, agrees with him: "If your tradesman is skilled, then a sharper tool is exactly what you'd want him to have," he says. "But if he isn't, he can cause an awful lot of damage with it. So it's very important to understand what the trust is, who is managing it and what they're trying to do."

Historically, investment trusts have tended to apply only a modest level of gearing – the figure across the AIC universe currently stands at around 10 per cent – but Crinage says this trend is shifting.

"With interest rates still at, or near, historic lows, many investment trusts are looking at their gearing arrangements and are considering locking in these rates for the longer term," he explains.

For some trusts, the rate is much, much higher: JPMorgan Income & Capital is the most geared trust in the AIC universe at 140 per cent, which includes zero dividend preference shares (meaning the income from these shares goes to the trust rather than their holders), all prior charges (anyone who is entitled to the money before the shareholder) and an overdraft of approximately £2m.

ONE OR THE OTHER

There are two main types of gearing. Structural gearing, where a trust is permanently geared, and tactical gearing, where the manager increases or decreases this measure according to their view on the market.

A short-term revolving credit facility or overdraft-type lending is the more standard type of gearing, offering flexibility for the manager to tilt the portfolio defensively or aggressively depending on opportunities – in other words, 20 per cent bank debt allows the manager to invest 120 per cent in the market if they feel confident – alternatively, they can pay it back if they aren't.

Rob Morgan, pension and investment analyst at Charles Stanley Direct, says he is generally in favour of more long-term structural gearing so long as it is done in a sensible way and at a low cost to investors. He adds this is often the reason why investment trusts outperform open-ended funds over the long term.

"Tactical gearing can be used to good effect too, but as an investor you are not so sure what you are getting – plus there is no guarantee a manager will make the right call on the market – so I would be more cautious. It is a good indicator of conviction, though, probably better than how much they have invested which often just stays the same."

Morgan says that Mark Barnett's Perpetual Income and Growth Investment Trust offers a good example of where gearing has been used successfully.

"Structural gearing and good stock selection have enhanced both the trust's capital growth and its ability to generate income," he adds. The trust is currently 17 per cent geared. •••

SCOTTISH AMERICAN INVESTMENT COMPANY

SAINTS' CORE BELIEF IS THAT INCOME, GROWTH AND DEPENDABILITY MAKE A POWERFUL COMBINATION.

AGAIN AND AGAIN.

SAINTS (The Scottish American Investment Company) was founded way back in 1873 to invest in American railways but these days aims to deliver dividend growth ahead of any rise in inflation, mainly from a portfolio of global equities, though investments are also made in bonds and property. The Trust, which is managed by Baillie Gifford, seeks out attractive, quality companies which offer long-term growth potential rather than merely providing a high yield. **SAINTS** pays out a regular dividend every quarter. It has successfully grown its dividend every year for more than 35 years – over the last 10 years **SAINTS** has increased its dividend by 64% compared to a 27% rise in the Consumer Price Index.*

	2011	2012	2013	2014	2015
Total dividend per ordinary share (net) – pence per share*	9.45	9.8	10.2	10.5	10.7

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*Source: Baillie Gifford & Co, data as at 31 December 2015. Your call may be recorded for training or monitoring purposes. The Scottish American Investment Company P.L.C. is available through the Baillie Gifford Investment Trust Share Plan and the Investment Trust ISA, which are managed by Baillie Gifford Savings Management Limited (BGSM). BGSM is an affiliate of Baillie Gifford & Co Limited, which is the manager and secretary of The Scottish American Investment Company P.L.C.

Daniel Lockyer, co-manager of the Hawksmoor Vanbrugh and Hawksmoor Distribution funds, says long term structures for gearing – called debentures – are much more difficult to manage as they are fixed. This means the trust is permanently geared and the manager needs to offset any debt with bonds or other "dampening" assets in order to change the nature of the overall return profile if they are feeling nervous.

"As most of these debentures were issued when interest rates were high and feared to be going higher, they are now very expensive to repay," says Lockyer. "Remember, it is the investment trust's board that decides on gearing and usually the manager has to seek permission to employ or increase it."

STRENGTH OF CONVICTION

Gavin Haynes, managing director of Whitechurch Securities, says gearing can also provide a more indirect and abstract pointer of an investment opportunity in the market: the strength of a manager's conviction.

"The level of gearing can give an indication of the underlying fund manager's view on the prospects of a certain area. If employed correctly, it can be an excellent way to enhance long-term share price performance," he adds.

A quick thought experiment. If you were bullish on the prospects for a basket of stocks to rise by an average of 15 per cent in the next 12 months, would you borrow at 7.5 per cent over the same period to increase your investment in them?

If the answer is yes, can you be sure it is high-conviction, not recklessness? If the answer is no, why invest in the stocks at all?

DISCOUNTS

A second strategy to supersize investment trust returns is to buy one of these vehicles when they are trading on a discount.

This means that the share price, multiplied by the number of shares in existence, would be a lower number than the overall value of the portfolio's underlying securities if they were sold at market value and any debts from gearing were paid off.

Discounts tend to vary over time and can move to premiums

MOST GEARED TRUSTS IN AIC UNIVERSE

Company	AIC sector	Discount/premium (%)	Gearing (%)
British & American	UK Equity Income	+53.1	110
MedicX	Property Specialist	+55.3	111
DP Aircraft	Sector Specialist: Leasing	+7.2	137
Aseana Properties	Property Direct - Asia Pacific	-22.3	139
JPMorgan Income & Capital	UK Equity Income	-15.4	140

Source: The AIC

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where the reverse is true and the underlying securities are worth less than the total shares in existence.

Buying at a discount and then selling at a premium or a tighter discount can mean an extra layer of profit on top of any appreciation in the value of the underlying securities or the income that they pay out.

Sometimes, the reason why discounts are so large can be because the area the trust focuses on is out of fashion – as was the case with commodities 18 months ago. Morgan says this is often the best time to invest.

Discounts can go for extended periods of time without showing much movement, however, and can grow wider before they eventually narrow, says Evan-Cook. Investors have to be particularly careful about buying a trust on a premium as any losses will be amplified if it subsequently moves to a discount, as was the case with Fidelity China Special Situations.

This trust received enormous attention when it was launched in April 2010, due to the involvement of star manager Anthony Bolton, and at one point its premium reached 13.1 per cent. The board of directors were so concerned this figure would put off new investors that they issued C shares in a bid to bring it under control.

STRUGGLING TO COPE

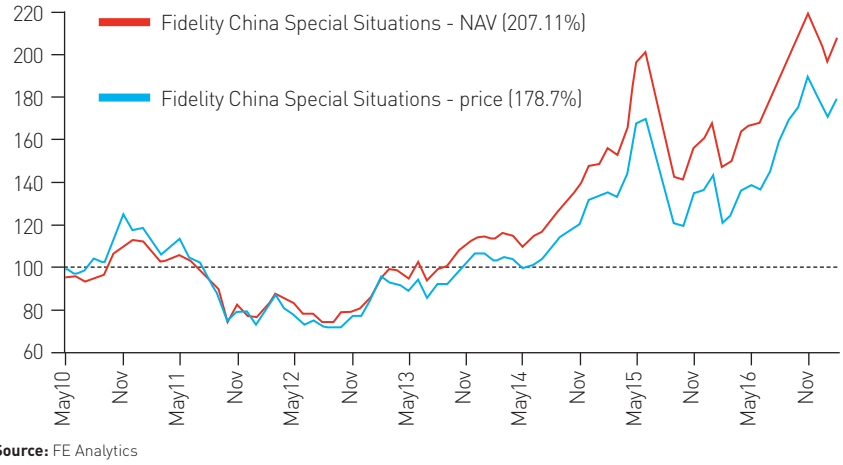
However, Bolton failed to replicate the spectacular performance he delivered while at the helm of the Fidelity Special Situations fund, struggling to cope with the difference in corporate governance between the UK and China.

When the trust's net asset value (NAV) began to decline, the trust moved from a premium to a discount – this reached more than 23 per cent at one point. The trust's maximum drawdown – the most investors would have lost if they bought and sold at the worst possible moments – stands at 42.21 per cent since launch.

