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SHARES

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Time is ticking on race to invest in VCTs

Investors not in a rush may wish to look at new report for alternative income ideas

Venture capital trust (VCT) offers are selling out in record time, suggesting that investors shouldn't wait until the end of the tax year if they want to put their money in these types of products.

VCTs come with an array of attractive tax benefits, as well as being a good way to get exposure to early-stage businesses.

A year ago I explained in *Shares* how changes to the pension system could make VCTs more popular with retirees given tighter limits on pension contributions for high earners. You can invest up to £200,000 a year in these products and get 30% income tax relief, together with tax free dividends.

There is now clear evidence that VCTs are indeed 'cleaning up' and taking investors' cash faster than before. The Association of Investment Companies says VCT fundraising to the end of 2016 for the current tax year was up 53% on the previous year.

FUNDRAISING GOALS HIT

Unicorn AIM VCT reached its £15m target on 3 February. Maven Income & Growth VCT 6 topped taking new applications on 7 February. Albion is also close to hitting its £34m target.

We will publish a list of remaining VCT offers in the 23 February issue of *Shares* and talk to some of the providers about the underlying investments in these products. We will also look at the pros and cons of investing in VCTs and explain how they really work.

INCOME APPEAL

Some VCTs pay dividend yields in the region of 5% to 8%. Investors searching for attractive income yields may therefore find this asset class very appealing, albeit on the understanding that you need to lock your capital away for at least five years to qualify for the tax benefits.

Anyone who doesn't want to lock their money away may instead prefer to look at the latest *Income Study* report from Sanlam Private Wealth which looks at a wide range of dividend-paying funds.

The report is updated every six months and has been running for more than 20 years. I'd suggest you look at the *White List* component of the report as these are funds with a track record over five years or more of producing superior returns.

The list includes **CF Miton UK Multi Cap Income (GB00B4M24M14)**, **Schroder Income Maximiser (GB00B0HWJ904)**, **JOHCM UK Equity Income (GB00B95FCK64)**, **Royal London UK Equity Income (GB00B3M9JJ78)** and **Threadneedle UK Equity Alpha (GB00B88P6D76)**.

These funds yield in the region of 4% to 4.5% apart from Schroder which is on a yield of 6.7% as it turbo charges returns by using derivatives. This introduces a higher element of risk.

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Banking rally not justified by the facts

No guarantee Trump's plan to loosen regulation will work or be exported overseas

The market is beginning to price in a more lax regulatory environment for the banking industry as US president Donald Trump sets in motion proposals to scale back rules across the Atlantic.

We think investors should resist the temptation to hitch a ride by investing in UK banks. There are few guarantees Trump's actions will be replicated in Europe even assuming he can successfully implement them in the US.

European Central Bank chief Mario Draghi, for example, says a relaxation of the rules is 'the last thing we need'. We also still have serious reservations about the sector's earnings quality and the risks of mounting bad debts.

ROLLING BACK REGULATION

On 3 February the new US president signed *yet another* executive order to review the 2010 Dodd-Frank regulations, introduced to help prevent a repeat of the 2007/8 financial crisis.

Shares in US investment banks moved sharply higher on the news and **Barclays (BARC)**, which has

a large North American operation, gained 4% in the immediate aftermath. Its London-listed peers posted smaller gains.

UBS reckons any repeal of, or alteration to, Dodd-Frank will be tricky to achieve, 'while carrying symbolic significance, the legislative process provides clear constraints on what can be accomplished'. It notes changes would require senate approval and ultimately support from Democrats. (TS)

Pawnbroker among names headed for UK stock market

Woodford-backed biotech investor also among forthcoming IPOs

PAWNBROKER **RAMSDENS** IS to float on the stock market in the coming weeks along with a trio of larger healthcare and property related companies.

The Middlesborough-headquartered business, which also sells jewellery and offers a mix of other financial services, has raised £15.6m from institutions ahead of its 15 February debut on AIM.

Key elements of the growth strategy include an expansion of the branch estate at a rate of 12 new stores a year over the medium term and boosting the company's online footprint.

Also heading to the UK stock market is healthcare and life sciences investor **Arix Bioscience**. It plans to raise £100m and join the Main Market on 22 February.

Backed by noted fund manager Neil Woodford, Arix's funds will likely be used to build on the portfolio of five biotech firms it has already invested in directly.

Impact Healthcare REIT hopes to float on 7 March. It is targeting a £160m issue to fund the acquisition of a portfolio of residential care homes. It plans to offer a dividend yield of 6%.

LXI REIT plans to raise £200m to invest in commercial properties and join the stock market in late February. The company looks set to target a yield of at least 5% a year. (TS)

Glanbia is a nutritious pick for your portfolio

Irish group's acquisitions highlight attractions of the nutrition space

Global nutrition group **Glanbia (GLB)** has invested €181m in two highly complementary acquisitions (6 Feb). These deals highlight the strategic attractions of nutrition assets, as we outlined in our look at **Science in Sport (SIS:AIM)** – see *Big News, 02 Feb 2017*.

Kilkenny-headquartered Glanbia has enhanced the growth potential of its performance nutrition business through the takeover of California's Amazing Grass, a natural plant-based nutrition products provider.

It has also snapped up Body & Fit, an online performance nutrition business selling mainly to Germany and the Benelux countries. Glanbia will flex its muscles in expanding Body & Fit's sales across Europe. Both sport strong growth track records and combined will be 'marginally earnings accretive in 2017'.

Given group turnover approaching €3.7bn, investors should probably be more aware of Glanbia. Also a major manufacturer of nutritional and functional ingredients, milk, butter and American-style cheddar cheese, Glanbia operates in the low risk food sector. It also has limited exposure to the UK and a strong US presence.

GLANBIA OPERATES IN LOW RISK FOODS SECTOR

Irish brokerage Davy has an 'outperform' rating, arguing Glanbia is executing early in unlocking its balance sheet in a sensible manner to drive earnings with these deals. Analyst Jack Gorman will likely adjust his forecasts upwards following full year results later this month (22 Feb).

SHARES SAYS: ↗
We like Glanbia at €15.81 for its growth potential in nutrition and resilient earnings profile. (JC)

BROKER SAYS 2 0 0

Accesso is profit boost

ATTRACTIONS AND THEME park ticketing, queuing and payments technology specialist **Accesso Technology (ACSO:AIM)** says it will beat profit expectations for 2016. This is welcome news after a slow start to the second half as poor weather in the US hit attractions attendances. Accesso is also committed to substantial investment in growth opportunities. The shares trade at £15.60. (SF)

Stunning rise for Velocys

SHARES IN SMALLER scale gas-to-liquids play **Velocys (VLS:AIM)** are now up by more than 170% since we flagged them as one of our key selections at 60p in September 2016. The rise has been driven by the results of a strategic review in December and the maiden delivery on 6 February of product from its first facility, the ENVIA plant in East Oak, Oklahoma. (TS)

Scope for upgrades at Spectris

INDUSTRIAL CONTROLS AND productivity kit supplier **Spectris (SXS)** could deliver an upside surprise to earnings when it posts full year 2016 results on 14 February. Some analysts see the potential for a rough 5% outperformance versus consensus despite a challenging market backdrop. Consensus is pitched at 120p of earnings per share, rising to 133p in 2017. (SF)

Diversified Gas & Oil's dividend delights

Biggest oil and gas IPO since commodity crash looks an interesting income play

The biggest oil exploration and production IPO (initial public offering) since the oil price collapse in 2014 is set to be something of a rare beast in the sector as it plans to pay a generous dividend.

The uniqueness of its proposition helped US-focused **Diversified Gas & Oil (DGOC:AIM)** raise $50m as it joined AIM on 3 February.

The company has been in existence since 2001 but has supercharged its growth in recent years by picking up conventional oil and gas assets in its Appalachian basin base spanning Ohio, West Virginia and Pennsylvania.

DIVIDEND PLEDGE

The company currently has production of 4,700 barrels of oil equivalent per day and 27.9 million barrels of oil equivalent of proved reserves.

It plans to pay 40% of operating cash flow in dividends. We believe the stock could yield in the region of 5.5% based on forecasts by financial services group Mirabaud.

The rest of its cash flow plus the $5m left over from the IPO, after paying off bondholders and an existing credit facility, will be funnelled back into acquisitions.

With three quarters of its revenue accounted for by natural gas, the company would be a beneficiary of any recovery in US gas prices as demand for industrial use increases and shale gas supply begins to level off.

Chief executive and founder Rusty Huston says the asset base would generate free cash flow at an oil price of $9.50 per barrel of oil equivalent ($1.20 per million cubic feet in natural gas terms).

LONG LIFE PRODUCTION

Unlike many unconventional wells which often see rates of production decline rapidly, Diversified's well inventory has long lives, low decline rates and minimal maintenance costs.

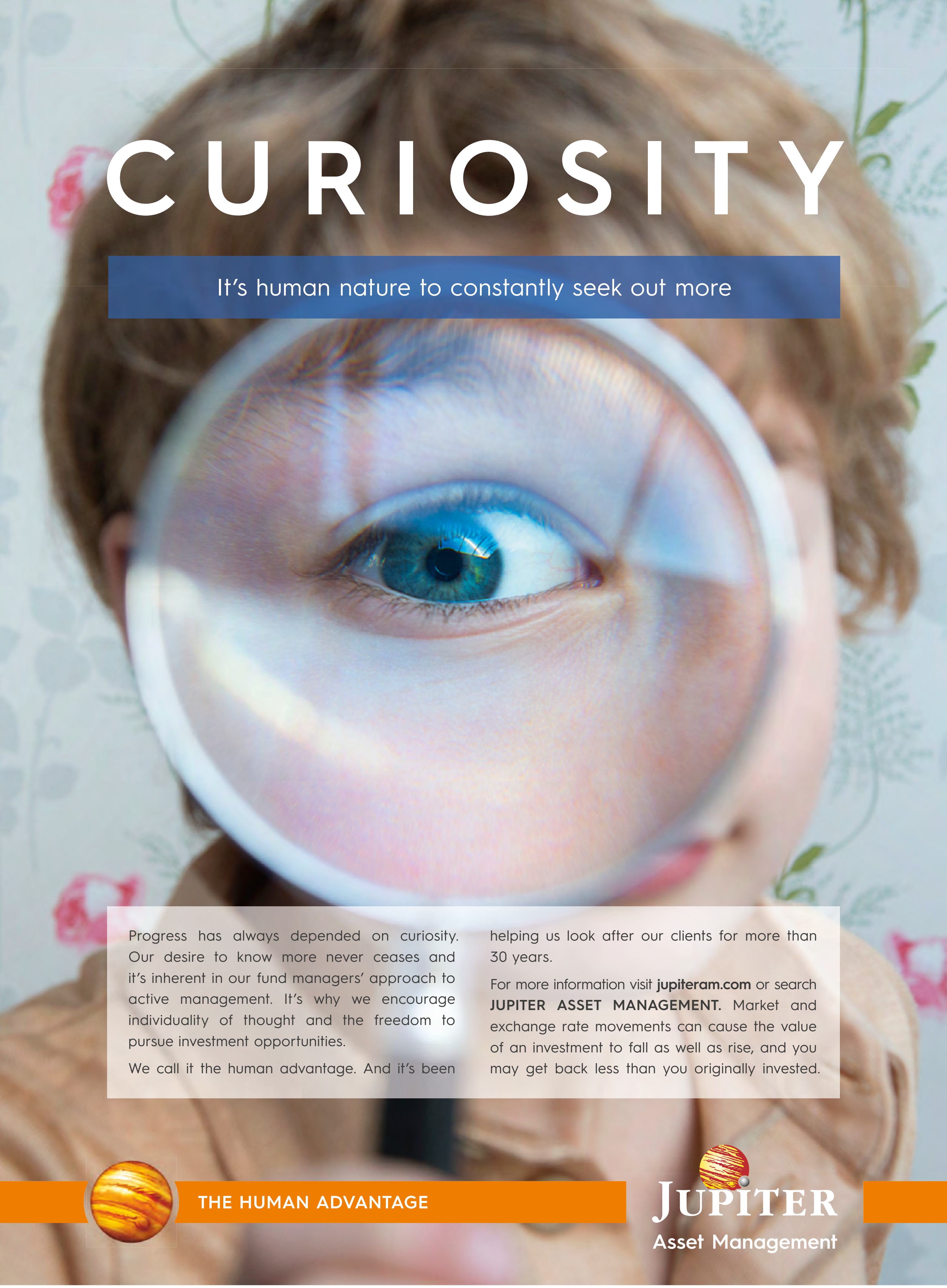
Hutson explains there is an opportunity to

acquire these wells because larger oil firms are not set up to operate them efficiently. 'I would characterise these as annuity-type assets, delivering very predictable and stable output,' he says.

'We've seen a transformation in the way these deals are priced,' he adds. Huston says historically assets would have been struck on a percentage of the level of reserves but the company is now evaluating acquisitions on multiples of one to three times annual cash flow.

He believes there are plenty of deals to be done in the Appalachian basin and says that if management were to look elsewhere the wells would have to enjoy the same low cost, low decline qualities to be of interest.

SHARES SAYS: ↗
Buy at 59.5p.


CURIOSITY
It's human nature to constantly seek out more
Progress has always depended on curiosity. Our desire to know more never ceases and it's inherent in our fund managers' approach to active management. It's why we encourage individuality of thought and the freedom to pursue investment opportunities.
We call it the human advantage. And it's been helping us look after our clients for more than 30 years.
For more information visit jupiteram.com or search JUPITER ASSET MANAGEMENT. Market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than you originally invested.
THE HUMAN ADVANTAGE
JUPITER
Asset Management

54 oil rigs

biggest increase since 2014

THE US RIG count on 3 February 2017 posted its biggest four-week gain since April 2014, a time when oil prices had yet to begin their rapid retreat from $100 per barrel.

The data, published by US oil services giant **Baker Hughes (BHI:NYSE)**, shows the total number of oil and gas rigs active in the country is now 729, up 158 year-on-year and up by 54 in just the last four weeks.

This could be positive for London-listed oil service groups with North American exposure like **Hunting (HTG)**, **Wood Group (WG.)** and **Weir (WEIR)**, although their share prices have already started to factor in a stronger market backdrop.

70%

of free cash flow

EGYPT-BASED GOLD miner **Centamin (CEY)** has surprised investors with plans to pay more than twice the amount of money it normally earmarks for dividends.

The miner has a policy to pay out between 15% and 30% of free cash flow as dividends each year to shareholders. Last week it put a smile on investors' faces by saying it would pay 70% of free cash flow generated in 2016, equal to 15.5c per share. Analysts had only forecast 7c per share for the total dividend.

