Commodity slump deepens on China growth concerns

Investment conditions have certainly been unpredictable so far during 2015, as a sequence of macroeconomic events have given rise to increased volatility. Over recent months we have had to contend with collapsing commodity prices, the surprise unpegging of the Swiss Franc, the ECB's larger-than-expected quantitative easing programme, a UK general election and protracted negotiations between the Eurozone and Greece regarding a further bailout of the struggling country.

In the UK, the **FTSE100 index** briefly broke through the elusive 7,000 barrier, surpassing levels last seen in the previous millennia as equity investors were encouraged by the fresh influx of liquidity from the ECB, and the 'City-friendly' Conservative party winning by a majority vote in the general election. Domestic economic data has also been supportive of the argument that the UK economy is still 'on the mend'. Despite this encouraging news, however, the leading index has since waned, as upside potential has been limited by concerns from further afield, most notably Greece and China, and the FTSE100 is virtually unchanged at time of writing compared with the turn of the year.

A number of the world's leading 'commodity' giants operating in the oil, gas and mining industries are listed in London and are heavyweight constituents of our benchmark index. Due to concerns that the Chinese growth engine is starting to splutter, the prices of key commodities such as oil, copper and iron ore are trading at multi-year lows, pressuring the earnings profiles of the likes of BP, Rio Tinto and Royal Dutch Shell and bringing into question the sustainability of their dividend payments.

Such companies have acted fast however, cutting capital expenditure programmes and uneconomic production facilities in an effort to conserve cash. Those with the strongest balance sheets will undoubtedly be well placed to take advantage of distressed industry peers looking to offload assets or seek strategic partners. The next few months could, as a consequence, witness significant corporate activity.

China worries, and nervousness ahead of a possible US rate rise, have also impacted on the stockmarkets of many of China's 'neighbours' and emerging markets in general. These are now very firmly out of favour and the days of the exuberant marketing campaigns for funds focusing on acronyms such as 'BRICS' and 'MINTS' now seem a very distant memory!

Given all of the current short term negative 'noise', however, it is easy to lose sight of the fact that the long-term demographics of many Asian and emerging market countries remain very positive, compared with their developed market counterparts, and the current valuations of their stockmarkets (from a PE and dividend yield point of view) also generally remain appealing on a relative basis.

Whilst it is certainly a contrarian position currently, we feel that the recent sell-off in such markets and the widespread collapse of valuations in the commodity sector has thrown up opportunities for those investors willing to take on board some short-term investment risk and look to the longer term.

In this issue we highlight a number of our current favourite collectives offering exposure to a variety of regions and sectors, which offer the prospect of capital growth over future years whilst also generating an above-average level of dividend yield in the meantime. Should you require further information regarding any of the subjects contained in this issue, or if you would welcome a review meeting at this time, please contact your usual Cave's advisor.

Finally, with the Rugby World Cup starting soon we focus on some of the likely 'winners' and have a competition to win a bottle of champagne to get you in the mood. Good luck!

High-yield income ideas for the longer-term investor

Following on from the volatility caused by the Greek debt talks, China has now taken centre stage in terms of dictating short-term investor sentiment. Although the slowdown in China's economic growth has been of concern for a while now, the recent extreme volatility of the Chinese stock market, plus the recent decision to allow a devaluation of their currency, has caused shockwaves around the world.

Given the importance of China to global demand, particularly in commodities markets, it is unsurprising that some of the hardest-hit investments have been mining and oil shares, as well as funds investing in the Asia-Pacific region or Emerging Markets. Although it is perhaps too early to call the bottom of this particular downwards trend, the recent falls may have created some opportunities for

the income-seeking investor that is prepared to take a higher degree of risk with their capital. We are focusing on investment trusts here, given the greater degree of flexibility that they have with their dividend pay-out rates; this enables them to retain dividend reserves in good years, which they can then dip into to hopefully maintain dividend payments in difficult years. All the trusts listed currently pay income to investors on a quarterly basis.

Aberdeen Latin American Income	Price: **49p**	Year High/Low: **85.68p/49p**
	Yield: **8.7%**	Discount to NAV: **13%**

This trust aims to achieve an above average yield, primarily through investing in Latin America. Exposure to Brazil makes up a large part of the trust, with the last reported weighting standing at 46%.

BlackRock Commodities Income	Price: **61.75p**	Year High/Low: **119.9p/61.3p**
	Yield: **9.7%**	Discount to NAV: **3%**

The fund aims to achieve an annual dividend target (currently 6p per share) and longer-term capital growth, through investment primarily in the mining and energy sectors. The trust will use derivatives in order to augment the income and help support the dividend target.

