ISA & PEPTalk

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Slater Growth Fund   Medium/High Risk

Terry Applegate
Chartered Wealth Manager

In recent weeks the UK stock market has experienced a minor correction, taking its cue from the falls seen in the North American market following concerns over rising interest rates and the potential trade war with China.

It is obviously very difficult to know if the recent weakness is a short-term problem or the start of a longer -term issue for the markets to deal with.

However, for those of you looking to invest for the future and are looking at holding for a reasonable timeframe, it is imperative to seek out those funds that have demonstrated good past performance, and that we feel can steer your portfolios through the difficult times.

One fund that we like is the Slater Growth Fund managed by Mark Slater and his team.

The fund's mandate is to seek long-term capital growth, principally through investment in UK Companies. The fund adopts a multi-cap approach meaning that it invests across the market from FTSE 100 listed companies right down to the AiM market.

Amongst the funds top ten holdings are Hutchison China, Restore, Prudential, CVS Group, On the Beach and Alliance Pharma.

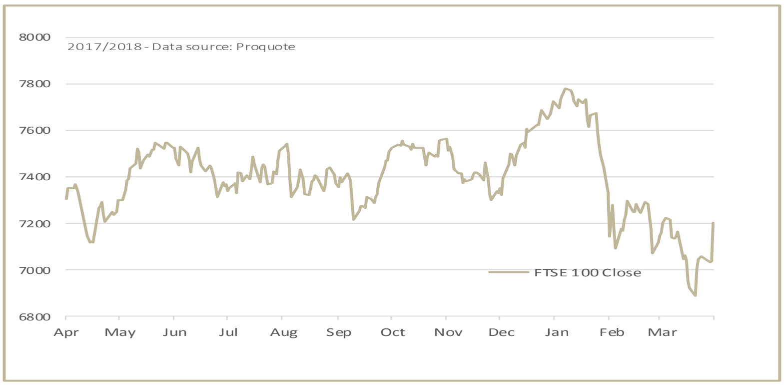
I recently met up with the sales representative from Slater who provided me with an update on the fund. He informed me that Mark had recently sold out of all his housebuilding stocks such as Bellway, Redrow and Bovis on valuation grounds.

Fund performance – Discrete years		
Year	Slater Growth Fund	IA OE UK All-Companies sector
28/2/17 – 28/2/18	19.49%	6.60%
29/2/16 – 28/2/17	6.88%	19.11%
28/2/15 – 29/2/16	7.11%	-5.30%
28/2/14 – 28/2/15	8.31%	3.73%
28/2/13 – 28/2/14	40.20%	19.44%
29/2/12 – 28/2/13	8.06%	14.08%
Source: Slater Investments & Morningstar		

This fund would be classed as **medium-high risk**. Please note the fund may invest in derivatives and forward transactions for the reduction of risk or costs, or the generation of additional capital or income with an acceptably low level of risk. Past performance is not a guide to future performance.

Economic Overview and Prospects for the Market

	5th April 18	3rd April 17
FTSE 100	7199.5	7282.69
FTSE All-Share	3961.28	3970.98
FTSE 250	19576.17	18954.24
Base Rate	0.5%	0.25%
$/£	1.400	1.248
Euro/£	1.144	1.171



Inside

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Mike Talbot

Investment Manager

There seems to be no sign of the volatility that is engulfing markets simmering down as the level of uncertainty over the health of the global economy is caught in the headlights of trade wars. President Trump has continued his attack on Chinese made products, setting his sights on a variety of items from Chinese-made cars to flamethrowers and allowing 60 days for public feedback on the proposed tariffs. China began the process assessing the situation and looking to reassure the market they were not interested in retaliatory measures. This did not last long, with China recently responding with their own threat to levy an additional 25% on approximately $50bn of U.S. imports. Understandably markets have been rattled by these developments but for now economists seem calm, suggesting President Trump is not about to reverse 75 years of developing trade agreements any time soon. Is this an episode of muscles being flexed before new negotiations begin? We will have to wait and see.

The knock on effects of trade wars doesn't stop there as Japan's longest run of economic expansion since the 1980s may be facing a turning point. Data suggests consumption will fail to drive growth if trade frictions undermine their export reliant economy. Household spending shrank 0.9% in February from a year earlier, the biggest drop since a 1.4% percentage fall in April last year. Inflation-adjusted real wages fell for a third straight month in February, undercutting consumer buying power. In addition, the recent rise in the value of the Yen is causing policy makers a greater headache.