Sector peer **Randgold Resources (RRS)** on 6 February announced a 52% hike in its dividend. Investment bank Investec says this marks the start of 'meaningful increases in shareholder returns'.

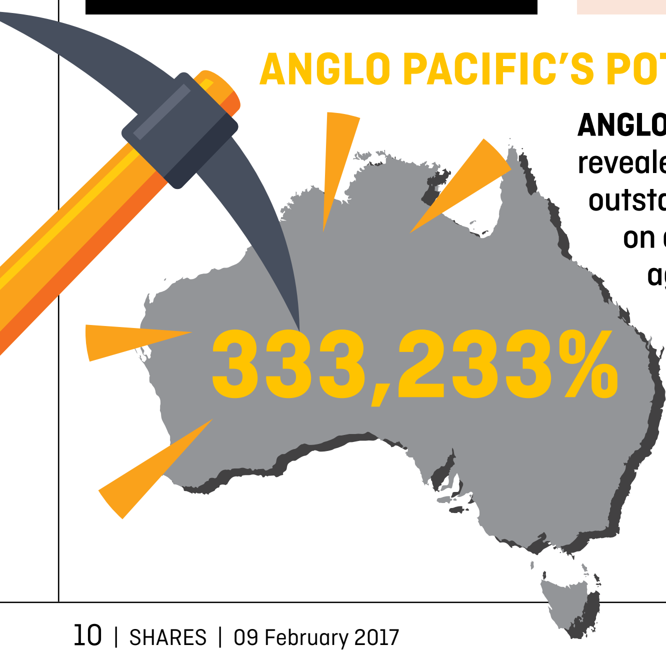
-37%

PEBBLE BEACH SOAKED BY PROFIT WARNING

THE FORMER BROADCAST technology supplier Vislink has got off to the worst possible start under its new identity as **Pebble Beach (PEB:AIM)**. The share price was given a severe 37% hammering after issuing a profit warning just days after selling off its old cameras kit business to concentrate on software solutions for the broadcast and security industries through the previously-acquired Pebble Beach. The old hardware business is largely to blame.

At 10.88p, the ongoing Pebble Beach business is now valued at less than £12m, compared to its original £14.9m purchase price in March 2014. (SF)

ANGLO PACIFIC'S POTENTIAL RETURN ON COAL MINING ROYALTY



ANGLO PACIFIC (APF) has revealed it could make an outstanding 333,233% return on a coal mining royalty agreement.

The mining investor paid A$180,000 for land rights in Australia in the 1980s. The land has subsequently become part of **Rio Tinto's (RIO)** Kestrel mine.

Australian law states that Anglo Pacific gets a royalty payment on coal extracted from its section of land.

It has so far received an incredible A$400m in royalty payments from the mine and expects to receive a further A$200m in the future. If achieved, Anglo would have made more than 3,333 times its money on the investment.

163%

THIS IS THE potential gain to be made for anyone who followed our suggestion to buy **NetDimensions (NETD:AIM)** at 38p in May 2012.

The Hong Kong-based business has agreed a £53.6m, 100p per share, cash and shares offer from **Learning Technologies (LTG:AIM)**.

Investors may be relieved with the outcome considering that NetDimensions had to push out its $50m revenue target in September 2016.

22 GLOBAL ECONOMIC GROWTH AT 22 MONTH HIGH

GLOBAL ECONOMIC GROWTH hit a 22-month high in January 2017 led by higher production, new orders and business sentiment.

JP Morgan and Markit's Global All-Industry Output Index has signalled expansion for 52 consecutive months.

Services sector growth climbed to a 17-month high, more than compensating for a slight decline in the pace of manufacturing expansion.

It is important to note the latest data doesn't include manufacturing figures from various parts of Asia including China.

TOP 10 MOST SHORTED COMPANIES ON LONDON STOCK MARKET

		% on loan
1	Carillion	23.2
2	Ocado	17.5
3	WM Morrison Supermarkets	15.8
4	Tullow Oil	15.0
5	Mitie	14.3
6	Telit Communications	9.9
7	Sainsbury (J)	9.1
8	Debenhams	8.6
9	Ascent Resources	8.4
10	Aggreko	8.3

Source: Castellain Capital

TOP 10 LARGEST COMPANIES ON AIM

ASOS	£4426m
Abcam	£1734m
Boohoo.com	£1560m
Fevertree Drinks	£1538m
Burford Capital	£1489m
Hutchison China Meditech	£1289m
Breedon	£1042m
James Halstead	£1040m
Clinigen	£926m
Dart	£767m

Source: SharePad

How to get first dibs on Woodford's 5% income fund

Retail investors should get a chance to apply for the new fund by mid March

Highly respected fund manager Neil Woodford is to launch a new income fund in March initially targeting a 5% dividend yield.

It will be called CF Woodford Income Focus and will only invest in companies that trade on a stock market.

HOW CAN I INVEST?

Investors will be able to apply for units in CF Woodford Income Focus through their stockbroker ahead of the official launch in a 'fixed-price offer'. Further details will be announced in the coming weeks.

There is no guarantee that you will get a better deal by acting as soon as the offer period opens. Neither will it be a limited offer as the product will be classified as an open-ended fund.

Woodford Investment Management will use the money deposited in the offer period to set up the investment portfolio. The more money people invest, the more Woodford has to invest from day one in companies that meet the fund's investment criteria.

It will accept additional money once the fund starts trading in March. Open-ended funds create and redeem units every day in response to investors' respective buy and sell orders.

In comparison closed-ended funds like investment trusts only have a fixed number of shares in issue. High demand for shares in these types of funds can push up the price in excess of the value of its underlying assets.

Open-ended funds should continuously trade at the net asset value and not have their price affected by investor demand.

WHY WOULD I WANT TO INVEST?

Admittedly there are already a large number of income funds on the market. Do investors really need another one when the choice is already plentiful?

Neil Woodford is very well known and has made investors a lot of money in the past.

However, like most investors his track record isn't always perfect. His investment trust **Woodford Patient Capital Trust (WPCT)** last year failed to achieve its goal of providing in excess of 10% annual capital growth.

Investors should not be too downbeat about that performance. The clue is in the name – Woodford Patient Capital Trust is a fund for 'patient' investors. It includes stakes in privately-owned companies that are still in the early stage of their corporate life and therefore not generating immediate value appreciation.

Woodford built his reputation as an income-focused fund manager with Invesco Perpetual, so one could assume he knows the qualities a company should possess in order to make a reliable income stock.

DOESN'T WOODFORD ALREADY HAVE AN INCOME FUND?

Yes, he does. The key difference between the new fund and his existing product **CF Woodford Equity Income (GB00BLRZQ620)** is that the latter is positioned towards capital growth and has less capacity to invest overseas.

CF Woodford Equity is

targeting companies capable of paying some income and delivering a rising share price.

In contrast, it looks at first glance like CF Woodford Income Focus will target companies that potentially pay more generous dividends and which may deliver more limited growth in terms of share price appreciation.

The new fund will not be restricted by the geographies in which it can invest, providing a greater pool of opportunities than income funds which are purely focused on the UK market.

In comparison, CF Woodford Equity Income is only allowed to hold up to 20% of its assets overseas. At the moment it has about 85% invested in the UK. It is yielding 3.37% and has stakes in such companies as drug firm **AstraZeneca (AZN)** and cigarette manufacturer **Imperial Brands (IMB)**.

IS THE NEW FUND GUARANTEED TO PAY 5% EVERY YEAR?

No. It doesn't have a specific yield target beyond paying 5p in its first year. Even that amount is only a target and not a guaranteed payment.

All we know is that the new fund hopes to yield at least 20% more than the income delivered by the FTSE All-Share index over a rolling five-year period.

WHAT DO THE EXPERTS THINK?

'The new fund from Woodford will look to complement the existing fund by focusing on a higher level of income with an attractive yield target of 5% at launch,' says Ryan Hughes, head of fund selection at AJ Bell.

'With the demand for income an ever increasing trend, it is little surprise that the new Income Focus fund will look to tap into that need.

'By specifically excluding unquoted stocks, the focus on income generation is clear while the flexibility to look overseas will also offer a much wider opportunity set should the UK economy falter in the face of potential headwinds from the forthcoming Brexit.'

Building the case for transformed Alumasc

Get in quick before the market 'renews' its enthusiasm for the small cap firm

The market valuation attached to building products business **Alumasc (ALU)** does not reflect its earnings potential or inherent qualities.

The market doesn't appear to have picked up on the Kettering-based company's transformation from an engineering conglomerate to a pure play on premium building products.

The stock trades on 8.2 times forecast earnings for the year to June 2018 which looks far too low, in our opinion.

RENEWED FOCUS

It is not a perfect like-for-like comparison but **Renew Holdings' (RNWH:AIM)** share price has increased six-fold in the last five years as the company shifted its focused from heavy construction to specialist engineering services.

Its share price was also static for a while, but the re-rating was spectacular once investors realised how Renew's business had changed. The same could apply to Alumasc.

The last of Alumasc's engineering-related businesses was sold in July 2016 with the £4m disposal of Dyson Diecastings.

The focus is now on 'fast flowing streams' in the building products space. This encompasses a focus on sustainable products which help conserve energy and water and solutions which help constructors meet building regulations.

ALUMASC BUY
(ALU) 174.5p
Stop loss: 139.6p

Market value: £63m

The investment in these areas and an increase in marketing spend was rewarded by a 17% increase in first half revenue to £50.7m. Unfortunately, the impressive top-line growth was not replicated at the bottom-line. Adjusted pre-tax profit only nudged ahead 2% to £4.1m as rising input costs hit margins.

FOCUS ON NICHE BUILDING PRODUCTS HAS IMPROVED EARNINGS QUALITY

The increase in costs can be attributed to sterling weakness and rising steel prices and although these have now largely been passed through, there was a lag which hit profitability.

BUMPER ORDER BOOK

A near-record £27.6m order book and the timing of completion on several large contracts underpins boss Paul Hooper's confidence that margins can be rebuilt in the remainder of its current financial year. This could act as a positive catalyst for the share price.

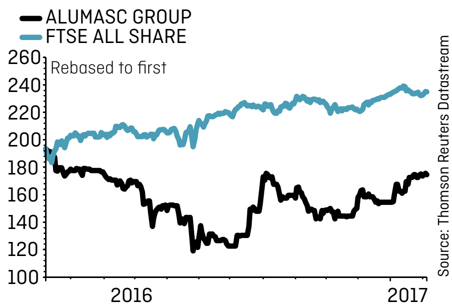
The company's operations coalesce in four key areas: solar shading and screening; roofing and walling; water management; and housebuilding and ancillary products.

The Levolux solar shading business and Gatic drainage systems arm are successfully winning orders overseas. Mainly driven by Levolux sales in the US, export revenue almost doubled to £7.5m in the six months to 31 December 2016.

The niche focus and international expansion should help the company outperform the modest growth expected in UK construction in the coming months.

Keep a close eye on the £33m pension deficit. Annual cash contributions of £3.2m didn't prevent Alumasc from hiking its first half dividend by 5.6% to 2.85p. (TS)

BROKER SAYS: 3 0 0



Shares in this marketing firm are a real bargain

Jaywing uses data to help companies learn and engage with the public

We're excited about the prospects for marketing company **Jaywing (JWNG:AIM)** amid growing demand for data analysis.

One in 10 people working at Jaywing are data scientists, namely statisticians, computer scientists or mathematicians.

Jaywing helps companies to understand what the public is saying about them on social media like Twitter.

It can match online behaviour such as buying goods to what people do away from computers or phones in their day-to-day life.

The £30m market cap also helps companies to monitor competitors' prices, product ranges and promotions.

JAYWING ↗ BUY
(JWNG:AIM) 34.5p
Stop loss: 24.15p

Market value: £30m

PRIVILEGED ACCESS TO GOOGLE CODING

Jaywing is one of only five companies in UK given priority access to new Google algorithms, thanks to a partnership with the technology group. This privilege makes Jaywing highly attractive to clients looking to maintain a dominant position on search engine rankings, another part of its skill-set.

Companies like **Moneysupermarket (MONY)** have seen their earnings hit in the past by Google continuously changing its search algorithms. A brand can slip down the search results for terms like 'cheap insurance' unless it can quickly find new ways to optimise its websites and alter marketing techniques.

LONG TERM CONTRACT BENEFITS

Jaywing has attractive levels of recurring revenue, low debt and a very low equity valuation. It trades on a mere 8.4 times forecast earnings for the year to March 2018 which is far too cheap in our view.

One reason for this low rating is market concerns over marketing budgets being scaled back if tough Brexit negotiations and rising inflation dent consumer confidence and weaken the UK economy.

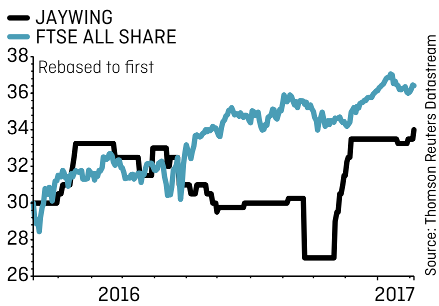
It doesn't help that fellow stock market-listed marketeer **St Ives (SIV)** has issued several profit warnings over the past year, weakening sentiment towards the sector.

St Ives' problems were caused by high exposure to the troubled food retail market. In comparison, Jaywing has a broad spread of customers including travel group **Dart (DTG:AIM)**, housebuilder **Redrow (RDW)**, **HSBC's (HSBA)** First Direct bank, leisure expert **Merlin Entertainments (MERL)**, drinks giant **Pepsico (PEP:NYSE)** and car maker **Toyota (7203:TYO)**.

There is also a defensive slant to its earnings. Jaywing helps lenders comply with accounting standards in terms of how much capital they should hold. It says there is little competition in the UK for this service and work is driven by regulation, not by marketing budgets.

The next news should be a trading update by early May and results in July.

BROKER SAYS: 1 0 0



ITHACA ENERGY
(IAE:AIM) 118.5p

Gain to date: 37.8%

Original entry point:
Buy at 86p, 22 December 2016

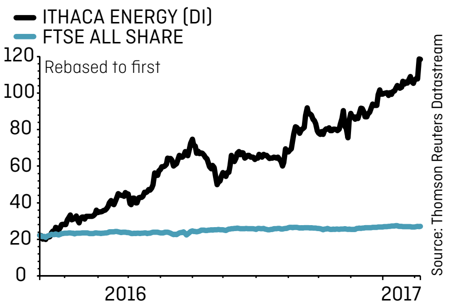
NORTH SEA OIL producer **Ithaca Energy (IAE:AIM)** is up nearly 40% on our entry price after becoming subject to a recommended 120p per share offer from Israeli firm **Delek (DLKG:TLV)** (6 February).

