STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 19 / ISSUE 08 / 02 MARCH 2017 / £4.49

SHARES

WE MAKE INVESTING EASIER

WILL ADMIRAL AND DIRECT LINE BE FORCED TO **CUT DIVIDENDS?**

TOP TRICKS:

THREE NIFTY WAYS TO GET MORE FROM THE LIFETIME ISA

Our latest views on Lloyds, RBS and other banks

Five stocks at risk if there's a new Scottish independence vote

WHY YOU SHOULD LISTEN TO WARREN BUFFETT

Learn from Buffett's words of wisdom

Why it can pay to read shareholder letters from investment companies and fund managers

The publication of Warren Buffett's annual Berkshire Hathaway shareholder letter is often treated like a release of a new book from a best-selling author. The media gives it significant publicity and pore over the legendary investor's every word.

The broader investment community also latch on to Buffett's annual tome, looking for new insights into how the man became one of the world's most successful investors. Rightly so. Berkshire has achieved 20.8% compound annual gain since 1965, more than twice the return from the S&P 500 index including dividends (9.7%).

WHAT'S IN THE LETTER?

Buffett's honesty in his shareholder letter is refreshing. It always contains a few valuable lessons, showing how you can learn from mistakes, as well as engaging in interesting debates about investing.

Share buybacks are the topic of debate in his latest letter. He's a fan of them, as long as a company can buy its shares below their intrinsic value. Buffett also raises a good point whereby companies shouldn't do buybacks if the cash is needed to protect or expand the existing business or when an acquisition could add greater value.

Very few individual companies explain to shareholders why they've come to certain decisions such as share buybacks or detail in great length the cash requirements for their existing business.

I believe individual companies should take a leaf out of Buffett's book and follow his example in explaining why they've come to certain decisions. Off the top of my head, retailer **Next (NXT)** is the only company to actually do this.

WHERE ELSE CAN I FIND GOOD COMMENTARY?

You often get a lot more frank discussion from people who run investment companies or funds about their decision making versus individual companies. Anyone serious about investing should take a good look at investment fund reports as they can give valuable insights into why certain decisions were made.

For example, investment company **RIT Capital Partners' (RCP)** latest results include a good commentary by chairman Lord Rothschild on how RIT views the world from an investment perspective. The one line that really stood out was: 'There could well be a period ahead of us when the avoidance of risk is as high a priority as the pursuit of gain.'

Investors often get tunnel vision in the pursuit of making a profit. Rothschild's comment is a good reminder that you also need to think about other things, particularly to avoid wealth destruction.

This statement is also echoed in **Athelney Trust's (ATY)** newly-published results which contains a few pearls of wisdom.

In his latest commentary, Athelney chairman Manny Pohl criticises companies for being short-term in the pursuit of shareholder value, trying to meet market expectations to boost the share price and not focus on investing in the business for the longer-term.

'What does managing for shareholder value mean? It means managing for cash flow not earnings per share: it means managing for the long-term not the short-term,' says Pohl.

COMING SOON IN SHARES

In the coming months we're going to discuss in *Shares* the best sources of information on investment strategies and explain how they could help make you a better investor.

Until then, I suggest you devour the material from Berkshire, RIT and Athelney. They really are essential reading. (DC)

Contents

02 March 2017

INTERACTIVE PAGES

CLICK ON PAGE NUMBERS TO JUMP TO THE RELEVANT STORY

03 Learn from Buffett's words of wisdom

06 New ruling could lower insurers' dividends

06 Moneysupermarket margin concerns

07 Stocks to watch as Scottish vote talk returns

07 Gleeson not reliant on giveaways

08 Is Woodford set for a u-turn on banks?

10 Vital numbers on cyber-attacks, Buffett's mistakes and more

12 Earn more every year with Bunzl

13 Reliable growth and income with Zytronic

14 We update our views on Treatt and Serco

16 Can you live off a natural yield?

18 Top tips if you're late to retirement planning

20 We remain unimpressed by banking shares

22 Top tricks: Three nifty ways to get more from the Lifetime ISA

28 Funds to play emerging markets recovery

32 Genus strikes tasty deal to boost European position

33 Blue Prism is up 500% in less than a year

36 Guide to spread betting

44 A game changing year for Oxford BioMedica?

46 Searching out secure income via funds

48 Results, trading updates, AGMs and more over the coming week

DISCLAIMER

IMPORTANT

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

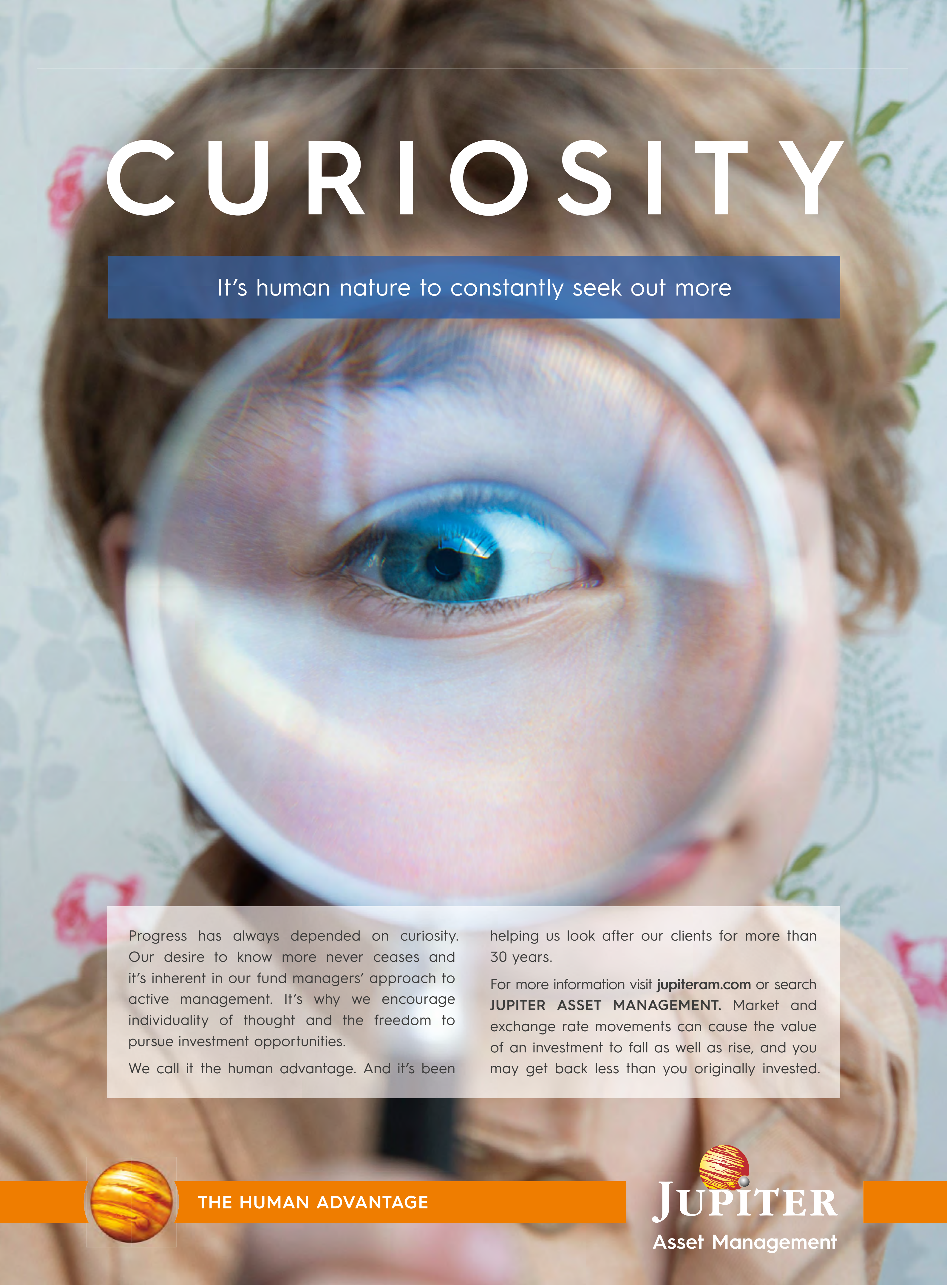
Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

1. In keeping with the existing practice, reporters who intend to write about any securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for seven working days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within seven working days after the on-sale date of the magazine.


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

New ruling could lower insurers' dividends

Income investors may have to rethink Admiral and Direct Line's appeal

Motor insurers are in the doldrums following worse than expected changes to the way personal injury claims are calculated. Analysts now believe the likes of **Admiral (ADM)** and **Direct Line (DLG)** will no longer pay special dividends which have previously made them firm favourites with income investors.

We highlighted the risks to the sector last month in *Shares*, pointing to analysis by investment bank UBS. It suggested a reduction in the so-called 'Ogden rate' from 2.5% to 1% had already been priced in to the value of insurance company shares.

The new rate has now been confirmed at -0.75% which will cause a bigger dent to insurers' profit than the market had expected.

Ogden is used to calculate compensation payments to victims of car accidents based on the return any money paid out can earn when it is invested.

Admiral and Direct Line may no longer pay special dividends

WHAT IS THE FINANCIAL IMPACT?

The lower the rate, the higher the lump sum required. Direct Line had previously warned a one percentage point decrease in the rate would wipe £190m off its profit.

It now says the new discount rate will hit by pre-tax profit by £215m to £230m after reinsurance recoveries.

Admiral says the estimated total net financial impact of all claims settling at the new rate is £140m to £175m.

PREMIUMS SET TO RISE

UBS expects insurance premiums will have to rise and that customer churn could become a problem in the industry.

'We expect this to lead to higher acquisition expense ratios across the industry, although this is beneficial for those trying to grow share.'

Among the insurers in a stronger position relative to some peers is **Hastings (HSTG)** which we flagged ahead of the changes as our preferred play in the space.

Although it says it will book a one-off £20m Ogden-related charge alongside full year results, it is not sitting on a backlog of liabilities which would be affected by changes to the rate.

It also enjoys low costs, has a well-integrated approach to price comparison sites and a solid technology platform.

SHARES SAYS:
Keep buying Hastings at 236.2p. Admiral and Direct Line are both well-run businesses, but now is not the time to buy their shares – even after their recent decline in value. (TS)

Moneysupermarket margin concerns

FULL YEAR results (28 Feb) from price comparison site **Moneysupermarket.com (MONY)** reveal pressure on margins and revenue behind 2016 levels in the first two months of 2017. The shares were punished heavily on the news.

Liberum analyst Ian Whittaker says his key fear about the stock, that increased marketing spend to counter competition would undermine profitability, is realised by these results.

Gross margins for 2016 fall from 80% to 74.8% and guidance is for a further fall to 73% in 2017. (TS)

Stocks to watch as Scottish vote talk returns

Which areas of the market might be affected if there is another referendum?

Sterling is under renewed pressure amid speculation Scottish first minister Nicola Sturgeon will trigger another independence referendum in 2018.

Reports suggest her English counterpart Theresa May is preparing for another vote amid anger north of the border over May's hard Brexit stance, including an expected exit from the Single Market.