"If you are looking to make a fast buck and you have an itchy trigger finger, investment trusts could end up losing you more than they make you," Evans adds.

If you can find a reason that suggests the size of the discount is unjustified, you may be on to a winner. Like the fund manager gearing up the portfolio, however, this requires conviction and you must always beware of the risks.●

PRICE VS NAV OF TRUST SINCE LAUNCH



Source: FE Analytics

POUND *for* POUND

Job Curtis, fund manager of the City of London Investment Trust, says the fall in sterling has increased confidence in UK dividends

THE MAIN INDEX (a benchmark representing the value of a market's shares or bonds) of UK shares hit an all-time high at the start of 2017, which raised an important question for private investors who might be wondering where to use their ISA allowance of £15,240. On the one hand, you would not want to forego the significant tax benefits of the annual ISA before the deadline on 5 April 2017. On the other hand, is it prudent to put money in the stock market after the recent surge in share prices?

The rise in UK share prices since the referendum on Brexit is logical. It reflects the fall in the value of sterling or the British pound against overseas currencies. On 23 June 2016, the exchange rate between the pound and the US dollar was £1 = $1.49. There has since been an appreciation of around 18 per cent in the US dollar to leave the exchange rate at £1 = $1.22. Against the euro, the fall in the pound has been 12 per cent.

We believe the fall in the pound is beneficial for UK shares because around 70 per cent of the sales of quoted UK companies come from overseas. The value of these overseas sales (and profits) is boosted by the devaluation when translated back into British pounds. In addition, those British companies that export will have their competitiveness improved, although this is partly offset by other companies, such as retailers, which will have to pass on, at some stage, the higher cost of imported goods to their customers.

Given the amount of sales and profits earned overseas by UK listed companies, a significant number pay their dividends in overseas currencies (mainly US dollars). These tend to be the larger companies and they account for 45 per cent of total UK dividends paid last year. The value of these dividends paid in overseas currencies from UK listed companies has risen in sterling terms as a result of the fall in the pound. According to the strategy team at Baden Hill Sanlam, a research provider, ordinary dividends for the UK's FTSE All Share index rose by 4.2 per cent in 2016 over the previous year. However, without the currency devaluation, total dividends would have fallen by around 1 per cent.

The other key factor that underpins greater confidence in UK dividends is the recovery in the prices of commodities (physical goods such as oil, gold or wheat). Metal prices rose in 2016 with better than expected economic growth in China. Mining companies are likely to restore dividends in 2017 which had been cut in 2016. The oil price benefited both from global growth and also from the determination of OPEC to restrict some supply of oil production. BP and Royal Dutch Shell's dividends are considerably more secure, with the oil price at over $50 a barrel when compared with below $30 a barrel reached in the first quarter of 2016.

City of London Investment Trust, which I have managed since 1991, is predominantly invested in UK equities and has grown to have assets of £1.36bn (at 31 December 2016). While we have large holdings in BP and Royal Dutch Shell, we have less than the average for the UK indices given their sensitivity to the oil price and the risk of having too much in any one stock. This was well illustrated in 2010 when the Macondo oil spill caused BP to temporarily stop paying its dividend and made it liable for large fines in the US.

The fall in the pound is beneficial for UK shares because around 70 per cent of quoted UK companies' sales come from overseas

City of London's portfolio is diversified with investments in 117 companies (at 31 December 2016), including those in sectors such as telecommunications, consumer staples, financials and housebuilders. As an investment trust, it has the ability to retain up to 15 per cent of its income in any one year, building a revenue reserve which can be used to support its dividend during difficult years when there are dividend cuts across the market. Though not a guide to the future, this has enabled it to grow its dividend each year for the last 50 years, the longest of any vehicle in the UK.

All in all, the UK equity market is offering a dividend yield of 3.4 per cent* (FTSE All Share index) which is attractive relative to the main alternatives such as 10 year gilts (or UK government bonds) yielding 1.35 per cent* or bank deposit rates, anchored by the UK base rate at a paltry 0.25 per cent (*source: Financial Times 19 January 2017.) While equities are inevitably more volatile than other asset classes, the income attraction of UK equities is currently considerable. This may give comfort for the patient investor in the context of the many political and economic uncertainties.●

EXCHANGE RATE OF POUND STERLING VS US DOLLAR

Source: Bloomberg; as at 24 Jan 2017

- The above example is intended for illustrative purposes only and is not indicative of the historical or future performance of the strategy or the chances of success of any particular strategy.
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ALL CHANGE

Investors need to carefully re-evaluate a trust's position in their portfolio if it takes a new direction, writes **Emily Perryman**

WHEN AN INVESTMENT TRUST MAKES MAJOR POLICY or manager changes, it can be an unsettling time for investors. It is difficult to know whether the alteration is a sign of rockier times to come or a cause for hope that poor performance will soon be a thing of the past.

The last two months of 2016 saw a flurry of changes at some well-known investment trusts. BlackRock Income Strategies announced a merger and change of manager; Witan Investment Trust tweaked its benchmark; and Standard Life European Private Equity altered its policy and charging structure.

Jason Hollands, managing director at Tilney Bestinvest, says modifications should always prompt investors to review the case for continuing to hold the trust.

"It is important to make sure that the revised strategy will suit your own investment objectives, particularly alongside the rest of your portfolio (you may already own something similar to the new approach), and that you are satisfied the underlying manager has the competence to run such a strategy," he explains.

INVESTOR CHECKLIST

There are specific factors to think about depending on what kind of change has occurred. Adam Carruthers, collectives analyst at Charles Stanley, says that if the trust's policy has been adjusted, investors should think about whether it will lead to better risk-adjusted returns, make the NAV and/or discount more or less volatile, or affect the level of income or ongoing charge.

Last year Standard Life European Private Equity changed its policy to remove size and geographic restrictions on private equity investments. It claimed this would enhance overall exposure to private equity but wouldn't lead to a radical shift in its portfolio.

If the benchmark changes, Carruthers suggests analysing whether the new one is appropriate for the strategy and whether the trust's active share (the percentage of holdings that differ from the benchmark) will rise or fall. Witan Investment Trust says its new benchmark offers exposure to a more diverse investment universe: •••

for example, it now has 5 per cent of its assets in emerging markets.

A change in a trust's manager should encourage investors to consider how big a role he or she played in investment selection – did they have complete control or was it more of a team approach? Carruthers says that if the manager was removed and replaced by an activist investor due to poor performance, this could spell bad news for other minority shareholders.

DUE DILIGENCE

It is a good idea to carry out due diligence on the trust's new manager. Hollands says he would want to see clear evidence of a successful track record running similar mandates.

"This process will either reaffirm your conviction in the trust, involve you putting it on a watch list for closer scrutiny or, if the case really doesn't stack up, prompt a disposal," he says.

BlackRock Income Strategies is changing its manager in conjunction with a merger into the Aberdeen UK Equity Tracker Trust. The respected Mike Brooks and Tony Foster will run the new vehicle, which will be called the Aberdeen Diversified Income and Growth Trust.

The trust has been through numerous changes over the past two years. Previously known as British Assets Trust, in 2015 it replaced its focus on UK equities with a multi-asset approach. The trust suffered badly in the weak market environment at the start of 2016 and has fallen 8.5 per cent in the past 12 months.

"Clearly shareholders in this trust have gone through a number of notable changes over recent years, causing the share price discount to re-emerge, but the board has been active and relatively quick to act on underperformance and address shareholder concerns," says Gordon Smith, fund research analyst at Killik.

"If the Aberdeen team, which has a demonstrable track record in open-ended fund structures, can deliver a sustained period of performance, the trust has clear attractions with few comparables on the London market."