Since the turn of the year all eyes have been on inflation. The last *half* of 2017 experienced synchronised global growth, something that hadn't been seen for a decade. Of course, while this would signal the world is firing on all cylinders, the concerns over the knock on effect of low unemployment, namely wage growth, began to bite. Since QE was introduced there has long been a worry that inflation was bound to be the side-effect of a mass printing of money. In reality these excess funds were used to fill the deep holes left in the banking system following the financial crisis, and the inflationary shock that was originally forecast did not materialise. Fast forward to the present day and we are starting to see the first signs of upward momentum for inflation. Under Jerome Powell, who replaced Janet Yellen as head of the U.S. Fed earlier this year, rates continue to trend higher, with many expecting a further three hikes in 2018. Closer to home we are yet to see how the Monetary Policy Committee (MPC) will act, but reading between the lines, Mark Carney has guided markets to expect two rate rises this year.

Mark Carney will be all too aware of the primary role of the MPC to concentrate on inflation, not to play politics. That being said there must be a clear justification to see a rate hike in the UK. Inflation has risen due to sterling weakness after the fallout from the vote to leave which we believe is not a long term issue.

Reading the latest report from Next PLC is encouraging as they comment, 'we expect costs for Spring 2019 to be 10% better than the current year, so we may see a return to modest price deflation as we move into 2019. If we do experience any improvements in cost prices it is our intention to pass on any benefits to our customers by way of lower prices'. This is more poignant coming from the retail sector where we have seen a lack of enthusiasm from the U.K. consumer. The result has been retailers going bankrupt, restaurants closing and new car sales collapsing. The overall picture for the consumer sector seems to be dire, and the threat of further interest rate hikes on an already heavily indebted consumer could cause further upsets.

Recent data from the Eurozone points to slower economic growth. This news has come as a surprise following 2017, which saw Europe as a hotbed of economic activity. So much so the European Central Bank (ECB) was preparing to wind down their asset-purchasing program in September 2018. Reports on inflation, output, retail sales and German industrial activity all failed to meet expectations. It is too early to tell if this is a temporary blip or a true slowing of momentum that could lengthen the time frame for the ECB to normalise stimulus.

In China, many have been concerned with the debt pile accumulated over many years of expansion. This is a difficult figure to quantify as China has not published any official data relating to the size of its outstanding debt but analysts at Bloomberg estimated it at 266% of GDP at the end of last year. While of course this is still a huge level of debt it is believed to be finally stabilising under President Xi Jinping as he prioritises control of financial risks. The debt is expected to be at this level by the end of the year, which means the growth in debt is slowing to roughly the same pace as the economy in nominal terms. The former Chinese central bank governor, Zhou Xiaochuan went a step further saying that China 'has entered a phase of stabilising and gradually reducing leverage.' The debt curbs are now expanding to target the broader economy. Local governments and enterprises, especially state-owned firms, should speed up the pace of leverage reduction, according to a Xinhua News Agency report. This crackdown will curb debt-fuelled investment grade growth in areas such as housing construction, and bridges, tunnels and other infrastructure. Fixed asset investments in all three major categories – real estate development, infrastructure and manufacturing – are forecast to decelerate.

During periods of volatility the trend often seen is to sell off your riskier holdings, either recycling the proceeds into 'safer' assets or cash. The base rate movements in the U.K. don't provide much of a pull to attract investors to follow this trend currently. In the U.S. however the more aggressive stance on a rising interest rate has meant investors are looking at cash savings instead of investments as a viable option once again.

This may be a factor in the selloff affecting both the Technology and Biotechnology sectors. Biotechnology have produced fantastic returns over the years. Technology has been seen as the stalwart of growth for many in the U.S. The development of technology has even superseded the expectations of Moore's law, Gordon Moore (Intel's co-founder) stated in 1965 that the number of transistors per square inch on integrated circuits had doubled every year since their invention. To give you an example of how this affects the consumer's spending power, a typical iPhone would have cost $3.6 million two decades ago (according to ZDNet.com), and today it costs $299 plus a 48 month contract. The speed in which technology has progressed is staggering and naturally this has had an impact on the economy as the disposable income of many can be stretched further. Is it surprising therefore that 5.5% of the world's total market valuations is held by the FAANGs (Facebook, Apple, Amazon, Netflix and Google (Alphabet) and BATs (Baidu, Alibaba and Tencent Holdings – (Asian technology companies)) put together? Naturally when there is a sell off this is going to have a more disproportionate impact on the technology sector perceived to be trading on higher valuations.