As well as impacting the currency markets, the announcement of a second referendum, to follow the one held in September 2014, is likely to lead to some volatility on the stock market.

LESSONS FROM HISTORY

Looking at the shares which were affected in 2014 could offer some insight into areas to watch if calls for an independence vote solidify.

Financial firms with headquarters in Scotland, like **Royal Bank of Scotland (RBS)** and **Standard Life (SL.)** both fell as polls narrowed ahead of the 2014 vote as did Glasgow-headquartered engineer **Weir (WEIR)** and engineering services business **Babcock (BAB)**.

The latter was marked down as investors fretted about the loss of Royal Navy contracts for its shipyard in Rosyth, Dunfermline.

SSE (SSE) could also lose substantial state support for renewable energy projects if Scotland exited the UK.

WHAT DO THE POLLS SAY?

Most polling gives the 'No' campaign a healthy lead but a recent BMG poll for the *Herald* newspaper saw support for independence at 49% if undecided voters were excluded. (TS)

Gleeson not reliant on giveaways

Company has little exposure to inflated house prices

BUDGET HOUSEBUILDER **MJ Gleeson (GLE)** could interest investors looking for exposure to the sector but nervous about an overheated property market.

The dividend was hiked 44% at the half-year stage to 6.5p as increased cash flow helps bolster the balance sheet and the company signaled its confidence in demand (27 Feb). A prospective yield of more than 3.5% looks increasingly attractive.

The company trades at a premium to its larger peers on a price to book ratio of more than 1.8 times, based on Liberum forecasts, but this is justified by the greater growth potential in its niche of building low-cost homes on brownfield sites in the North of England. The average selling price of its homes is just £125,000.

FOCUS ON GENUINELY AFFORDABLE HOMES

Although around two thirds of completions in the six month period benefited from the Government's Help to Buy scheme, chief executive Jolyon Harrison tells *Shares* the affordability of the company's homes means its buyers are not reliant on this giveaway.

Management sees scope for growth as Gleeson expands into areas such as Cumbria and West Yorkshire and it recently opened a new branch office in Nottingham.

In the background its strategic land business is humming away, delivering a steady stream of profit as land, concentrated in the South of England, is progressed through the planning system.

SHARES SAYS:
Gleeson has an attractive business model. Buy its shares at 589p. (TS)

Is Woodford set for a u-turn on banks?

Investor prepares his third and final managed fund for Woodford Investments

Britain's most famous fund manager Neil Woodford is not ruling out banks for his soon-to-launch CF Woodford Income Focus fund, despite previously having a negative view on the sector.

Interestingly, the notorious bank bear has been quoted as saying 'I think banks are more investable than they have been in a long time, but I can't tell you whether they will appear in the portfolio or not'.

The inclusion of banks, a logical source of high yield, would represent a u-turn for Woodford, who as recently as November 2016 told the AJ Bell *Investival* conference banks were 'unappealing investments' and concluded 'life will remain difficult for banks to earn attractive returns'.

Targeting an income of 5p in its first year off a £1 launch price, implying an initial yield of 5%, the new fund will benefit from the flexibility to invest overseas.

Moreover, it will only invest in quoted assets, unlike Woodford's other two funds, **CF Woodford Equity Income (GB00BLRZQ620)**, which he dubs a total return fund 'but with an income responsibility', and **Woodford Patient Capital Trust (WPCT)**.

A more concentrated portfolio prioritising income generation, the new fund will be unfettered by the long tail of unquoted and small quoted tech businesses found in the first income product.

Investors can apply for units in CF Woodford Income Focus through their stockbroker. The launch offer period runs from 20 March until 12 April. (JC)

Trump pledges military boost

IN NEWS which could have a knock-on effect for the likes of **BAE Systems (BA.)**, US president Donald Trump has announced he wants to increase military spending by anywhere upwards of $54bn. However any benefit may be limited given Trump's 'America First' rhetoric. This is likely to see US operators get priority on any large contracts. (TS)

£300m glass ceiling

ANALYSTS REMAIN sceptical that new broadcast rights for 'live' Champions League football in the UK through 2018-2021 will fetch a significant premium on last time. **BT (BT.A)** currently screens the competition exclusively via a record £299m per season deal with governing body UEFA. Preliminary bids will start this week but number crunchers at investment bank UBS see a shared agreement as more likely. This could see BT and **Sky (SKY)** pay around £150m a season each. Sidestepping more football hyper-inflation would be a relief to both sets of shareholders. (SF)

Conygar sells property portfolio

CONYGAR INVESTMENT COMPANY (CIC:AIM) is set to sell its property portfolio to Regional Commercial Midco for £129.8m. Assuming it goes through, the deal would leave the company in a debt-free position and with the capacity to invest in its development assets. The pipeline includes a mix of leisure, residential and commercial projects. (TS)

Join our other investors earning **10 - 16% pa** on loans secured against **professionally valued** property and other assets. With an easy to use dashboard and a **low minimum investment** of only £25 per loan, investing with us is **child's play**. We also offer a **flexible** process so you have the ability to pick and choose which loans you want to invest in and how much. Plus, your investments will start **earning interest** as soon as you invest. Please note, your capital is at risk.

Register online now at www.fundingsecure.com, or contact us for more information.

FundingSecure
PEER-TO-PEER ASSET BASED LOANS

www.fundingsecure.com

0118 324 3190 / 0800 690 6568 / Company No: 8120200 / Authorised and Regulated by the Financial Conduct Authority

£24.3bn

Personal pension contributions break new record

THE TOTAL AMOUNT of money invested in personal pensions by employees and employers reached £24.3bn in the fiscal year ending 5 April 2016, a new record and up from £20.3bn a year earlier.

Automatic enrolment into pension schemes is certainly a major reason behind the all-time high figure.

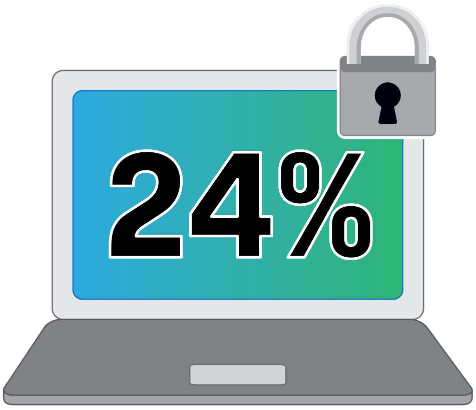
This trend is likely to continue as regulations require a minimum 8% contribution (including 5% from employees) from April 2019 onwards.

At the moment employers and staff only have to contribute 1% each – all figures are based on the employee's salary level.

15.7%

JUMP IN UK REMORTGAGE APPROVALS IN JANUARY

HOMEOWNERS ARE RUSHING to take advantage of historically low interest rates by locking in new mortgage deals. Lending data from the British Bankers Association shows 28,862 remortgaging approvals in January 2017, up 15.7% year-on-year. There was even momentum in new mortgage approvals, up 2.5% month-on-month to 44,657 in January. The Bank of England is widely expected to push up rates at some point in the near future if inflation gets out of control.



US WORST OFFENDER FOR CYBER-ATTACKS

ALMOST A QUARTER (24%) of DDoS cyber-attacks in the fourth quarter of 2016 originated from the US, according to market research group Statista. Many people assume China and Russia are the major sources of such damaging computer incidents, but they came fourth and fifth respectively after the UK and Germany.

DDoS is one of the most common forms of cyber-attacks on organisations, responsible for stealing users' details, passwords, personal data, or just shutting down IT systems en masse.

Lloyds bank was reportedly on the end of a DDoS attack in January when thousands of customers were prevented from using their online accounts.

$6.47bn: Warren Buffett's costly mistake

THE LATEST SHAREHOLDER letter from Warren Buffett's investment business Berkshire Hathaway reveals how one acquisition is ingrained in the legendary investor's memory for a bad reason.

Berkshire paid $434m for Dexter Shoe in 1993 and the value of the business soon went to zero. It paid for the acquisition in equity, giving Dexter's sellers 25,203 shares in Berkshire. That amount of stock is now worth an eye-watering $6.47bn.

His error caused Berkshire shareholders to hand out far more than they received. 'Today, I would rather prep for a colonoscopy than issue Berkshire shares,' says Buffett.

10 YEARS

FIRST DIVIDEND GROWTH IN A DECADE FROM INTU

THE UK'S BIGGEST shopping centre owner, **Intu Properties (INTU)**, has lifted its dividend for the first time in 10 years. The payout moves from 13.7p to 14p on the back of 7% increase in underlying profit for 2016 to £200m. The show of faith is at odds with the uncertainty around Brexit and its impact on consumer confidence and a retail sector digesting higher business rates. Jefferies analyst Mike Prew is not convinced that Intu is a good investment at present, reiterating a 229p price target and 'underperform' recommendation. Intu presently trades at 290p.

66%

Potential jump in IMI's 2017 earnings per share

EARNINGS PER SHARE (EPS) could possibly improve by two thirds this year for fluid dynamics engineer **IMI (IMI)** in a best case scenario.

Analysts at Numis Securities believe the company could achieve 100p EPS versus consensus forecast around the 60p mark at present.

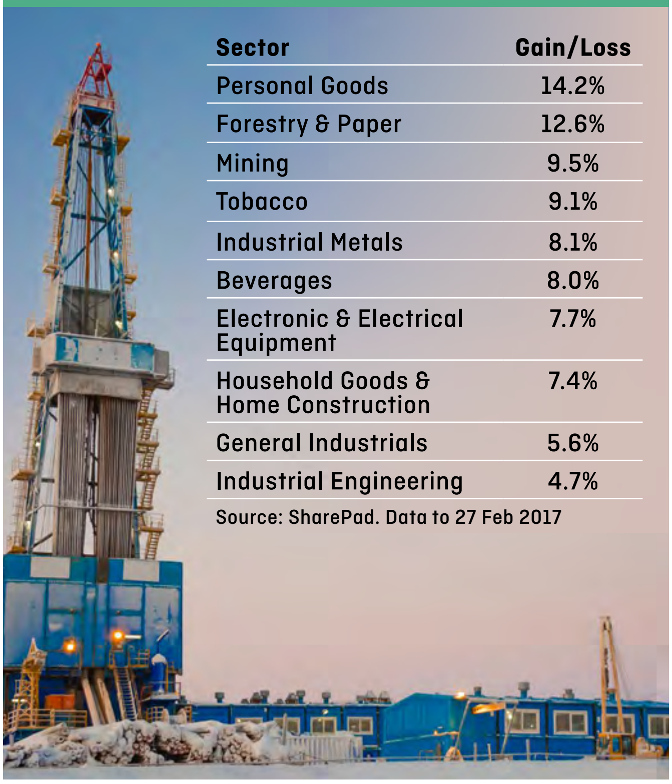
They foresee a potential 'jaw-dropping' impact of operational gearing as costs are stripped from the business. Achieving this EPS uplift would require pulling off a major acquisition.