We'd cash out now. The modest 12% bid premium has disappointed some shareholders given that Ithaca is on the cusp of substantial cash flows from its Stella field.

Paul Mumford, a fund manager at Cavendish Asset Management which is the company's fourth largest shareholder, 'strongly' urges shareholders to reject the offer.

'Ithaca's shares have been as high as 140p per share in the past and with a further rise in oil price it could go even higher, meaning this acquisition would be relatively cheap,' he says.

This opposition seems unlikely to derail the deal given Delek already owns 19.7% of the business. Canaccord Genuity says the valuation is 'fair but not generous' adding 'the derisking effect of the all-cash offer just about offsets a slightly disappointing premium'.



It does not expect a rival bid and moves its recommendation on the stock from 'buy' to 'sell'. Canaccord suggests **Faroe Petroleum (FPM:AIM)** could be another takeover target in the sector with Delek picking up a 13.2% stake shortly before Christmas.

SHARES SAYS:
Sell in the market now.

BROKER SAYS: 2 0 1

LUCECO
(LUCE) 180p

Gain to date: 20%

Original entry point:
Buy at 150p, 20 October 2016

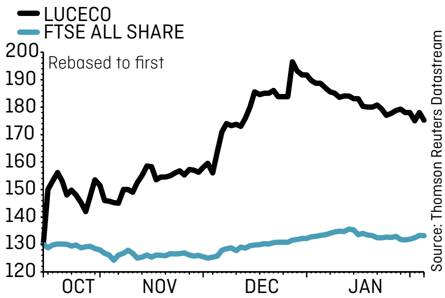
LUCECO (LUCE) says trading was good in late 2016 and positive momentum has continued into the New Year.

Luceco makes and distributes wiring accessories, power products and LED lights. It has a diversified customer base, selling to trade, retail and direct to corporates for specific projects.

Chief executive John Hornby tells *Shares* that many of Luceco's input costs and sales are priced in dollars, including products bought by UK customers. He says that may impact demand if sterling stays weak.

Despite this obvious risk, Hornby insists demand so far remains strong in Luceco's main markets including house building.

The company also has an edge over competitors by manufacturing its own products from a low-cost facility in the Far East. He says products can be re-engineered and manufacturing efficiencies could be pushed through should it need to take action from currency pressures.



Broker Numis upgrades its price target from 190p to 220p off the back of the trading update. It forecasts earnings before interest and tax (EBIT) moving from £11.4m in 2015 to £17.4m in 2016, £21m in 2017 and £25.5m in 2018.

We are comfortable with the stock's high equity rating given that impressive growth rate. Luceco trades on 18.1 times forecast earnings for 2017.

SHARES SAYS:
We are mindful of the currency issues but remain buyers at 180p.

BROKER SAYS: 1 0 0

FRIDAY 10 FEBRUARY

TRADING STATEMENTS	
ELECTROCOMPONENTS	ECM
AGMS	
GCP INFRASTRUCTURE INVESTMENTS	GCP
ECONOMICS	
UK	
RICS HOUSE PRICE BALANCE	
CONSTRUCTION OUTPUT	
MANUFACTURING PRODUCTION	
GOODS TRADE BALANCE	
INDUSTRIAL PRODUCTION	
US	
PRELIMINARY UOM INFLATION EXPECTATIONS	

ROLLS-ROYCE (RR.)
Aircraft engine maker Rolls-Royce will be hoping to avoid a repeat of its lengthy list of profit warnings served up in recent years when full year results are reported on 14 February. Having recently settled bribery claims with a £671m payment the focus is likely to be on the impact of overcapacity in the aerospace market.

MONDAY 13 FEBRUARY

FINALS	
FIDESSA	FDSA
RECKITT BENCKISER	RB.

TUESDAY 14 FEBRUARY

FINALS	
ACACIA MÅINING	ACA
ROLLS-ROYCE	RR.
SPECTRIS	SXS
INTERIMS	
MUCKLOW (A & J) GROUP	MKLW
AGMS	
PRESSURE TECHNOLOGIESPRES	
ECONOMICS	
BRC RETAIL SALES MONITOR	
HPI	
CPI	
PPI	
RPI	

WEDNESDAY 15 FEBRUARY

ECONOMICS	
UNEMPLOYMENT RATE	
US	
CPI	
INDUSTRIAL PRODUCTION	

THURSDAY 16 FEBRUARY

FINALS		
COCA-COLA	CCH	
DRAX	DRX	
PRIMARY HEALTH PROPERTIES	PHP	
SHIRE	SHP	
INTERIMS		
LANCASHIRE HOLDINGS	LRE	
AGMs		
ZYTRONIC	ZYT	
EX-DIVIDEND		
AVON RUBBER	AVON	6.32P
BLACKROCK INCOME & GROWTH INVESTMENT TRUST	BRIG	3.9P
BREWIN DOLPHIN	BRW	9.15P
HENDERSON SMALLER COMPANIES INVESTMENT TRUST	HSL	5P
IMPERIAL BRANDS	IMB	54.1P
IMPAX	IPX	1.6P
MOTORPOINT	MOTR	1.33P
MOUNTVIEW ESTATES	MTVW	200P
PZ CUSSONS	PZC	2.67P
RAVEN RUSSIA	RUSP	3P
TREATT	TET	3P
ZYTRONIC	ZYT	10.96P
ECONOMICS		
US		
UNEMPLOYMENT CLAIMS		

DRAX (DRX)
Investors have long since put any disappointment from July 2016's first half numbers behind them. Those results showed a hefty slump in EBITDA (earnings before interest, tax, depreciation and amortisation), albeit not an unexpected one. But all attention ahead of full year results on 16 February is firmly on Drax's ongoing acquisition of Opus Energy. This move will give the biomass specialist valuable gas turbine assets. Investors will also be looking out for further commentary on the government's commitment to state subsidies, without which Drax's output would presumably collapse due to the high cost of some renewables. (SF)

FIDESSA (FDSA)
This is a set of full year results that is highly unlikely to pull up any trees. Software provider to the financial sector Fidessa is a pretty predictable business in the main. Modest growth plus a hefty dividend is very likely when it reports on 13 February. Expect management commentary to stick with its typical, gradually improving but still uncertain flavour. Guidance on implementation of new financial regulations is worth monitoring, especially with Donald Trump's attempt to remove red tape in the US. (SF)

For complete diary go to www.moneyam.com/forward-diary

FTSE 100

HOW MUCH CAN YOU MAKE ON EACH STOCK THIS YEAR?

The FTSE 100 index has increased by nearly 14% in value since the Brexit vote on 23 June 2016 and hit a record high in early January 2017 as it broke through the 7,200 level.

Investors are understandably starting to ask if they should take profit in UK large caps. Our view is 'no'; now is not the time to sell.

Our research shows more than a third of FTSE 100 stocks are expected to appreciate by at least 10% this year; a large handful could well rise by 20% or more.

In this article we reveal the companies whose shares prices are expected to rise the most, according to price targets calculated by analysts across a range of investment banks and stockbrokers.

We also flag the stocks with the most to lose; and we discuss where current market expectations appear out-of-kilter with underlying fundamentals, in our view.

RECORD BREAKER

It is less than a month since the FTSE 100 index broke new records, closing at 7,337.81 on 13 January following a stunning 14-day unbroken run of rises. That's its longest winning streak in 20 years.

Having initially fallen on the EU referendum result and hitting 5,982.2 on 27 June 2016, the FTSE 100 subsequently rallied by 22.7% to its peak level on 13 January.

It is rare for the index of UK's 100 largest firms to sprint so fast. That kind of return is more associated with small cap stocks or even the mid cap FTSE 250 index.

FUEL FOR THE FIRE

Several factors have fed this share buying frenzy. The index's performance is heavily influenced by natural resources companies who account for some of the FTSE 100's biggest weightings. A recovery in commodity prices last year resulted in substantial share price gains from oil, gas and mining firms.

The plunging pound since Britain decided to leave the EU also had a big impact.

Sterling has lost about 16% of its value versus the dollar since the Brexit vote, and is down against other currencies such as the euro too.

This is positive for the FTSE 100 since most of the companies within the index are very large and very global.

More than 70% of FTSE 100 companies' earnings come from overseas, so they get a boost from translating foreign denominated earnings back into sterling or when you can consider their share prices are nearly all priced in sterling.

So has the FTSE 100 become expensive on the back of its recent rally? According to data from Morningstar, the index trades 15.6 times earnings. That is roughly in line with long-run averages and certainly not excessively inflated.

The longer term track record also implies the FTSE 100 has not raced ahead into bubble territory. The FTSE 100 has gone up by 18% since the start of 2007. Adjusting for inflation, that return becomes -9.4%. Admittedly that includes one of the worst periods for the stock market in living memory thanks to the global financial crisis in 2008.

WE'VE PULLED TOGETHER ALL THE PRICE TARGETS FROM THE ANALYST COMMUNITY TO SEE WHERE THE BEST OPPORTUNITIES LIE IN THE FTSE 100 FOR THE YEAR AHEAD.

BEST MONEY MAKING OPPORTUNITIES

We've pulled together all the price targets from the analyst community to see where the best opportunities lie in the FTSE 100 for the year ahead.

Analysts produce price targets using different calculations such as equity valuations for the peer group and discounted cash flow models. They aren't simply picking numbers out of thin air.

That said, share price targets alone are seldom accurate gauges of future performance, hence why we have undertaken extensive extra research for this article.

We now discuss the four stocks with the biggest share price upside in 2017, based on consensus price targets. We also highlight several companies where we feel there is imbalance between the market's expectations and likely future performance, both good and bad.

SHIRE

(SHP) £44.50

SHIRE HAS BEEN one of the biggest success stories on the UK stock market over the past decade, thanks to its entry into the rare diseases space.

Analysts think your money could increase by more than a third this year by investing in the shares. That's great, so why are the shares trading on such a cheap rating?

A forward price to earnings (PE) ratio of 10.8 is surprisingly low for a blue chip company that's enjoyed rapid growth.

The rating suggests investors may have some doubts about the business or expect slower earnings growth in the future. Its dividend yield is not ideal for income hunters at a mere 0.5%.

There are several reasons why it trades on a fairly low rating. Firstly, **Roche's (ROG: VTX)** haemophilia A drug ACE190 is a looming competitive threat. Shore Capital analyst Dr Tara Raveendran expects a 'rapid erosion in Shire's haemophilia division over the next few years'.

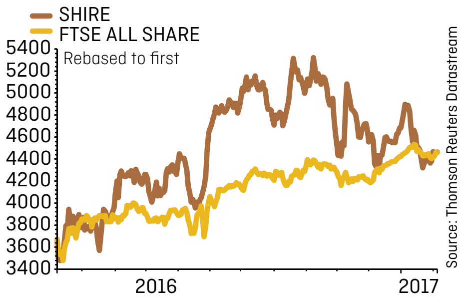
Secondly, investors have a mixed view towards Shire's $32bn acquisition of Baxalta in 2016 due to sustainability concerns over its haematology division.

Baxalta could actually be Shire's saviour as it is one of the leading companies in the $14bn plasma products markets. Raveendran says there is increasing demand for plasma-derived primary therapies and believes Shire can take advantage of new trends by delivering drugs less invasively. (LMJ)

SHARE PRICE UPSIDE IN 2017: **36%**

PE DECEMBER 2017: **10.3**

DIVIDEND YIELD: **0.5%**



Name	Epic code	Price (p)	Price target (p)	Upside/Downside (%)
Shire	SHP	4450.0	6062.0	36.2
BT	BT.A	304.7	411.0	34.9
Dixons Carphone	DC.	311.8	418.0	34.1
Babcock International	BAB	893.3	1122.0	25.6
Associated British Foods	ABF	2373.0	2975.0	25.4
Vodafone	VOD	193.5	241.0	24.6
Paddy Power Betfair	PPB	8330.0	10073.0	20.9
Hikma Pharmaceuticals	HIK	1871.0	2236.0	19.5
Randgold Resources	RRS	6633.0	7898.0	19.1
International Consolidated Airlines	IAG	486.6	576.0	18.4
DCC	DCC	6288.0	7425.0	18.1
AstraZeneca	AZN	4249.0	4988.0	17.4
Next	NXT	3858.0	4497.0	16.6
Royal Mail	RMG	410.7	478.0	16.4
Informa	INF	651.8	757.0	16.1
GlaxoSmithKline	GSK	1538.0	1767.0	14.9
CRH	CRH	2792.0	3200.0	14.6
Capita	CPI	501.3	574.0	14.5
Provident Financial	PFG	2675.0	3061.0	14.4
Reckitt Benckiser	RB.	6814.0	7754.0	13.8
British Land	BLND	586.3	663.0	13.1
RELX	REL	1412.0	1586.0	12.3
Worldpay	WPG	288.7	324.0	12.2
BP	BP.	474.5	531.0	11.9
Mediclinic International	MDC	767.3	854.0	11.3

BT

BT (BT.A) 304.7P

THE KEY QUESTION for BT investors is whether the company can afford its hefty dividend payments in the face of several challenges and drains on its cash flow.

Recent news regarding the £530m black hole within the books of its Italian business is uncomfortable but may not prove disastrous to the overall investment case.

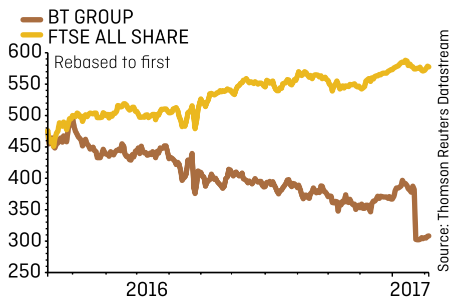
Importantly, investors will want to feel that no other hidden nasties will emerge in the future.

Some analysts have speculated that the group's bleakly-worded warning on 26 January had an ulterior motive, namely to show BT's weakest possible hand as it continues negotiations with watchdog Ofcom over the future of its Openreach infrastructure network.

SHARE PRICE UPSIDE IN 2017: **35%**

PE MARCH 2018: **10.4**

DIVIDEND YIELD: **5.5%**



That may imply that BT has done a 'kitchen sink' job, throwing in all the bad news it could find to bolster its negotiating position.

The group's considerable pension deficit remains an ongoing drain on cash resources. Top-up payments agreed with the scheme's trustees of around £600m a year look comfortable versus the £3.1bn of free cash flow anticipated by analysts in the financial year to 31 March 2017. That free cash flow figure should nearly hit £4.2bn by 2019.

