TRUSTNET magazine

Issue 30 / June 2017

MYTHS & LEGENDS

Separating investment fact from fiction

UNICORN HUNTING

The search for the Next Big Thing

WHO CARES?

Funding the cost of ill health in retirement

FOLLOW THE LEADER

The US: Are Japan and Europe hot on its heels?

ISSUE 30

CREDITS

TRUSTNET MAGAZINE (FORMERLY INVESTAZINE) IS PUBLISHED BY THE TEAM BEHIND FE TRUSTNET IN SOHO, LONDON.

WEBSITE: **WWW.TRUSTNETDIRECT.COM**
EMAIL: **EDITORIAL@FINANCIALEXPRESS.NET**

CONTACTS:

Anthony Luzio
Editor
T: 0207 534 7652

Art direction & design
Javier Otero
W: www.feedingcrows.co.uk

Editorial
Gary Jackson
Editor (FE Trustnet)
T: 0207 534 7680
Rob Langston
News editor
T: 0207 534 7696
Lauren Mason
Senior reporter
T: 0207 534 7625
Jonathan Jones
Reporter
T: 0207 534 7640

Sales
Richard Fletcher
Head of publishing sales
T: 0207 534 7662
Richard Casemore
Account manager
T: 0207 534 7669

Photos supplied by Thinkstock and Photoshot
Cover illustration: **Javier Otero**

EDITOR'S LETTER

OUR PREVIOUS ISSUE WAS SOMEWHAT TENTATIVE IN TONE as we sought to remind investors about the importance of not positioning your portfolio to benefit from a single outcome of the general election. This seemed likely to fall on deaf ears at the time the election was announced, with the battle between Theresa May and Jeremy Corbyn likened to the one between Margaret Thatcher and Michael Foot in 1983. However, just over a month later and with May looking more chocolate teapot than Iron Lady, it appears we can safely put "forgone conclusions" in the file marked "myths & legends" – which brings us nicely to the subject of this month's magazine.

In "Hit or myth", Pádraig Floyd examines whether five oft-repeated investment rules of thumb contain a germ of truth or are more likely to see you lose your shirt. I look back at the careers of three investment legends to see how they made their fortune, while Daniel Lanyon indulges in a spot of "unicorn hunting" – the name given to searching for the Next Big Thing in the world of start-ups.

In our regular columns, Adam Lewis's spotlight falls on the AIC North America, Japan and Europe sectors, Artemis' Ed Legget names three UK stocks that are ignoring the uncertainty at home and quietly increasing profits, while Coram's James Sullivan reveals why he is buying the iShares Emerging Markets Infrastructure ETF.

Finally, following all the talk of myths & legends, John Blowers will help to bring you back down to earth with an article on how to fund the cost of long-term care in retirement.

Enjoy reading,

Anthony Luzio
Editor
Trustnet Magazine

In association with:

FE TRUSTNET BE BETTER INFORMED | Trustnet Direct Better Informed ■ Better Invested

IN THIS ISSUE

HIT OR MYTH?

Pádraig Floyd examines five oft-repeated pieces of investment wisdom to see whether they are grounded in fact or fiction

FOR MANY, INVESTMENT MANAGEMENT is a fascinating but impenetrable subject.

Though dominated by science and professionalism today, there are still a few old adages or rules of thumb that cling on in the collective investor consciousness.

Many adages tend to contain a germ of truth, but are you likely to lose your shirt if you apply any of these to your portfolio?

MONKEY 1:0 FUND MANAGER

We know that trying to time the market is a fool's errand. Fund managers back their convictions with millions of pounds, hoping to take advantage by being in the right place at the right time.

Yet, there is a persistent belief that a monkey, child or darts randomly thrown at the FT's companies section will be able to beat most fund managers.

As you may expect, James de Bunsen, fund manager of the Janus Henderson Alternatives Strategies Trust, does not favour our simian cousins over his peers.

"It's entirely feasible for short periods," says de Bunsen, "but gets more difficult if things get volatile."

While people do put fund managers on a pedestal in a way they don't with other professionals, Laith Khalaf, senior analyst at Hargreaves Lansdown, says "the monkey is the market, really".

"There are many fund managers who fail to beat the market, but there are others who do," he explains, pointing to Neil Woodford, Richard Buxton and Nick Train. "They've been around a long time and delivered outperformance over a long period."

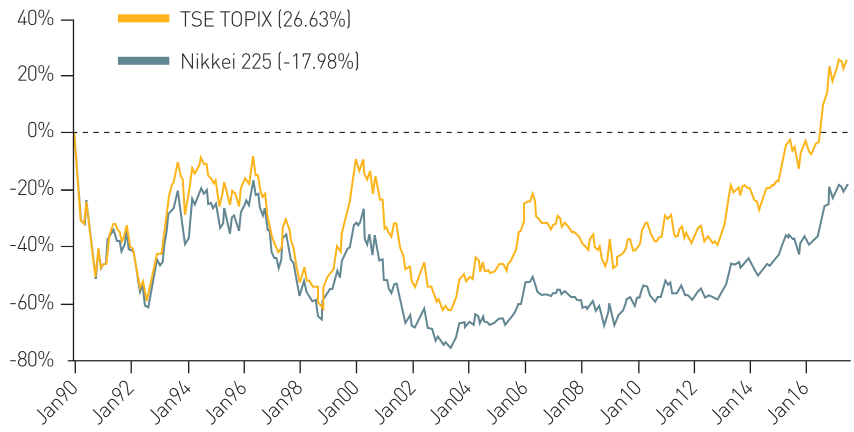
WHAT GOES UP, KEEPS GOING UP

Certain investors believe stock markets always go up over the very long term. This is an argument it has become difficult to contradict in recent years with most major indices hitting record levels.

Following their strong recent performance, Khalaf accepts markets could fall in the short term.

"However, we will get a positive return, as there's no 15-year period we don't have one," he adds.

PERFORMANCE OF INDICES SINCE 1990



Source: FE Analytics

It is true stock markets generally rise in the long run – the Barclays Equity Gilt Study shows equities have outperformed cash in 75 per cent of five-year periods since 1900 – but Khalaf says the important question is how this return compares with other assets you may have invested in.

Juliet Schooling Latter, research director at Chelsea Financial Services, says that even a market like Japan, which has wrestled with deflation for more than a generation, can offer investors good returns – provided you can find good stock-picking managers.

"Over the past 20 years, the Topix has returned 90.6 per cent and the Nikkei 225 30.76 per cent. But the average IA Japan fund has returned 97.05 per cent and the average IA Japanese Smaller Companies fund 284 per cent," she explains.

Jason Witcombe, director of Evolve Financial Planning, points out investors won't be putting all their money in a single economy, let alone Japan, but says it does provide diversification.

"The general founding principle is that risk should be rewarded, so it is reasonable to work on the assumption that equities will outperform cash," he adds.

"There's a belief that a monkey, child or darts randomly thrown will be able to beat most fund managers"

SAFE HARBOUR

What is harder to determine, says Witcombe, is which "safe haven" to park money in in times of great uncertainty or volatility. It depends on your own definition of safety and more importantly when you need to access those funds. Cash is king in the short term, but is likely to be ravaged by inflation and tax in the long run.

"Cash is the only safe haven," says de Bunsen. "While gilts are in theory risk-free, valuations make them anything but right now."

With inflation at 2.7 per cent and cash deposits attracting little by way of interest, security comes at a fairly hefty price, however.

Many investors turn to gold in times of trouble and though valid as a diversifier or a store of value, it can be volatile and its correlation with other assets changes all the time. De Bunsen says sometimes it will get you out of a bind, but on other occasions it won't.

From its peak of $1,800 several years ago, gold now trades at $1,250 an ounce. That 30 per cent drop is one investors may not be so tolerant about in other asset classes.

If you're sold on gold, Schooling Latter suggests full diversification benefits come from buying the physical asset through ETFs or websites such as Bullion Vault.

But beware – gold ETFs experienced a lot of speculation when the price was on the rise and as it fell, many traders sold out, driving the price lower.

"You could very easily get caught up in a 'sentiment trade'," argues Schooling Latter. "It is useful to have a little exposure in a diversified portfolio, but it's definitely not safe."