> **"I can't help thinking that shareholders would have ended up in a much better situation had it not gone off on its ill-fated experience"**

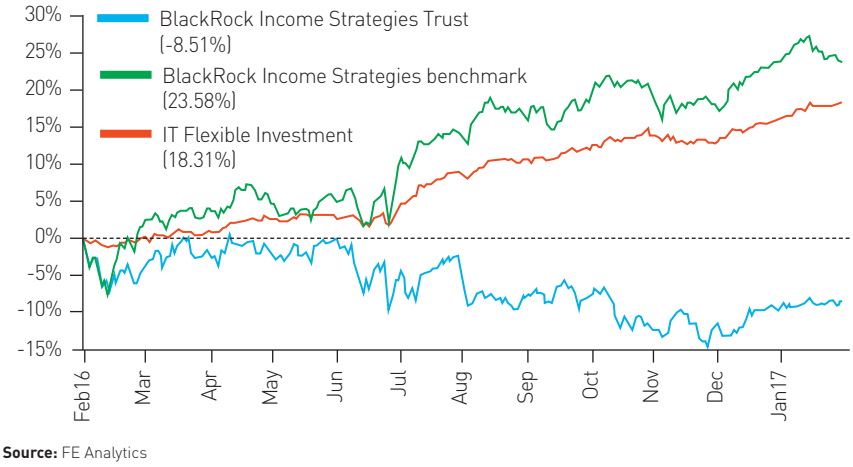
PAYING OFF HANDSOMELY

Some policy and manager changes at investment trusts have paid off handsomely. John Newlands, head of investment companies research at Brewin Dolphin, gives the example of Scottish Mortgage, which used to be a staid global generalist with several hundred holdings.

"It is now effectively a giant focus fund that takes huge stakes in things that, in some cases, nobody has heard of. Although this has been a success, investors still do need to understand that it is far less of a 'sleep at night' trust than it used to be," he says.

While sometimes a cause for hope, fundamental changes to a trust should be carefully assessed. Hollands argues that although the old British Assets Trust never set the world alight, it delivered solid returns for the most part and was simple to understand: "I can't help thinking that shareholders would have ended up in a much better situation had it not gone off on its ill-fated experience with BlackRock," he adds.●

PERFORMANCE OF TRUST VS SECTOR AND INDEX OVER 1YR



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PAYING DIVIDENDS

Providing a reliable income stream is a crucial part of any company's investment potential, says SAINTS manager **Dominic Neary**

WHEN DOMINIC NEARY EXPLAINS HOW HE IDENTIFIES COMPANIES that can provide investors with a reliable income stream, he turns to the board of The Scottish American Investment Company P.L.C. (SAINTS) as an example. For all the rigorous qualitative analysis undertaken in the search for suitable holdings, one of the most important factors for him to consider is a more subjective one – attitude.

In particular, it's the attitude of a company board towards dividends that Neary is keen to gauge. SAINTS itself is a prime example.

"What we're looking for is what you can see in SAINTS, which has a board committed to dividends and nearly a year's worth of reserves to support the dividend if required," he explains. "So we've got the quantitative and structural necessities in place and also a board that is able and totally committed to maintaining and growing the dividend."

All companies go through periods of difficulty. The challenge for Neary, and also for his colleagues in the Global Income Growth team, James Dow and Toby Ross, who have recently been appointed as the trust's deputy managers, is to identify companies that will grow dividends in real terms, but which can also be relied upon to continue providing them during times of stress.

The SAINTS managers have studied company dividend performance over the long term to identify the characteristics of those that are most likely to offer dividend dependability and growth. The checklist that emerged from the study includes both quantitative and qualitative criteria that companies should satisfy to meet the team's requirements.

GETTING ON BOARD

"Board attitude to dividends is vitally important," Neary says. "You can get an indication from the chief executive officer or the chief financial officer but it's also about talking to the chair and other members of the board. There's a parallel with SAINTS – if you talk to members of the board you know how sacrosanct the dividend is."

Dividends are board decisions, which is why Neary and his colleagues invest time in getting a sense of their willingness to promote and defend a company's dividend, even when earnings come under pressure. All of that must of course be allied to the ability to maintain dividends.

"Balance sheet strength is an important aspect of this," Neary says, "but it should be assessed in the context of each company's business. Is the balance sheet appropriate for

the cyclicality of the business, for example? There's also cash flow generation. Long-term sustainable dividends have to be supported by cash flow generated by the business, and which is available for distribution. The emphasis is on cash flow resilience as well as dividend growth."

Neary finds that firms with strong balance sheets, and which are cash-generative, long-term growth businesses with attractive valuations and good management, are ultimately the best for maintaining and growing dividends.

"That's all helpful towards dependability, in that it's a necessary condition, but it doesn't ensure dividend dependability," he says. "That comes back to board attitudes towards dividends when times become more difficult."

Coca-Cola is a business that has a record of paying dividends even through times of crisis.

"The US has a less well-developed dividend culture, but Coca-Cola has a long record of growing dividends, even through times like the late 1990s when there were both internal and external issues to contend with," says Neary.

"It's a very cash-generative business, with growth in core brands and products that sell through a fantastic distribution system that we think has a continued runway of growth ahead of it."

Taiwan Semiconductor Manufacturing Company (TSMC) is another long-standing holding that embodies the dividend dependability the trust looks for.

> "Balance sheet strength is an important aspect, but it should be assessed in the context of each company's business"

"It's a capital-intensive business but it has an incredibly strong balance sheet and still has a founder-owner interest [in the form of the chairman]," Neary explains. "For a long time it was restricted on how much of the cash building up on the balance sheet it was able to return to shareholders as dividends, so it successfully took the government to court in 2003 to return cash to shareholders."

Communications firm WPP is a relatively recent holding and another with a founder-owner aspect that supports its dividend dependability. "It's a capital light model and very flexible on costs, very cash-generative and with growth potential, especially in the digital area," says Neary. "Of late it has recognised it can pay out more of its earnings."

Those companies are classified as 'compounding machines'. They typically yield between 3 and 4 per cent and collectively such companies have increased as a proportion of the SAINTS portfolio over the past 12 months.

A LONG-TERM STRATEGY

SAINTS, which is managed by Baillie Gifford, officially has 37 consecutive years of dividend growth under its belt. Interestingly though, the company's records show that the last reduction in SAINTS' net dividend per share was as far back as 1938. Neary is eager to maintain that record.

"Not only do we expect that our investments will grow dividends in real terms, we also aim to invest in companies which won't cut their dividends even when the world falls apart around them in the future. That's when our investors will want to rely on the dividends we provide."●

SAINTS / TOTAL DIVIDEND PER ORDINARY SHARE (NET) – PENCE PER SHARE

Year	2012	2013	2014	2015	2016
Dividend	9.8	10.2	10.5	10.7	10.825

Data to 31 December each year. Past performance is not a guide to future returns

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If you BUILD IT...

The AIC Infrastructure sector is trading on a double-digit premium – but its popularity is nothing to do with the recent focus on fiscal stimulus, writes **Anthony Luzio**

THERE ARE MANY UNCERTAINTIES around Donald Trump's stint in the White House, but one thing that we can be reasonably sure about is his intention to upgrade the US's infrastructure.

The new president's $1trn plan to transform the nation's "crumbling infrastructure into a golden opportunity for accelerated economic growth" stood at the heart of his campaign plan and data from the US Census Bureau suggests there is certainly room for improvement here – construction spending stood at 6.1 per cent of GDP at the end of June compared with 8.4 per cent from the 50-year average.

This shift in focus from monetary to fiscal policy is not confined to the US, either – in the Autumn Statement, chancellor Philip Hammond introduced the National Productivity Investment Fund, which will involve spending an additional £23bn on "economic infrastructure" between 2017 and 2022.

These enormous sums of money being floated and the US and UK governments' enthusiasm for private sector involvement have unsurprisingly piqued the interest of investors. Anyone with half an eye on world events could be forgiven for thinking this will act as a headwind for the trusts in a sector titled AIC Infrastructure.

However, Monica Tepes, director of investment companies research at Cantor Fitzgerald, says this would be a mistake.

FIRST, SOME FACTS

"First, let's establish some facts," she says. "When Donald Trump says all this stuff, the first thing you have to ask yourself is 'who will benefit directly?' The main ones are the developers and the ones who are going to build the roads and the wall – this is not what infrastructure trusts do. They might have some small exposure to these developers, but this is not a reason why you should invest in infrastructure trusts."

As the AIC points out, infrastructure trusts invest in contracts to develop and run long-term capital expenditure projects in public sectors such as transport, healthcare and schools. These contracts can be for anything between 20 and 50 years and aim to deliver a stable income over this period, often linked to inflation.

"You buy these for income, not for exposure to developers," Tepes adds.