HIGHEST 1 YEAR TOTAL RETURN FROM REAL ESTATE INVESTMENT TRUSTS

1	Segro	SGRO	21.6%
2	Safestore	SAFE	16.3%
3	Assura	AGR	14.7%
4	Tritax Big Box REIT	BBOX	14.5%
5	Hansteen	HSTN	12.6%
6	Workspace	WKP	11.3%
7	Hammerson	HMSO	11.2%
8	F&C UK Real Estate Investment	FCRE	11.0%
9	Schroder Real Estate I.T.	SREI	9.3%
10	Custodian REIT	CREI	8.8%

Source: SharePad. Data to 27 Feb 2017

BEST PERFORMING FTSE ALL-SHARE SECTORS SO FAR IN 2017



Sector	Gain/Loss
Personal Goods	14.2%
Forestry & Paper	12.6%
Mining	9.5%
Tobacco	9.1%
Industrial Metals	8.1%
Beverages	8.0%
Electronic & Electrical Equipment	7.7%
Household Goods & Home Construction	7.4%
General Industrials	5.6%
Industrial Engineering	4.7%

Source: SharePad. Data to 27 Feb 2017

Earn more every year with Bunzl

FTSE 100 distributor excels at buying companies and making them better

The return of **Bunzl (BNZL)** to more normal valuation levels is reason to take another look at one of the FTSE 100's best dividend growth stories.

It could benefit from Donald Trump's plans to boost the US economy as North America accounts for 60% of its sales. The ongoing recovery in the oil and gas sector is also helpful. It provides safety equipment to the space.

Shares in the distribution business soared last summer as investors flocked to own companies with big overseas earnings which would enjoy a translation boost when reported in sterling. The benefits were apparent in full year results reported earlier this week (27 Feb) with Bunzl estimating a 10% boost from currency conversion.

IN AND OUT OF FAVOUR

Bunzl is often considered to be a 'bond proxy' which is a term to describe defensive companies that have safe, predictable returns and fairly limited share price movements year in, year out.

Bond proxies become less desirable when there are expectations for higher interest rates. The stock market expects more significant returns from equities at this point in the cycle, making bond proxies and their limited likelihood of large share price gains less appealing.

BUNZL BUY
(BNZL) £22.39
Stop loss: £15.50

Market value: £7.5bn

Bunzl's shares fell nearly 20% in late 2016 as investor appetite for bond proxies waned. They've now started to recover as investors return to quality businesses in the face of uncertain global economic conditions.

We think it is unfair to classify Bunzl as a bond proxy. Its share price has doubled in the past four years which doesn't conform to the normal pattern of a pedestrian, defensive stock. The company calls itself 'GDP-plus', meaning its earnings should grow in excess of GDP in the countries in which it operates.

WHAT DOES BUNZL DO?

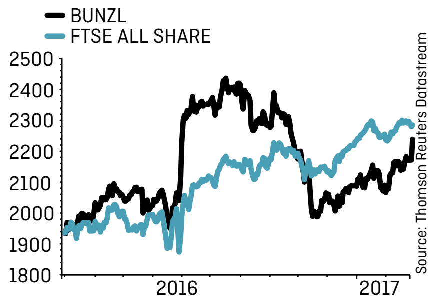
Bunzl is quite simple to understand. It supplies things that companies need in order to do business; but not items they would sell to their customers. For example, it supplies disposable coffee cups to cafes and food wrap to supermarkets.

It buys companies and makes them better, leading to increased profitability and cash flow. The latter helps to fund higher dividends each year and funds more acquisitions. Bunzl calls this a 'compounding strategy'.

It has paid out £1bn in dividends since 2004 and spent £2.4bn on acquisitions – all self-funded. Acquisitions drive its earnings.

Organic revenue growth was next to nothing in 2016, partially as a result of losing a big customer. However, pre-tax profit – assuming no change in exchange rates – grew by 6% which is a better indicator of Bunzl's typical performance. (DC)

BROKER SAYS: 5 8 2



Reliable growth and income with Zytronic

Touch technology firm has copper-bottom balance sheet

Reliable growth at a reasonable price is not always easy to find among smaller companies but **Zytronic (ZYT:AIM)** is a UK technology business that offers just that. Paying dependable dividends on a 4%-plus yield, investors get a carefully run, attractive, income-paying stock with all the tax breaks that AIM offers.

The shares often look inexpensive relative to the wider sector; they currently trade on a forward price to earnings (PE) multiple of 14.2 for the full year to 30 September 2017. The rating dips to 13.5-times 2018 forecasts. This is largely due to the project nature of its contacts with limited forward visibility, a factor that upset trading briefly in early 2013.

But Zytronic is also a big exporter (95% of revenue goes overseas) that stands to leverage the weak pound through this year and beyond as previous hedging contracts unwind. It is also improving the quality of its profits through judicious investment in research and development, and has emerging growth market opportunities before it.

ZYTRONIC BUY
(ZYT:AIM) 405p
Stop loss: 324p

Market value: £61.7m

BIGGER DISPLAYS, HIGHER PROFITS

The Newcastle-based company designs and builds rugged, mainly touch-interactive displays. It built its reputation on outdoor applications, ATM machines in particular, but is increasingly tapping new markets. Interactive screens for gaming terminals are a significant market, plus vending machines, medical appliances, entertainment displays and other industrial applications where touch-screen controls tend to get bashed about. It supplies the displays for London's 'Boris Bikes' terminals, for example.

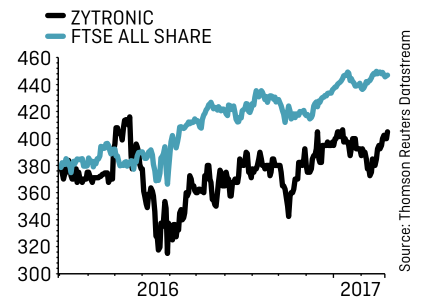
For many of the company's customers bigger is better. Much larger and curved touch displays are in demand, 30 inches or larger, used as they are to engage with consumers or boost productivity. This is a plus for Zytronic because it means more capacitive technology components are used per unit, boosting profit margins.

The company sold 14,000 display units of 30 inches or bigger last year, up from 9,000 in 2015, helping gross profit margins improve from 41.9% to 42.8% year-on-year.

Encouragingly, underlying trading continues to strengthen. Given management's typically cautious guidance, this could see the company outperform current expectations. Further positive notes on trading would likely see forecasts raised, bolstering investor sentiment further and trigger a meaningful re-rating of the stock.

With net cash of £11.6m (19% of the market cap), there's also a decent chance that some of that surplus money could be returned to shareholders as a special dividend. (SF)

BROKER SAYS: 1 0 0



TREATT
(TET) 325p

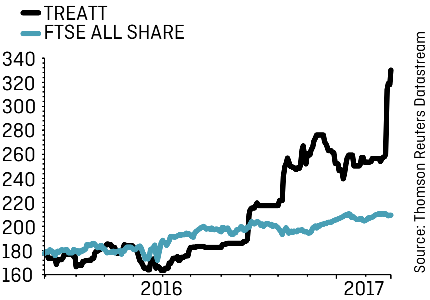
Gain to date: 25.5%
Original entry point:
Buy at 258.93p, 16 February 2017

OUR 'BUY' CALL on flavour and fragrance specialist **Treatt (TET)** has yielded a sweet 25.5% gain. An excellent trading statement (23 Feb) was the catalyst for another round of earnings upgrades.

Although it is tempting we are resisting the urge to take profits. This high-quality business should continue to deliver healthy organic growth and could enjoy further upward earnings revisions.

The £164.9m cap it expects profits for the year to September to 'substantially exceed' previous expectations. Top line momentum has been gathering pace due to new business wins and growth with existing customers, while Treatt is also seeing the beneficial impact from higher product margins as it delivers more enhanced solutions to food ingredient, food and beverage customers.

Encouragingly, order books for the rest of this year and next are 'materially up' on a year ago. Paid-for research house Edison has upgraded its full year pre-tax profit estimate by more than 20% to £11.5m-plus, while its year to September 2018 forecast rises by almost 29% to north of £12.6m.



SHARES SAYS: ↗
Although Treatt's prospective PE is approaching 20 times, based on forecast earnings of 16.5p, we're staying positive given the sales momentum and higher margins. (JC)

BROKER SAYS: 1 0 0

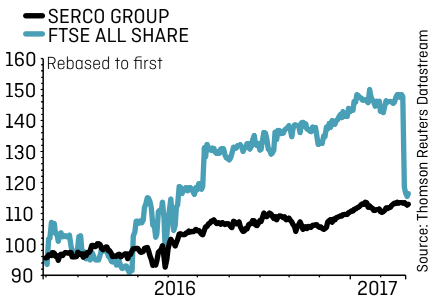
SERCO
(SRP) 116.33p

Loss to date: 17.5%
Original entry point:
Buy at 141p, 22 December 2016

EXPECTATIONS WERE VERY low ahead of **Serco's (SRP)** results, so why did its shares fall 18% when the figures were published on 22 February? To be honest, we're not sure as results were in line with expectations and there was no change to the company's earnings guidance for the 2017 financial year.

We chose to include Serco as one of our tips of the year in 2017 in the belief that the market would focus on growth prospects rather than past problems. The shares have so far gone the opposite way than we'd hoped.

The company has flagged it is chasing six large contracts. Decisions will be made on these contracts in the next 12 months, we understand. They include transport work in the Middle East and prison work in Australia. Some of these deals, if won, may not impact profit until 2019.



SHARES SAYS: ↗
We have full confidence in the management team; the key issue is the pace of the turnaround. Serco says its road to recovery will be long. Anyone who followed our suggestion to buy in December 2016 needs to be very patient or cut their losses now. We remain confident that Serco's shares will end the year higher than when they started. (DC)

BROKER SAYS: 2 11 3

Can you live off a natural yield?

Low yields mean keeping a pension pot intact is harder than before

In theory a sensible approach for income-seeking investors, the 'natural yield' retirement strategy has been slammed as a 'bonkers' tactic that is unsuited to the current low yield environment.

WHAT IS NATURAL YIELD?

The concept of natural yield has been around for generations. Instead of selling your investments to provide income, you only draw the income generated by the investments themselves. This could include dividends from shares, bond coupons and interest on cash.

Proponents of natural yield argue that it is a safer strategy than drawing pension capital because there isn't a risk of your money running out. In addition, you can pass the intact retirement pot onto your children when you die.

'The argument is that investors should be focused on income and not the size of the pot, designing the portfolio so cash comes in from coupons and dividends to meet your needs and ensure you can live to the standards you want.

The idea is to take the stress out of gain-hunting and effectively run an immunisation strategy, matching cash out with cash in,' explains Russ Mould, investment director at stockbroker and self-invested personal pension provider AJ Bell Youinvest.

WHY HAS IT COME UNDER ATTACK?

Although natural yield is a good theory, in practice it isn't as easy or safe as it might seem. The yield from investments can vary considerably so your income could be vastly different from one year to the next.

Abraham Okusanya, director at Finalytiq, describes natural yield as a bonkers strategy for all but very wealthy retirees. He says the approach creates an unacceptable level of volatility in retirees' income and makes budgeting nearly impossible.

'Once adjusted for inflation, natural income yield is highly unlikely to meet the spending pattern of most retirees, bar the very wealthy,' Okusanya writes in a recent blog.