The final sector to mention is commodities. The price of oil has continued to stabilise between $60 and $70 following years of weakness. Since the turn of the year Gold has also stayed within a tight trading range. Many of the large mining companies have reduced their cost base dramatically since the end of the commodity super cycle. As a result the ability these companies have to pay an attractive level of income could interest investors, especially were other avenues of income generation has become more uncertain such as utilities and infrastructure.

Overall the market has entered a heightened period of volatility which investors may see as unwanted but a necessary evil as prices couldn't continue to increase unabated. Inflation is the real

Economic Overview and Prospects for the Market Contd…..

concern to the global economy and something Central Banks will be extremely mindful of when making decisions relating to interest rate rises.

Coming back to trade wars, the level of attention is bound to continue to leave its mark as isn't expected to end any time soon. It seems markets are in a precarious position at the moment, if not a little jittery, when fundamentally the global economy still stacks as the PMI index (measuring the level of economic activity across the world) continues to stand above 50, but headwinds will inevitably still occur.

Movers and Shakers

Sally Greenwood

Chartered Wealth Manager

As we went to press in January the FTSE was sitting at an all-time high of 7778.64. The ensuing 10% pullback, whilst widely anticipated, has felt a little jarring and we await to see if the market settles.

Higher volatility stocks such as BlackRock World Mining Trust have borne these falls in full, as would be expected. More defensive stocks with healthy yields such as Phoenix Group, with a dividend of 6.5% have held up much better.

Continuing to build on its enviable track record, the Lindesell Train Global Equity fund has actually managed to post a positive figure over this volatile period.

With the FTSE now sitting a little lower than a year ago, some of the stocks suggested in April 2017's PEPTalk have struggled to make headway. We believe the trusts referenced from this edition above, still all deserve a place in a diversified portfolio.

The advantages of longer term investing can clearly be seen by looking a little further back in time. Whilst Scottish Mortgage has fallen over 9% since the start of the year as a result of its heavy exposure to large, global tech companies it is still registering a 31% gain over the 18 months. Secure Income REIT, whilst a completely different animal, has also performed excellently – registering a 25% share price improvement.

Movers and Shakers from previous ISA and PEP Talks					
Stock	When featured	Price when featured	Current price (p)	+/- %	View
Phoenix Group	Jan 2018	788p	767p	-2.7%	Buy
Lindsell Train Global Equity Fund	Jan 2018	292.83p	296.33p	+1.2%	Buy
BlackRock World Mining Trust	Jan 2018	424p	362.50p	-14.5%	Buy
Henderson International Income Trust	Apr 2017	170.75p	155p	-9.2%	Buy
Fidelity Special Values	Apr 2017	273p	255p	-6.6%	Buy
Fidelity Asian Values	Apr 2017	391.50p	383p	-2.2%	Buy
Scottish Mortgage	Oct 2016	330p	433p	+31.2%	Buy
Secure Income REIT	Oct 2016	298.60p	374.50p	+25.4%	Buy

Infrastructure–Attractive Entry Point for Income Seekers Medium Risk

Nigel Moore

Senior Chartered Wealth Manager

The Listed infrastructure asset class has provided investors with an alternative source of income for over a decade, acting as a diversifier in client portfolios, relative to equities and bonds.

Three significant issue have spooked investors and has led to a fall in share prices across the sector.

Firstly, the sector was shaken back in October last year when John McDonnell spoke at the Labour Party conference denouncing the profits of these funds and the poor value for money for the UK tax payer. He mooted taking back control of the PFI/ PPP contracts at the expense of shareholders. This led to a sharp fall in the share prices of funds such as **HICL, International Public Partnerships** and **John Laing Infrastructure.**

Secondly, the recent and well publicised collapse of Carillion once again focused market attention on the sector. In this case the risk now became commercial due to the failure of Carillion to honour service contracts on the maintenance of Infrastructure projects.

HICL was worse hit and was forced to take a £50 million write-down to its Net Asset Value due to contracts commissioned to Carillion subsidiaries falling into default.

Finally, the sector's sensitivities to bond yields have increased pressure on share prices as normalisation of interest rates continues. Rising interest rates are a perceived negative for the sector.

In our view the political risks are more than priced into current valuations. Rising interest rates do carry risk which, although justified, do not altogether take into account the fact that these funds have inflation protection.

HICL offers significant protection against UK inflation, given that it has the highest portfolio exposure to the UK – 80%. **INPP** offers similar protection with 75% UK exposure. **John Laing Infrastructure** has 71% UK asset exposure although carries the lowest inflation correlation at 44%.