ST LEGER DAY CONSPIRACY

Every year, the column inches turn to feet when it comes to one adage – getting out of the market over summer to avoid loss, all based on the old saying: "Sell in May and go away. Come back on St Leger Day."

Occasionally, numbers are produced that may back up this story, but none of our experts give it any credence.

"Looking back over the past three decades, there is no pattern to suggest the theory works," says Schooling Latter. "It's just pot-luck and investors are as likely to miss out on gains as miss out on losses."

She adds that using the FTSE All Share as a yardstick, you would have been better off in 20 years out of 31. In 2016, the market rose 8.74 per cent between May and September, despite Brexit.

Going away for the summer simply doesn't happen in this fully-connected 21st century, she adds.

Khalaf says it is total nonsense and the broader point about stepping out of the market is not something easily achieved with any level of accuracy.

"There are sell-off costs, but it's also not very easy to predict when to come back into the market and be confident that your decisions will be correct. It is not a great way to invest."

AVOCADO TODAY, AVOCADO TOMORROW

There has been a spate of critical stories about millennials wasting money on avocado on toast and "posh" coffee, while complaining about their financial position.

Lee Robertson, managing director of Investment Quorum, is a believer in the phrase "many a mickle makes a muckle".

"When I was young we didn't have the discretionary spend they do today and there was no internet or Sunday shopping," he says.

He adds that many younger people simply don't know where their money goes, as spending small amounts on apps, coffee and so on is draining their resources without them realising it and they would be better off putting some of it away.

"Get your money invested earlier as pound/cost averaging makes sense in the long term," he says.

Schooling Latter adds: "If you spend £2.50 a day on coffee, five days a week, giving it up would give you that £50 a month to start investing. The power of compound interest is considerable and it has many lessons to teach investors."

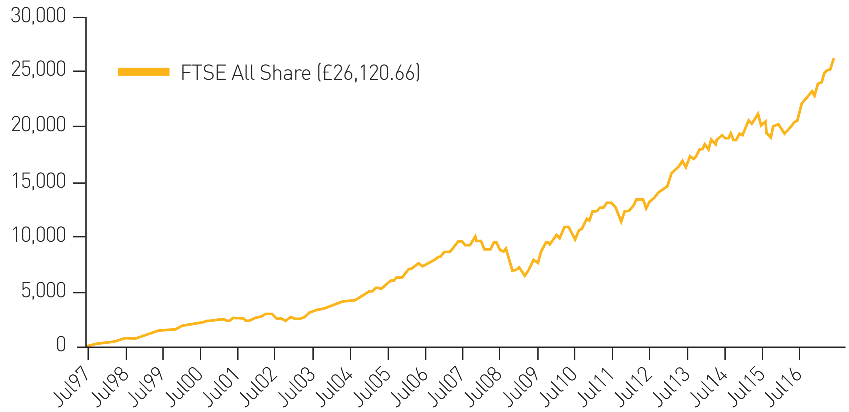
Though this last point is a simple concept, Khalaf says the industry has to shoulder some of the blame for making it more complex.

"We often talk about the finer points of active versus passive, platforms or ISAs versus SIPPs, but the biggest determinant of what your nest egg will be is how much you actually save into it," he says.

"Make savings while and where you can. Even from posh coffee and avocado, as you will probably want some of these in retirement."

Investing £50 a month into the FTSE All Share over the past 20 years would have resulted in a pot of £26,120, which initially sounds impressive. However, with the average first home in London now going for £400,000 and requiring a deposit of £90,000, is it really just millennials who need a lesson in separating fact from fiction?●

GROWTH OF £50 A MONTH INVESTED IN INDEX OVER 20YRS



Source: FE Analytics

e-KINGS

Baillie Gifford Shin Nippon's **Praveen Kumar** names three Japanese e-commerce companies that look set to dominate their respective industries

BAILLIE GIFFORD SHIN NIPPON, which means New Japan, aims to achieve long-term capital growth by investing in small Japanese companies with above-average prospects for capital growth. It has net assets of almost £250m (as at 30 April 2017). Here, manager Praveen Kumar shares his enthusiasm for three of his favourite holdings which, he believes, have the ability to continue growing their sales and earnings rapidly over the long term.

iSTYLE

istyle operates online beauty portal, @cosme, which attracts 13.8 million monthly unique users and has a strong following among females in their 20s and 30s. Cosmetic brands and other beauty related businesses pay to advertise on the website, generating revenues for istyle, which also operates a small number of offline stores, stocking the most popular products. It has recently started selling cosmetics online in China.

The market appears to view istyle as an online cosmetics retailer, but we think its real value lies in its independent online ratings system. Originating as a makeup review site, @cosme now has a database of over a quarter of a million beauty products, which have been rated and reviewed by its online users. This proprietary ratings system aggregates the online reviews, spitting out a final rating based on a number of different criteria. The ratings system is rapidly becoming the de facto industry standard. @cosme rankings are starting to appear alongside product details on in-store sales promotions, underscoring how quickly this business is becoming entrenched within the broader cosmetics market.

If, as we believe, its ratings system becomes widely adopted over time, then it will have huge ramifications for cosmetics companies' advertising and marketing spend. We therefore believe istyle to be a disruptor of the traditional advertising model and not just an e-commerce company selling cosmetics.

If this is the case, industry estimates suggest the target market for istyle will be worth around ¥600 billion per annum. This roughly equates to the current annual advertising and marketing spend on cosmetics and toiletries in Japan. At present, just 8 per cent of this is online advertising, which is low by other developed markets' standards. Given the unique attractions of istyle's offering, and that of online advertising in general, we believe the shift to online advertising in the Japanese cosmetics industry could be rapid, with istyle growing faster than the market.

START TODAY

If istyle is the go-to Japanese beauty portal, then ZOZOTOWN is where Japanese fashionistas go to online for their fashion apparel. It is operated by Start Today, who have fended off competition from the likes of Amazon and a host of smaller players to become Japan's leading multi-brand "mall style" website, a one-stop online shop for hundreds of fashion brands.

We first bought the shares for Shin Nippon in early 2009. Since then, the share price has increased, but this does not mean the growth story has run its course, or that we are in agreement with the market on the prospects for the company. Pleasing though the increase in share price may be, it does not take into account two factors in Start Today's long-term growth opportunity, which we believe are underappreciated by the market.

For one, we believe five years from now the number of people shopping for clothes online will be a lot higher than the market is currently envisaging. This means there is still a significant untapped growth opportunity that other investors are not factoring into their valuations. Second, we rate its young management team and its innovative approaches to increasing member engagement and upping ZOZOTOWN's appeal very highly. Although a small part of the business today, new sales avenues such as overseas expansion and ZOZOUSED – an online platform for selling used clothes – may become more meaningful parts of the business.

MonotaRO

MonotaRO proves that the potential for online Japanese businesses disrupting their offline counterparts is not limited to goods that you might once have bought on the high street. Through its website, it sells over three million products including overalls, hard hats, nuts and bolts, and drills to businesses operating in the manufacturing, automotive and construction industries.

Also purchased for Shin Nippon in 2009, MonotaRO's share price has risen impressively since then and, like Start Today, while its growth opportunity is becoming better appreciated by the market, we do not believe investors have fully appreciated the extent of that opportunity or the ability of the management to take advantage of it. By focusing on the monthly operating figures disclosed by MonotaRO, financial analysts tend to form a short-term view of the company's growth prospects and, in doing so, obscure the extent of the substantial long-term growth opportunities that increased online penetration should bring.

As with istyle and Start Today, MonotaRO is working hard to increase online penetration within what has been a very traditional industry. While the overall market is said to be worth almost ¥8trn, only 9 per cent of sales are currently online, with MonotaRO commanding less than 10 per cent of those. This translates into a miserly 1 per cent of the overall market, underscoring the massive growth opportunity available to the company going forward. And so, while the shift to online has progressed slower than it has for other industries, the money to be saved from procuring the products directly from online suppliers via MonotaRO's website means that the proposition will become increasingly attractive to the businesses which it sells to and continue to drive further sales increases. ●

SHIN NIPPON ANNUAL PAST PERFORMANCE (%)

	31/03/12 – 31/03/13	31/03/13 – 31/03/14	31/03/14 – 31/03/15	31/03/15 – 31/03/16	31/03/16 – 31/03/17
Share Price	49.6	12.4	20.3	41.8	28.6

Performance source: Morningstar, total return. Past performance is not a guide to future returns.