Overweighting high-yield asset classes like commercial property and high-dividend equities can be risky because they tend to have large drawdowns, especially during stressful market conditions. During the financial crisis, global real estate investment trusts lost 56% in value and UK equity income assets lost 47%. The drawdowns in emerging market bonds were significantly lower at 14%, according to Okusanya.

NATURAL YIELD IN A LOW-YIELD ENVIRONMENT

Deriving an income from natural yield is particularly difficult in the current economic environment of low interest rates on cash and poor yields on fixed interest products. Even if you find a high yielding product, much of the yield will be wiped out by inflation.

Patrick Connolly, head of communications at financial advice firm Chase de Vere, says investors are effectively being forced to take more risk to generate the same level of income.

'It was previously considered possible to hold a balanced and diversified investment portfolio, including equities, property, fixed interest and cash, and to generate a natural income of around 5% per annum. This is no longer the case,' he states.

Instead of searching for high yielding assets, Connolly says a better approach is to focus on long-term asset allocation by holding a diversified investment portfolio with an acceptable level of overall risk. If this doesn't generate enough natural income, you can top this up by making capital withdrawals rather than looking for riskier income options.

This is akin to the 'total return' investment approach, which ignores the difference between capital growth and dividends. It seeks to draw income from both in a sustainable way.

IS NATURAL YIELD SUITABLE FOR ANYONE?

Generating a natural income to cover your expenditure might work well if you have realistic income targets and are prepared to take some investment risk. However, you will need a very large pension pot in the first place to be able to generate a big enough yield.

'If you're wealthy and your pension isn't your sole source of income then natural yield could

have a role to play. In addition, it might be suitable for someone who has a different agenda – for example constructing their portfolio in the most tax-efficient manner,' says Jon Wingent, head of portfolio specialists at Lloyds Wealth Investment Office.

Even then, Wingent says investors need to remember that yields can change quickly and significantly. If a stock has an unusually high yield it could be a sign the market is saying the dividend is unsustainable and could be scrapped.

Retirees should think about their capacity for loss and how much money they really need to live on.

'While income generation will be a key financial goal for many people it doesn't make sense to try and produce an unrealistically high level of income if this means compromising on your asset allocation strategy and taking excessive levels of risk.

'Those who do this might have a solution which works in the short-term, but could very easily be storing up problems for the future in terms of volatile investment performance and potentially significant capital losses,' warns Connolly.

BEST OF BOTH WORLDS

Whichever retirement income strategy you choose, it can be sensible to have a guaranteed level of income which at least covers your basic living costs. This guaranteed income is likely to come from defined benefit pension schemes, the state pension and annuities.

'A guaranteed income can be secured via the state pension and an annuity to cover basic living costs and needs. Investment income, either via income drawdown or other investments, can then be used to fund more discretionary spending which in itself is more variable. This combination of certain income and variable income in retirement is likely to be a good strategy for most people,' says Mould. (EP)

Top tips if you're late to retirement planning

Don't panic! Anyone in their 40s and 50s still has time to build up a pension

Life often gets in the way of our best laid plans. Saving for a first home, raising kids and sky-high tuition fees often mean people don't think seriously about retirement until their 40s or 50s.

If this sounds like you, don't panic! Everyone's pension journey is different and, with a bit of planning, you can still build a nest egg that will last throughout your retirement.

Automatic enrolment reforms mean that, from 2019, all UK employers will have to offer a workplace pension and match at least your first 3% of contributions. That's free money from both your employer and the Government.

You will also be entitled to some state pension, provided you have at least 10 years of qualifying National Insurance contributions. The Government has a handy tool you can use to check your state pension entitlement. **Click here**.

Increases in life expectancy mean the age at which you receive your state pension is likely to rise in the future.

So what can you do to make sure your own contributions go further?

TOP UP YOUR EXISTING CONTRIBUTIONS

A handy rule of thumb suggests that you can halve the age at which you start making contributions in order to work out what you need to pay in each year for a decent retirement.

So if you start at age 40, you're looking at total contributions of around 20%. Clearly this is just a guide, but it gives you an idea of how much extra you might need to save.

There are a range of different vehicles available for retirement saving. For many, a self-invested personal pension (SIPP) provides the right mix of flexibility, investment choice and low charges.

Like other types of pension, SIPPs are extremely tax efficient. Tax relief is paid at your marginal rate, so if you are a 40% taxpayer you get 40% tax relief.

For example, if you make an £800 contribution into your SIPP, you automatically get £200 in tax relief from the Government.

You can also claim a further £200 through your self-assessment tax return. That means a £600 contribution is converted into £1,000 in your SIPP through tax relief.

Furthermore, any investment growth is tax-free, while withdrawals will be taxed in the same way as income.

MAKE THE MOST OF YOUR TAX ALLOWANCES

Government rules allow you to save up to £40,000 a year in total in a SIPP, inclusive of tax relief and dependent on earnings.

That means even if you start saving later in your life, you can still utilise free money from the Government to boost the value of your pension pot.

Furthermore, 'carry forward' rules mean that, if you haven't used your pension allowances in the previous three tax years, you can use them in the current tax year – meaning you could utilise a bumper allowance of £160,000.

TOM SELBY,
senior analyst, AJ Bell

Shares Investor Evenings are designed to showcase a number of presentations from dynamic companies.

Join us in London on March 7th and March 23rd
BOOK YOUR COMPLIMENTARY TICKET. REGISTER FREE TODAY

Sponsored by PrimaryBid AJBell Youinvest

Companies presenting — March 7th

Mirada (MIRA) Jose Luis Vazquez CEO
Mirada forms the largest independent interactive audio/visual supplier in Europe. Mirada has assembled a highly experienced management team, together with a staff of more than 100 employees which possess a unique blend of skills and experience in the areas of digital TV, internet and mobile phone services and technology.

Gemfields (GEM) Ian Harebottle, CEO
Gemfields is a world leading supplier of responsibly sourced coloured gemstones. But we prefer to think of ourselves as more than just a mining company. We are pioneers at an exciting new frontier where mining, marketing, exploration and ethics meet.

Avation (AVAP) Richard Wolanski, Finance Director
Avation PLC is a specialist commercial passenger aircraft leasing company managing a fleet of aircraft which it leases to airlines across the world. Our customers include Virgin Australia, Thomas Cook, Condor, Air France, Air Berlin, Vietjet Air, Fiji Airways and UNI Air. Avation also has a subsidiary that supplies aircraft parts and spares to a range of operators, internationally.

Next 15 (NFC) Peter Harris, CFO
Next 15 is a communications business which employs over 1,350 people across 32 offices in 14 countries. The Group incorporates 17 subsidiary agencies, spanning digital content, marketing, PR, consumer, technology, marketing software, market research, public affairs and policy communications.

Companies presenting — March 23rd

Sound Energy (SOU) James Parsons - CEO
Sound Energy is a well-funded Mediterranean upstream company, listed on AIM, with cost covering production, a cornerstone investor, a strategic partnership with Schlumberger (one of the largest companies in our sector) and an active and potentially transformational drill programme.

Sphere Medical (SPHR) Dr Wolfgang Rencken - CEO
Sphere Medical is a dynamic and growing company specialising in the development of innovative medical monitoring and diagnostic equipment. Their products are used in a wide range of medical applications, enabling faster clinical decision-making and improved patient outcomes, whilst providing efficiencies that result in reduced healthcare costs.

Valirx (VAL) Dr. George Morris, Chief Operations Officer
Valirx Plc is an oncology-focussed Biopharmaceutical Company, developing treatments and diagnostics. Technologies are selected by using rigorous clinical and commercial processes to address unmet market needs.

Why attend?

The chance to network with other private investors, wealth managers, private client brokers, fund managers and financial institutions.

For any enquiries, please contact:
Chris Williams, Spotlight Manager
chris.williams@sharesmagazine.co.uk | 0207 378 4402

Event details

Location: Novotel Tower Bridge, London EC3N 2NR

Presentations to start at: 18:30
Complimentary drinks and buffet available after presentations

Register free now www.sharesmagazine.co.uk/events

We remain unimpressed by banking shares

Updated views on Barclays, Standard Chartered, Lloyds, HSBC and RBS

We have produced a snapshot of the latest set of results from the main London-listed banks to help you navigate the sector.

In this article we discuss the most important figures, management outlook, how investors reacted and our current view on each investment case.

BARCLAYS

(BARC) 225.7P

RESULTS: 23 FEBRUARY

WHAT DID WE LEARN?

Barclays is better capitalised than many had feared with a core capital ratio of 12.4% against an expected 11.8%. The company also revealed plans for an accelerated divestment of its non-core assets (the so-called bad bank).

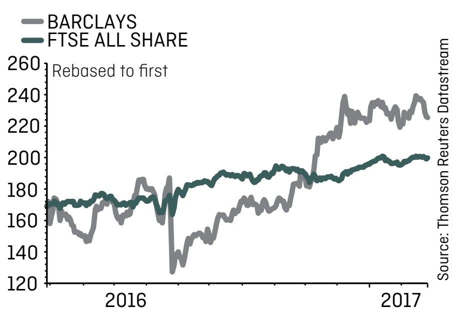
Profit more than trebled in 2016 to £3.2bn but the company was still short of expectations for nearly £4bn. Management remain cautious with no plans to increase the dividend at present.

HOW DID THE SHARES REACT?

Up 3% when the results were first announced but quickly reversing gains as investors fully digested the numbers and the downbeat tone of management.

WHAT IS OUR VIEW NOW?

Like several of its peers, Barclays has risen sharply from the lows seen in the wake of the Brexit vote. We see little scope for further upside.



STANDARD CHARTERED

(STAN) 725P

RESULTS: 24 FEBRUARY

WHAT DID WE LEARN?

After posting the first loss in more than 25 years in 2015, the company crept back into profit in 2016. There is little prospect of the dividend being restored in the near-term.

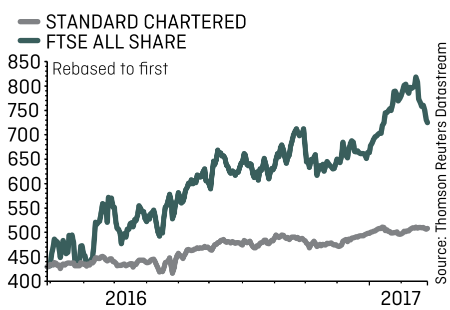
Profit excluding one-off items came in at $1.1bn against expectations for $1.4bn with its SCPE private equity unit proving particularly troublesome.

HOW DID THE SHARES REACT?

The shares sank, reflecting a more negative market mood towards the sector and its own worse-than-expected performance.

WHAT IS OUR VIEW NOW?

In theory, a recovering Standard Chartered could provide an interesting way of playing emerging markets resurgence. In reality, there are just too many uncertainties to warrant investing in this stock.