Taking into account the risks mentioned above, the Infrastructure funds are trading on historically low discounts to NAV having regularly traded at high premiums – as indicated in the table below.

We see this as an attractive entry point for income seeking investors willing to accept the risks.

Please request Key Information Documents (KIDs) from our Dealing Department if you wish to make an investment.

Fund	**Current Discount to NAV**	**Yield**
HICL	8.6%	5.9%
International Public Partnerships	3.1%	5.0%
John Laing Infrastructure	7.7%	6.4%
Some infrastructure funds, such as International Public Partnerships, make use of 'gearing' (i.e. borrowing to invest) which can increase returns in rising markets but which can lead to further losses in falling markets.		

PRS Real Estate Investment Trust (REIT) Medium Risk

Sally Greenwood

Chartered Wealth Manager

In February, as part of our regular due diligence work, I undertook a site visit in and around the Manchester area with PRS REIT to view some of their development sites and completed houses.

PRS REIT was launched back in May 2017, being significantly oversubscribed at IPO. It is the first listed REIT focussed on the emerging private rental sector. All capital has now been committed and debt allocated, on time and on budget. By June 2018 the trust will be c.£450m in size, with the majority of sites straddling the Manchester to Liverpool corridor and clusters around Wolverhampton and Telford. They have a further 55 sites under appraisal, equating to 3798 units, worth an estimated, additional £540m.

PRS have construction framework agreements in place with housebuilding partners Countryside, Keepmoat, Engie and recently, one has been signed with GallifordTry. This gives them access to a greater landbank and all houses are built on fixed price contracts so there is no development risk. They have good links and relationships with local authorities and Homes England (Government public body).

All houses are built in areas where infrastructure and transport links are strong with good or outstanding primary schools close by. The same types of houses are built on each new development with the same specification so that build costs are kept uniform and predictable. This gives significant economies of scale.

Of the 23.5 million households in the UK, over 4 million are now privately rented, almost double the number ten years ago and growing. By 2020, the PRS market is projected to grow to nearly 6 million households or 25% of all households. The rental market for family houses (rather than apartments) is believed to be particularly undersupplied. 51% of renters are families, however, over 90% of new build to rent supply is apartments.

Having had a tour of a couple of the show homes; internally the houses are tailored for modern living with it being common for the ground floor to be one open plan space with doors onto the garden. PRS take pride in some small extra touches with regards maintaining the street scene and front gardens so they remain uniform and tidy, so always presenting a good impression.

In conclusion, this is a clearly growing segment of the market where it would seem to be highly preferable to rent a brand new house from a professional landlord, who will respond swiftly to any problems you may raise. This is backed up by their 99% occupancy rate and success of their 'Simple Life' brand.

The most up to date Net Asset Value is listed as 98.2p, so at the current price of 101p the trusts sits on a small premium of 1.8%. The trust makes use of 'gearing' (i.e. borrowing to invest) which can increase returns in rising markets, but which can lead to further losses in falling markets.

The REIT has a targeted dividend yield of 5% for the first two years, rising to 6% when the portfolio is fully invested and stabilised. An additional capital return of 3 -4% p.a. is hoped for in time.

GB Group – Information is king High Risk

Alistair Hodgson

Senior Chartered Wealth Manager

Rules and regulations. I am not sure any of us welcome the imposition of new restrictions on what we do and how we conduct our business. It is especially irritating when deep down we know that we - the majority - are being inconvenienced in order to stymie the activities of a small minority of miscreants. I think we first encounter such feelings at school and it never leaves us as we grow up.

How nice might it be to try to make a profit out of such conditions? Well, one company we have been investing in derives its earnings from assisting companies by providing access to data that is secure and accurate, enabling amongst things customer identity verification which speeds up the opening of accounts and reduces customer frustrations. GB Group, based in Chester, helps companies combat identity fraud, check the identities and locations of people they are dealing with and screen employees. They claim they are able to verify the age and identity of around 60% of the world's population. Customers include HSBC, Tesco and Bentley.