Henderson Far East Income	Price: **273.5p**	Year High/Low: **362p/272.25p**
	Yield: **6.8%**	Discount to NAV: **3%**

This trust aims to provide a high level of dividend and capital appreciation through investment in the Asia Pacific region. The major country exposures are currently China, Australia and Taiwan. The trust may use derivatives in order to increase investment income.

JPMorgan Global Emerging Markets Income	Price: **92.25p**	Year High/Low: **130p/91.75p**
	Yield: **5.3%**	Discount to NAV: **6%**

The fund aims to deliver a combination of capital growth and a diversified source of income from Emerging Markets investments. The largest geographical weightings are currently China (20%), Taiwan (19%) and South Africa (12%).

Murray International Trust	Price: **813.5p**	Year High/Low: **1123p/812p**
	Yield: **5.5%**	Discount to NAV: **6%**

The objective of this trust is to achieve a total return greater than its benchmark (40% FTSE World UK and 60% FTSE World ex UK), with an objective of maintaining an above average dividend yield. The trust is mainly invested in equities, with Asia Pacific ex Japan, Europe ex UK and Emerging Markets its major geographic exposures, although the manager will also utilise fixed income investments, with exposure to this area currently running at about 13% of the fund.

All fund statistics have been taken from the Financial Times dated 20th August 2015.

World Cup Winners?

With only a few weeks to go before England kick off against Fiji, excitement (and expectation) levels for the forthcoming Rugby World Cup are building. Whilst on-pitch preparations and final squads are still being finalised, off the pitch, companies have been planning for years and are now ready to execute how best to take their piece of the cash generated from the tournament.

The Rugby World Cup 2015 is anticipated to generate billions of pounds in additional revenue for the UK. The most recent report from financial services company Deloitte forecast an overall £2bn economic impact for the home nation as a result of hosting the tournament. UK businesses are all clambering for their slice of the action and we take a look (in a light hearted way) at who stands to benefit.

Tourism will be a big winner. The tournament is taking place after the main summer peak season and with matches across England as well as Cardiff, supporters and visitors will be travelling extensively. As well as an estimated 400,000 traveling supporters, there will be thousands of broadcast and accredited media from all parts of the world and with considerable 'down time' they will enjoy visiting many of the attractions close to the host cities and training camps. **Merlin Entertainment**, owners of attractions such as Alton Towers, Madame Tussauds and Legoland will be hoping to gain additional traffic during the month. Anyone who has tried to book accommodation and transport near venues around England will be shocked at the increase in standard rates; Premier Inn owner **Whitbread** and bus operator **National Express** look set to be winners regardless of the performances on the pitch.

Without needing much of an excuse anyway, pubs also stand to gain from supporters flocking to their local to enjoy a pint and share in the atmosphere. **J D Wetherspoo**n recently announced it was taking on addition staff to cope with the anticipated demand and other operators will be following a similar tune. A favourite of many a rugby fan, owners **Diageo**, will be expecting Guinness sales to rocket over the tournament weeks. Take away providers will be in for a busy month as supporters order in supplies, **Domino's Pizza** and **Just Eat** stand to gain. Company bosses and shareholders will have a keen eye on the results; England progressing to the later stages of the tournament is key to keeping both the country's enthusiasm, hunger and thirst levels high!

Competition Time!

Up for grabs is a **bottle of Champagne** to hopefully toast England success! To enter, simply send us your prediction **for the combined total points scored** in the opening **England V Fiji** game on the 18th September. Please email your entries, along with contact details to **info@caves.co.uk** before the closing date of 17th September 2015. **GOOD LUCK!**

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Summer Budget Summary

Despite being light on surprises, the first truly Conservative Budget for almost 20 years was far from the right wing statement many expected as Mr Osborne endeavoured to close the door on a low-wage, high-welfare, high tax economy.

From April 2016, the 'ageing' tax credits mechanism on dividends will be replaced by an annual tax-free dividend income allowance of £5,000. Though this may at first sound generous, a £130,000 portfolio yielding 4% would exceed this allowance, with the excess then subject to tax at either 7.5% for basic rate tax payers, 32.5% for higher-rate tax payers or 38.1% for additional rate taxpayers. Smaller investors with portfolios generating a dividend income of below £5,000 will be relatively unaffected and may well find completing their tax returns easier, whilst larger investors will suffer a heftier tax bill; with top-rate taxpayer liabilities rising by at least 25%. Furthermore, the self-employed receiving dividends as salaries from company profits will find themselves on the wrong side of a 20% rise in rates. These rule changes can only help to highlight the importance of utilising tax efficient wrappers, such as ISAs, Pensions and Investment Bonds.