The £1.6bn-odd cash needed to pay next year's (to March 2018) dividend looks well underpinned, in our view. (SF)

Name	Epic code	Price (p)	Price target (p)	Upside/Downside (%)
Prudential	PRU	1557.0	1727.0	10.9
Sage	SGE	611.3	676.0	10.6
Land Securities	LAND	1004.0	1109.0	10.5
Smith & Nephew	SN.	1182.0	1305.0	10.4
Hammerson	HMSO	546.3	603.0	10.4
Unilever	ULVR	3203.0	3535.0	10.4
Imperial Brands	IMB	3669.0	4049.0	10.4
ITV	ITV	202.5	223.0	10.1
Direct Line Insurance	DLG	354.7	390.0	10.0
Taylor Wimpey	TW.	168.3	185.0	10.0
Experian	EXPN	1532.0	1681.0	9.7
SSE	SSE	1479.0	1620.0	9.5
Royal Dutch Shell	RDSB	2229.0	2439.0	9.4
WPP Group	WPP	1840.0	2011.0	9.3
Barratt Developments	BDEV	486.9	532.0	9.3
Sky	SKY	1004.0	1094.0	9.0
Bunzl	BNZL	2084.0	2251.0	8.0
Croda International	CRDA	3327.0	3586.0	7.8
BAE Systems	BA.	580.8	625.0	7.6
Standard Life	SL.	350.4	377.0	7.6
British American Tobacco	BATS	4864.0	5225.0	7.4
United Utilities	UU.	905.5	970.0	7.1
Johnson Matthey	JMAT	3260.0	3487.0	7.0
Schroders	SDR	2938.0	3133.0	6.6
Compass	CPG	1401.0	1493.0	6.6

DIXONS CARPHONE

(DC.) 311.75P

WE HAVE A positive stance of Dixons Carphone as an investment, albeit we are also mindful of some swirling headwinds.

The company owns a variety of brands including Carphone Warehouse, CurrysPCWorld and a few overseas names that may not be familiar to UK households.

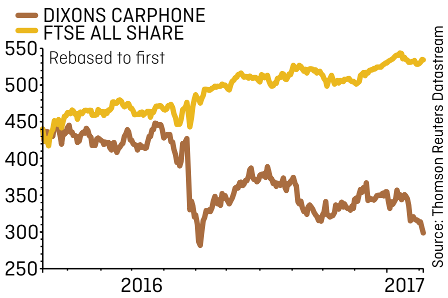
SHARE PRICE UPSIDE IN 2017: **34%**

PE DECEMBER 2018: **9.8**

DIVIDEND YIELD: **3.7**

Shares in the group were hard hit by the Brexit vote and have struggled ever since amid concerns surrounding consumer demand and worries that weak sterling will necessitate price hikes.

The good news is chief executive Seb James recently reported (24 Jan) a fifth consecutive year of Christmas growth. That's positive given the second half of its financial year (November to April) typically accounts for two thirds of group profit.



Dixons needs to sustain positive sales momentum if it stands any chance of pushing the share price back upwards.

Strong European market share, a compelling multi-channel proposition, overlooked potential in the business-to-business Connected World Services (CWS) division and rolling out US stores with mobile network operator **Sprint (S:NYSE)** are tenets of our 'buy' thesis. The shares also trade on a low rating.

For the year to April 2017, Numis Securities forecasts £482.5m (2016: £447m) pre-tax profit and a 10.8p dividend, rising to £500m 11.5p respectively next year. (JC)

Name	Epic code	Price (p)	Price target (p)	Upside/Downside (%)
EasyJet	EZJ	941.8	1001.0	6.3
Whitbread	WTB	3927.0	4135.0	5.3
Carnival	CCL	4222.0	4443.0	5.2
National Grid	NG.	918.8	966.0	5.1
Diageo	DGE	2182.0	2292.0	5.0
GKN	GKN	347.5	365.0	5.0
Intertek	ITRK	3426.0	3595.0	4.9
Micro Focus	MCRO	2185.0	2290.0	4.8
St James's Place	STJ	1085.0	1137.0	4.8
3i Group	III	707.3	741.0	4.8
Legal & General	LGEN	235.7	246.0	4.4
Merlin Entertainments	MERL	476.9	494.0	3.6
Glencore	GLEN	327.4	339.0	3.6
Marks & Spencer	MKS	340.0	352.0	3.5
Intu Properties	INTU	268.2	277.0	3.3
Smiths Group	SMIN	1516.0	1565.0	3.2
Lloyds Banking	LLOY	65.7	67.8	3.2
Persimmon	PSN	1938.0	1993.0	2.8
Old Mutual	OML	208.2	214.0	2.8
Tesco	TSCO	195.9	201.0	2.6
Barclays	BARC	222.5	228.0	2.5
TUI	TUI	1149.0	1177.0	2.4
Mondi	MNDI	1750.0	1791.0	2.3
Kingfisher	KGF	334.5	342.0	2.3
Aviva	AV.	483.2	493.0	2.0

BABCOCK

(BAB) 893.25P

SHARE PRICE UPSIDE IN 2018: **26%**

PE MARCH 2018: **10.4**

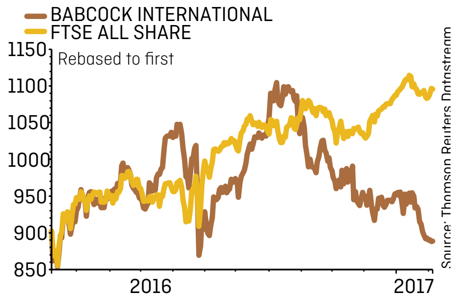
DIVIDEND YIELD: **3.4%**

PRESSURE ON UK defence spend, a key area for Babcock, plus an ill-timed foray into the oil and gas market through its £1.6bn (over-priced) acquisition of helicopter firm Avincis have contributed to the share price weakness.

The support services group now trades on a March 2018 earnings multiple of just 10.4 times.

The valuation looks too low given the level of visibility on future revenue. An order book of £20bn underpins 93% of budgeted revenue in the current financial year and 63% in the year after.

Opportunities include the decommissioning of nuclear sites in the UK and the construction of a new plant at Hinkley Point. There is scope to expand its overseas operations and exposure to a recovering defence market.



On the downside we note poor cash conversion and substantial pension liabilities.

'Babcock is a diverse business with a firm contractual base, supporting essential infrastructure,' says Shore Capital. 'The outlook for news flow looks positive.

'Both nuclear new build and decommissioning contracts are in flow this year,' it adds. 'We are about to embark on a major rail upgrade and construction programme. The contracts for the new aircraft carriers are moving into the support phase and the build work is being replaced. The deployment of the UK's armed forces does not appear to be going into a quiet period anytime soon.' (TS)

Name	Epic code	Price (p)	Price target (p)	Upside/Downside (%)
Centrica	CNA	224.5	229.0	2.0
Admiral	ADM	1775.0	1806.0	1.7
Coca-Cola HBC	CCH	1797.0	1826.0	1.6
Rio Tinto	RIO	3530.0	3578.0	1.4
Ashtead	AHT	1618.0	1636.0	1.1
ConvaTec	CTEC	245.7	248.0	0.9
Severn Trent	SVT	2245.0	2253.0	0.4
Pearson	PSON	636.3	635.0	-0.2
Fresnillo	FRES	1462.0	1459.0	-0.2
Smurfit Kappa	SKG	2073.0	2050.0	-1.1
RSA Insurance	RSA	574.3	566.0	-1.4
Rolls-Royce	RR.	672.3	660.0	-1.8
Wolseley	WOS	4956.0	4819.0	-2.8
London Stock Exchange	LSE	3191.0	3092.0	-3.1
BHP Billiton	BLT	1454.0	1404.0	-3.4
Burberry	BRBY	1632.0	1574.0	-3.6
Sainsbury (J)	SBRY	259.3	249.0	-4.0
Anglo American	AAL	1385.0	1317.0	-4.9
Hargreaves Lansdown	HL.	1353.0	1279.0	-5.5
InterContinental Hotels	IHG	3698.0	3461.0	-6.4
HSBC Holdings	HSBA	679.0	632.0	-6.9
Royal Bank of Scotland	RBS	224.2	199.0	-11.2
Morrison (Wm) Supermarkets	MRW	241.1	207.0	-14.1
Standard Chartered	STAN	779.9	630.0	-19.2
Antofagasta	ANTO	839.8	677.0	-19.4

Source: Reuters, FT, SharePad. Price targets are the mean figure for all analyst forecasts per stock.

WHAT ABOUT THE REST OF THE FTSE 100?

WE DON'T THINK the share price decline has fully played out at academic publisher **Pearson (PSON)** and think the consensus view among analysts is too generous by saying the shares are now fairly valued at 636.3p.

Diminishing demand for hardback academic titles has led to a series of profit warnings. Investment bank Liberum, whose consistently bearish stance on the stock has proved correct, recently reiterated its 'sell' recommendation with a 360p price target and says it expects full year results on 24 February to reveal further issues around cash flow and write downs.

TAKING PROFIT ON CRH

Construction group **CRH (CRH)** has enjoyed a significant share price rally since the Brexit vote as it is a clear beneficiary of a weaker pound, thanks to deriving a good chunk of its earnings from abroad. The shares got another leg up in late 2016 when Trump was elected. The US president's plans to boost domestic infrastructure spend clearly plays to CRH's strengths.

Investors now need to decide whether all this good news is priced in, particularly as the shares have now risen by more than 35% since the Brexit vote in June 2016.

We think the shares could pause for a while and would suggest you take some profit in the stock at £27.92. So many people are talking about CRH being a beneficiary of Trump's plan – if everyone is talking about it, the easy money must surely have already been made on the stock.

IT IS HARD TO GET EXCITED ABOUT MINER ANTOFAGASTA, SO WE AREN'T SURPRISED IT IS AT THE BOTTOM OF THE PILE IN TERMS OF ANTICIPATED SHARE PRICE RETURNS FOR 2017

WHY ANALYSTS ARE BEARISH ON ANTOFAGASTA

It is hard to get excited about miner **Antofagasta (ANTO)**, so we aren't surprised it is at the bottom of the pile in terms of anticipated share price returns for 2017.

The company's guidance for the year ahead implies limited or no growth in copper production and rising costs. It has disappointed on the operations front and analysts say it is going to cost a lot of money to develop Antofagasta's future pipeline to replace old projects.

We see much greater share price upside in fellow copper miner **KAZ Minerals (KAZ)**.

RED FLAGS AT VODAFONE?

Mobile network giant **Vodafone (VOD)** is one stock that splits opinion and that's largely because the strain on its cash flow. Is the dividend at risk of being cut?

The market is clearly nervousness given the stock has a 6.6% prospective yield. Seldom do FTSE 100 companies trade on such generous income ratios. Vodafone has historically had a prospective dividend yield more in the 5% range.

We continue to side with Vodafone optimists, believing that earnings recovery across Europe is being underestimated, as is the scope for M&A to add value down the line.

KINGFISHER CONCERNS

Analysts are too optimistic over B&Q-owner **Kingfisher (KGF)**, in our view. Rival Homebase's new owner is the deep-pocketed **Wesfarmers (WES:ASX)**, the brains behind admired Australian hardware retailer Bunnings. Wesfarmer's plan to spruce up Homebase stores will increase competition for B&Q in DIY hardwear, garden and seasonal ranges.

Investment bank Haitong is also not a fan of Kingfisher. It believes Kingfisher's shares are only worth 270p versus 334.45p trading price at the time of writing. (TS/DC/JC/SF)

How to build a £40,000 portfolio in five years

Six lower-risk fund suggestions to help achieve this financial goal

The best way to achieve your financial goals is to have a sensible plan and the discipline to stick to it.

We will now talk you through a plan that involves saving £600 a month via your Stock & Shares ISA to build up an investment portfolio worth £40,000 in just five years. That could give you a substantial amount of money to fund home improvements, for example.

Our approach deliberately avoids taking any excessive risk with your money.

However, you must remember that stock markets can be unpredictable and there are no guarantees you will walk away with £40,000 after five years or even longer.

REGULAR INVESTING CAN WORK WONDERS

'Investing each month will reduce the risk because of pound cost averaging; the number of investment units purchased each month will vary depending on the volatility of investment markets,' says Martin Bamford, managing director of financial planning group Informed Choice.

'Over time, this helps to smooth out the volatility because the investments are being made at different price points.'

HOW MUCH RETURN COULD I EXPECT EACH YEAR?

Darius McDermott, managing director of Chelsea Financial Services, says an equity, bond or multi-asset fund could achieve 4% average annual growth after charges.

Investing £600 every month with 4% annual return would make your portfolio worth £39,779 at the end of the five month period. You could easily top that up to £40,000 by collecting the spare change round your house and cutting back on day trips or takeaway meals for couple of months.

You would have contributed £36,000 into your ISA over the five years and enjoyed £3,779 investment growth. We've used Prudential's online investment calculator to do the maths.

That shows how easy it is to build up a decent pot of money once you get in the habit of regular investing.

WHAT IF I CAN'T AFFORD £600 A MONTH?

Let's say you need £40,000 in five years' time to help fund a loft conversion or remodel your house with a conservatory and extension. If you can't afford the full £600 a month, don't take excessive risks in order to chase higher returns.

For example, you would have to find investments with 11% annual growth if you could only save £500 a month for five years, in order to hit the £40,000 target.

In general, anything offering the potential to return 11% a year is high risk in our view. You might be better reassessing your plan and saving for longer.

You may be surprised to learn that you could revert back to our lower risk 4% annual growth target and hit the £40,000 goal by merely adding a year to your plan (or less).

- Invest £500 a month at 4% annual return for **six** years = £40,611 investment value.

WHERE DO I INVEST MY MONEY?

Stuart Ritchie, a chartered financial planner at wealth manager AES International, suggests a low-cost, evidence-based, liquid portfolio would be suitable for someone with a medium risk tolerance.

'By keeping investment costs as low as possible, an investor immediately gains traction,' he comments. 'And by keeping their portfolio liquid, they are not affected by early access or surrender penalties, or restricted from accessing their money at any point in the future if they need to.'

He says that assuming someone chose a low-cost index fund, they could expect annual growth of 4% or 5% after charges. Suggested funds include **BlackRock SF Managed Index Portfolios Moderate (LU1191063202)** and **iShares Core MSCI World ETF (IWDA).**

The first of these is an offshore fund that invests in a range of passive funds and ETFs managed by BlackRock and has ongoing charges of 0.53%.

It operates in a different way to iShares MSCI World, which is an ETF that invests directly in a diversified portfolio of more than 1,100 developed market equities and has 0.20% ongoing charges. In 2016 these funds returned 5.8% and 7.4% respectively.