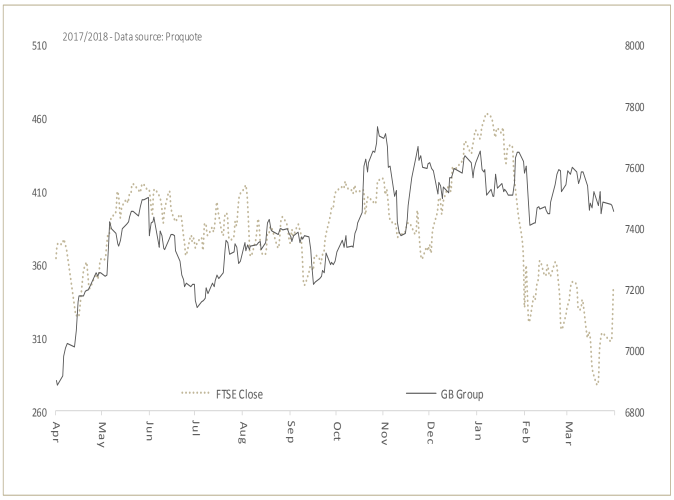
With a new data protection law known as GDPR set to go live on 25th May they are working hard to ensure that the data they source is compliant with the new rules which further adds value to their resource, so they can sell it on to companies who otherwise might be struggling to comply.

In a field that can be fast-moving and complex it is important to be able to adapt well to new policies and regulations drafted in by governments and this is just the latest imposition.

Perhaps it is not surprising that the shares of such a company would be highly sought after. They have been on quite a tear in the last 2 years but over that time they have grown earnings per share from 5p per share to 8.77p. Consensus forecasts are for EPS to reach 9.16p in FY2018 and 11p the year after. The balance sheet carries some cash and little debt. This means that at 401p per share the company has a market capitalisation of just over £600m and the equity commands a price-to-earnings ratio of 36.3 times which relies on targets being met. Fortunately, at the half-way stage for FY2018 revenues had grown by 40% but management chose to leave unchanged guidance for the full year, noting they may find the opportunity to reinvest excess profits for further growth. We anticipate a full year trading update in the middle of April.

Although the shares are well up on most periods we have seen a softness in them of late as we have seen volatility in most parts of the equity markets here and overseas. They reached a peak of around 450p in early November and have not managed to get back there since. Does this provide a sensible entry point for new investors?

Being an AiM listed security we regard GB Group as being of high risk. There are a number of risks for a smaller business of this nature which operates in a specialist area which combine to mean that whilst there is significant upside potential for an investment we must acknowledge the shares could deteriorate quickly if the company gets into difficulty.



View your portfolio on line with **Client Web Access (CWA)**

You can also see all your contracts, valuations, cash statements and PEPtalk.

Simply email **compliance@pilling.co.uk**

Custody Charge Increase

As you will have seen mentioned in the news and in previous issues of PEPTALK, MIFID II came into force at the start of the year. The changes are far reaching for the industry, many of which are behind the scenes and have no direct impact on you the customer. However, one area that has changed is the requirement for us to supply you with quarterly valuations and statements, historically this has been done six monthly. This together with the many behind the scene changes has resulted in a reluctant review of our custody charge.

We have not increased the custody charge since its inception in 2014 although we reserved the right to increase the minimum and maximum charge by Retail Price Index (RPI) at the time the charge came in to being. With this in mind we have increased the minimum charge from £40 per annum to £43.60 and the maximum charge from £140 to £152.60. The new rate will continue to be levied as two six-monthly amounts in arrears from October 2018.

However, you can reduce the increase of this charge by simply signing up to Client Web Access (CWA). For CWA users, most of our communications to you will be via email. You can see at any point a statement and valuation simply by logging on in addition to contract notes and newsletters. The minimum charge for CWA users will increase from £40 to £41.80 and the maximum charge from £140 to £146.30. **If you still require paper statements these discounts do not apply.**

To register for CWA simply send an email to compliance@pilling.co.uk. In the Subject enter **CWA registration** and make sure you put your account number on the email. You can apply to view more than one account on a CWA login (i.e. spouse/other family members) but we must have third party authority in place to set this up.

General Data Protection Regulation (GDPR)

From 25th May 2018 our general terms and conditions of business and privacy policy will be amended to take into account of a new regulation, the General Data Protection Regulation (GDPR) and changes to the way that we may place your money with third party banks.

The data protection changes cover how we will treat your personal data under the new regulations. The client money changes cover the length of time we may place your money on fixed term deposits with third party banks.

The new terms and conditions and privacy policy will be available from the 25th May on our website or sent to you on request. Unless you tell us otherwise we will assume, after 60 days, that you consent to the changes.

ISA & PEPTalk is produced for ISA and SIPP Investors by Pilling & Co Stockbrokers Ltd
(Compiled during the week commencing 9th April 2018. All share prices are taken that week unless stated)