Please remember that changing stock market conditions and currency exchange rates will affect the value of your investment in the fund and any income from it. Shin Nippon invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up. The trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the trust will make a loss. If the trust's investments fall in value, any invested borrowings will increase the amount of this loss. Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the trust might receive upon their sale. The trust can make use of derivatives which may impact on its performance. Investment in smaller companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions. The trust's exposure to a single market and currency may increase risk.

HALL *of* LEGENDS

Anthony Luzio takes a look at three investment pioneers to find out how they made their fortune

ONE OF THE WISEST PIECES OF INVESTMENT ADVICE is to forget all thoughts of getting rich quickly and instead aim to generate small but reliable returns that will compound every year.

There is one school of thought that suggests you shouldn't even bother trying to beat the market, but should instead aim to replicate its performance through the use of an index tracker.

However, before every stock was analysed to within an inch of its life, it was possible for industry professionals to develop a novel style of investing that would give them an unfair advantage over their peers – and get rich quick was exactly what they did.

Here we look back at three investors whose money-making prowess has reached near mythical status – and find out who their closest equivalents would be in the current market.

1

NATHAN MAYER ROTHSCHILD

IN 1812, THE FIVE SONS OF MAYER AMSCHEL ROTHSCHILD relied on each other for up-to-date information on markets and prices they had garnered from their travels across Europe.

However, with early postal systems across the continent slow and inconsistent, they needed to find a more efficient method of communication – and Nathan Mayer Rothschild took inspiration from the carrier pigeons stationed at his farm in Kent.

A letter written in August 1846 by his son Nathaniel said: "I hope our feathered messengers will have brought you in due time our good prices," and, "A B in our pigeon dispatches means: buy stock, the news is good; C D means sell stock, the news is bad."

On 19 June 1815, a courier arrived at Rothschild's New Court headquarters bearing news of the Duke of Wellington's victory at the Battle of Waterloo, a full 48 hours before the government's own riders brought the news to Downing Street.

Legend has it that Rothschild made £1m from this early information, although the Rothschild archive says that the structure of the market at the time meant it was unlikely to have been anywhere near this amount.

All we know is that a Rothschild courier, John Roworth, sent him a letter saying: "I am informed by Commissary White that you have done well by the early information which you had of the victory gained at Waterloo."

A MODERN EQUIVALENT

You can gain access to the investment prowess of one of Rothschild's descendants through RIT Capital Partners, where Lord Jacob Rothschild remains a chairman. However, the trust now has more of a focus on preserving wealth than making a killing as the family did in the early 1800s.

Instead, modern investors may wish to consider Alex Wright of the Fidelity Special Values trust and Special Situations fund. Wright believes the market can be slow to react to changing situations and therefore searches for unloved firms that are entering a period of positive change. He aims to buy these companies before the market has recognised their improving growth prospects.

•••

2 WARREN BUFFETT

IN THIS YEAR'S ANNUAL MEETING OF BERKSHIRE HATHAWAY SHAREHOLDERS, chairman Warren Buffett described the sort of company he invests in by saying: "It would tend to be a business that for one reason or another we can look out five or 10 or 20 years, and decide that the competitive advantage that it has at the present would last over that period."

While he is a disciple of Benjamin Graham's value investment style, Buffett received a lesson in the importance of holding companies for the long term at the age of 11 when he bought shares in Cities Service for $38 before selling them at $40 – only to see them quickly jump up to $200.

Through holding company Berkshire Hathaway, originally a textile manufacturing firm before he took full control and closed the mill, Buffett's investment style saw him become the richest man in the world by 2008. Early investors in the firm could have bought shares for as little as $275, which by 2014 were worth $200,000.

Despite his riches, Buffett is famously frugal, still living in the five-bedroom house he bought for £31,500 in 1958, while the Berkshire Hathaway website looks like it was designed over a dial-up connection in the early 1990s. He has pledged to give 99 per cent of his fortune to charity and has already donated $21.5bn to good causes.

A MODERN EQUIVALENT

CFP SDL UK Buffettology aims to follow the investment principles of the Berkshire Hathaway chairman, with manager Keith Ashworth-Lord buying attractively valued companies with an "economic moat" – meaning those with a competitive advantage that will protect long-term profits and market share from peers – then holding them for the long term. The fund is the fifth-best performer in its sector since launch in March 2011, with the lowest volatility. Other top-performing managers that buy and hold quality companies for the long term include Nick Train, who heads up CF Lindsell Train UK Equity, and Terry Smith, who runs Fundsmith Equity.

3 GEORGE SOROS

GEORGE SOROS MOVED FROM HUNGARY to the UK in 1947, where he read philosophy at the London School of Economics. His study in this subject led him to apply Karl Popper's theory of reflexivity to markets which he said gave him a clear picture of the difference between the fundamental and market value of securities.

In an article published in the Journal of Economic Methodology, he wrote: "My conceptual framework is built on two relatively simple propositions. The first is that in situations that have thinking participants, the participants' views of the world never perfectly correspond to the actual state of affairs. The second proposition is that these imperfect views can influence the situation to which they relate through the actions of the participants."

This helped Soros translate economic trends into leveraged plays on the direction of bonds, currencies and financial markets.

Soros became known as "The Man Who Broke the Bank of England" on Black Wednesday in September 1992 when he shorted more than £6.5bn of sterling through his Quantum Endowment fund, causing the currency to fall and leaving him with a profit of £1bn.

He changed the portfolio to a more defensive position ahead of the financial crisis, allowing him to return 8 per cent in 2008 and 28 per cent in 2009. The fund now has assets under management of more than $40bn.

A MODERN EQUIVALENT

There are numerous hedge funds around today but these are out of reach for all but the wealthiest investors. Many retail funds make use of hedge fund-like strategies, such as investing in currencies and using derivatives. One of these is Odey Swan run by Odey Asset Management – a group whose original backers included Soros himself. However, even though the fund's manager Crispin Odey forecast Brexit, he assumed it would lead to a crash rather than a rally and performance since launch has been woeful. Other funds that use derivatives to make big calls include City Financial Absolute Equity, run by David Crawford, and FP Argonaut Absolute Return, managed by Barry Norris.

UNICORN HUNTING

Far from stumbling upon the Next Big Thing, **Daniel Lanyon** warns that anyone who invests in start-ups is more likely to find themselves down a dead-end

AN EXTRAORDINARY AND PROFITABLE TREND has taken place over the past 15 years. Markets have been dominated by the meteoric rise of tiny technology-enabled start-ups that have become global behemoths and household names worth billions.

A quick thought experiment. Amazon, Facebook, Google, Netflix and PayPal. How many times have you used at least one of these companies in the past week? What about in the past 24 hours? These global winners are ubiquitous in our daily lives but were once tiny companies staffed by a few scruffy nerds. Now they turn over as much cash in a year as a small country.

GLITTERING PRIZES

Investors who saw the opportunity have been hugely rewarded. A $1,000 investment in Google at its IPO back in 2004 would now be worth $20,000. The same amount in Amazon when it went public in 1997 would have made you a staggering $500,000 profit. And if you had taken a private stake in either company before flotation... you'd be very, very rich.

However, the reality for most investors is likely to be substantially different. Buying a stake in Amazon in 1999 at the height of the dotcom bubble would have meant an entire decade in the red before eventually realising a 10-bagger. You'd have probably sold.

Some clearly got it right, though. According to CB Insights, there are 197 "unicorns" – another name for a tech firm with a billion-dollar valuation – that are still in private hands. Together these are worth $679bn, having raised $142bn from investors. This year 22 companies have joined the global unicorn club, while forty did so in 2016.

Some industry professionals, however, question whether this means we are entering another dotcom bubble.

For Daniel Lockyer, fund manager at Hawksmoor, the current market reminds him of the year 2000 in terms of valuations.

"Disruption is a big theme with so much market share to grab from incumbents and this is why Uber, Tesla, and Just Eat and Purple Bricks in the UK are so highly valued," he says.