However, this is not to say that there won't be any benefit from the greater focus on infrastructure spending.

Although GCP Infrastructure Investments has no exposure to the US, its manager Rollo Wright says the benefit for trusts in his sector will be in the greater number and variety of projects available to invest in in the future. For this reason he was encouraged by last year's Autumn Statement.

"Hammond won't impact what we already own, but in terms of talking about the potential for new deals for the trust, it is very exciting," he explains, before ...

admitting he took the chancellor's words with a pinch of salt.

"Successive governments have talked up the benefits of infrastructure investing without backing it. We will have to see – we are positive about what he said – but the proof will be in the actual procurement of assets for listed infrastructure trusts to invest in."

Winterflood backs up the point made by Wright, saying that demand for infrastructure assets to invest in continues to be strong while supply remains limited.

The sector dominated new issuance last year, with its figure of £2bn accounting for 35.9 per cent of fund-raising in the AIC universe. Nine of the highest 20 placings were made by members of the main AIC Infrastructure sector, with all of these either oversubscribed or increasing their original target. 3i Infrastructure raised the highest amount of any trust, at £385m.

APPEALING INCOME

Even though Tepes says the sector is unlikely to receive an immediate boost from greater infrastructure spending, she points out its yield of 4.7 per cent should make it very appealing for income investors. Many may baulk at its significant premium – this currently stands at 12.5 per cent – however, Tepes says this does not necessarily mean that it is expensive.

> "Think in terms of a price for scarcity. There are few alternatives to a government backed cashflow of 4 per cent"

"Infrastructure assets are still unique – these pay a government-backed income that in many cases is linked to inflation," she adds.

"You have to think in terms of a price for scarcity. There are few alternatives to a government backed cashflow of 4 per cent with bond yields where they are and if you can't get an alternative for less, then this is the price."

"Most things are expensive at the moment, equities and bonds certainly are. So it is difficult to define what exactly is a neutral or fair price of an asset."

"The easiest way to say that something is overvalued is that you can buy something else that is similar for a lower price – and at the moment, with yields on many government bonds in negative territory, you can't."

A CONSERVATIVE VALUATION

Winterflood says that other metrics back up Tepes' view. Using HICL Infrastructure as a proxy for the sector due to its status as the largest trust and the one with the longest track record, it notes: "The trust's discount rate has fallen more slowly than the average long-dated government bond yield since 2011, meaning that the risk premium has increased by one-third between March 2011 and September 2016."

"Our view is that this implies a somewhat conservative valuation."

"This view seems to be borne out by the difficulty that managers have had in acquiring similar assets at valuations similar to those in their portfolios and also by a small number of disposals made in the sector at premiums to carrying value."

The group also points out that the AIC Infrastructure sector's dividend yield spread over 20-year UK gilts has continued to widen, adding: "These factors provide some justification for the significant premiums in the sector, although they are likely to be vulnerable when interest rates normalise."●

PERFORMANCE OF AIC INFRASTRUCTURE TRUSTS

Name	1yr (%)	3yr (%)	5yr (%)	Yield (%)	Premium (%)
3i Infrastructure	16.25	76.79	120.65	4	15.1
International Public Partnership	14.33	37.82	61.33	4.4	10.8
BBGI SICAV S.A.	14.42	36.42	66.35	4.4	15.9
GCP Infrastructure Investments	14.48	37.9	63.01	6.1	14.3
HICL Infrastructure	11.4	37.98	77.15	4.7	11.4
Sequoia Economic Infrastructure Income Fund	16.58	N/A	N/A	4.5	11.2
John Laing Infrastructure	18.78	34.25	57.98	5.2	11.2

Source: FE Analytics/The AIC

SCOTTISH MORTGAGE INVESTMENT TRUST

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Standardised past performance to 31 December*:

	2012	2013	2014	2015	2016
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FTSE All-World Index	12.0%	21.0%	11.3%	4.0%	29.6%

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*Source: Morningstar, share price, total return as at 31.12.16. †Ongoing charges as at 31.03.16. Your call may be recorded for training or monitoring purposes. Scottish Mortgage Investment Trust PLC is available through the Baillie Gifford Investment Trust Share Plan and the Investment Trust ISA, which are managed by Baillie Gifford Savings Management Limited (BGSM). BGSM is an affiliate of Baillie Gifford & Co Limited, which is the manager and secretary of Scottish Mortgage Investment Trust PLC.

Fund

MARLBOROUGH MULTI CAP INCOME

Siddarth Chand Lall's fund could be a useful option for investors looking to diversify their source of income

QUALITY GROWTH AND INCOME-FOCUSED FUNDS have fallen out of favour in recent months, due to expectations of fiscal stimulus and an improving global economy.

As such, a number of funds with a strong long-term track record and an experienced manager at the helm have fallen victim to a sharp market rotation.

To the shrewd investor, this could be seen as an opportunity to "buy the dip" – even if you believe value has further to run, these funds could be used as a means of portfolio diversification.

One fund that has been hit particularly hard over the past few months is Marlborough Multi Cap Income, which has fallen from four FE Crowns to just one after losing 3.21 per cent last year. This compares with a total return of 8.85 per cent from its IA UK Equity Income sector.

This underperformance represents something of an anomaly – before 2016 it had beaten its sector average and FTSE All Share benchmark in every calendar year since launch. The only time it slipped from the first quartile into the second was in 2014, when it still quadrupled the gains of the FTSE All Share with a 5.32 per cent return.

However, this outperformance is simply a by-product of FE Alpha Manager Siddarth Chand Lall's primary aim. He focuses on income first and foremost and has consistently delivered a yield that is well above the requirements of the IA UK Equity Income sector. The fund is currently yielding 4.77 per cent, for example, compared with 3.66 per cent from the FTSE All Share.

If an investor had placed £1,000 into the fund at its launch in July 2011, they would have received £311.51 in income alone by now.

Lall staunchly believes income investors should not become side-tracked by high-growth stocks and shuns the high yield/no yield "barbell" approach taken by many of his competitors. As such, every stock in his portfolio offers what he deems to be an attractive dividend.

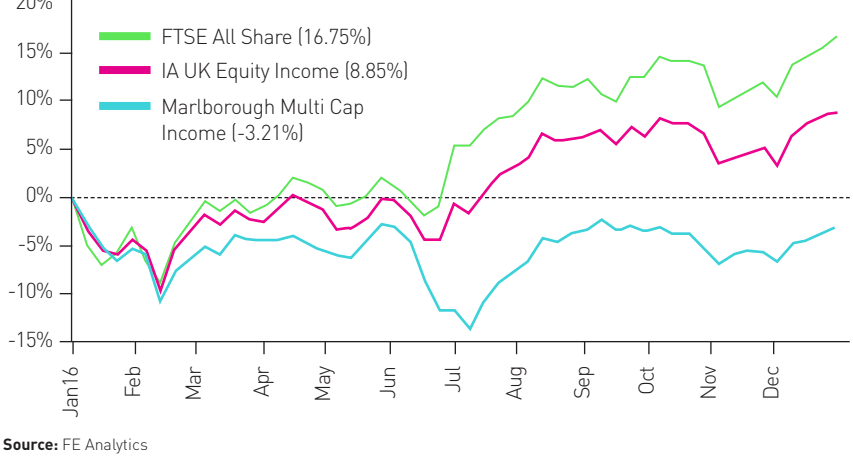
Another notable feature of the fund is its complete flexibility in terms of its investing style and the size of the companies that it can hold. Lall can invest in both quality and value-orientated stocks, depending on where he sees the best opportunities at any given time.

The Marlborough Multi Cap Income fund has 13.8 per cent in micro caps, 39.5 per cent in small caps and 32.7 per cent in mid caps, which could allow it to dovetail nicely with a large-cap income fund.●

FILE

MANAGER: **Siddarth Chand Lall**
FUND SIZE: **£1.5bn**
LAUNCHED: **01/07/2011**
OCF: **0.8%**

PERFORMANCE OF FUND VS SECTOR AND BENCHMARK IN 2016



Source: FE Analytics

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OLD MUTUAL UK EQUITY INCOME

A new manager is attempting to turn around this fund after three years of underperformance

ED MEIER STEPPED INTO THE LIMELIGHT as the new manager of the Old Mutual UK Equity Income fund when he took over from Stephen Message at the end of last year.