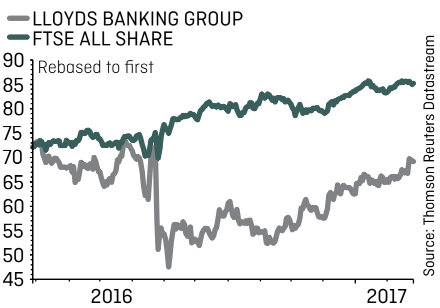


LLOYDS BANKING
(LLOY) 69.7P
RESULTS: 22 FEBRUARY

WHAT DID WE LEARN?
Pre-tax profit for 2016 was up 158% to £4.24 billion, a level not seen since 2006. Overall the results were better than expected and guidance for 2017 suggests consensus forecasts on forward earnings and dividends may also be too conservative. The Government also cut its holding from 5% to less than 4% in the wake of the results.

HOW DID THE SHARES REACT?
They topped the FTSE 100 leaderboard on the day as investors lapped up the big increase in profit and positive outlook. The shares have subsequently given back some of those gains amid broader weakness in the sector.

WHAT IS OUR VIEW NOW?
It's a good performance but we want to see more in order to get excited. Chief executive Antonio Horta Osorio has done a great job of turning the business around but we are a little nervous of the £1.9bn deal to acquire MBNA's consumer credit card business at a point in the economic cycle where bad debts could be about to rise.



HSBC
(HSBA) 649.4P
RESULTS: 21 FEBRUARY

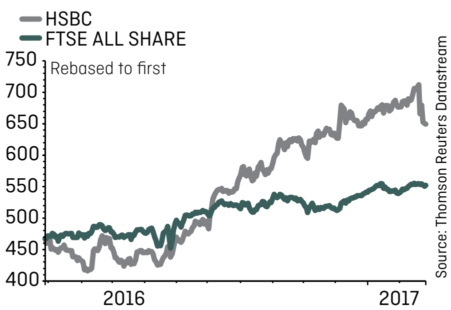
WHAT DID WE LEARN?
In the words of Shore Capital analyst Gary Greenwood, HSBC is a stock 'the market appears to have (wrongly) assumed is a one way bet on rising US rates'.

The results revealed a 62% year-on-year decline in 2016 profit thanks to several one-off items. The $7.1 billion figure was a long way short of the $14 billion expected by analysts.

Recent top-line trends do not look too encouraging either with $11 billion of revenue in the fourth quarter against the $12.3 billion consensus forecast. Management also pointed to several near-term headwinds including forex movements and lower UK interest rates.

HOW DID THE SHARES REACT?
Not well. Having endured a sharp fall in the aftermath of the results the shares are now down 8.5% on their pre-results level.

WHAT IS OUR VIEW NOW?
We're not the biggest fans of banking stocks full stop; however, HSBC is perhaps one of the more interesting of the bunch. Assuming the company can maintain dividend payments it could interest income investors on a 6% prospective yield.



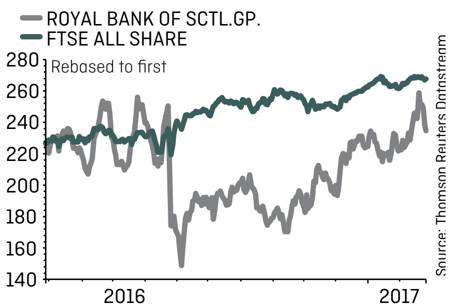
ROYAL BANK OF SCOTLAND
(RBS) 234.9P
RESULTS: 24 FEBRUARY

WHAT DID WE LEARN?
RBS, unlike Lloyds, is still miles away from repairing the damage wrought by its own failings and the financial crisis.

A 2016 loss of £7bn is more than three times as large as the £2bn posted in 2015 thanks to ongoing legal action in the US and an abandoned effort to sell its Williams & Glyn business. Guidance is for a return to profitability in 2018. Investors will only believe it when they see it.

HOW DID THE SHARES REACT?
They retreated but perhaps not by as much as you might have feared given the scale of the losses. The market clearly had low expectations.

WHAT IS OUR VIEW NOW?
We reported how the shift in strategy with regards to Williams & Glyn could speed up the return of dividend payments but performance remains too poor for us to suggest considering this as an investment. The Government's 72% stake is an unhelpful overhang. (TS)



TOP TRICKS:

THREE NIFTY WAYS TO GET MORE FROM THE LIFETIME ISA

Investors can receive up to £33,050 of free money from the Government by using the new Lifetime ISA. We've spotted three neat ways to get a head start with grabbing this bonus cash if you are less than 40 years old on 6 April 2017.

Even if you are 40 or older on this date, you shouldn't make the mistake of thinking the Lifetime ISA is irrelevant to you. We've identified a good way in which you can help family and friends access the Government bonus cash. In doing so, you can help them build a decent savings and investment pot via this new type of ISA.

You may question why we've written £33,050 when the Government says you can only earn up to £32,000. That's because we've spotted a loophole where you can earn an extra £1,050. Keep reading to discover how to do it.

WHAT YOU WILL LEARN FROM THIS ARTICLE

In this article we explain how the new Lifetime ISA works; how to get the most from it; and we discuss how it compares to a pension.

Furthermore, we explain the decisions you need to make when deciding if the Lifetime ISA is appropriate for you.

THREE TOP TRICKS

Our top tactics involve transferring existing positions from Cash ISAs, Stocks & Shares ISAs or Help To Buy ISAs.

We also advise anyone under 40 who is not ready or able to start using a Lifetime ISA to put £1 in an account to guarantee qualification for the Government bonus cash until you are 50 years old. We will explain these strategies in full later on.

HOW DOES THE LIFETIME ISA WORK?

The Lifetime ISA is quite easy to understand. Adults under the age of 40 (as of 6 April 2017) can open an account and pay in up to £4,000 in each tax year. The Government pays 25% bonus (i.e. up to £1,000) on these contributions annually. The bonus is paid up to the age of 50.

You can withdraw money without penalty to buy your first home worth up to £450,000 or if you are terminally ill. Otherwise the money is locked in the account until you reach age 60. Withdrawals at this stage will be tax-free.

Anyone who wants to 'unlock' the money before this age (excluding first property purchase or critical illness) will be subject to a nasty 25% penalty charge which includes any money you've made thanks to investment growth. More on this later.

WHERE CAN I GET A LIFETIME ISA?

Share dealing and self-invested personal pension (SIPP) provider AJ Bell Youinvest is likely to be one of the first providers to launch a Lifetime ISA, potentially in late April or May.

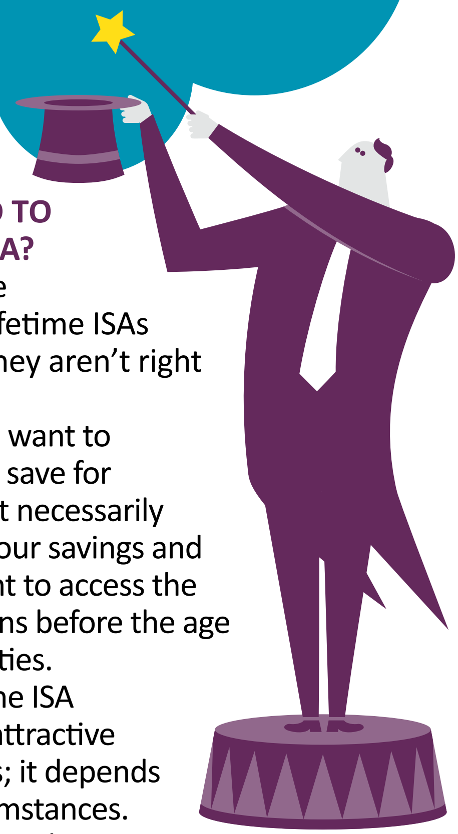
The Financial Conduct Authority has yet to finalise the full rules and regulations for the savings and investments wrapper, hence why you are unlikely to see many financial services providers have Lifetime ISAs ready for the 6 April official launch date.

Everything in this article is only based on guidance to date and could be subject to minor amendments once the final regulations are published.

Longer-term we wouldn't be surprised to see the Government take a more flexible approach to the circumstances in which you can access cash earlier than age 60. This might involve borrowing money from the ISA without any charges to fund a wedding, for example, as long as the funds are paid back.

LIFETIME ISA IN 20 SECONDS

1. Available to anyone under 40 years as of 6 April 2017
2. Pay in up to £4,000 a year and receive 25% cash bonus from the Government
3. Bonus paid until you reach age 50
4. Penalty-free and tax-free withdrawals if using money to buy first home or you have critical illness
5. For all other circumstances, money locked away until age 60 unless you pay 25% penalty on total investment pot



WHO IS BEST SUITED TO USING A LIFETIME ISA?

The free cash from the Government makes Lifetime ISAs very attractive – but they aren't right for everyone.

They are great if you want to buy your first house or save for retirement. They aren't necessarily the best wrapper for your savings and investments if you want to access the money for other reasons before the age of 60 due to exit penalties.

Neither is the Lifetime ISA automatically a more attractive substitute for pensions; it depends on your personal circumstances.

Anyone in full time employment should benefit from additional pension contributions from their employer which you wouldn't get with a Lifetime ISA. Both wrappers have Government bonus payments, albeit presented in different forms. One is tagged as a 'bonus', the other is 'tax relief' – essentially they are the same.

To help you better understand when to use the Lifetime ISA, we will now run through a range of different real life scenarios. If you've already bought your first home, skip past the first section until you see 'Scenario 2' where we discuss other reasons to use – or not use – a Lifetime ISA from that point onwards in the article.

SCENARIO 1: SAVING TO BUY YOUR FIRST HOME

YOU CAN SAVE money into a Lifetime ISA and withdraw funds (including any Government bonus) to buy your first home at any time from 12 months after opening the account.

TOP TRICK #1
Transfer money from an existing Cash ISA or Stocks & Shares ISA to quickly fund your Lifetime ISA and qualify for FREE MONEY from the Government.

You won't get any Government bonus until the money has been in the new account for at least 12 months.

The money from your Lifetime ISA to help fund a first home is paid directly to the conveyancer/solicitor, not you.

TOP TRICK #2
Transfer money from an existing Help to Buy ISA by 5 April 2018 and contribute additional money to your Lifetime ISA in that tax year to qualify for MORE THAN the £1,000 FREE MONEY you'd normally be able to get from the Government.

Anyone who has already invested money into a Help to Buy ISA has the chance to earn a bumper bonus after the first year of using a Lifetime ISA. Here's how to do it.

The Help to Buy ISA launched on 1 December 2015. You are allowed to invest up to £1,200 in the first month, then a maximum of £200 a month thereafter. The maximum investment would therefore be £4,200 by the end of March 2017 (i.e. a week before the Lifetime ISA launches).

Transfers from Help to Buy ISA to the Lifetime ISA don't contribute towards the £4,000 yearly allowance, yet they do qualify for the bonus.

So you could transfer £4,200 from a Help to Buy ISA and save a further £4,000 into the Lifetime ISA in the first year for a total of £8,200. The Government will pay a bonus on the full amount, worth £2,050.

There is a catch. The Help to Buy ISA comes with a 25% bonus anyway, but you only get the money on exchange of contracts on your first home. By transferring to a Lifetime ISA you get the bonus after the first year so the Government's free cash can benefit from any investment growth.