HUNTING GROUNDS

Jason Hollands, managing director of Tilney, says the real opportunity is investing in firms before they

commercialise a product or service. The main challenge for investors is getting access to such deals.

"A typical lifecycle for a tech company will initially involve bringing in some high net-worth individuals as angel investors," he explains.

A disproportionate number of unicorns evolve from a tiny corner of California. Companies gravitate

"Disruption is a big theme with so much market share to grab from incumbents"

towards the richest pools of capital, Hollands says, and in the world of tech financing this means Silicon Valley. James Anderson, manager of the Scottish Mortgage trust, says it has more to do with "network effects" specific to west coast America.

In his 2014 treatise Zero to One, Peter Thiel – one of PayPal's founders and an early investor ...

in LinkedIn and Facebook – highlights the benefits of thinking big. Thiel recommends a portfolio approach whereby each holding has the potential to make more money than all the rest combined.

While this has clearly worked for him, is the "millionaire start-up investor" simply a myth for anyone outside Silicon Valley? For every Next Big Thing, how many hundreds of start-ups fail, leaving disappointed investors?

Looking at the returns of the AIM index, where UK start-ups traditionally go public, the numbers are mixed. It is still down over 10 years despite gains of 36 per cent over 12 months.

MITIGATING RISK

Hollands says there are some early-stage opportunities in the UK, especially if you use a vehicle such as an Enterprise Investment Scheme (EIS) which mitigates some risk through tax breaks.

An EIS provides investors with a 30 per cent income tax credit, tax-free capital gains and loss relief if the investment fails. However, Hollands adds that many companies that use EISs will do so on an invite-only basis to known wealthy investors. Venture Capital Trusts also offer exposure to early-stage firms with similar tax breaks, but are easier to access.

"These businesses, however, can spend years burning cash on staff and equipment before they have a single client or source of income and the only real asset might be a patent on some international property," he adds.

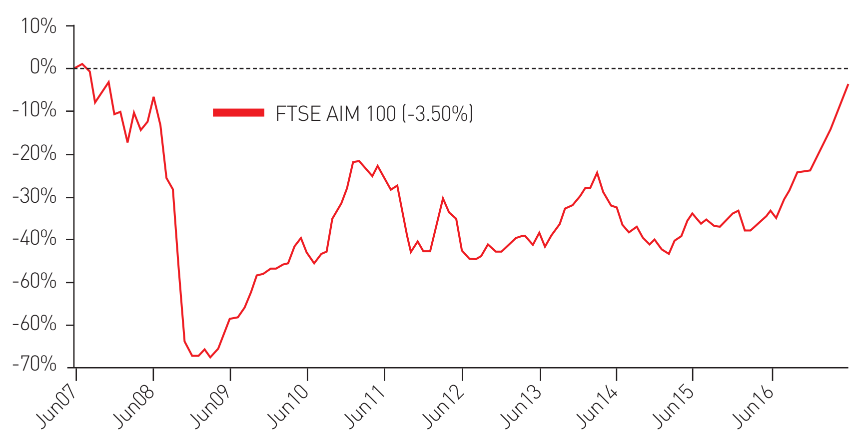
> **"These businesses can spend years burning cash on staff and equipment before they have a single client or source of income"**

Lockyer's preferred strategy is to use investment trusts such as Scottish Mortgage or Woodford Patient Capital, both of which offer a high allocation to early stage private businesses but in a diversified manner.

"Both have a good network to get access to new ideas and, because they can offer long-term capital via the closed-ended structure, they are regarded as helpful investors," he says.

Whether you're looking at Silicon Valley or Silicon Roundabout, investors should remember that spotting the growth giants of tomorrow is difficult, requires patience and for every unicorn there are many, many donkeys. Far from being magical, the latter are more likely to make you feel like an ass.●

PERFORMANCE OF INDEX OVER 10YRS



Source: FE Analytics

FP CRUX European Special Situations Fund

Return on £1,000 invested	1 year	2 years	3 years	4 years	5 years	Since launch* - 30.04.17
CRUX European Special Situations Fund	**£1,284**	**£1,370**	**£1,507**	**£1,651**	**£2,172**	**£2,629**
Sector average : IA Europe ex UK	£1,261	£1,252	£1,334	£1,534	£1,929	£1,910
Index : FTSE World Europe ex UK	£1,288	£1,237	£1,324	£1,520	£1,947	£1,872
Cash : Bank of England Base Rate	£1,003	£1,008	£1,013	£1,018	£1,023	£1,036

Source: FE © 2017, bid-bid, £1,000 invested, cumulative performance to 30.04.17. *Launch date 01.10.09.

Active managers who invest in their own funds

Active investment management requires confidence, courage and commitment in every investment decision, something the managers of CRUX's European Special Situations Fund have plenty of.

They are also committed to aligning their investment aims with that of their clients by investing meaningful amounts of their own assets in their funds.

As you can see from the table above, it's an approach which is delivering strong performance and over the years they have achieved an impressive track record.

The Fund has comfortably lapped the index and most of the tracker funds that follow it nearly every year over the past five years, as shown in the table above. So if you're investing in Europe put yourself on the podium with active asset management, not in the slow lane with a passive investment.

Past performance is not a guide to future returns. The value of an investment and any income from it are not guaranteed and can go down as well as up and there is the risk of loss to your investment.

Consult your financial adviser, call or visit: 0800 30 474 24 ★ www.cruxam.com

CRUX ASSET MANAGEMENT

Fund featured; FP CRUX European Special Situations Fund I ACC GBP class. The Henderson European Special Situations Fund was restructured into the FP CRUX European Special Situations Fund on 8 June 2015. Any past performance or references to the period prior to 8 June 2015 relate to the Henderson European Special Situations Fund. This financial promotion is issued by CRUX Asset Management, who are authorised and regulated by the Financial Conduct Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS. A free, English language copy of the full prospectus, the Key Investor Information Document and Supplementary Information Document for the fund, which should be read before investing, can be obtained from the CRUX website, www.cruxam.com or by calling us on 0800 304 7424. For your protection, calls may be monitored and recorded.

Fund

TEMPLETON FRONTIER MARKETS

Mark Mobius and Carlos Hardenberg's five FE Crown-rated fund has re-opened to new investors, four years after soft-closing

DEVELOPED MARKET EQUITIES HAVE PUSHED ever higher over the past year thanks to a mixture of better-than-expected corporate earnings figures and greater optimism following the election of Donald Trump as president of the US.

However, questions have been raised over the sustainability of such a rally and investors have begun to search out other destinations for their cash.

Against this backdrop, Franklin Templeton Investments has decided to re-open its Templeton Frontier Markets fund to new investors, four years after soft-closing the strategy.

The $868m, five FE Crown-rated fund is managed by Mark Mobius and Carlos Hardenberg, who aim to deliver long-term returns through investing in companies that are either listed or have the majority of their operations in frontier markets.

While the prospect of trusting their money to less developed economies may leave some investors on edge, the managers believe that now is the perfect time to re-open the fund.

MSCI Frontier Markets is up 79.85 per cent over the past five years, compared with a 50.93 per cent rise in the MSCI Emerging Markets index.

Emerging markets specialist Mobius expects a number of fundamental tailwinds to help drive outperformance in frontier markets over the long term, including younger work forces, urbanisation and strengthening economies.

"The US, Europe and developed world are making a major move towards trade restrictions, which is really kind of a backwards market development," added co-manager Hardenberg, noting the moves that have been made by frontier markets to open themselves up to international investors.

Hardenberg said that this focus on easier accessibility followed the recent weakening of commodity prices, reducing revenues for many natural resource-rich frontier economies and promoting greater reform. This has further increased the sector's appeal.

Valuations also make for compelling investment arguments, the co-manager added, noting MSCI Frontier Markets is currently trading at a lower price/earnings ratio than MSCI Emerging Markets and almost half that of the MSCI World index.

He added that the sector also has little correlation with emerging or developed markets, making it a potential portfolio diversifier.

While risks remain for frontier market investors, Mobius and Hardenberg are confident that active management can help to mitigate some of these.

Templeton Frontier Markets is currently overweight Vietnam, Saudi Arabia, Sri Lanka and Egypt.

"Saudi Arabia is one of the most exciting sectors from an investment perspective," said Hardenberg.