There has also been a well flagged, if slightly complicated, change to the inheritance tax rules. The £325,000 nil-rate band has already been frozen until 2020/2021. However, from April 2017 an additional increase in the allowance is provided through a 'family home allowance' which will be made available to everyone who leaves their house to their children or grandchildren. This will be initiated with an additional £100,000, allowance, increasing in £25,000 increments over the following three years, eventually adding a further £175,000 (per individual) by 2020 to the nil rate band. This will effectively allow a couple to potentially bequeath up to £1m of assets free of the 40% (current rate) inheritance tax charge. There is a tapered withdrawal of the allowance by £1 for every £2 on estate values in excess of £2m.

The allowance is transferable to surviving spouses. Those who downsize in the intervening period will still be able to use the allowance, although the specifics are still subject to clarification.

In the previous budget, the Chancellor introduced new "pension freedoms" allowing most retirees complete access to their pension funds. Somewhat contrary to the new ethos of pension freedom, the Chancellor has introduced a restriction to the level of the Annual Contribution Allowance for those with income (includes dividends and pension contributions) in excess of £150,000. Over this threshold the Annual Allowance will be tapered from £40,000 to £10,000.

For those financing "Buy to Let" properties the government will restrict the amount of tax relief available to landlords. The relief will be restricted to the basic rate and will be phased in over four years from April 2017. This restriction will not apply to furnished holiday lets.

One change introduced in the previous budget, which seems to have slipped under the radar, given all of the focus on the pension changes, is the ability for married couples (and civil partnerships) to transfer up to £1,060 of their Personal Allowance to their partner. It is only available for those who are non or basic rate taxpayers and could lead to a tax saving of up to £212 in the year.

Best Savings Rates

Easy Access

Bank	Account Name	Rate	Notes
Newbury Building Society	Welcome to Newbury	1.65%	Min £50 / Max £3,000, rate does not include a bonus
RCI Bank	Freedom Savings Account	1.65%	Min £100, rate does not include a bonus
Birmingham Midshires	BM Online Extra (Issue 18)	1.60%	Min £1000, rate includes fixed bonus of 1.1% for 12 months
Skipton Building Society	Limited Edition eSaver Issue 2	1.40%	Rate does not include a bonus
Tesco Bank	Internet Saver	1.35%	Rate includes fixed bonus of 0.6% for 12 months

Notice Accounts

Bank	Account Name	Rate	Notes
Secure Trust Bank	183 Day Notice (Issue 1)	2.07%	Min £1000, rate does not include a bonus, 183 days notice
Secure Trust Bank	120 Day Notice (Issue 14)	1.98%	Min £1000, rate does not include a bonus, 120 days notice
Charter Savings Bank	120 Day Notice Issue 4	1.95%	Min £1000, rate does not include a bonus, 120 days notice
Al Rayan Bank	120 Day Notice	1.81%	Min £250, rate does not include a bonus, 120 days notice

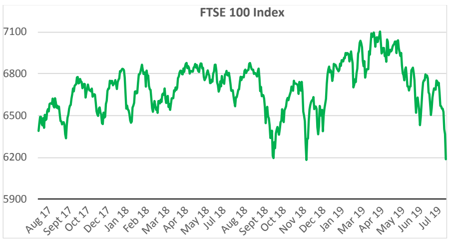
Cash ISA's

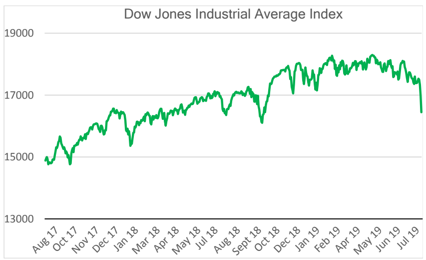
Bank	Account Name	Rate	Notes
Virgin Money	Defined Access E-ISA Issue 2	1.51%	Rate does not include a bonus
NS&I	Direct ISA	1.50%	Rate does not include a bonus
Post Office Money	Online ISA – Easy Access Issue	1.41%	Min £100, includes fixed bonus of 0.76% for 12 months
Coventry Building Society	Easy Access ISA	1.40%	Rate does not include a bonus

Source: moneysupermarket.com. All rates are gross, include any bonus unless otherwise stated and are correct as at 24/08/2015. Rate advised corresponds to £1 invested, except where advised different. Details of all accounts and interest rates are for information only and do not constitute a recommendation from Cave & Sons.

Indicators

Inflation: Consumer Price Index	0.1%
Inflation: Retail Price Index	1.0%
Bank Base Rate	0.5%





Source: Yahoo Finance

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