SHOULD I BUY FUNDS OR INDIVIDUAL STOCKS?

An investor who only needs a modest 4% or 5% annual return over a medium timeframe to achieve their goal would be well advised not to buy individual shares because the risk would be too high.

Investing £500 or £600 a month in individual company shares would be difficult to achieve a reasonable level of diversification in a cost-effective manner. That's why a suitable fund with lots of assets in its portfolio would be the ideal solution.

'Investing in a single multi-asset class fund keeps things simple and makes it easier to monitor progress over time,' says Bamford.

WHICH FUNDS DO THE EXPERTS SUGGEST?

One option to consider is **Vanguard Lifestrategy 60% Equity Accumulation Fund (GB00B3TYHH97)**, says Bamford. 'This is a fund of index tracker funds, which offers good diversification and is low cost as the ongoing charges are just 0.22% a year.'

The Vanguard product invests 60% in equities and 40% in bonds using a range of the company's index funds. Over the last five years it has made an average annual return of just under 10% net of expenses.

McDermott agrees with the choice of a multi-asset fund to diversify the risk, as he says that a five-year time frame is borderline for investing 100% in equities. You'd normally want to invest in equities for a much longer time period in order to even out any ups and down in a typical stock market cycle.

ANY OTHER FUND IDEAS?

'I like **Jupiter Distribution (GB0031294183)**, **Henderson Cautious Managed (GB00B6ZHN203)** and **Schroder MM Diversity (GB00B60CZD52)**, which are all multi-asset funds lower down the risk scale,' comments McDermott.

Jupiter Distribution operates in the Mixed Investment 0% to 35% Shares sector and provides exposure to a portfolio of individual bonds and equities. It has 6.36% annualised return over the last the past five years.

Henderson Cautious Managed is a potentially higher risk option because it can invest up to 60% of its portfolio in shares. It has generated 7.16% annualised return over the last five years.

Schroder MM Diversity aims to provide a total return in excess of inflation. It invests in a multi-asset portfolio of other actively managed funds that invest in UK and overseas shares, bonds, and alternative assets. It has generated 5.59% annualised return over the last five years. (NS)

Four things you need to know about Lifetime ISAs

The key details on the new tax-efficient savings option

Millions of investors will be considering whether the Lifetime ISA (LISA) is the right savings option for them ahead of its debut in less than two months' time.

Here, I assess four key issues people need to know ahead of the 6 April launch date.

1 AGE RESTRICTIONS

The Lifetime ISA will be attractive to lots of savers, with up to £1,000 of free money available from the Government if you pay in the maximum of £4,000 a year.

However, it is not for everyone – only people under the age of 40 are eligible to open a LISA, and the Government will only pay you the 25% bonus on contributions up until age 50. While the Government might want to review these restrictions depending on take-up, for now the product is focused squarely on encouraging younger people to save.

2 YEAR ONE – NO PARTIAL WITHDRAWALS

The first year of the LISA will be 'all or nothing' when it comes to withdrawals – savers will have to either leave their money invested for the entire period, or take the whole lot out and close the account. From April 2018 onwards partial withdrawals will be possible, although investors will have to watch out for any exit penalty they might incur.

3 EXIT PENALTY – THE STING IN THE TAIL

Where money is taken out of a LISA for a first home purchase, where the person is terminally ill, or from the age of 60 onwards there will be no charge and no tax to pay. However, withdrawals in all other circumstances will be hit with a 25% exit penalty. Our analysis shows that, if someone pays in £4,000 a year over a 20-year period, the exit charge could be almost double the value of the Government bonus.

4 THINK CAREFULLY BEFORE OPTING OUT

Investors eyeing the LISA but keen not to see their monthly take-home pay drop too much might be tempted to opt-out of their auto-enrolment pension. This would be a bad idea in almost all circumstances. Under auto-enrolment all employers will eventually be required by law to match your first 3% of contributions, and many will offer an even better deal. While a pension might be less flexible than a LISA, the matched contribution is effectively a 100% bonus – dwarfing the 25% LISA bonus.

TOM SELBY,
Senior Analyst, AJ Bell

THE LIFETIME ISA EXIT PENALTY IN ACTION

JANE, A 25-YEAR-OLD accountant, likes the look of the LISA and wants to take advantage of the Government bonus and save for her first home. She pays in the maximum of £4,000 a year for five years, but then decides to 'quit the 9-to-5' and use the money to travel the world.

Her pot value was boosted by £5,000 of Government bonuses and 4% investment growth after charges, meaning it is worth just over £28,000 when kept in the tax wrapper. However, her early withdrawal triggers a £7,000 exit charge – £2,000 more than the Government bonus she has received – meaning she only gets £21,000.

GETTING CLEVER WITH ETFS: PART 2 OF OUR FUND SERIES

HOW TO USE SPECIFIC FACTORS SUCH AS QUALITY, VALUE AND SIZE TO ENHANCE YOUR INVESTMENT STRATEGY

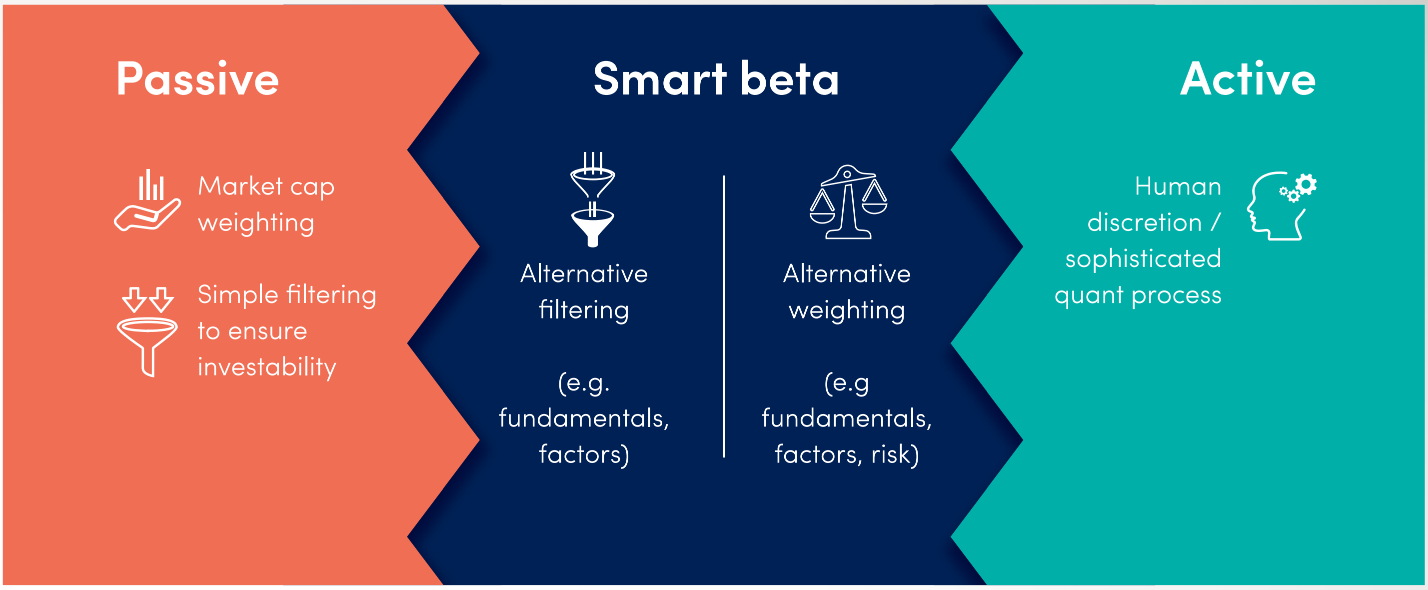
Product launches in the exchange-traded fund (ETF) space over the past couple of years have been dominated by smart beta ETFs. These types of ETFs aim to be more sophisticated than straight index tracking vehicles.

Smart beta ETFs fall somewhere between passive and active funds. Instead of following a traditional market capitalisation weighted index, they follow an index constructed according to a specific 'factor', such as size, value or volatility. Some indices will be built using a combination of these factors.

'Smart beta is basically any strategy that deviates from a standard market cap weighted index, but does so by using a rules-based methodology rather than being discretionary,' explains Chris Mellor, executive director at ETF provider Source.

The hope is that by following a factor-based strategy – some of which have been around for almost 100 years – smart beta ETFs will outperform traditional benchmarks.

'Smart beta ETFs take things an active manager would do, codify them and run them in a more efficient, direct way by cutting out human intervention,' says Mellor.



PORTFOLIO USE

Some investors use smart beta ETFs as a core part of their portfolio – perhaps by replacing an ETF that tracks the MSCI World index with a product such as **Source Goldman Sachs Equity Factor Index World UCITS ETF (EFIW)**.

This specific ETF offers broad, global exposure but aims to outperform traditional benchmarks by emphasising five factors: low beta, size, value, momentum and quality.

'It's a long way from a standard market cap weighted benchmark. The only risk an investor is taking is stock selection,' claims Mellor.

It is also worth bearing in mind that any product linked to the stock market comes with the risk that values might fall.

Other investors use smart beta ETFs to play a particular theme or idea.

There are some exporter-focused products which contain stocks based on the percentage of revenue they get from outside their home market.

An example is **Source Stoxx Japan Exporters UCITS ETF (JPEX)**, which is designed as a play on quantitative easing devaluing the yen currency and boosting foreign revenues for exporters.

It is also possible to try to time smart beta ETFs. If you think value-based strategies are going to do well, you could buy a value-oriented ETF such as **iShares Edge MSCI World Value Factor UCITS ETF (IWVL).**

FEES VS PERFORMANCE

Smart beta ETFs tend to be a bit more expensive than their traditional counterparts, although the actual fee will vary according to the product's complexity and the competitiveness of the market in which it operates.

Source FTSE RAFI UK Equity Income Physical UCITS ETF (DVUK) tracks stocks that have the potential to offer a high, sustainable income. It has an ongoing charge of 0.35% whereas plain vanilla FTSE 100 ETFs can have ongoing charges of less than 0.1%. As a reminder, a standard FTSE 100 ETF is tracking a group of stocks simply because they are the 100 biggest companies on the UK market – there is no thought given to income sustainability or other factors.

The Source Goldman Sachs Equity Factor Index World UCITS ETF has an ongoing charge of 0.65% compared with 0.19% for the **Source MSCI World UCITS ETF (MXWO)** which is a more vanilla product.

UNDERPERFORMANCE RISK

Another downside of smart beta ETFs is the risk they will underperform their benchmarks by more than the ongoing charge. This is because they need to carry out regular rebalancing.

With a market cap weighted ETF there is very little need for rebalancing because the stock weightings naturally change. Smart beta ETFs need to rebalance frequently.

An equal weighted ETF, which weights stocks equally instead of according to market cap, is rebalanced quarterly.

Mellor claims that because smart beta ETFs aim to perform better than market cap products, this covers the additional cost.

'When you look at most factor strategies we're involved in, they perform better than market cap weighted strategies by more than enough to offset the additional fees and costs,' he says.

UNDERSTANDING MARKET BEHAVIOUR

Darius McDermott, managing director at Chelsea Financial Services, says there can be other reasons for underperformance.

'Markets aren't always rational and, no matter how much you back-test a scenario, the million to one chance event change can actually happen. We saw this in the great financial crisis, when many a "black-box" failed.

'Herd mentality can also be a risk – as we saw with gold ETFs not too long ago. If something is flavour of the month you need to see how an ETF handles flows – both in and out – as it can impact performance and liquidity,' explains McDermott.

ETF INVESTMENT STRATEGIES BASED ON QUALITY, VALUE AND SIZE

THREE COMMON FACTORS that smart beta ETFs use are quality, value and size. They each have their own set of rules and each one is likely to perform differently during various market cycles.

1 QUALITY

Quality ETFs are difficult to define because the measure of quality used by different providers varies widely. The strategies look at various profitability metrics, earnings stability and the financial health of the company.

Mellor says that instead of seeking outperformance in the good times, quality ETFs look to outperform in the bad times. They exclude stocks which could be most at risk during a market downturn.

QUALITY FACTOR ETFS LOOK TO OUTPERFORM IN THE BAD TIMES

Quality indices are usually designed to provide a high and sustainable yield. This could make them appealing to investors who want a degree of certainty from their investment.

iShares has two quality factor ETFs which contain stocks exhibiting a high return on equity, low levels of debt and low earnings variability. They are **iShares Edge MSCI World Quality Factor UCITS ETF (IWFQ)** and **iShares Edge MSCI European Quality Factor UCITS ETF (IEFQ)**.

The global version invests in companies like **Apple (AAPL:NDQ)**, **Microsoft (MSFT:NDQ)**, **Exxon Mobil (XOM:NYSE)**, **Johnson & Johnson (JNJ:NYSE)** and **Berkshire Hathaway (BRK.A:NYSE)**.

The European version includes **Total (FP:EPA)**, **Roche (ROG:VTX)**, **Novo Nordisk (NOVO-B:CPH)**, **Allianz (ALV:ETR)** and **British American Tobacco (BATS)**.

Some quality strategies can result in controversial decisions. For example, **Source JPX-Nikkei 400 UCITS ETF (N400)** doesn't contain **Sony (6758:TYO)**, despite it being one of Japan's most well-known companies.

The benchmark index for that ETF filters stocks according to their return on equity, market cap, whether they publish accounts in English and whether they have independent directors on their board.

The aim is to focus on companies most likely to benefit from the country's economic policy which is currently about boosting Japan's growth through improved productivity.

'It includes stocks which are likely to be more productive and offer better shareholder value and support – which hasn't always been the case in Japan,' says Mellor.

ANOTHER REASON TO LIKE QUALITY ETFS

McDermott at Chelsea Financial Services says an investor might like to include a quality ETF in their portfolio to give it a style bias.

'In recent years quality stocks have done well as they are considered safer and more reliable and usually have a better dividend yield. As we have seen, though, they can become expensive when everyone is chasing the same idea.

'These types of ETFs suffered in 2013 during the first taper tantrum, for example. These types of stock sold off as interest rate rises became more anticipated by the market. The bond proxies also suffered post Trump's election as, again, the likelihood of interest rate rises increased,' he says.

Taper tantrum is a term used to describe the 2013 surge in US government bond yields as the central bank gradually reduced the amount of money it was feeding into the economy.

The term 'bond proxies' is a way of describing companies on the stock market such as consumer staples and utilities that have safe, predictable returns, but have higher yields than much of the bond market. Bond yields tend to rise when interest rates rise, so bond proxies become less desirable in comparison.

2 VALUE

Value is one of the oldest investment strategies, dating back to the 1920s. The premise is that markets can be irrational and investors can get overly excited or depressed, so buying stocks which trade at a discount should reap rewards over the long-run.