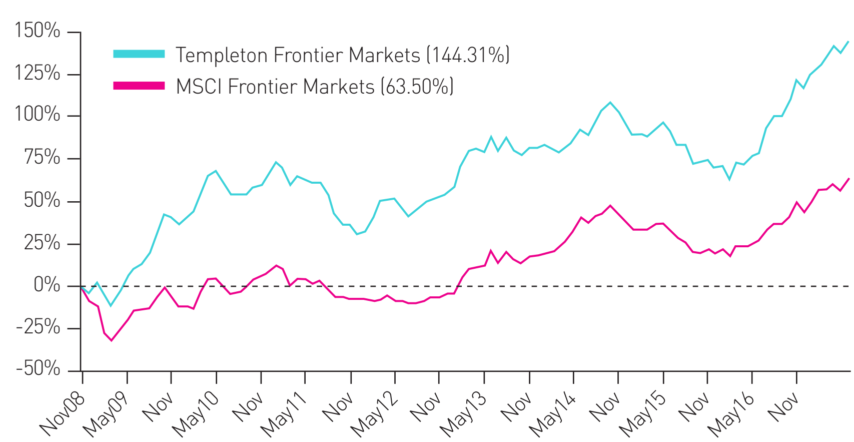
He added Vietnam has strong supporting demographics while Egypt is an example of a country that has embraced reform.

The portfolio's main underweights are Argentina and Kuwait, although the managers have highlighted the progress made by reform-minded Argentinian president Mauricio Macri who has set about investigating corruption and returning to the international capital markets.●

FILE

MANAGERS: **Mark Mobius & Carlos Hardenberg**
LAUNCHED: **14/10/2008**
FUND SIZE: **£681.2m**
OCF: **1.75%**

PERFORMANCE OF FUND VS INDEX SINCE LAUNCH



Source: FE Analytics

Pension

SCHRODER INCOME MAXIMISER

This fund uses covered-call options to help it reach its dividend target of 7 per cent

MOST INVESTORS BEGIN TO FOCUS MORE ON INCOME when they are close to or at retirement age.

With yields near to record-lows, BMO Global Asset Management's co-head of multi-manager Rob Burdett said that equities currently offer the best opportunity for investors who prioritise this outcome.

Even on an average basis, he said the asset class provides a yield that is materially above both cash and inflation and is set to grow over the course of this year.

Equity funds that use a type of derivative called a covered-call option to enhance their dividend tend to pay out the highest amount of income to investors, although it should be noted that this can come at the expense of some capital returns. One of the highest yielding funds of this type is Schroder Income Maximiser.

"Schroder Income Maximiser – which has a covered-call structure on top – gets you to a 6.8 per cent yield and we're quite happy to give up some capital growth with the elevated levels in the market," said Burdett.

While some investors find it difficult to get their head around the notion of covered-call options, the fund's consistent performance warrants a closer look.

These options are contracts relating to individual shares in which a financial institution agrees to provide an upfront payment in exchange for any rise in the share price above a certain level over a set period of time.

The Schroder Income Maximiser fund sells these options on a recurring basis, typically for three-month periods, using the upfront payments to help boost the natural annual dividend.

It invests in a diversified range of equities with a target of achieving an annual underlying yield of around 3.5 per cent, then aims to double this through the use of its covered call option strategy.

Square Mile Research said: "The options overlay strategy is a complex one, but the fund's objective is simple."

The fund has made a total return of 83.08 per cent over the past decade but has struggled in recent years, with its forfeiture of capital growth causing it to lag behind the fast-rising market.

It is in the bottom quartile of its IA UK Equity Income sector over the past three years, its returns of 20.88 per cent well below the 26.3 per cent made by its peer group composite. However, it is an above-average performer over the past five and 10 years.

The core portfolio is the same as the Schroder Income fund run by value-focused FE Alpha Managers Nick Kirrage and Kevin Murphy, while the options book is run by Mike Hodgson.

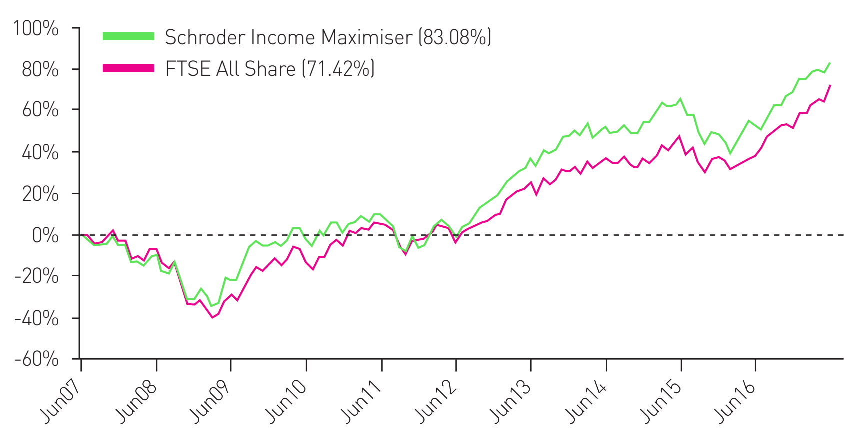
Schroder Income Maximiser has outperformed its FTSE All Share index benchmark since the trio took over the fund from Thomas See in July last year. An investment of £10,000 at this time would have paid out £896.70 in income alone since then.

The fund is currently yielding 6.8 per cent and has a clean ongoing charges figure of 0.91 per cent.●

FILE

MANAGERS: **Nick Kirrage, Kevin Murphy & Mike Hodgson**
LAUNCHED: **04/11/2005**
FUND SIZE: **£1.1bn**
OCF: **0.91%**

PERFORMANCE OF FUND VS INDEX OVER 10YRS



Source: FE Analytics

Trust

BLACKROCK THROGMORTON TRUST

This AIC UK Smaller Companies trust trades on a hefty 17.5 per cent discount despite boasting a strong long-term track record

THE BENEFITS OF USING A CLOSED-ENDED FUND to invest in less liquid areas of the market, such as small caps, are well documented.

Because small cap portfolios are likely to hold a larger proportion of the companies they invest in, open-ended funds operating in this part of the market may face problems related to inflows and outflows.

This helps to explain why, according to recent research from Kepler, they tend to invest further up the market cap spectrum as they increase in size.

However, while investment trusts lend themselves better to this area of the market, with discounts narrowing across many of the highest-rated trusts in the sector, bargains are few and far between.

One exception to this rule is the BlackRock Throgmorton Trust, which is currently on a discount of 17.5 per cent.

The trust – headed up by Mike Prentis, Richard Plackett, Dan Whitestone and Lucy Marmion – aims to provide capital growth through a portfolio of small and medium-sized companies.

Its portfolio is well-diversified, with its 10 largest individual holdings accounting for 24.8 per cent of total assets. These include the likes of veterinary services company CVS Group, JD Sports Fashion and distribution service 4imprint Group.

BlackRock Throgmorton Trust has comfortably outperformed its Numis Smaller Companies AIM (ex IT) index benchmark and AIC UK Smaller Companies sector average over one, three, five and 10 years. It has made 185.94 per cent over the past decade, 33.03 and 111.98 percentage points ahead of its sector average and benchmark, respectively.

However, it has done so with a maximum drawdown – which measures the amount of money lost if bought and sold at the worst possible moments – of 67.48 per cent over this time, compared with 52.69 per cent from its peer group composite.

It saw significant losses during the financial crisis of 2008, the European debt crisis of 2011 and again in 2014, when it finished the year with losses that were twice the size of its benchmark and sector, at 10.87 per cent. As such, this trust may be better suited to patient investors with a long-term time horizon or those who can stomach higher levels of risk.

The managers of the BlackRock Throgmorton Trust are not afraid to use gearing in order to boost returns – this figure currently stands at 27 per cent.

However, this strategy can magnify losses as well as gains and helps to explain the vehicle's high maximum drawdown.