The fund made just 6.16 per cent in 2016 compared with 8.84 per cent from the IA UK Equity Income sector and 16.75 per cent from its FTSE All Share benchmark. This trend of underperformance isn't new – the fund made 16.64 per cent in the three years to 31 December 2016 compared with 19.24 per cent from its sector.

Meier wasted no time in making changes to the fund in a bid to turn it around and has begun to cast his net wider for income opportunities.

Upon taking over from Message, Meier described the portfolio as a "barbell" strategy, with "quite a preponderance for high yielding, low grade stocks".

He also said it held a number of non-yielding stocks with the potential to pay dividends and a large portion of low-yield stocks.

"Part of the corollary of that was the concentration of income," he said. "When you look at the contribution to the fund yield, 10 contributors were responsible for about 50 to 55 per cent of the yield."

"I think there are enough opportunities out there to get a bit more growth in income for the fund. What we're going through probably means a few more stocks overall just to get a slightly more built-out approach."

So far, the approach has meant disposing of one stock – Aberdeen Asset Management – and reviewing another holding – IG Group. Aberdeen Asset Management was one of the top contributors to the fund's yield, but Meier decided to sell out of it to add to other areas where he felt dividends were more sustainable. IG Group, meanwhile, faces a challenge as regulators consult on whether providers of contracts for difference should set aside more capital. Ultimately, the manager decided to hold on to the stock until more clarity is provided.

Looking ahead, he says there are opportunities for dividend growth within the previously unloved banking and mining sectors.

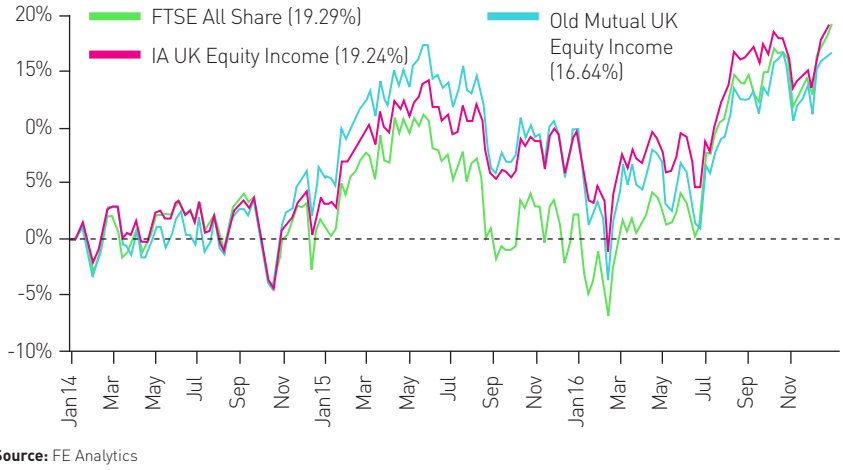
Staying within the IA UK Equity Income sector is a priority for Meier, although it has proved difficult for other managers. The Investment Association stipulates that funds in the sector must hold at least 80 per cent in equities and "intend to achieve a historic yield on the distributable income in excess of 110 per cent of the FTSE All Share's yield at the fund's year end".

"That overriding discipline of the fund is perfectly appropriate in the UK markets," Meier says. "Also it means that clients know what they are discussing."●

FILE

MANAGER: **Ed Meier**
FUND SIZE: **£206M**
LAUNCHED: **1/11/2012**
OCF: **0.9%**

PERFORMANCE OF FUND VS SECTOR AND INDEX OVER 3YRS



Source: FE Analytics

Trust

TEMPLETON EMERGING MARKETS

This trust's focus on technology and consumer products makes it a good option for investors looking to take advantage of improving fundamentals in emerging markets

EMERGING MARKETS WERE THE SURPRISE PACKAGE OF 2016, struggling early due to concerns over a potential slowdown in China before ending the year as the best performing sector.

The MSCI Emerging Markets index returned 41.4 per cent over this period, compared with 32.04 per cent from the MSCI World index – a proxy for developed markets.

While the election of Donald Trump as US president has led to concerns that the sector will fall back this year, Carlos Hardenberg, manager of the Templeton Emerging Markets trust, says developing economies are now in general more defensive and less vulnerable than they have been at any time in the past.

"Some of the effects we have seen coming from the depreciation of local currencies and the economic adjustment as a reaction to a slowdown in the emerging markets mean that the current accounts and the balances look much better than they used to," he says.

"I think it's a fair statement to say that even if the dollar appreciates further – that is the general expectation – the threat on emerging market economies is mitigated by the fact that current account balances look so much better."

"This was not the case in the previous crises."

Coupled with stabilising commodity prices and better earnings growth from technology firms, this has given the sector a level of stability not seen in previous years.

For those investors looking to take advantage of these improving fundamentals, Templeton Emerging Markets may represent a good option due to its focus on technology and consumer products.

The fund, run by Hardenberg and Dr Mark Mobius, is the second best performer in the IT Global Emerging Market Equities sector over the past 12 months, returning 58.36 per cent, and is the best performer over the last decade.

"Obviously we have stayed very true to our value orientation and we've got a good team of professionals who do this for us," Hardenberg adds.

"We want to be a portfolio of fairly low turnover with a clear focus on long-term investments so that is what we are putting into place. We also have a very high active share of over 75 per cent."

The manager adds that the largest holdings in his portfolio also share a number of characteristics.

"They all have good corporate governance, they all have good balance sheets, solid cashflow generation and they all have a good degree of innovation," he continues.

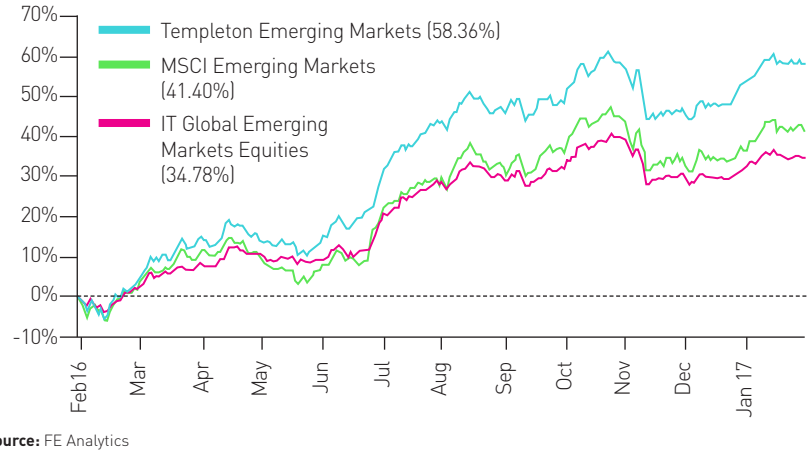
"You've got the number-one holding Brilliance China Automotive, which is the BMW subsidiary in China. You've got Samsung, companies such as Naspers and Tencent and top-notch Brazilian banks."

The trust is trading on a 14.1 per cent discount, according to the latest figures from the AIC, and has clean ongoing charges of 1.21 per cent.●

FILE

MANAGERS: **Carlos Hardenberg & Dr Mark Mobius**
LAUNCHED: **12/06/1989**
DISCOUNT/PREMIUM: **-14.1%**
OCF: **1.21%**

PERFORMANCE OF TRUST VS SECTOR AND INDEX OVER 1YR



Source: FE Analytics

OPPORTUNIT

With the discounts on UK small cap trusts doubling over the past year, is this the perfect time to buy in? **Adam Lewis** finds out

HAVING ENJOYED STRONG RETURNS IN 2015, investors in UK smaller companies had their resolve tested last year, with performance plummeting in the face of the shock Brexit vote in June.

Given the falls in sterling that accompanied the vote to leave the EU, it is little surprise the nation's smaller companies, which are more exposed to domestic earnings, suffered the most. As a result, the average fund in the AIC UK Smaller Companies sector posted a share price return of just 3.98 per cent in 2016, compared with 25.3 per cent in the preceding year.