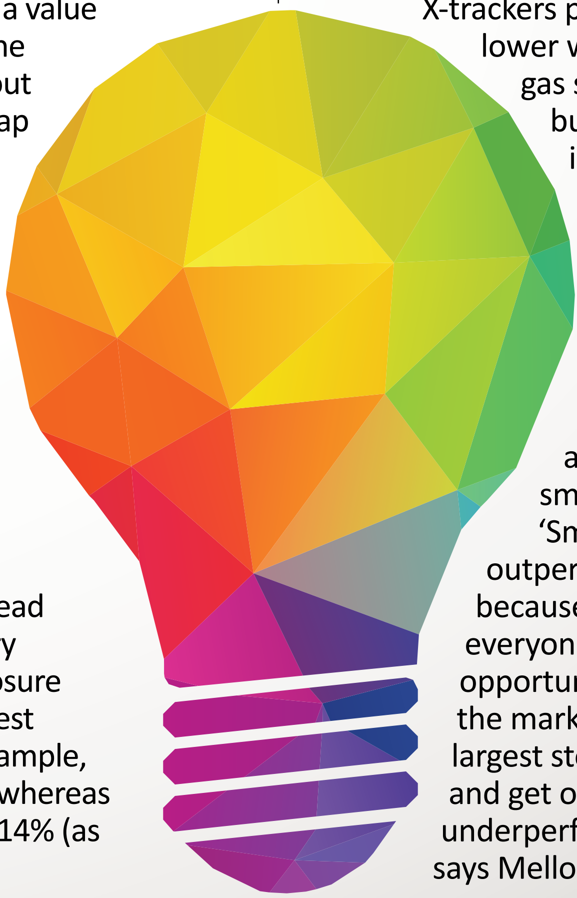
'In the short-term stocks can keep getting cheaper, so (value investing) is very much a long-term strategy,' says Mellor.

The strategy tends to perform well in times of growth and recovery. In the past six months, the MSCI World Value Index (USD) has outperformed, finishing 2016 with a gain of 13.2% versus 8.2% for the traditional MSCI World Index.

The MSCI World Value Index filters stocks according to price to book value, price to 12-month forward earnings and dividend yield. Constituents include **General Electric (GE:NYSE)**, **Wells Fargo (WFC:NYSE)**, **AT&T (T:NYSE)** and **Bank of America (BAC:NYSE)**. You can get exposure via **iShares Edge MSCI World Value Factor UCITS ETF (IWVL)**.

Mellor says value and quality strategies can work well alongside each other. 'With a value strategy the biggest risk is that the market is right and a stock is about to go bust. Avoiding this value trap is key. Using measures of quality allow you to filter out value traps.'

VALUE AND QUALITY STRATEGIES CAN WORK WELL ALONGSIDE EACH OTHER



3 SIZE

Traditional benchmark indices weight stocks according to their market cap – in other words their size as dictated by the value of each company in the market.

If you buy a FTSE 100 ETF, instead of having a 1% allocation to every company in the index, your exposure will be skewed towards the biggest companies. **HSBC (HSBA)**, for example, accounts for 6.45% of the index whereas **EasyJet (EZJ)** accounts for just 0.14% (as of 30 September 2016).

This means your portfolio won't be as diversified as you might think and will be more affected by any problems among the larger companies on the market. For example, anyone invested in a FTSE 100 tracker fund would have been heavily exposed to the impact of a major oil spill at **BP (BP.)**, one of the indices' largest companies, in 2010.

'The problem with market cap weighted products is that as bubbles form in the market, it will increase the weighting of the most overvalued stocks,' says Mellor.

'When the bubble bursts, the product is more likely to underperform. Just look at the early 2000s when technology made up a quarter of the weight of the S&P 500 Index,' says Mellor. The tech bubble burst at the start of that decade with significant decline in the value of shares across most of the sector; some companies even going bust.

A way to get around the risk over being exposed to bubbles is to opt for an equal weight ETF, such as **db X-trackers FTSE 100 Equal Weight UCITS ETF (XFEW)**. That product gives each company in the FTSE 100 a fixed weight of 1%.

The equal weight strategy will most likely alter your exposure to market sectors. The db X-trackers product has a significantly lower weighting to the oil and gas sector than the FTSE 100, but a higher exposure to the industrials sector.

Another example of an equal weight ETF is **Ossiam Stoxx 600 Equal Weight ETF (L6EW)**, which gives equal weight to the 600 companies in the Stoxx 600 Index. This means you get a greater exposure to lots of small cap stocks.

'Small cap stocks tend to outperform over the long run because large stocks which everyone knows about offer fewer opportunities for surprise. When the market is in bubble territory, the largest stocks become very fashionable and get overvalued, so they can underperform when reality resumes,' says Mellor.

In partnership with

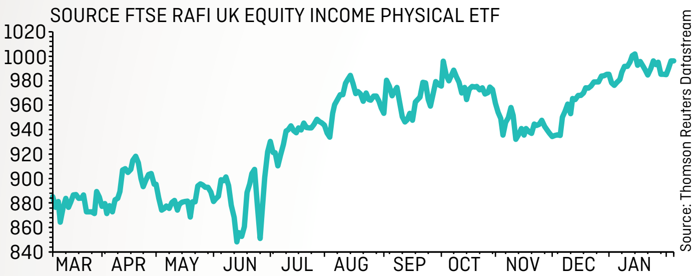
SOURCE

SOURCE FTSE RAFI UK EQUITY INCOME PHYSICAL UCITS ETF (DVUK)

THE SOURCE FTSE RAFI UK Equity Income Physical UCITS ETF is part of a family of three smart beta ETFs, which also includes a US version and a European version. The UK version comprises 68 UK stocks which aim to offer a high, sustainable income.

Stocks are screened for their financial health using metrics such as profitability, debt servicing ability and accounting quality.

THIS COMBINES VALUE AND QUALITY



SOURCE FTSE RAFI UK EQUITY INCOME PHYSICAL UCITS ETF (DVUK)

Total expense ratio: 0.35%

Replication method: Physical

Dividends: Distributing

TOP 10 HOLDINGS	
Standard Chartered	7.8%
Rio Tinto	7.6%
BP	5.9%
British American Tobacco	5.6%
GlaxoSmithKline	4.9%
AstraZeneca	4.5%
Aviva	4.2%
National Grid	4.2%
Legal & General	3.9%
WPP	3.8%

SECTOR EXPOSURE	
Financials	21.8%
Consumer goods	16.3%
Oil and gas	12.9%
Consumer services	12.9%
Healthcare	9.8%
Utilities	9.0%
Basic materials	8.3%
Other	9.0%

They are selected on the basis of their dividend yield relative to their sector. The stocks are then weighted by a combination of dividend yield and economic size.

The product is a mash-up of several smart beta 'factors'. It combines value with quality and has a small cap bias.

'Stocks are selected based on their dividend yield. This is a value metric because if a company has a high yield it could be a signal that it is undervalued,' says Source's Chris Mellor.

'There is a risk that a high dividend yield is indicating the company is in financial distress and the dividends may not be continued. Stocks are therefore filtered according to quality measures to weed out the companies who are most likely to cut dividends.

'The index looks at revenue, book value, dividends and cash flow as fundamental measures of how large a weighting the stock should have. This avoids over-inflated stocks,' he adds.

Will Dickson, investment manager at financial services group Prydis, claims ETFs sometimes combine factors together because different factors tend to perform well at different times in the market cycle.

'Quality could perform well when other factors don't, and vice versa, so combining them could create a slightly smoother ride,' he says.

Dickson suggests ETFs that combine factors could be viewed as an 'invest and leave' strategy, whereas ones based on a single factor probably require investors to make the right call at the right time.

The Source FTSE RAFI UK Equity Income Physical UCITS ETF was launched in March 2016 and therefore has a short performance history. Over the past six months, its total return was 6.6 % (as of 30 January 2017).

NEXT WEEK: MOMENTUM, LOW BETA AND MULTI-FACTOR ETFS

KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY

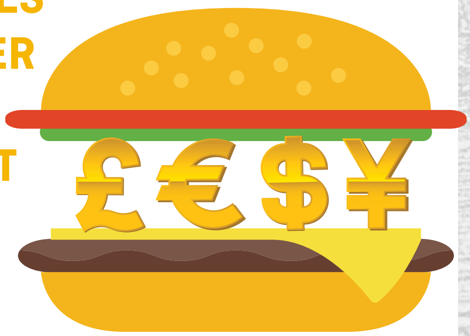
WIZZ AIR STILL ATTRACTIVE DESPITE SETBACK

THE TRUE COST OF INVESTING IN FUNDS

INVESTORS RACE TO OWN HEALTHCARE MARKETEER

HOW TO SPOT CHEAP INVESTMENT TRUSTS

WHY CURRENCIES HAVE NEVER BEEN SO IMPORTANT



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BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: 4 2 1 means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

Trump could be key to boosting Russia's fortunes

A closer relationship between Russia and the US could provide economic benefits

The outlook for the Russian economy is one dividends the experts. On one hand the recent rise in the price of oil and recovery in Russia's currency could point to a positive year ahead. Unfortunately the country is still dogged with political concerns, sanctions and an economic base that is not particularly diversified across many sectors.

This split continues if you look at some of the recent economic data. The Russian stock market was last year one of the best performers on a global basis, up more than 45% when calculated in US dollar terms.

That paints a different picture to the wider health of the nation as Russia emerges from a two year recession. Even the most optimistic of forecasters are only expecting annual economic growth of around 1% to 1.5% in the years ahead. That puts Russia behind the likes of the US and EU.

WHAT WILL GET THE ECONOMY MOVING FASTER?

The biggest push to stimulate the economy could come from the top; with political moves to reduce bureaucracy and improve efficiency in state-owned industries. This would be expected to have the knock-on effect of encouraging investment from international companies, something they would appear to have been reluctant to do in recent years due to the economic uncertainty.

Staying with the political theme, it remains to be seen how the US/Russia relationship is going to change now Donald Trump is the President. A better relationship between the two countries is another factor that could see more international investment and possibly open up other markets and avenues of finance to Russian companies.

Any reduction of the sanctions imposed against the country following its annexation of the Crimea would also provide a fillip to economic performance. In addition, a trade war between the US and China could see Russia become a useful ally to the former and it would be expected to benefit economically in the medium term.

TIME TO BE MORE POSITIVE TOWARDS RUSSIA?

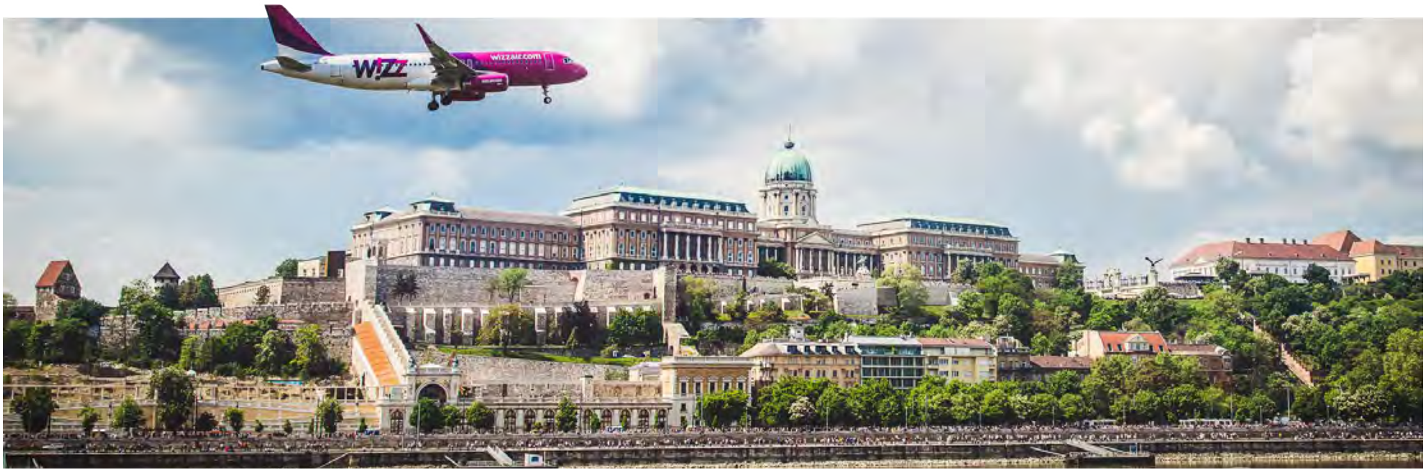
Those are quite a few unknowns to put it mildly. The impact of political decisions in the UK, Europe and the US are a major factor in economic forecasts at the moment and there is not much clarity.

Plenty of shorter-term forecasts have proved to be wrong. The more aggressive investor may take an optimistic view that the worst is behind Russia.

In light of the recession over the last couple of years, sitting on the sidelines to see how the Trump/Putin relationship develops – or doesn't – is probably the wiser move for now. (DJ)

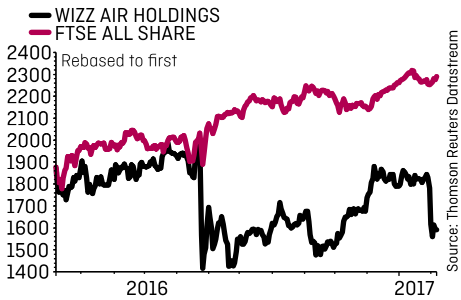
Wizz Air still attractive despite setback

Use share price weakness to buy at cheaper level



Hungarian low-cost airline **Wizz Air (WIZZ)** has become the latest budget airline to suffer turbulence. We are still positive on the investment case given the long-term growth potential.

The shares are down around 11% in the wake of 2017 net profit guidance being cut (1 Feb) from a range of €245m to €255m to between €225m and €235m.



MORE RESILIENT THAN RIVALS

Wizz Air could prove to be more resilient than its competitors **EasyJet (EZJ)** and **Ryanair (RYA)** who both downgraded profit expectations last year as a weaker pound following the Brexit vote hit earnings.

The airlines were further affected by air traffic strikes and terrorism. EasyJet's struggles with lower customer demand saw its share price hit a five-year low in October 2016 amid a flurry of broker downgrades.

Wizz is faced with volatile currency movements. These issues are further compounded by the deflationary pressure of lower fuel prices on fares and recent bad weather in Central and Eastern Europe.

Lower fares account for €10m of the profit downgrade according to UBS analyst Jarrod Castle, while €10m resulted from operational disruption and political instability.

HOW WIZZ SHARES CAN TAKE OFF

There are reasons to take encouragement. In 2016, the airline has managed to fly an extra million passengers with only one extra Airbus A321.