The trust is currently yielding 1.7 per cent and has a total expense ratio of 1.34 per cent, including a performance fee.●

FILE

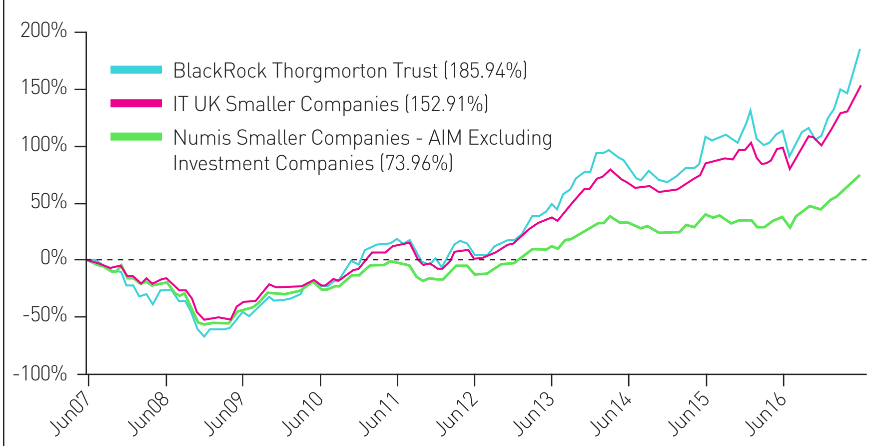
MANAGERS: **Mike Prentis, Richard Plackett, Dan Whitestone, Lucy Marmion**

LAUNCHED: **02/12/1957**

DISCOUNT/PREMIUM: -17.5%

TER: 1.34%

PERFORMANCE OF TRUST VS SECTOR AND BENCHMARK OVER 10YRS



Source: FE Analytics

FOLLOW *THE* LEADER

Will Japan and Europe replicate the performance of the US market when they join it in stepping off the QE treadmill? **Adam Lewis** finds out

THE WEAKNESS OF STERLING meant 2016 was a strong year for investment trusts with an overseas focus. AIC North America, Europe and Japan were no exception, with each one generating returns of well over 30 per cent last year.

For the US, this marks quite a turnaround from its previous appearance in a Trustnet Magazine sector focus, published in June 2015. Back then the strong dollar caused it to languish behind its European and Japanese peers, which were also being buoyed by low interest rates and large scale quantitative easing programmes.

Two years on, with interest rates rising across the globe and sterling on the up, what are the prospects for these sectors today?

PERFORMANCE OF AIC SECTORS

	1yr (%)	3yr (%)	5yr (%)	10yr (%)
AIC Europe	36.56	43.84	155.23	122.84
AIC Japan	34.02	82.75	181.26	139.16
AIC North America	36.07	42.98	80.4	160.6

Source: FE Analytics

EUROPE

EUROPE IS THE BEST-PERFORMING OF THESE THREE SECTORS over the past 12 months. Its eight funds are up by an average of 36.56 per cent over one year and have returned 43.84 and 155.23 per cent over the past three and five.

Adam Carruthers, a collectives analyst at Charles Stanley, says this performance has been driven by the fall in sterling versus the euro and the flow of assets out of the US and into Europe.

He adds that a lot of money had been sitting on the sidelines in the run-up to the Dutch and French elections.

"Once the risk went away following the elections, many asset allocators took money out of the US, which is expensive, and put it into Europe. This pent up demand has narrowed discounts in the sector, with the average falling from 16 per cent just after Brexit, to 6 per cent today."

Topping the rankings over one year, with a 46.75 per cent return, is John Bennett's Henderson European Focus trust. It also tops the five-year rankings with a gain of 215.12 per cent.

"Bennett has developed a strong long-term performance record with Henderson European Focus and we rate him and Henderson's well-resourced pan European equity team highly," says Innes Urquhart, a research analyst at Winterflood Investment Trusts. "He also makes good use of the investment trust structure through his allocation to small and mid-cap companies and the use of gearing."

Carruthers says an environment of negative interest rates and a European Central Bank that is reluctant to halt QE have been supportive of growth investing. One manager in particular who has benefited from this is Vincent Devlin, who runs BlackRock Greater Europe.

On the opposite end of the scale is The European Investment Trust, run by Edinburgh Partners. With growth outperforming the value style favoured by this trust since the financial crisis, it is still on a 13 per cent discount, although this has narrowed from 19 per cent.

"While both trusts have different styles, each has done well over the past 12 months," says Carruthers.

PROFILE
THE EUROPEAN INVESTMENT TRUST

Miton's Nick Greenwood describes the European Investment Trust as a potential turnaround story. Craig Armour took charge in August last year after the departure of Dale Robertson. He is not expected to change the trust's valuation approach, given this is established across the group, even though this has held back performance in recent years. "In the past it has tended to be overlooked and a bit forgotten," says Greenwood.

… *JAPAN*

TOPPING THE RETURN RANKINGS OVER THREE AND FIVE YEARS with 82.75 and 181.26 per cent respectively is the AIC Japan sector. Its gains of 34.02 per cent also put it just behind AIC Europe over the past 12 months.

Carruthers says that while Japan has benefited from sterling weakness, its other performance drivers have been different to those in Europe. These include corporate governance reforms, pushed by overseas investors, which have led Japanese stocks to pay out excess cash in the form of dividends.

"Both corporate governance and payout ratios in Japan have improved hugely," he says.

"With this in mind, one of our fund picks in the sector is the Coupland Cardiff Japan Income & Growth Trust, which as the name suggests is an equity income orientated fund."

"We like the fact it is doing something different and see it as a good play on Japan's move to being more shareholder friendly."

With interest rates still at zero and the Bank of Japan increasing its purchases of exchange traded funds to stimulate the economy, Japan is at a different stage in its economic cycle to Europe.

Such conditions favour growth style investing and as such it is little surprise that Sarah Whitley's Baillie Gifford Japan Trust is sitting on a 3.4 per cent premium to NAV.

The trust is the second-best performer in its sector over one year and top over three and five with returns of 96.12 per cent and 244.8 per cent, respectively. Carruthers describes it as an "out and out secular growth fund".

"The Japanese market is a difficult one, with cultural differences and idiosyncrasies, as well as the obvious language barrier presenting challenges for overseas investors," says Urquhart. "The contrast with investing in other developed markets such as the UK, Europe and North America is considerable."

However, he adds the Japanese market receives less coverage from sell-side analysts than other developed markets. As such he argues it should present opportunities for active managers who adopt a bottom-up stockpicking approach.

"We believe specialist Japanese fund managers should be able to add value and that the closed-ended fund structure should provide them with the ability to make better investment decisions without the need to worry about fund flows," Urquhart adds.

PROFILE
COUPLAND CARDIFF JAPAN INCOME & GROWTH

The Coupland Cardiff (CC) Japan Income & Growth trust raised £66.5m at launch in December 2015 after targeting an initial total of £200m.

Manager Richard Aston runs a concentrated portfolio of approximately 30 holdings, consisting of a combination of stable yield, dividend growth and special situations companies. The trust is on a 1.94 per cent premium and is yielding 2.14 per cent. Aston has also managed the open-ended $628m CC Japan Income & Growth fund since its launch in February 2013.

NORTH AMERICA

WHILE RETURNS FROM THE US HAVE IMPROVED CONSIDERABLY over the past two years, Carruthers warns the currency effect is starting to wane. The AIC North America sector is up 36.07 per cent over the last 12 months with returns boosted by a weak sterling. However, the S&P 500 is up just 6.92 per cent over six months, with the strengthening pound dragging on returns, compared with gains of 21 per cent from MSCI Europe.

Unlike Europe and Japan, QE ended a long time ago in the US and interest rates are on the up. As such, while markets have continued to trade at record highs, Nick Greenwood, manager of the Miton Global Opportunities trust, says much of this has been driven by the so called FANG (Facebook, Amazon, Netflix and Google) stocks.

"The US is one of the areas where the efficient market theory works, making it very difficult to beat," says Greenwood. "More recently you would have had to have held all the FANG stocks, all of which are big index positions. As these have gone up so much it makes it very hard for active managers to outperform."

As a result, Greenwood currently has no US funds in his portfolio. "I am more focused on finding interesting areas of value which don't need the market to go up to do well," he says.