Subsequently, having stood at just 6.1 per cent at the start of 2016, the average discount to net asset value (NAV) in the sector widened to 14 per cent by its end. So does this mean there is a

TY KNOCKS

huge buying opportunity in UK smaller companies, or with Brexit uncertainty continuing, could there be more pain to come?

KNEE-JERK REACTION

Nick Greenwood, manager of the Miton Global Opportunities trust, says the sell-off of UK smaller companies was a classic knee-jerk reaction.

"Discounts reflect uncertainty and small caps are perceived to be more sensitive to what takes place in the underlying economy," says Greenwood. "The reality is that if you look across the piste, different sectors have been affected in different ways by Brexit and Donald Trump and depending on our views on what will happen next in markets, there could be a buying opportunity."

Sector performance over the past 12 months backs up this view, with the average trust up 16.93 per cent, back on par with the FTSE 100 since 23 June.

"Small caps are unloved at the moment and if Trump spends lots of money and undermines the bond market, resulting in rising yields, then all equities will suffer," Greenwood says. However, he adds that many people are not factoring in the sharp fall in sterling, which is resulting in an increase in M&A activity – a positive for the sector.

"With much of the volatility already reflected in the price, there could well be an opportunity," he says.

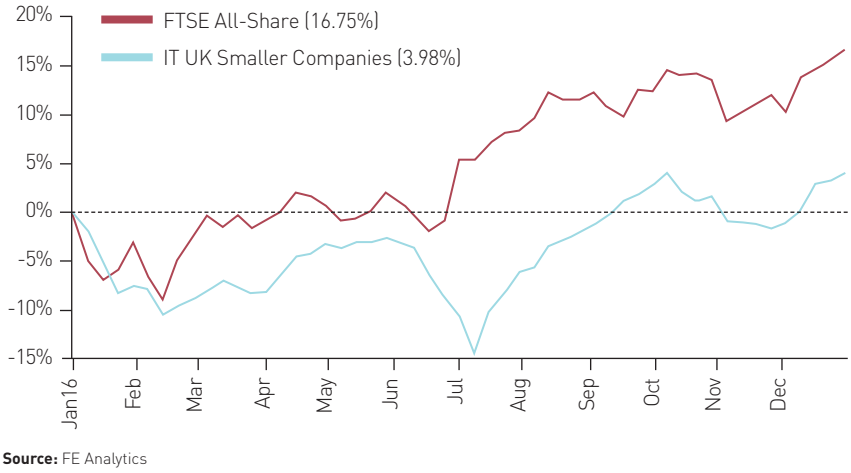
> "Investors can take some positives if they are planning on backing UK small caps, despite the uncertainty"

While an average discount of 14 per cent is eye-catching, Alex Paget, research analyst at Kepler Partners, points out UK small caps have been through tougher times than this. During the depths of the global financial crisis, for example, discounts moved out past 20 per cent on average, while they stood at 17 per cent during 2011's correction, sparked by the European sovereign debt crisis.

MANAGING DISCOUNTS

"However, it also true that investment trust boards are now more focused on managing discount volatility than they have been, with share buybacks now a far more regular feature," Paget adds. "Our research shows that investors can take some positives if they are planning on going against the grain and backing UK small caps, despite the heightened political and economic uncertainty."

PERFORMANCE OF SECTOR VS INDEX IN 2016



Source: FE Analytics

Looking back over past performance, Paget notes that during the 40 periods (priced daily) between 30 May 2008 and 1 January 2015 when the average discount across the sector was within one basis point of 14 per cent, UK smaller companies tended to deliver significant absolute and relative returns over the next 12 months. In only three of those periods did the sector go on to post losses in share price terms over the following year, while on average it delivered a return of 22.38 per cent. This compares with an average gain of just 7.3 per cent from the FTSE All Share.

STOMACH FOR VOLATILITY

"Even though Brexit uncertainty is still rife, we believe that long-term investors are being offered an attractive entry point into UK small caps today, though only if they are able to stomach potentially high volatility," says Paget. "We also think that though there are undoubtedly high quality smaller companies funds in the open-ended sector, not only are UK small cap trusts trading on historically wide discounts, but the closed-ended structure is far more conducive to investing down the market-cap spectrum."

This is a point echoed by Innes Urquhart, a research analyst at Winterflood Investment Trusts, who notes that the closed-ended structure can add considerable value to the investment process, particularly where managers are investing in smaller companies. He makes the point that managers of investment trusts do not have to worry about the inflows and outflows associated with open-ended funds and that as such, where they are investing in less liquid asset classes, this allows them to take a longer-term view and should ultimately lead to better investment decision making.

> "Long-term investors are being offered an attractive entry point into UK small caps today"

HUNTING GROUND

"At this stage, we are not sure what the catalyst will be for discounts in the sector to narrow significantly," says Urquhart. "However, on a long-term view we think that smaller companies remain attractive and, as a result of being generally less well researched than their larger counterparts, they should be a natural hunting ground for active fund managers."

At current levels, he adds there does not appear to be much downside discount risk and that on a longer-term view, small caps remain a sensible place to invest.

PERFORMANCE OF TRUSTS VS SECTOR AND INDEX

Name	1yr (%)	3yr (%)	5yr (%)	10yr (%)
Aberforth Smaller Companies Trust	7.73	10.67	125.67	101.9
BlackRock Smaller Companies IT	12.83	16.09	136.8	214.49
Rights & Issues Investment Trust	54.95	91.44	260.06	162.77
FTSE All Share	20.06	22.64	57.03	71.66
IT UK Smaller Companies	16.93	26.46	124.3	139.42

Source: FE Analytics

"There are a number of good trusts in the sector, all of which do something slightly different," he says. "We have been recommending Neil Hermon's fund, Henderson Smaller Companies, for quite a long time, while we added BlackRock Smaller Companies, managed by Mike Prentis, to our recommendation list at the start of the year."

MICRO CAPS

"River & Mercantile UK Micro Cap, managed by Philip Rodrigs, is differentiated by the manager's focus on companies with a free-float market capitalisation of less than £100m," Urquhart continues. "The manager has a strong long-term record and at its current discount of 6.5 per cent, we think it offers value. While micro-caps arguably present a higher level of risk than large caps, the fund's performance since launch has been delivered with relatively low volatility and we believe any risk is alleviated to an extent by the experience of Rodrigs and the UK equity team at River & Mercantile."

Greenwood is currently using two trusts for his UK smaller companies exposure: the Rights & Issues Investment Trust, managed by Simon Knott at Discretionary Unit Fund Managers, and Artemis Alpha Trust, run by John Dodd.

"The Artemis fund isn't strictly UK smaller companies as it can invest anywhere, but it is sitting on a 20 per cent discount after a bad run of performance," says Greenwood. "However we think Dodd can turn it around, which would give us the twin benefits of a narrowing discount and a rising NAV. If he doesn't turn it around, the trust has a continuation vote next year and a new team will be found to run it."●

The best performer
RIGHTS & ISSUES INVESTMENT TRUST

THE RIGHTS & ISSUES INVESTMENT TRUST has more than doubled the gains of its sector over one and five years and more than trebled it over three. Unsurprisingly, it sits at the top of the table over each of these periods. The trust was launched in 1962, with Knott managing it since 1984. Greenwood describes it as a "punchy" pure UK small cap play, with a concentrated portfolio of stocks. It is currently sitting on a 12.5 per cent discount.

The value choice
ABERFORTH SMALLER COMPANIES

PAGET SAYS MANAGER ALISTAIR WHYTE and his team follow a disciplined value style, which has been out of favour for some time. "However, there are signs these headwinds are beginning to dissipate and we believe Aberforth is therefore a strong choice for investors who are willing to take the plunge with UK small caps," Paget adds. "Not only is the trust on a 14.1 per cent discount, which is wider than its three- and five-year average, but the board has been active in buying back shares in recent times to limit discount volatility."

The discount play
BLACKROCK UK SMALLER COMPANIES

MIKE PRENTIS'S BLACKROCK UK SMALLER COMPANIES TRUST is a recent addition to the Winterflood model portfolio. In common with its peers, the fund's discount widened last year and now stands at 16.2 per cent. Not only does this bring it in-line with its long-term average, but Urquhart says it represents an attractive entry point and means it offers value relative to a number of other small cap trusts.