HOUSE DEPOSIT GOAL: INVEST IN STOCK MARKET OR STICK TO CASH?
Depends when you want to buy. We'd suggest:

- **Less than three years: stick to cash**
- **Three to five years: low-risk investments**
- **Five+ years: A diversified investment portfolio**

SHOULD YOU SAVE IN CASH OR INVEST IN THE STOCK MARKET?

Help to Buy ISAs are only allowed to hold cash whereas you can also hold shares and investment funds in a Lifetime ISA.

This brings us to a very important point. Where should you invest if you are saving up for a house: in cash or the stock market? It all depends on when you plan to buy the house.

As a rough guide, we believe you should stay in cash if you want to buy within three years. That period is unlikely to give you enough time to recover from any large dip in the stock market.

Opt for lower-risk, global diversified investment funds if you want to buy within three and five years.

Anyone with more than five years before they want to buy a house should consider a broader portfolio of equities, funds and bonds, albeit not high risk investments.

HOW MUCH COULD YOU EARN?

The average deposit for first time buyers in 2016 was £32,321 according to Halifax. Therefore someone who saves the maximum £4,000 each year into a Lifetime ISA and receives the Government's bonus of £1,000 each year could end up with enough money in roughly six to seven years.

You would make £35,646 in six years if your investment portfolio grew at 5% a year.

For those putting the money into cash, your savings would be worth £36,418 after seven years of investing the full amount and achieving 1% interest.

Anyone saving half the maximum amount in a Lifetime ISA (£2,000 from you; £500 from the Government) would take 10 years to reach the average deposit via the stock market at 5% annual return; and 13 years via cash at 1% annual interest.

SCENARIO 2: I WANT TO USE THE LIFETIME ISA AS A RETIREMENT SAVINGS VEHICLE AS I ALREADY HAVE A HOUSE

EARLIER IN THE article we said one of our 'top tricks' for making the most of the Lifetime ISA was to transfer existing money from a Cash ISA or Stocks & Shares ISA. That also applies if you want to use a Lifetime ISA as a retirement savings vehicle.

You need to be certain that you don't want to access the money before 60 without a penalty. You would be transferring money from a vehicle that has instant access to one with restricted access.

You should also consider any fees from transferring your portfolio as some providers will impose a charge for ISA transfers.

TOP TRICK #3

Are you close to turning 40 years old and worried that you will miss out from qualifying for a Lifetime ISA because you don't have any money at present to invest? Open a Lifetime ISA and deposit £1. This will guarantee you access to the account and mean you can invest later in life up to the age of 50 and still qualify for the Government Bonus.

Once you've worked out your capacity for funding the Lifetime ISA purely as a retirement vehicle, the next step is to establish your time horizon for investing and risk appetite.

Theoretically, the longer time you can spend invested in the market, the higher the risk you can afford to take. However, not everyone has the appetite to put their money into less predictable areas like emerging markets, biotech stocks or commodities. This decision is purely up to you.

We will be running a series of articles in March and April that discuss fund and stock suggestions for different risk appetites and time horizons. Make sure you keep reading *Shares* every week as these articles will provide a wealth of ideas for you to research further and potentially consider as additions to your portfolio.

DON'T SACRIFICE LONGER TERM SAVINGS JUST TO BUY A HOUSE

- Opting out of a workplace pension to focus on saving for a house deposit via a Lifetime ISA could be a dangerous move
- You'd lose the benefits of time in the market for retirement saving
- You may also lose out on valuable employer contributions and Government tax relief – ie. TWO SETS OF FREE MONEY – to your pension

SHOULD YOU STOP PAYING INTO YOUR PENSION AND USE A LIFETIME ISA INSTEAD?

Many people will look at the bonus associated with the Lifetime ISA and assume it is more generous than a pension. It isn't.

Basic rate taxpayers can put £4,000 into a pension and the Government will top it up with 20% tax relief to £5,000. The same £4,000 into a Lifetime ISA also becomes £5,000 thanks to the 25% Government bonus.

The 20% and 25% figures are a bit confusing; they ultimately lead to the same total figure.

The former calculation is 20% based on the total amount including the Government's contribution. The latter is based on the amount you contribute.

A higher rate tax payer gets 40% tax relief on pensions. They put in £4,000 and the Government tops it up by £1,000 so your total inflow is £5,000. An extra £1,000 is then taken off your tax bill. That certainly beats a Lifetime ISA.

If you are a higher rate taxpayer, you will be better off with a pension until you breach the annual (£40,000 a year) and lifetime (£1m) allowances, when you become liable for nasty tax charges. At this stage, the Lifetime ISA is a very good alternative option if you want to save further money and benefit from Government incentives.

One area to consider when weighing up the Lifetime ISA versus pensions decision is the fact that saving in the former vehicle can impact your benefit entitlement. Another factor to consider is that you can take money from your pension aged 55; you need to be 60 to start cashing in Lifetime ISA money without penalty.

Furthermore, anyone contributing to a workplace pension is likely to get additional contributions by their employer. Indeed, 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. Therefore that's even more 'free' money going into your retirement savings pot.

SCENARIO 3: I DON'T KNOW IF I WILL BUY A HOUSE AND I DON'T KNOW IF I WILL NEED TO ACCESS MY SAVINGS BEFORE I RETIRE.

THIS IS A tricky situation. Our first reaction would be: 'don't tie up your money' as once it is in a Lifetime ISA, it is there until you turn 60 if you want to avoid penalties (and don't want to buy your first house).

The exit charges can be really painful once you look at a few illustrations. For example, investing £4,000 a year (and receiving £1,000 a year from the Government as a cash bonus) would see your portfolio grow to £28,949 after five years assuming 5% annual gain on your investment, according to calculations by AJ Bell.

If you withdrew that money from your Lifetime ISA before 60 and didn't use the money to buy your first home, you'd only be left with £21,712 after paying the 25% Government penalty. That's a reduction of £7,237 – significantly more than the £5,000 that the Government would have put in your pot as annual bonuses.

A normal Stocks & Shares ISA will give you the freedom to move money in and out whenever you like, subject to you having liquid investments. A Lifetime ISA will give you free money, assuming you also contribute, but those funds are locked away.

If you can, open both a Lifetime ISA and a Stocks & Shares ISA. Contributing to both wrappers would allow you to have a pot of money that is easily accessible and a pot that would also benefit from the Government bonus.

Just remember that you can only invest a maximum £20,000 a year across all types of ISAs.

SCENARIO 4: GIVE YOUR FRIENDS AND FAMILY A HELPING HAND

ANYONE OVER THE age of 40 and not eligible for the Lifetime ISA shouldn't ignore the savings and investment wrapper. It could be the ticket to helping people develop a healthy habit of saving money from a young age.

A great birthday or Christmas present for someone in your family or a friend might be money that you insist they put into a Lifetime ISA.

Your child might already have a Junior ISA and money from that wrapper could be transferred into a Lifetime ISA once they turn 18. Many parents are worried their children will spend any money inside a Junior ISA once they become an adult and have control over the funds. Instead, the 25% Government bonus from the Lifetime ISA could be the necessary incentive to encourage them to keep the money invested in the stock market or held in cash.

ARE YOU TOO OLD FOR LIFETIME ISA? WHY NOT HELP OTHERS

- **You can gift up to £3,000 a year without inheritance tax liabilities**
- **Putting cash into your child's Lifetime ISA (if they are over 18) could encourage them to develop their own long-term savings habit**

Everyone in the UK has a £3,000 'gifting allowance' per year, being the maximum someone can give to another individual without the recipient having to pay inheritance tax. That means you could theoretically give your child up to three quarters of the money they are allowed to put into a Lifetime ISA each year without any tax liabilities. They'd then benefit from the Government bonus on this gift, if held in a Lifetime ISA.

You can give more than £3,000 a year to your family and they wouldn't have to pay inheritance tax as long as you lived for at least seven years after gifting this money. (DC)

KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY

FUNDS TO PLAY EMERGING MARKETS RECOVERY
PAGE 28

GENUS STRIKES TASTY DEAL TO BOOST EUROPEAN POSITION
PAGE 32

BLUE PRISM IS UP 500% IN LESS THAN A YEAR
PAGE 33

A GAME CHANGING YEAR FOR OXFORD BIOMEDICA?
PAGE 44

SEARCHING OUT SECURE INCOME VIA FUNDS
PAGE 46

WHO WE ARE

EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

JUNIOR REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTERS Emily Perryman, Tom Selby, Nick Sudbury

PRODUCTION
Head of Production: Michael Duncan
Designer: Rebecca Bodi

ADVERTISING
Sales Executive: Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

MANAGING DIRECTOR
Mike Boydell

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852.

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.

Funds to play emerging markets recovery

We look at the range of UK-listed investment trusts

Emerging markets enjoyed a significant comeback in 2016, despite a pullback towards the end of the year. The outlook remains equally exciting, so let's look at the key drivers and some of the investment trusts that provide exposure to this region.

The MSCI Emerging Markets Net Total Return Index increased by 32.6% in sterling terms during 2016. That's the first year of outperformance relative to developed markets since 2012.

Jan Dehn, head of research at **Ashmore (ASHM)**, suggests the World Bank is being too conservative by estimating that emerging market countries will, on average, grow more than 3% faster than developed economies in the next three years.

'So far emerging market countries have been able to retake the global growth initiative mainly on the back of extremely competitive real exchange rates. Commodity prices have merely stabilised and emerging market countries have certainty not experienced sustained positive capital inflows yet,' he says.

Dehn gives three reasons why these conditions are likely to change in ways that will be supportive for growth in the region.

1 Emerging markets (EM) should benefit from a gentle upswing in commodity prices as developed economies stimulate fiscally and EM countries continue to accelerate.

2 Falling real interest rates in EM will support growth as central banks should cut rates from extremely high real levels.

3 Capital flows to EM should resume in a gentle fashion on the back of clear outperformance of EM fixed income and equity markets compared to developed markets.

'In addition, many EM countries should be able to grow faster due to the serious reforms they have undertaken in recent years, especially in Latin America. These factors have most likely not yet been factored into World Bank and other projections for EM growth in the years ahead,' he concludes.

WHICH INVESTMENT TRUSTS SHOULD I BUY?

Emerging markets-themed investment trusts currently trade on a 10.6% average discount to net asset value.

Trading on a 13.3% discount is **JP Morgan Emerging Markets (JMG)**. Portfolio manager Austin Forey comments: 'So far this year we've seen further progress by emerging markets, supported by some signs of economic progress as well as recovery in commodity markets.

'Despite political uncertainty, valuations are reasonable and the long term case for emerging markets remains solid.

'We have a collection of strong and in many cases outstanding businesses in the portfolio; in general they have continued to deliver good results in the last six months. We maintain our focus on finding companies with sustainable competitive advantage, consistent cash flow generation, and strong management teams.'

Forey says one long-term holding embodying these characteristics is Taiwan Semiconductor Manufacturing Co. The chipmaker reported better-than-expected fourth quarter earnings as demand for high-end microchips outpaced forecasts, led by strong demand for components of Apple's iPhone.

'Additionally we view the company as having strong governance and aligning themselves well with minority shareholders.'

THE TERRY SMITH METHOD

Trading at a modest 0.9% discount to net asset value is **Fundsmith Emerging Equities (FEET)**. Steered by highly respected fund manager Terry Smith, the trust focuses on quality consumer stocks which should benefit from the rise of the consuming class in developing economies.