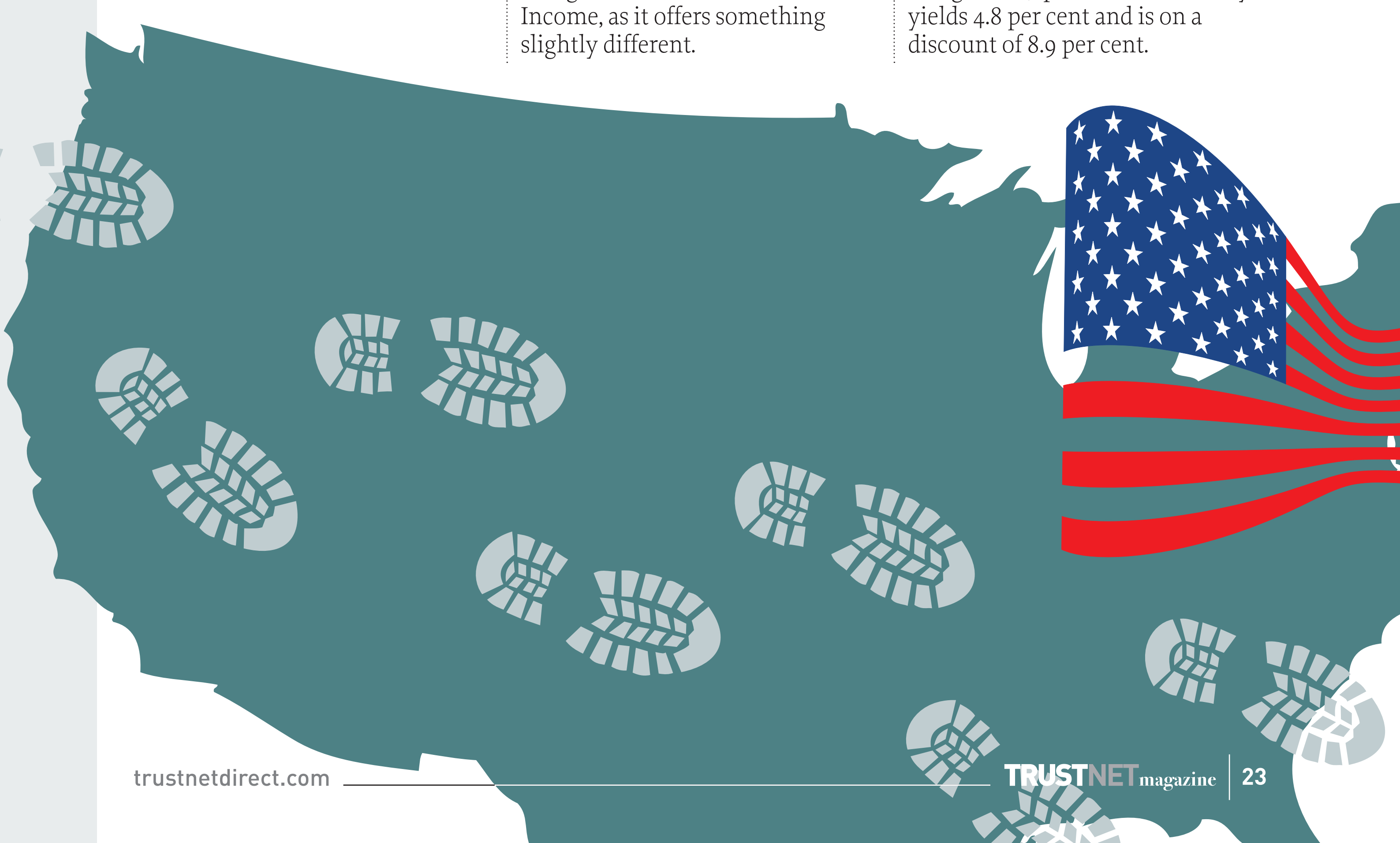
The problem for Carruthers when it comes to investing in the US with trusts is not only a lack of choice, with only four generalist funds, but like Greenwood it comes down to the ability of active managers to outperform on a consistent long-term basis.

As such he says many investors either go down the tracking route or invest in the US using a globally mandated trust, such as Scottish Mortgage, which currently has nearly 47 per cent of its assets invested in the region. However, he picks out funds which provide an income, with the preference being BlackRock North American Income, as it offers something slightly different.

"You can't get income from an ETF or Scottish Mortgage," he says. "We have also looked at the Gabelli Value Plus+ Trust and the Middlefield Canadian Income Trust. The Canadian market is made up of banks, oil and energy infrastructure, and real estate, so again it gives something different that you won't find in either global or US mutual funds."

PROFILE
MIDDLEFIELD CANADIAN INCOME TRUST

Dean Orrico has headed up the £117m Middlefield Canadian Income Trust since inception in July 2006. It typically holds 40 to 50 stocks and can invest up to 40 per cent of its assets outside of Canada – as at 30 April 2017, however, this figure stood at just 22 per cent. The trust's largest sector weighting is to real estate at 21.8 per cent followed by basic materials at 17.5 per cent and oil and gas at 17 per cent. It currently yields 4.8 per cent and is on a discount of 8.9 per cent.



WHO CARES?

John Blowers finds out how to fund the cost of long-term ill-health in retirement

EVERY SILVER-LINING HAS A CLOUD and one side-effect of longer lifespans is spending our final years in need of long-term care. Advances in medicine are reducing death from cancer and heart-related illnesses, but this has led to a prevalence of other maladies such as dementia and Alzheimer's which require long-term care.

You could be looking at between £30,000 and £50,000 a year in fees if you require 24-hour care and most people simply don't have the resources to pay for this. However, if you have assets such as a pension or property, the government is looking to pass the cost of this care on to individuals.

UNCOMFORTABLE LIFESTYLE

We also need to accept that, if you have saved enough to fund a comfortable lifestyle in retirement– including holidays, cars, golf and so on – and become incapacitated with a long-term illness, it is unlikely you'll still be jetting off to the sun or playing 18 holes every day. This means your costs while you are healthy may be similar to those you incur for long-term care.

This is not a political rant, so let's look at the facts. As we have an ageing population, there are increasing demands on our NHS and there isn't a bottomless pit of cash to fund it without increasing taxation. Few investors want that.

So, this money has to come from somewhere.

DIFFICULT DECISIONS

Theresa May said she wanted to be honest about the "difficult decisions" the country faces when she unveiled a plan to make older people and their families pay more of the costs of long-term care. She plans to expand the current system of charging for those being cared for in residential homes to those who are being cared for in their own homes. People currently being looked after in residential homes must pay for their care if they have assets worth more than £23,250, including property.

The thinking behind this is mainly practical. The person affected must leave their home to obtain the required care, which is expensive. This justifies the forced sale of the main residence. Under the scheme, thousands of people are forced to sell their homes every month to pay for residential care.

People able to stay in their home receive domiciliary care. Until now they had to pay if their savings totalled more than £23,250, excluding property.

Care is free when total savings fall below a lower limit of £14,250 with a sliding scale of contributions towards care costs between the lower and higher limits.

Under the new scheme, those people who use residential and domiciliary care will face the same charging structure. They will be assessed to obtain a picture of their finances and if their combined savings and property are valued at more than £100,000, they will need to pay for their care.

UPON DEATH

If they want to hang on to their home, they can defer payment. The state will deduct the cost from their estate when they die. Local authorities already offer a Deferred Payment Agreement (DPA) which allows people to secure care fees against their home once it is sold, which can take place upon their death, or sooner, if they choose. The cost includes interest payments charged by the council.

The House of Commons library noted in March that the adult population grew by 10 per cent between 2001 and 2011, but the number of adults aged over 65 grew 11 per cent and those aged over 85 rose 24 per cent in the same period. People aged over 85 are most likely to need care. A report by King's College London said the number of people dying from dementia is expected to rise from 59,000 in 2014 to 219,000 in 2040.

It is not clear whether an interest rate will be applied to charges if payment is delayed until death, nor how care will be provided when it is largely carried out by foreign-born labour and the manifesto pledges to cut immigration to tens of thousands. It is also not clear how people receiving care will be protected from over-charging by private domiciliary care •••

providers, which may seek to exploit clients who can pay more once their home is included in the calculation of savings and wealth.

THE SERIOUS ILLNESS LOTTERY

What is clear is that a policy that seizes assets above £100,000 of those unlucky enough to lose out in the serious illness lottery is likely to draw criticism.