HANDS OFF!

You can now take 25 per cent of your pension as a tax-free lump-sum at 55 – but, writes **John Blowers,** you may be better off leaving it where it is

FIRST THINGS FIRST. This article can never address the myriad different circumstances you may find yourself in from the age of 55 when you can access your pension pot, so please don't take the contents as a "one-size-fits-all" solution.

However, I will attempt to cover a number of scenarios in order to convey the general picture. My primary feeling is that taking money out of your pension pot before you retire is generally not a good idea if it is invested in the stock market as you are essentially robbing yourself of at least 10 years of growth.

Let's look at the rules. If you have a work or personal pension, you can access its treasures from the age of 55. That's a very big temptation and when this rule was first announced, many people forecast that sales of Lamborghinis were going to go through the roof.

The people of Britain who have saved for retirement seem to have mostly resisted this temptation and there is no hard evidence of any pension money being taken out early and splurged on depreciating luxuries. There are signs that people are being tempted into some pretty iffy schemes – whether they are carbon credits, renewable energy bonds or boiler room scammers offering shares about to go through the roof.

If someone calls you out of the blue with an investment idea, it is advisable to put the phone down. Legislation will soon come in to force that will make this tactic illegal for scammers.

I digress. You can access the funds in your pension when you reach the age of 55, but if you do so with a lump sum it will lose its growth potential in the markets. You could entertain rehoming this money in your own investment SIPP if it has accrued in a company scheme with relatively high charges, but if you are entertaining these thoughts, it may well be best to pay a professional for some advice.

HELL-BENT

I am personally hell-bent on keeping my pension invested up to and beyond retirement, only taking out what I need when I need it.

"But I can take out 25 per cent tax-free!", I hear you say. "I have to take it out if it's tax-free!" Well. It depends on what you do with it. And remember as soon as you take out 25 per cent of your pension fund, you can't just leave the rest untouched to carry on as before. The remaining pension pot has to be invested in an annuity or flexi-access drawdown scheme (typically via a SIPP), or taken as cash. All of these options (or the income from them) is then taxable.

You can also take out smaller chunks of money from your pension when you like, with 25 per cent of each withdrawal tax-free and the remainder taxed at your prevailing rate. If you're still working and earning a decent salary, these withdrawals could push you into a higher rate tax band. Bear in mind that your pension provider may charge you for each withdrawal you make.

But here's the rub. You've probably spent many years saving into your pension and should have built up a decent sum (although the UK average pension pot is still a lamentable £50,000 at retirement), but that is probably – and hopefully – going to have to last a lot longer than you thought.

People in their late forties and fifties are likely to live until they're around 90 years old, so will your pension be large enough to last that long and will it provide a big enough income to keep you in the manner you're accustomed to?

Maybe not and if you tear 25 per cent of its value from it before or at retirement, that's 25 per cent of your fund that isn't going to grow through your final years.

EXCEPTIONS

Obviously, there are exceptions. Britons are carrying more debt than ever before and it would make sense to use some of your pension pot to rid yourself of highly expensive credit card debt or stub-ends of mortgages. Some people are tempted to reinvest some of their pension into other assets, such as a second home abroad, classic cars or wine. These may keep you entertained but they tend to be illiquid and difficult to sell.

Nine out of 10 retirees do take their 25 per cent tax-free pension amount and splash out on expensive holidays, cars or other treats that

can't be classed as appreciating assets – even though you might appreciate them at the time.

If you're downsizing your main property at retirement, it would be better to use any spare equity from the sale for this type of investment, so you can leave your pension pot untouched.

By refusing to touch your pension at this point, you will see significantly more growth over time on the bigger pot.

We can illustrate this with a couple of examples using the Trustnet Direct retirement planners. In the first scenario, a 55 year old with a £300,000 pot contributes £1,500 per month into their pension until retiring at 65. At this point they take out 25 per cent tax free and draw down £4,500 per month income before tax. We assume 5 to 6 per cent growth per annum.

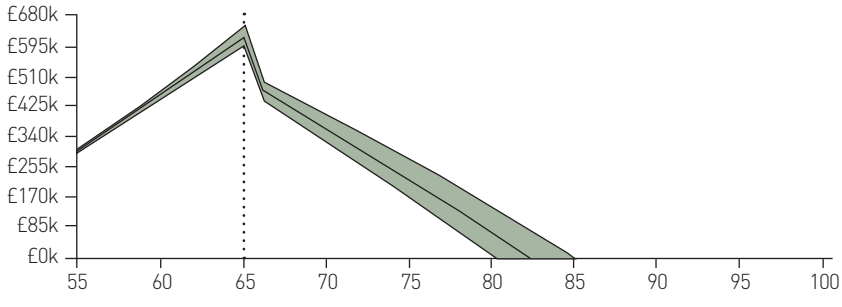
The retiree walks away with £155,000 (assuming the middle rate of growth) at retirement to do with what they like. However, the depleted pension will grow by less in retirement and the money will run out on average at the age of 82.

In the second scenario, the only difference is that the person in question refrains from taking out a lump sum at retirement.

This maintains the growth potential of a larger pot so it does not run out until the age of 91. They will have drawn down an additional £4,500 per month for nine more years than the example in Scenario 1 – a staggering £486,000.

All we've done is create a jam today versus jam tomorrow scenario with the following results: Scenario 1: Jam today. £4,500 per month income till you are 82 plus £155,025 tax free income = £1,073,025 (before any tax).

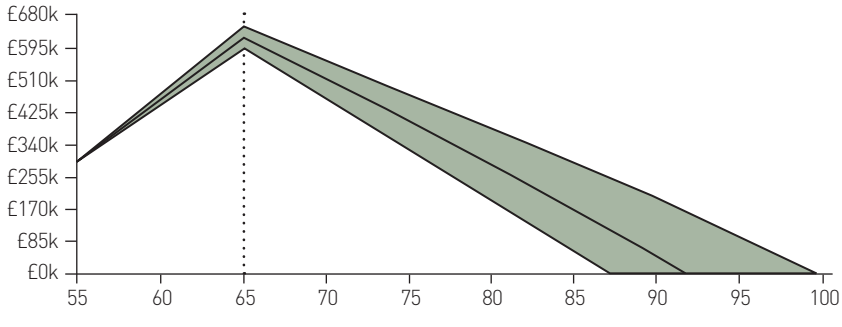
SCENARIO 1: TAKING OUT 25 PER CENT TAX-FREE AT RETIREMENT



SUMMARY

	Potential pension pot at retirement	Tax-free lump sum at retirement	Monthly drawdown rate	Age pot will run out
Upper rate 6%	£647,178	£161,795	£4,500	84
Middle rate 5.5%	£620,101	£155,025		82
Lower rate 5%	£594,312	£148,578		80