Panmure Gordon analyst Mark Irvine-Fortescue has flagged the stock as his top pick in the sector, at least partly on valuation grounds. The shares at £15.83 trade on 9.2 times earnings per share (PE) for the year to March 2018.

This is lower than Ryanair's PE of 12.1 for the year to March 2018 and EasyJet's PE of 10.9 times for the year to September 2018.

Irvine-Fortescue believes the market is under-estimating the risks to EasyJet's forecasts, and argues free cash flow will be materially negative in the full year 2018/2019, which will drive up debt in 2019.

SHARES SAYS: ↗

Take advantage of weakness in Wizz Air as this setback will prove a short-term blip in a long-term growth story. (LMJ)

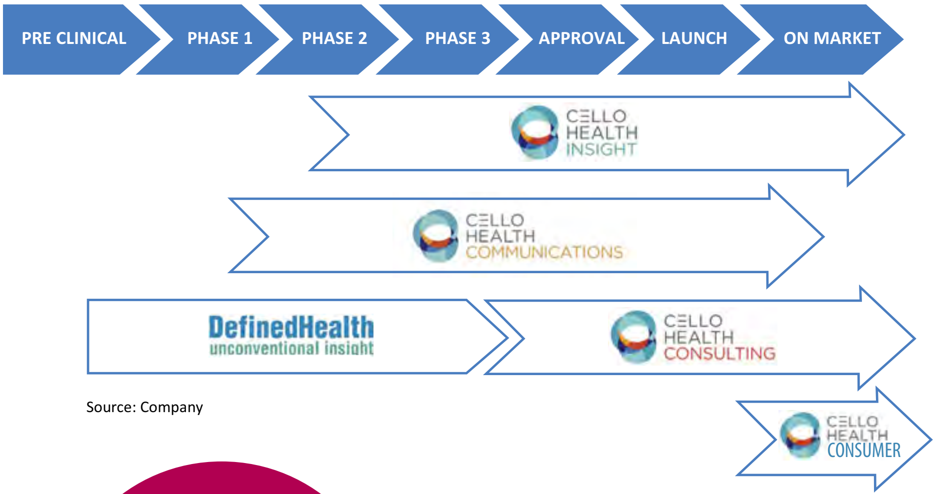
BROKER SAYS: 9 2 1

Cello has US biotech opportunity in its sights

Big demand for shares as marketing firm builds war chest for acquisitions

An oversubscribed fundraising (1 Feb) reflects healthcare marketing play **Cello's (CLL)** scarcity value as means of gaining exposure to an attractive US pharmaceutical and biotechnology industry.

The company raised £15m at 97p (a modest discount to the prevailing share price) alongside the $5.75m (£4.6m) acquisition of US biotech consultancy Defined Health.



Source: Company

SHARES IN DEMAND

The company did not need to raise funds for the deal as it has limited debt on its balance sheet. However, it did so as a way of broadening its investor base and raising funds for further acquisitions which can accelerate growth ambitions across the Atlantic.

Cello has two divisions: Cello Health and Cello Signal. Revenue-wise the split is roughly 50:50 but the Health arm delivers significantly better margins and therefore accounted for around 70% of first half operating profit.

Healthcare division delivers 70% of group profit

The marketing group trades on 12.5 times forecast earnings for the current financial year. That's based on broker Cenkos' estimates which factor in the impact of the acquisition and the placing of new shares.

Cenkos analyst James Fletcher comments: 'It is expected that revenue synergies will be extracted from the acquisition, as Cello cross-sells Cello Health Consulting services to Defined Health's customer base and vice versa, as well as the other disciplines of Insight, Communications and Consumer services.'

Cello chief executive Mark Scott says future acquisitions, like Defined Healthcare, will be focused on building exposure to US biotech in a market he says remains highly fragmented. By building scale Scott reckons the business can win more work from US healthcare businesses in the domestic market where the contracts are typically larger.

ACQUISITIONS PLAN

Scott is mindful that acquisitions are capable of destroying value as well as creating value. He says: 'We're very cautious. Unless we know the company and people in question quite well we would be reticent (to acquire a business) and we're not prepared to participate in an auction. We also need to ensure there's a managerial fit and no client conflict.'

The company's increasing exposure to the US could be translate into a currency boost when it reports full year results on 22 March. There may also be an update on M&A plans alongside these numbers.

SHARES SAYS: ↗

FinnCap has a price target of 132p implying upside of just over 30% at the current 101p. Progress in boosting its US presence should act as a catalyst for the shares.

BROKER SAYS: 3 0 0

Autins CEO walks out six months after IPO

Shock resignation comes alongside damaging profit warning

Rugby-based **Autins (AUTG:AIM)** has dealt investors a massive blow just six months after joining the stock market. Chief executive Jim Griffin has walked out in the wake of a shock profit warning as a major customer changed the terms of a supply deal, cutting volumes and altering the timing of deliveries.

The contract, speculated to be with Jaguar Rover, is understood by analysts to likely leave a 15% hole in forecast revenues for the current year to 30 September 2017.

That implies about £5m less than £33.5m revenue estimates, suggesting operating profit closer to £2.9m rather than the £3.45m previously pencilled in.

Autins supplies specialist compound materials designed to cut noise nuisance and reduce wasted heat, largely used in the automotive industry. Customers include Bentley as well as Jaguar Rover, the latter thought to account for half of Autins' annual revenue.

The £32m business will elaborate on the earnings setback when it reports 2016 full year results next month (7 March).

Investors will be miffed by a sudden turn of events that has wiped a third off the share price, falling from 222p to 148.5p, below the IPO (initial public offering) price of 168p.

Institutions that backed the IPO include **JP Morgan UK Smaller Companies Fund (GB0030880255)** and a pair of Miton small cap funds – **CF Miton UK Smaller Companies (GB00B8JWZP29)** and **Miton UK MicroCap Trust (MINI)** – both run by small cap expert Gervais Williams.

Marlowe strikes a scorcher of a deal

MARLOWE'S (MRL:AIM) acquisition of BBC Fire Protection (3 Feb) will boost its pre-tax profit by 12% in the financial year to March 2018, according to broker Cenkos. The support services group is backed by several people associated with highly successful document storage business **Restore (RST:AIM)**, including Lord Ashcroft and Charles Skinner. (DC)

Adept Telecom ups M&A ante

OUTSOURCED IT AND communications supplier **Adept Telecom (ADT:AIM)** has negotiated a new funding arrangement twice the size of its previous one. The fresh £30m revolving credit agreement seems to imply the company is looking at increasingly bigger acquisitions to accelerate scale in its target SME market. (SF)

Advanced Oncotherapy shock

SINOPHI HEALTHCARE has backed out of a deal with proton therapy systems developer **Advanced Oncotherapy (AVO:AIM)**, causing the latter's stock to fall more than 10% on the news. Having previously ordered two systems for cancer treatment, Sinophi failed to seal agreements with hospitals in China. (LMJ)

The true cost of investing in funds

We explain the different fees you should expect to pay

The simple act of buying an investment fund may be relatively straightforward, but working out how much it costs can be fiendishly complicated. The cost may be different depending on where you buy it, when you buy it and whether someone advised you to buy it.

Initially, there is the price an investor pays for the fund itself. This is the cost of paying a fund manager to run the fund, pick the right shares or other assets and administration, but this can be expressed in a number of different ways.

1 'ANNUAL MANAGEMENT CHARGE' VS 'ONGOING CHARGE'

All groups will quote an annual management charge. In theory, it is the charge that the investment manager levies for managing the fund. Sadly the calculation is not uniform.

One fund group may include the cost of paying a fund manager to pick stocks, plus any trading costs, administration and custody. Another may only include the cost of the fund manager with another 0.2%-0.3% on top for those extra activities. In most cases, the average investor will have no way of knowing without burrowing into the accounts.

Daniel Godfrey, co-founder of The People's Trust and former CEO of the Investment Management Association, says: 'The spectrum between funds with an all-inclusive charge and those with just the management fee is quite wide.

'As such, the consumer really needs to look at the "ongoing charge" figure, rather than assuming the annual management charge is the costs they are paying. The ongoing charge figure makes all funds comparable.'

The ongoing charge figure, previously known as the total expense ratio, should give a complete picture of the fund manager costs for the fund. This is now widely quoted by all the major fund management groups on their fund factsheets.

2 PERFORMANCE FEES AND NEW SHARE CLASSES

Some funds will impose a performance fee if the fund manager beats a pre-stated benchmark by a certain level.

Another thing to note is that funds have different share classes, typically each with different charges.

The old share classes used to bundle all costs together – platform, adviser and fund manager – and would often have an initial charge.

New share classes only have the fund manager fee. In general, if the charge is 0.65%-0.75%, you're in a new share class. If you are paying more than that, it may be an old share class and you should think about swapping to the new share class.

3 COSTS CAN DEPEND ON WHETHER YOU MADE THE INVESTMENT YOURSELF OR THROUGH AN ADVISER

Graham Bentley, founder and managing director of investment marketing consultancy gbi², says: 'If someone goes through some kind of intermediation process, there will be additional costs.

'They may go through a financial adviser who in turn will use a platform to buy and sell investments. In this case, the fees may look something like: 0.85% ongoing charge for the fund manager, 0.35% to the platform and a further 0.5% to the financial adviser.'

Those investors who use a direct platform with no advice such as AJ Bell Youinvest will only pay the platform fee and the fund management fee. Some platforms may charge additional fees for closing accounts, transfers or for issuing paper statements.

Bentley says that only by adding the ongoing charge, the platform charge and the financial adviser charge (if applicable) can investors get to a 'total cost of ownership' figure.

4 WHERE TO FIND INFORMATION ON CHARGES

You should look at a fund's factsheet for the ongoing charge, the platform website for its fees and, if using one, the financial adviser for their fees.

Equally, while it is possible to compare the fund management costs, it is not always easy to compare platform costs or the costs of financial advisers, says Bentley. 'In general, if a financial adviser is cheap, people don't know.'

Fees are often taken from the investment (usually monthly) and it can be difficult to disaggregate them from investment returns, dividends and monthly savings.

Does it matter? After all, on a £1,000 investment the difference between a 0.75% and 1% fee is not that great – just £25 – and £25 won't do much in retirement. The problem is that higher fees are magnified over time. Compound interest is a potent way to build wealth over time and fees can take a chunk of that amount.

5 FEES CAN DEPEND ON THE TYPE OF FUND IN WHICH YOU INVEST

Fund management costs will vary, most notably between active funds and ETFs or tracker funds, but also between active funds as well.

Larger funds will often be able to achieve economies of scale (though this doesn't necessarily make them better).

Investors will often pay a little more for certain strategies such as emerging markets or smaller companies.

Platform charges will also vary considerably. Some platforms will charge fixed fees, which may suit those with larger portfolios better than a percentage fee of assets under management.

Financial regulator the FCA is planning a shake-up of asset management fees. However, previous regulatory shake-ups have generally done little to simplify charging, and in some cases have done the opposite.

For investors, the unwelcome answer is simply to be alert to the different costs and check you aren't overpaying at any link in the chain. (CR)

ONGOING CHARGES ARE USED TO PAY FOR THE RUNNING OF A FUND, WHICH INCLUDES THE COSTS BELOW

FINANCIAL ADVICE (ONLY IF YOU USED AN ADVISER) Paid to your adviser on funds if they were bought based on advice received before 1 January 2013	0.5%
ADMINISTRATION Customer servicing: Keeping a record of your investment Paying any income due to you Sending progress reports Telling you how much your investment is worth Operating the fund: Maintaining fund accounting records Valuing the fund's assets Calculating the daily unit price Producing reports Complying with investment rules	0.15% – 0.4%
INVESTMENT MANAGEMENT Research into deciding where to invest and which assets to buy and sell	0.5% – 0.75%
INDEPENDENT OVERSIGHT Depositary/trustee oversight Safe-keeping of the fund's assets Auditors' fees Regulators' fees	0.01% – 0.1%
Total (typically) =	**1.25% – 1.75%**

Source: Investment Management Association

Using the Z-score to find the cheapest trusts

Is this a foolproof way of spotting bargains?

One of the key points to check when buying an investment trust is the discount or premium to net asset value (NAV). It always feels like a bargain if you can buy the shares for less than the underlying portfolio is worth, but it is important to dig a bit deeper.

An investment trust trading at a discount such as 5% may look like good value, yet if the shares normally change hands 10% below their NAV then it is actually quite expensive.

This is where the Z-score can help. It is calculated by working out the difference between the current discount and the average discount measured over the last year and then dividing it by the standard deviation of the discount over the same period.

Ewan Lovett-Turner, director, investment companies research at Numis Securities, believes the Z-score is a useful measure of relative valuation.

'It is based on the theory that discounts are normally distributed and exhibit mean reversion characteristics, although this is not always the case and discount ranges can shift over time.'

The Z-scores are reported in the financial press on a fairly regular basis and they are also available on the Morningstar website.

If you decide to use them you need to be aware that they can change quickly as the discounts can widen or tighten dramatically over the course of a single day.