Smith buys businesses with defensible and strong market positions, typically derived from brands, trademarks and distribution networks.

He wants relatively predictable revenues, high returns on capital and the ability to deliver compound growth in shareholder value over time.

Holdings include India-based Godrej Consumer Products, soymilk, tea and juice maker Vitasoy and Sao Paolo-listed drugs maker Hypermarcas.

EMERGING MARKETS INVESTMENT TRUSTS

Investment Trust	Share price (p)	Discount to net asset value (%)
Fundsmith Emerging Equities	1073	0.9
JPMorgan Global Emerging Markets Income	124.13	3.2
Aberdeen Frontier Markets	67.88	5.6
Utilico Emerging Markets	208.5	10.8
Templeton Emerging Markets	652.5	12.5
Genesis Emerging Markets	628	13.0
JPMorgan Emerging Markets	740	13.3
Aberdeen Emerging Markets	543	14.3
Ashmore Global Opportunities GBP	3.79	21.4
Ashmore Global Opportunities USD	3.75	24.8

Source: AIC, Shares. Data taken 24 February 2017

PLENTY OF BARGAINS

Other trusts trading at steep discounts include **Ashmore Global Opportunities (AGOL)** and **Utilico Emerging Markets (UEM)**.

We'd also suggest you look at **Templeton Emerging Markets (TEM)**, managed by Carlos Hardenberg with the help of Hong Kong-based emerging markets trailblazer Mark Mobius.

Known for its focus on value, bottom-up research and long-term investing, Templeton Emerging Market's main holdings include Brilliance China Automotive, the maker and seller of BMW vehicles in China; Chinese internet services giant Tencent; and South African media monolith Naspers.

SEEKING CONSISTENT RETURNS

Also on a wide discount is the **Aberdeen Emerging Markets Investment Company (AEMC)**, whose managers Andrew Lister and Bernard Moody seek consistent returns from a portfolio of emerging market funds.

Moody seems confident there is significant value to be realised from discounts on his holdings if there is a sustained recovery in emerging markets. 'Our view on emerging markets is reasonably positive, as a number of big negative factors have abated,' says Moody, adding 'relative valuations stack up pretty well versus developed markets.'

Portfolio positions include **Weiss Korea Opportunity Fund (WKOF:AIM)**, which invests primarily in listed preferred shares issued by South Korean companies. In many cases these trade at a discount to the corresponding common shares of the same companies.

Moody is also keen on the underlying assets held in **Fidelity China Special Situations (FCSS)**, the Dale Nicholls-managed trust with a focus on private companies in 'new economy' areas. An early backer of Alibaba, the trust has increased its holdings in undervalued state-owned enterprises which have attractive assets. (JC)

EUROPE IN A WORLD OF 'ALTERNATIVE FACTS'

These are interesting times. Suddenly everything is different – populism has become protectionism under the mantra of 'Make America Great Again' and Brexit is set to lead the UK to sunnier climes. A few minor details, such as the interconnected nature of global supply chains and the relationships between companies and regions, are being forgotten for now.

Europe is in many ways now in the eye of the storm. The UK is stumbling along an undefined and unknown path towards Brexit, with the government promising no damage to the economy and full access to European trade, while not paying any bills. A few nervous dissenters, quickly shouted down by a partisan, right-wing press, are quietly asking 'how?'

PRAGMATISM STILL DOMINATES EUROPEAN POLITICS

The political backdrop in Europe outside the UK continues to make everyone nervous. The Netherlands will be first to the polls in 2017, and the Far Right party of Geert Wilders will, like all European 'alt-right' parties at present, likely poll a significant number of votes on an anti-immigration bill. But Wilders will likely not be included in a coalition government when it comes to running the country.

As an aside, if there is a referendum in the Netherlands, the Dutch have made it quite clear that it would be advisory only. It is a pity that now ex-Prime Minister Cameron did not think through the potential risks of the UK referendum in June 2016. This was a point made by the Supreme Court in a recent ruling over how the UK government can start the process to leave the EU (Article 50).

France faces a key election in April and May, and there is a growing opinion that, even if Marine Le Pen of the extreme-right National Front party makes it through to the second round of voting in May, she is likely to lose out to either François Fillon (Republican) or Emmanuel Macron (Independent) in a repeat of the 2002 election, when her father lost convincingly to Jacques Chirac. Autumn sees the German elections, where it looks likely that Chancellor Merkel will be re-elected.

IS REGIONAL RECOVERY TAKING HOLD?

The suggestion is that populism will not overthrow the European path of 'boring but reliable' economic progress. That may enable investors to look again at out of favour European markets and the improving trend in profits. Given that Europe's gross domestic product (GDP) is expected to grow by about 1.5% in 2017, and that an improving economic climate is leading to more relaxed government spending, there is every reason to hope that Europe is now in a virtuous, rather than vicious, circle.

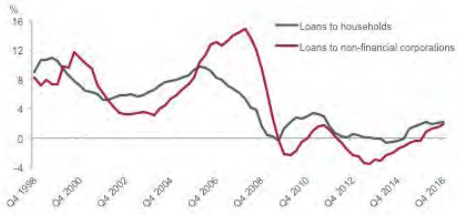
CHART 1: INFLATIONARY PRESSURES PICKING UP IN EURO AREA

Source: Thomson Reuters Datastream, Fathom Consulting. 'Headline inflation' is percentage year-on-year change in the Euro area, as at 9 February 2017. The European monetary policy committee (MPC) has a target of near or below 2% for headline inflation.

With a combination of better growth and emerging inflationary pressures (Chart 1), yields on 10-year bonds have risen to over 0.3% in Germany and over 2.3% in the US, as at 8 February 2017. This has major implications for banks and recovery names. It is clear that, regardless of intense global political uncertainty, the market has chosen to believe in the hope of economic recovery.

It remains to be seen how strong this recovery turns out to be, or how long it lasts, but it would be wrong to ignore it. Companies more sensitive to changes in the background economy, such as Atlas Copco in Sweden and Siemens in Germany, are seeing an improvement in many areas

CHART 2: DEMAND FOR LOANS IS INCREASING



Source: Thomson Reuters Datastream, Fathom Consulting, covering Euro area, as at 30 December 2016.

related to higher consumer spending. Banks are seeing a widening net interest margin (the difference between the income generated from loans and the interest paid out to depositors), albeit a gradual one, and increasing demand for loans, as Chart 2 shows.

Markets have seen a rapid move out of 'growth', and into 'value'. This is an over-simplification, but one that gives a reasonable gist of what is happening. This switch has pushed up the price of 'value' stocks to beyond their ten-year average, while valuations on growth stocks have fallen below theirs. This trend may have further to run, but the key to 2017 will be signs that the shift towards value has gone far enough, given the reality that growth in our 'mature, low growth world' cannot be conjured into existence like a magic trick.

There are significant hurdles ahead, but they are not yet visible. We are keeping a wary eye open, while looking for outstanding companies that have been penalised far too harshly by the market. We accept that it looks too early to make a significant move back into 'growth' yet, but that may well be the direction of travel on a six- to nine-month view.

GLOSSARY:

GROWTH: Growth investors search for companies they believe have strong growth potential. Their earnings are expected to grow at an above-average rate compared to the rest of the market, and therefore there is an expectation that their share prices will increase in value.

INFLATION/INFLATIONARY PRESSURES: The rate at which the prices of goods and services are rising in an economy. The Consumer Price Index and Retail Price Index are two common measures.

VALUE: Value investors search for companies that they believe are undervalued by the market, and therefore expect their share price to increase.

Genus strikes tasty deal to boost European position

New plan to boost pig arm and revive beef and dairy operations

Animal genetics specialist **Genus (GNS)** has caught our eye after striking an interesting partnership deal with leading pig breeding business Hermitage.

Genus uses genetics to produce cattle for high-quality beef, pork and milk for farmers. Its pigs genetics business (PIC) will acquire the genetic rights and intellectual property of Hermitage and gain exposure in Russia, Ukraine and Europe.

It will also benefit from Hermitage's exclusive distribution and supply chain expertise.

Peel Hunt analyst Charles Hall says Genus' actions will see its European market share rise from 11% to 15%. The PIC arm accounts for 85% of Genus' group profit.

WHAT'S NEXT ON THE AGENDA FOR GENUS?

Genus hopes to launch its Genus Sorted Semen (GSS) technology later this year, which allows farmers to produce female calves for milk.

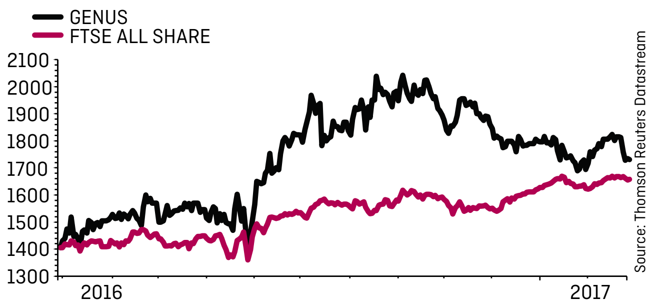
Hall is optimistic the technology will help the underperforming bovine division which has struggled with difficult market conditions in China and competition in North America.

The analyst says GSS will reduce costs by a net c£5m due to lower royalty payments and provide a 'material commercial opportunity'.

In August 2016, a US jury ruled Genus infringed two patents belonging to Inguran, trading as Sexing Technology (ST), to develop its own technology.

It was ordered to pay royalties of $1.75 per straw of semen sold, but these payments are smaller than anticipated.

Genus has its sexed semen ready for



commercialisation and awaits the outcome of its request to terminate its contract with ST. If this is unsuccessful, Genus will only have to wait until its contract expires on 31 August 2017.

Liberum analyst Lisa De Neve anticipates pre-tax profit growth will more than double from 6.7% in the year to June 2016 to 15.8% two years later thanks to a forecast recovery in weaker markets and a positive effect from volatile currency.

WHAT ARE RISKS TO GROWTH?

The pigs division is outperforming the bovine business as lower beef volumes and intense competition hit revenue in the half year to 31 December 2016.

In North America profit fell by 27% in constant currency, driven by an 11% decline in dairy volumes.

Nate Zwald has been appointed as the new chief operating officer of Genus' bovine business who aims to tackle these issues by raising prices in Latin America and improving sales execution. Zwald used to be the operations boss at Alta Genetics North America.

Genus should benefit from broadly favourable market conditions in porcine and a recovering dairy market in Europe and the US, while prices are likely to remain depressed short-term in China. (LMJ)

SHARES SAYS: ↗
Buy at £17.33.

BROKER SAYS: 2 3 0

Blue Prism is up 500% in less than a year

Robotic process designer continues hot streak

Fast-growing workforce automation specialist **Blue Prism (PRSM:AIM)** already expects to comfortably beat 2017 forecasts.

The current year to 31 October 2017 has got off to a flying start with 83 new software deals signed and sealed, including 49 with entirely new clients, and 34 existing customers extending their previous agreements.