SCENARIO 2: KEEPING PENSION FULLY INVESTED AT RETIREMENT



SUMMARY

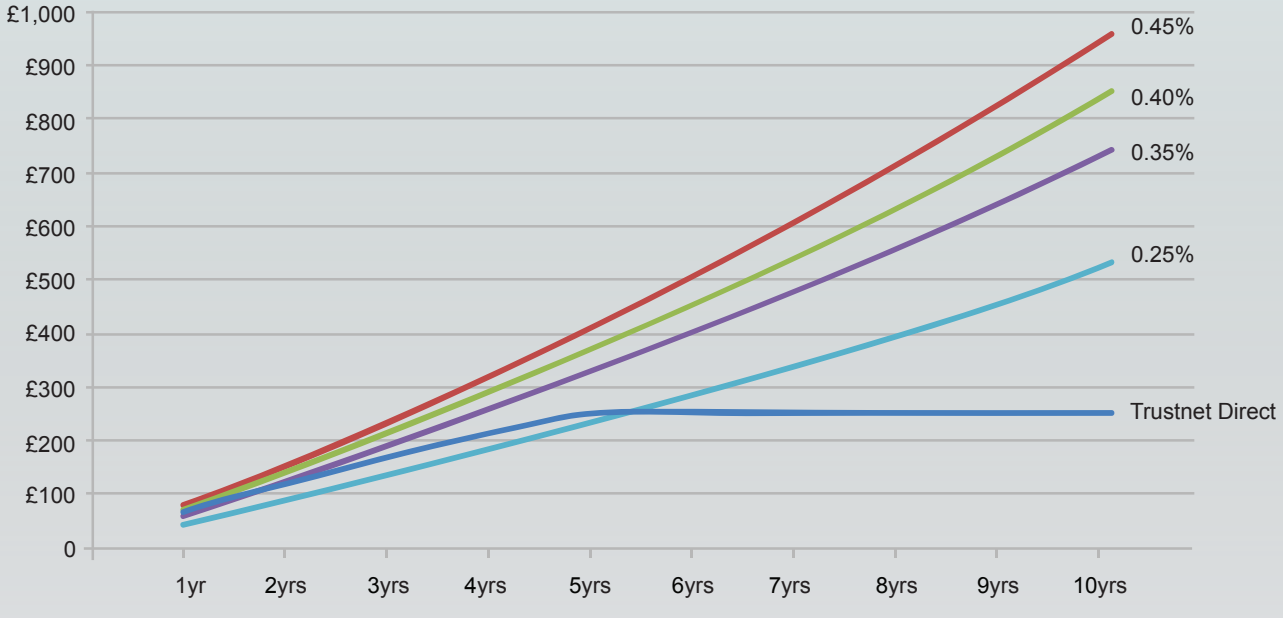
	Potential pension pot at retirement	Tax-free lump sum at retirement	Monthly drawdown rate	Age pot will run out
Upper rate 6%	£647,178	£0	£4,500	99
Middle rate 5.5%	£620,101	£0		91
Lower rate 5%	£594,312	£0		87

Scenario 2: Jam tomorrow. £4,500 per month income until you are 91 (before tax) = £1,404,000. That's a positive difference of £330,975 for not taking your tax-free lump sum. That's a lot of jam!

So, unless you really need that tax-free amount to transform your life, or you can turn it into a valuable and liquid appreciating asset, it is best to keep it invested in your retirement pot.●

These are the growth figures you don't want to see in your next ISA

Annual Platform Fees over 10 years*



*The graph displays platform fees plus the cost of 5 transactions per annum with Trustnet Direct compared with platforms charging 0.45%, 0.40%, 0.35% and 0.25% per annum in platform fees. Assumes £15,000 new ISA limit invested each year for 10 years and assumes 5% growth net of charges.

The good news is that if you invest the new ISA limit of £15,000 per annum over the next 10 years and it grows at 5% per annum net of charges, you'll have built a nest egg of over £198,000 tax-free.

The bad news is that platform fees can seriously damage your wealth, as the chart above shows.

At Trustnet Direct, we charge 0.25% in platform fees but cap it at just £250 max per annum (£200 + 5 trades at £10 per trade).

We may not be the cheapest on day one, but when your investments grow, your charges don't.
So, if you want a premium platform, without the premium price tag, open your next ISA with Trustnet Direct.

Trustnet Direct does not provide advice on the suitability of investments. It is an execution-only service. If you are unsure about the suitability of investments, seek independent financial advice.

The price and value of investments and their income fluctuates: you may get back less than the amount you invested. Past performance is no guarantee of future performance.

Prevailing tax rates and relief are dependent on your individual circumstances and are subject to change.

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ONE FOR THE ROADS

AXA Framlington's **Nigel Thomas** picks three stocks set to benefit from a renewed focus on infrastructure

SINCE DONALD TRUMP'S ELECTORAL VICTORY, the prospect of a significant increase in infrastructure spend after years of underinvestment has transferred into the consciousness of investors and politicians. Trump's plans to put "America's infrastructure first" and "create thousands of jobs in construction, steel manufacturing and other sectors to build transportation, water, telecommunications and energy infrastructure" could boost the companies that will meet this rising demand. The focus on infrastructure predates Trump, however – the Fixing America's Surface Transportation Act, passed at the end of 2015, guarantees a 2 to 3 per cent increase in US Federal spending from 2017 to 2020, while there has also been strong support for major local state initiatives. UK infrastructure is in a similarly poor state and investment is required to make it fit for purpose outside of the EU. Transport infrastructure investment remains well supported at a governmental level and our roads, rail infrastructure and airport capacity should benefit.

Ashtead group

ASHTEAD LEASES EQUIPMENT on short-term contracts to small- and medium-sized firms in the US and UK construction and industrial sectors. More than 90 per cent of 2016 profits came from its Sunbelt Rentals business, the second largest equipment rental company in the US. Ashtead has grown rapidly after the US market almost trebled rental penetration between 2000 and 2016. A focus on customer service and new technology, combined with weakened competition and more regulation, gives Ashtead further scope for market share gains.

hs Hill & Smith Holdings PLC

HILL & SMITH DESIGNS AND MANUFACTURES infrastructure products, for use in roads, rail, utilities and power. It also offers a galvanising service which provides zinc and other coatings for a range of products including fencing, lighting columns and structural steel. Hill & Smith is a direct beneficiary of increasing economic activity and infrastructure spend. It is also well managed, profits are growing and it has a strong capital position which allows it to pay a growing dividend and make earnings-enhancing bolt-on acquisitions.

BREEDON AGGREGATES

UK-BASED BREEDON AGGREGATES IS A LEADING CHALLENGER to the global majors in aggregates, cement, ready-mixed concrete, concrete products and asphalt. The firm was only founded in 2008, but its revenues and assets have grown rapidly since then, organically and via value-accretive acquisitions. One of the most recent, Hope Construction, includes one of the UK's largest cement plants in Derbyshire and this production, along with the extension of key quarry sites, should help Breedon increase its market share.

ALQUITY ASIA

SG Wealth Management's **Neil Shillito** invested in this fund after gaining first-hand experience of how its manager operates

WHAT ATTRACTED ME TO ALQUITY IN THE FIRST PLACE was its emphasis on the environmental, social and corporate governance credentials of the companies it invests in. This does not make Alquity a "green" investor and the team are certainly not a bunch of card-carrying tree huggers, but they do care and believe passionately that corporates and investors alike should have a clear idea of their impact on society. While this is not to say that other investment managers do not share these concerns, for Alquity, ESG is central to its investment process.

Mike Sell, the manager of Alquity Asia, is no stranger to Asian investment and was previously a partner at Nevsky Capital and manager of the Asian Alpha fund during his time with F&C. In early December last year, I accompanied Sell and analyst Aaron Armstrong on a visit to India and met a significant number of companies they either already held or that they were considering investing in. I was impressed by the rigour of their questioning, their later analysis of why they would or would not invest and the way in which they satisfied themselves that their original reasons for buying into the company were still valid.

The team are not afraid to reduce a holding in a particular company, or indeed sell out altogether if they believe that a competitor in the same sector has better credentials. This does not mean it is a high turnover fund, but it does help guard against the trap of falling in love with a particular stock.

The Downing Diversified Global Managers fund employs a strategy of investing in funds (generally boutique or specialist ones) in which the manager possesses three key attributes of being talented, disciplined and aligned. Talented because they can demonstrate consistently competitive returns over long time periods and across economic cycles; disciplined in the sense that if, say, they declare themselves to be a value investor, they stick to that style and do not stray; and aligned in the sense that they have a significant proportion of their own money invested in the fund. Sell passes our criteria on all three counts: his commitment and dedication shine through and were in clear evidence over the six days I spent with him in India.

The fund has a growth bias and tends to be mid-cap oriented. It is relatively new, having been launched in May 2014, so as yet does not have an established track record. This is of no concern to us as we are backing the manager's long experience, his style of investing and commitment to what he does and we are confident these attributes will drive good returns over the coming years.●

***Neil Shillito** is a director at SG Wealth Management*

TRUSTNET magazine

MARCH PREVIEW

Life saver

The next issue of Trustnet Magazine will look at the pros and cons of the Lifetime ISA, set to launch on 6 April, to find out whether it is likely to meet its aims and see how it measures up to pension schemes. We will also investigate how the size of a defined contribution scheme can make a difference to the way your money is run and highlight how to make full use of your allowances before the end of the tax year.

Our sector focus will fall on the IA's many fixed income sectors – with interest-rate hikes seemingly imminent, do they still have a place in a risk-averse investor's portfolio?