> "A policy that seizes assets above £100,000 of those unlucky enough to lose the serious illness lottery is likely to draw criticism"

Someone with dementia who stays at home or enters residential care could find that their suffering is multiplied by state charges of between £200,000 and £300,000 after a four- or five-year stay.

Sir Andrew Dilnot's 2011 report suggested a £35,000 cap on care charges. His plan encouraged individuals to save towards the cost of long-term care, but the government scrapped it, believing it would be difficult to persuade people to put money aside for this purpose as well as a pension.

Those who suffer the most debilitating long-term illnesses will lose the most from May's initiative while those who win in the health lottery will win big, especially as the inheritance tax threshold for couples is due to rise to £1m.

So, what should you do? My advice would be to save for the worst possible scenario and if you don't suffer a debilitating illness requiring long-term care, then you can keep going on those holidays, eating out and playing golf.

Let's assume that you need to save enough money to pay for long-term care at some point in your retirement and that you need enough of a pension pot to last you until the age of 90.

A ROUGH CALCULATION

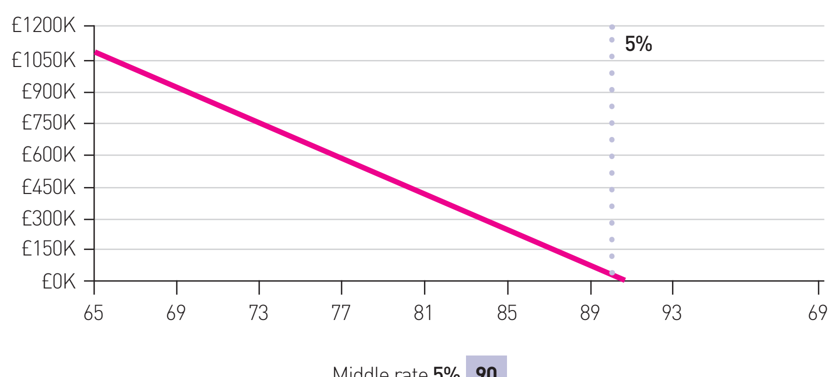
You'd need a monthly income of around £6,150 before tax to fund a £50,000 per annum long-term care bill (assuming £50,000 p.a. care costs and £10,000 p.a. additional living costs excluding state pension and tax as the latter depends on a) your personal circumstances and b) how long-term care is taxed – but you still need to account for this).

To generate this level of income, you will need a pension pot at retirement of £1,070,000 (calculated using the Trustnet Direct Retirement Planner).

This will deliver an income of £6,150 per month – or £73,800 per annum – until you reach 90 years old, assuming the pot will continue to grow at 5 per cent per annum through retirement.

If you want to insulate yourself from the punitive costs of long-term care, you can take matters into your own hands and plan ahead, consider long-term care insurance or take your chances that you might not need any care at all. Of course, if you have a partner, the risks multiply that one of you will need care at some point, so best make at least some effort to save for all eventualities. You can then hedge against the likelihood that the government won't plunder your savings and house to cover the cost of care in old age.●

AGE AT WHICH YOUR PENSION POT WILL RUN OUT



Assumes monthly drawdown of £6,150 and 5% annual growth

Source: Trustnet Direct

TICKING OVER

Artemis' **Ed Legget** names three UK stocks that are ignoring the uncertainty and quietly increasing profits

THE OUTCOME OF THE ELECTION has done little to dispel the uncertainty surrounding the UK's departure from the EU. The outlines of the divorce agreement, if one can be reached, are unlikely to be known until 2019. Despite this lack of clarity, the economy keeps on ticking over. Low unemployment, rising wage growth and an accelerating expansion in consumer borrowing should continue to support consumer spending. While this will not result in the hoped-for re-balancing of the economy, it will, we believe, result in growth of around 2 per cent this year. Earnings from many UK companies are also heading in the right direction: the last results season brought more positive than negative surprises on earnings. But this politically inspired uncertainty could limit the scope for the multiples of stocks focused on the domestic economy to rise.

REDROW

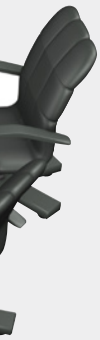
IF EARNINGS MULTIPLES OF DOMESTIC STOCKS STRUGGLE to move higher until there is more certainty on Brexit, they will need to increase earnings or pay a dividend to generate returns. Housebuilders such as Redrow should do both. Structural undersupply and low mortgage rates should make returns on capital more sustainable than share prices imply. The government's housing white paper makes us confident easier planning and the availability of the Help-to-Buy scheme will underpin returns.

PRUDENTIAL

NOT ALL UK COMPANIES ARE DEPENDENT ON THE DOMESTIC ECONOMY. Prudential's Asian business is growing and there are signs its recovery is broadening out beyond China and Hong Kong. It can grow profits organically at a double-digit rate for the foreseeable future, which is not reflected in a P/E multiple of 12.5x. Prudential is withdrawing from the UK annuities market and may dispose of its "back book" of business, freeing up capital to be reinvested or returned to shareholders.

3i

ANOTHER UK-LISTED STOCK PROSPERING OVERSEAS IS 3i. European discount retailer Action accounts for more than 25 per cent of its portfolio. Action, similar to B&M in the UK, is currently growing its top and bottom line at more than 30 per cent by opening around 200 stores a year in Europe. It is one of the only retailers where opening a new store pays for itself in less than a year. This puts it in the enviable position of being able to pay out significant dividends while still funding its own growth.



iSHARES GLOBAL INFRASTRUCTURE ETF

Coram's **James Sullivan** says this fund fulfils a long-held desire to build up his emerging markets exposure without overpaying for it

IF IT WASN'T ALREADY, THEN INFRASTRUCTURE HAS BECOME something of a buzzword since Donald Trump built a large part of his manifesto around his fiscal plans. New-to-market actively managed funds are being launched to capture the theme, but we question how much of the optimism around the US planned infrastructure spend is already priced in to developed market companies.

For example, the iShares Global Infrastructure ETF (dominated by developed markets such as the US and Canada) has an average price/earnings multiple of 20.48 and a price/book of more than 2. This appears to be fully valued, if not a little stretched.

We chose to continue building out our exposure to infrastructure via the iShares Emerging Markets Infrastructure ETF, which has much lower price/earnings and price/book multiples of just 12.62 and 1.47 respectively – acknowledging that there are a number of state-owned enterprises within the fund.

The ETF tracks the performance of an index of 30 of the largest emerging market companies active in the infrastructure sector, resulting in a portfolio of exposures predominantly to China, South America and the ASEAN bloc.

We have long held a desire to build out our ASEAN and broader emerging markets exposure without overpaying for it. Via an infrastructure theme, we have been able to achieve this.

The largest holding in the fund at the moment is Airports of Thailand, the operator of six airports including Suvarnabhumi in Bangkok, which can accommodate up to 45 million passengers and operates up to 76 flights an hour.

Other notable holdings include:

- CCR Group, which operates a portfolio of companies in road and rail transport. This is one of the largest private infrastructure conglomerates in Latin America and the leader in the Brazilian sector.
- Korea Electric Power Corporation, the largest electric utility company in South Korea, responsible for 93 per cent of the country's electricity generation.
- Transneft, the largest oil pipeline company in the world, operating more than 70,000 kilometres and transporting approximately 90 per cent of oil produced in Russia.
- CPFL Energia, the largest non-state-owned energy generation and distribution company in Brazil and the third biggest electric utility company.

With broad emerging market indices trading around their longer term averages and commodity prices still relatively subdued, there appears to be very material upside potential in this theme. When that latent value will be realised remains something of an uncertainty, but buying "low" means one isn't overly reliant on a multi-billion dollar fiscal project to maintain the rating.●

***James Sullivan** is a director at Coram Asset Management*

TRUSTNET

JULY PREVIEW

Built on sand?

Our next issue will focus on the growing number of people relying on property to fund their retirement. With multiple tax breaks being removed from buy-to-let and many experts calling the peak of the housing market, are the retirement plans of a significant part of the UK population being built on sand?

The sector focus will fall on IA Property as we ask whether it is fair to compare “bricks & mortar funds” with those that simply hold the shares of property companies.