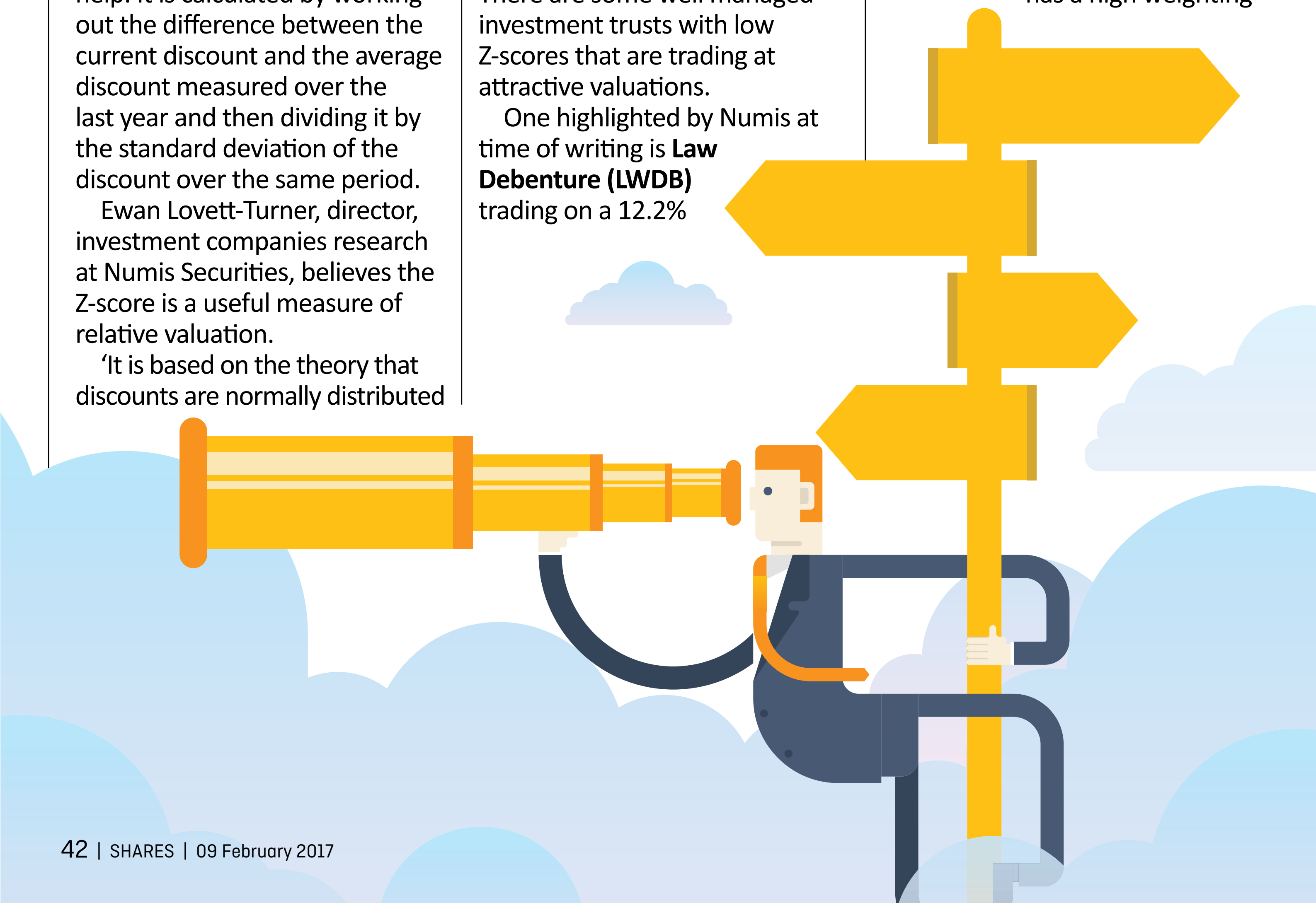
TRUSTS WITH ATTRACTIVE VALUATIONS

There are some well managed investment trusts with low Z-scores that are trading at attractive valuations.

One highlighted by Numis at time of writing is **Law Debenture (LWDB)** trading on a 12.2% discount (versus an average of 9.7% over the last 12 months) with a Z-score of -1.2.

'Law Debenture is differentiated from other investment trusts by its unique structure consisting of two parts: an equity portfolio managed by James Henderson and a group of fiduciary services businesses, which provides a boost to the yield, currently 3.1%,' explains Lovett-Turner.

The investment trust underperformed its global peers around the Brexit vote because it has a high weighting



in the UK and suffered from sterling weakness. Yet it has a good long-term track record and benefits from low ongoing charges of 0.45%.

Other mainstream funds that look cheap include **Perpetual Income and Growth (PLI)** and **JPMorgan Mid-Cap (JMF)**, both with Z-scores of -1.6. Ryan Hughes, head of fund selection at AJ Bell, says the latter looks particularly attractive.

'JPMorgan Mid-Cap has had a poor year of performance due to the Brexit referendum, significantly underperforming its benchmark and as a result the discount has widened steadily over the past 12 months.

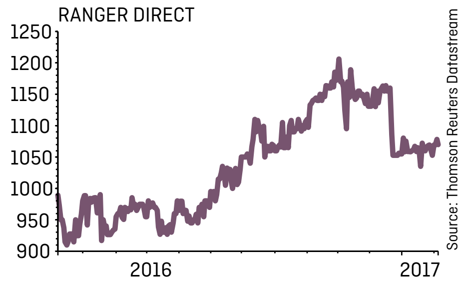
'However, the management team have a long track record of performance and have outperformed the FTSE 250 Index in four of the last five calendar years.'

DON'T FORGET THE FUNDAMENTALS

Z-scores can be a useful starting point, but it's important not to forget the fundamentals. A case in point is **Lindsell Train (LTI)**, which based on a 13-week Z-score is one of the cheapest investment trusts on the market. This is due to a massive fall in its premium, yet it is still trading 27.5% above its NAV.

'While the Z-Score is an indicator of value against history, it does not tell you how the trust will perform going forwards. Nobody should simply invest on the basis of a cheap Z-score,' advises Hughes.

Another misleading example is peer-to-peer lender **Ranger Direct Lending (RDL)**, which at time of writing had a Z-score



of -1.3. Shares in the fund hit a 12-month high of £12.06 in October 2016, but have since sold-off sharply and are currently languishing around £10.55.

'I'm wary of niche trusts that look cheap and would therefore tread carefully on a fund such as Ranger Direct Lending,' warns Hughes.

'It has had problems with bankrupt online lender Argon and therefore it is entirely understandable that this trust has a discount wider than its long term average.'

The C shares in **CATCo Reinsurance Opportunities (CATC)** might be of more interest. These provide exposure to catastrophe insurance, but last year was a bad one for claims because of all the extreme events like the earthquake that hit New Zealand. As a result the trust is trading at a 3.5% discount, compared to an average 12 month premium of 0.3%.

MODEL PORTFOLIO

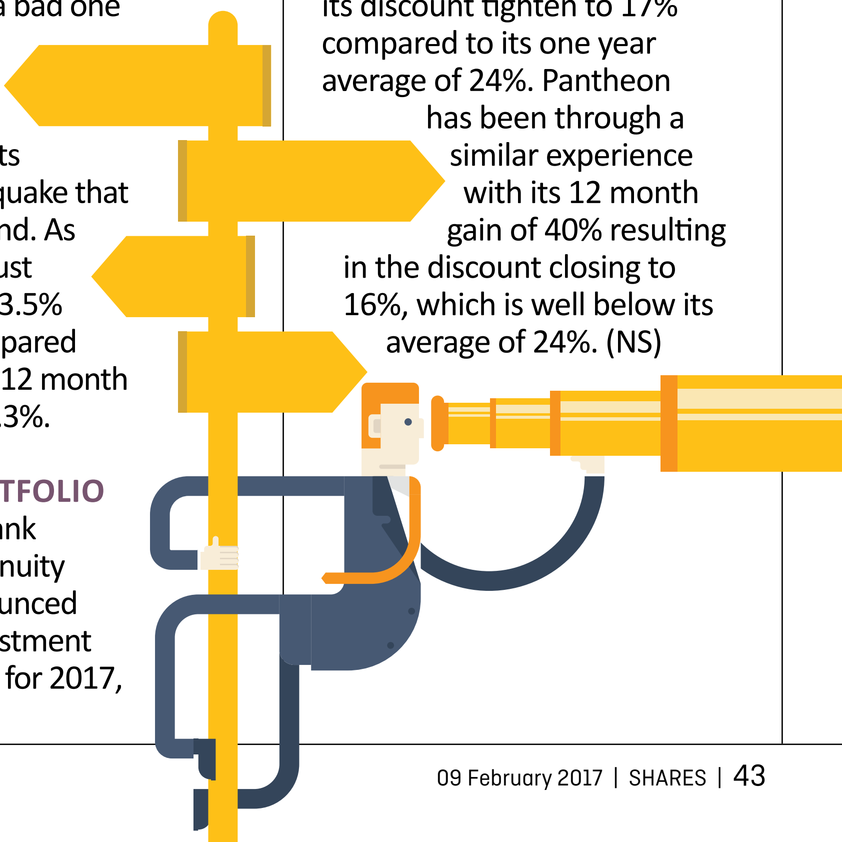
Investment bank Canaccord Genuity recently announced its model investment trust portfolio for 2017, with the selection based primarily on the underlying fundamentals rather than the premiums, discounts and Z-scores.

'We believe that a pure valuation strategy (i.e. discounts equals cheap), is too simplistic; with markets now generally efficient; valuations are an important but secondary issue,' explains Alan Brierley, the director of their investment companies team.

However, when deciding which funds to include, Canaccord looked for pockets of value by comparing the weighted average discounts of each investment trust sector with their one-year Z-scores.

This led Canaccord to conclude that the listed private equity sector was attractively priced, with the selections for the model portfolio being **HarbourVest Global Private Equity (HVPE)** and **Pantheon International (PIN)**.

HarbourVest Global is a private equity fund-of-funds that returned 36% in the last 12 months and this helped its discount tighten to 17% compared to its one year average of 24%. Pantheon has been through a similar experience with its 12 month gain of 40% resulting in the discount closing to 16%, which is well below its average of 24%. (NS)



THE IMPACT OF THE POUND ON YOUR PORTFOLIO

WHY IT HAS NEVER BEEN MORE IMPORTANT TO CONSIDER FOREIGN EXCHANGE RATES WHEN INVESTING

One of the most striking aspects of 2016 was the impact of currency returns on investor portfolios. The sharp fall in the pound after the EU referendum meant that sterling finished the year down 16% against the dollar, 14% against the euro and 19% against the yen.

UK-based investors with exposure to overseas assets denominated in any of these currencies would have enjoyed a massive increase in their value once translated back into sterling. The movements were so extreme that they would have largely dominated the local market returns.

Paul Derrien, investment director at Canaccord Genuity Wealth Management, says retail investors must always be cognisant of potential fluctuations in currency and how that will affect the performance of any overseas-exposed funds or companies in which they are invested.

‘Far too often retail investors ignore these risks and are not fully aware what is driving the returns from their investments,’ he says.

‘This will be especially paramount in 2017 as we sign Article 50; watch the impact of European elections; and the likely increase in pressure on interest rates caused by higher inflation. All will have material effects on currencies throughout the year.’

INVESTORS OFTEN IGNORE THE RISK OF CURRENCY FLUCTUATIONS AND HOW THAT AFFECTS THE PERFORMANCE OF FUNDS WITH OVERSEAS-LISTED ASSETS

HOW DO I KNOW IF A CURRENCY IS OVERVALUED OR UNDERVALUED?

There are various ways of trying to work out if a currency is overvalued or undervalued relative to another with one of the best known being the purchasing power parity (PPP) theory.

This states that the long-run equilibrium value of a currency is completely determined by the ratio of domestic prices relative to foreign prices.

Valentin Bissat, senior economist and strategist at Mirabaud Asset Management, says that in the short to medium term, arbitrage in tradeable goods is limited by tariffs, transaction costs, and entry and exit barriers, so there are persistent departures from PPP.

'Investors should not use PPP to assess the risks of international investments due to the departure of FX rates from their fair value,' he explains.

'Instead they should use short and medium term indicators such as: monetary policies, real interest rate differentials based on the two-year government bond yields, investor positioning, current account trends and relative economic growth.'

Even if you have all of this data it can still be extremely difficult to work out the likely implications for your investments.

'We can see from the way individual companies function, or how overseas funds are structured and are constantly changing their investments, that underlying currency exposure will be very difficult to calculate,' explains Derrien at Canaccord.

'That does not mean investors shouldn't factor this into their analysis – in fact it is essential that they do, even if the calculations are more general.'

WHERE DO I GO FOR INFORMATION ON COMPARING CURRENCIES?

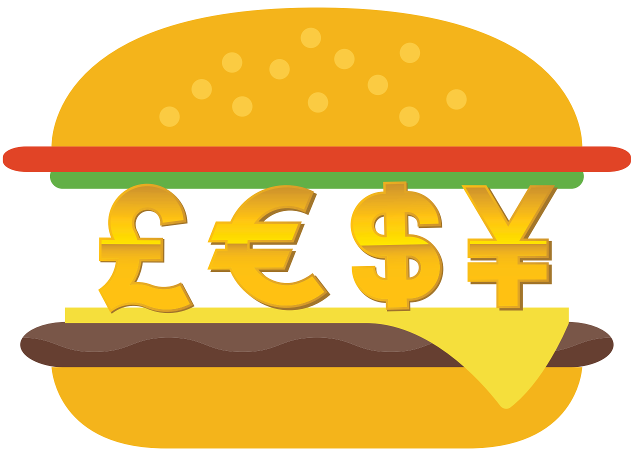
One practical solution would be to use the World Price Index, which is available online, to provide an indication as to which currencies look overvalued or undervalued.

Alternatively there is the Big Mac Index published by *The Economist* that offers a more intuitive version of PPP. This is a way to gauge whether foreign currencies are overvalued or undervalued by comparing the prices of McDonald's *Big Mac* burgers around the world.

Adrian Lowcock, investment director at Architas, says the pound is currently one of the potentially riskier currencies as concerns over Brexit will make it more volatile and uncertain.

'The trend for sterling is weakness as expectations of a hard Brexit rise and fall. This makes it very difficult to call exposure to other currencies as their performance might be more driven by UK events than domestic ones.

'I would expect the pound to remain under pressure during the whole Brexit process and therefore it would be prudent for investors to have exposure to overseas currencies.'



WHAT'S THE OUTLOOK FOR THE DOLLAR, EURO AND YEN?

Lowcock thinks the US dollar will remain strong and continue to grow this year, whereas the euro could come under pressure as election fears rise, although it may well swing back if the results support the status quo.

'In Japan a hedged currency fund can add value at the right times as when the currency falls the market tends to perform. The yen is weakening against the dollar, but less so against the pound. This is an area where hedging can pay off, although getting it wrong can have a significant impact on returns.'

CURRENCY HEDGED FUNDS

SOME FUNDS HAVE hedged share classes that use derivatives to fully or partially eliminate the impact of the exchange rate movements on the value of the underlying investments.

Examples include: Schroder European Alpha Plus, JP Morgan Europe Dynamic ex UK, Schroder Tokyo, GLG Japan CoreAlpha and Lindsell Train Japanese Equity.

According to data from FE Trustnet, investors in the **Lindsell Train Japanese Equity B Sterling Quoted (IE00B3MSSB95)** share class would have made 32.9% over one year, 68.6% over three years and 101.5% over five years. Over the same timeframes the hedged share class returned 12.7%, 37.1% and 133.2%.

'There is a cost to buying a derivative for hedging a currency, but it is usually not particularly significant (around a few basis points) compared to the effect it would have on performance,' says Lowcock.

'Get a currency call right and it can add significantly to returns, whilst getting it wrong would detract from performance, possibly wiping out gains on the underlying investment.'

There are also lots of currency hedged ETFs such as **Lyxor Euro Stoxx 300 – GBP Hedged (MFEG)**. (NS)

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KEY

- Main Market
- AIM
- Fund
- Investment Trust
- Exchange-Traded Product
- IPO coming soon