'To put these figures in perspective, Blue Prism sold 96 new robotic process automation (RPA) licences last year and had 81 upsells – which were to 47 customers,' explains John O'Brien, an analyst at technology business website *TechMarketViews*.

Blue Prism management highlights 'strong momentum' experienced in 2016 has continued into the current financial year. Backed by a 'strong pipeline' of potential new work, the Merseyside-based business has now told investors that revenues this year will be 'materially ahead of existing market expectations'.

Sales estimates from Investec had been pitched at £14.1m for the 12 months to 31 October 2017. The investment bank has since upped its revenue expectations for both this year and next by around 17% and 14% respectively. That implies turnover of £16.5m rising to £19.7m in 2018.

Investec's operating loss expectations remain unchanged for both years at £8.1m and £5.7m respectively, as Blue Prism continues hefty investment in sales and marketing in its dash for growth.

AUTOMATING THE MUNDANE

RPA software works by mimicking computer keyboard inputs a human would perform on an application user interface (UI) to perform routine rule-based clerical administration tasks. Not only does this improve input accuracy and speed, it also helps customer organisations reduce running costs by freeing the human workforce to concentrate on other valued-added tasks.

The key to this year's fast start is Blue Prism's extensive channel partner network of IT-based consultancies and infrastructure groups that resell the platform. Partners include many blue-chip global organisations such as Accenture, Deloitte, Capgemini, Hewlett Packard Enterprise and IBM. All of Blue Prism's 83 first quarter licences came through this route.

Blue Prism landed on AIM on 18 March 2016, raising a total of £21.1 million at 78p per share, although £11.1 million of that went to selling founders and shareholders. That gave the business a market capitalisation of £48.5 million but its value has since soared. The shares are currently changing hands for 473.5p, slapping a £295m price tag on the company.

SHARES SAYS: ↗
A true industry disruptor. Buy at 473.5p. (SF).

BROKER SAYS: 1 0 0

Diversified Gas & Oil gets to work on growth

Acquisition a solid demonstration of deal-driven model

New AIM oil and gas outfit **Diversified Gas & Oil (DGOC:AIM)** is wasting no time executing on its buy-and-build strategy onshore the US.

A mere three weeks since joining the UK junior stock market, the company has announced (24 Feb) the $1.75m acquisition of mature conventional wells in the Appalachian basin.

Although modest in financial terms, the deal lifts output by 15% to 5,600 barrels of oil equivalent per day. It further underlines the credibility of the company's approach which involves buying conventional assets from larger shale-focused peers at an attractive price.

The company says the asset will pay for itself through operating cash flow in less than two years. The deal will be funded from internal resources, with the company sitting on $7m of net cash post its IPO (initial public offering).

The additional cash flow helps underpin Mirabaud's dividend expectations which imply a prospective yield of 5.6%. Investors should expect further deals from Diversified Gas & Oil through the course of 2017.

SHARES SAYS: ↗

We feel the market will like this story and continuing M&A should help support a rising share price. Mirabaud has a price target of 105p versus a 63.25p trading price at the time of writing. (TS)

Koovs is in fashion

AT 46.1P INDIAN youth fashion portal **Koovs (KOOV:AIM)** is an attractive play on the booming demographic of young Indian urbanites. Koovs' nine-month trading statement (25 Jan) highlighted a doubling of sales year-on-year to £13.45m with mobile transactions up 151%. Koovs has since partnered with Bollywood's go-to designer Masaba Gupta to launch (23 Feb) an athleisure wear collection that has quickly sold out in numerous styles. (JC)

River & Mercantile is looking good

GRAB A 5% dividend yield and benefit from rising investor interest in small and mid-cap funds by investing in **River & Mercantile (RIV)**. Half year results on 27 February showed net profit after tax more than doubling to £6.1m (2016: £2.7m). The asset manager has seen positive net sales in all 11 quarters since it floated on the stock market. (DC)

Saffron makes strong AIM debut

ITALIAN NATURAL gas producer **Saffron Energy (SRON:AIM)** plans to boost production 10-fold after joining AIM (24 Feb). The company will use the £2.5m cash raised at the stock market listing to complete its Bezzecca gas field development. Cash flow from the field will be ploughed into a development plan. The shares are already up more than 40% on their 5p issue price to 7.2p. (TS)

In partnership with

YOUR GUIDE TO SPREADBETTING

EVERYTHING YOU NEED TO KNOW ABOUT TRADING THE MARKETS THROUGH SPREAD BETS

WHAT IS SPREAD BETTING AND WHAT ADVANTAGES DOES IT OFFER?

Spread betting is one of the most effective ways to try and take advantage of moves in a whole host of financial markets. Whether you want to trade individual shares; indices like the FTSE 100; forex pairs like the pound/US dollar rate or commodities such as gold and oil, you can do this using spread betting. The spread betting companies make a market price, wrapped around where the underlying market is trading.


autochartist.com

This is the spread and for popularly traded markets this is usually very tight. So, with the FTSE 100 for example, the spread bet price may be 7200/7201. If you think the FTSE 100 is going to rise you would 'buy' at the higher price, 7201 in this case. You would buy so many pounds per point, let's use £2 in this example. There is no additional commission to pay when spread betting, the company's profit is tied up in the market's spread.

Let's say you are right and the FTSE rises, the spread bet price will track the market higher. When the market is trading at 7221/7222 you decide to take your profits so sell at 7221. You bought £2 per point at 7201 and closed the position at 7221. The market moved 20 points in your favour, so with a £2 per point trade you will have realised £40 profit. If the market had dropped 20 points and you decided to get out, you would have realised a loss of £40. It is completely up to you when you close out your spread bet - the market moves in real time and many markets these days are tradeable 24 hours of the day.

You are not just restricted to trying to profit just if markets are rising. If you think the price is going to drop you can 'sell short' using spread betting. Using the example above on the FTSE, if you thought it was going to slide from 7200/7201, you could have sold £2 per point at 7200 to open up your trade. Every point the market dropped below your entry point would be a £2 profit - you are making money from the market sliding.

And, if you are a UK taxpayer, with the usual caveat that tax laws can change, any profits from spread betting are exempt from capital gains and income tax.

In partnership with

HOW CAN I USE IT AS PART OF MY INVESTING STRATEGY?

Although the popular image of financial trading is of someone glued to a screen full of prices and charts, trying to second guess which way a whole host of markets are going to move in the next few seconds, you don't have to trade this way. You are free to choose your own time frame. There are plenty of people using spread betting as an alternative way of investing in the short to medium term. Let's say you had a view on a share price over the next few months. You could buy the share through a stockbroker as usual but spread betting can be a real alternative to this.

If you bought £10 per point of, for example, the Marks & Spencer spread bet, it is the equivalent of owning 1,000 shares in the company. For every point (or penny, in the case of spread bets on shares) that the market moves in your favour it represents £10 of profit and vice versa if the price drops. But with spread betting there is no commission to pay, no stamp duty and again any gains are tax free. On top of this, spread betting uses *leverage* - this simply means you do not have to put up the full cost of the trade. There are additional risks with this but, managed sensibly and not overstretching yourself means that spread betting on shares can be a real alternative to using a stock broker - particularly for short to medium term opportunities.

Another way that spread betting can fit into your investment strategy is to use as a hedge - a form of insurance. You may have a portfolio of blue chip shares that you want to hold for the long term but in the short term you feel the market is due to take a dive. You are concerned about the effect this will have on the value of your portfolio. You could sell an index such as the FTSE 100, FTSE 250 etc. using spread betting to set up a hedge. This way, if the market slides then what you lose on your holding of physical shares can be partly offset by what you make on your short spread bet.

If the market rises then you will be losing on your spread bet hedge but achieving a return on your portfolio. It's just another way that spread betting can be used in addition to straightforward directional trading.

In partnership with

WHAT ARE THE MOST POPULAR TRADES AND MARKETS?

Many people start spread betting on markets they may feel they have some familiarity with, or have experienced in the past, possibly from an investing point of view. For example, plenty of us are aware of the UK's blue chip stock market index, the FTSE 100. This is a popular market for clients and the tight spread means the cost of doing business is very low. It is therefore not surprising that people casts their net a little further afield and start trading the US market - the Dow Jones is always a popular one. There are a couple of reasons for this. The US stock market tends to dictate the direction of the rest of the world, which means it is always an important one to watch. And the trading hours make it attractive. Plenty of people using spread betting have a day job which doesn't allow them the time to watch the markets. But US shares usually trade until 9pm UK time, so trading can fit around working hours.

It is impossible to ignore the forex or currency markets when it comes to what is popular to spread bet on. There has been an explosion of interest in these areas in recent years. The spreads are tight and these markets are seldom dull. With the UK's vote to come out of the EU in June, markets such as the pound have seen unprecedented movements (referred to as volatility). Plenty of traders have been backing their judgement on whether there is worse to come in the likes of the euro versus the pound (EUR/GBP) or whether the sell-off has been overdone and it is time for a recovery.

WHAT ARE THE COSTS AND WHAT IS A MARGIN REQUIREMENT?

The first obvious cost with spread betting is the spread - the difference between the price you buy at and the price you sell at. This is a cost in all markets, there is always a two way price for buyers and sellers. Spreads have come down drastically over the years and most companies are now very competitive.

The second cost is what is known as a financing charge if you run a trade overnight. Spread betting uses leverage, in effect you are borrowing part of the money for the trade from your broker. There is a financing charge for this - usually expressed as the bank's base rate (LIBOR) plus a small percentage. In reality this is a relatively modest cost but can mount up if you run a trade for more than a few months.

Because you are trading on margin and using leverage, you don't need to put up the whole cost of the trade, just the margin requirement or initial margin deposit. Let's look at an example. You spread bet on Marks & Spencer buying

In partnership with

£10 per point at 330p. Your total position size is £3,300 (£10 per point x 330). But your spread bet broker only requires a 5% deposit against this position. So in this case your margin requirement is £165. You may need to add more if you incur losses while you are running the trade, which is why most spread bet clients keep a surplus in their account.

It is important to understand that this margin deposit is not a form of commission. When you decide to close the trade completely and realise your profit or loss, that initial margin requirement is freed up once again and is available for other trades.

ABOUT IG

IG is a global leader in online trading, providing fast and flexible access to over 10,000 financial markets - including shares, indices, forex, and commodities.

Established in 1974 as the world's first financial spread betting firm, our aim is to become the default choice for active traders globally. We are an award-winning multi-platform trading company, the world's No.1 provider of CFDs* and a global leader in forex. We provide our clients with the option of a no-negative guarantee on trading accounts, and we now offer an execution-only share dealing service in the UK, Ireland, Germany, France, Australia, Austria and the Netherlands.

*Based on revenue excluding FX (from published financial statements, October 2016)

A game changing year for Oxford BioMedica?

Near term risks, long term reward potential with small cap pharmaceutical firm

Gene therapy company **Oxford BioMedica (OXB)** could be on the cusp of receiving a lucrative flow of money over many years, potentially worth up to $65m to $75m annually in the medium term.

Novartis is expected to submit its CTL019 therapy for regulatory approval by the US Food & Drug Administration (FDA) very soon; a decision could be made later this year.

Oxford BioMedica has been the sole manufacturer of lentiviral vectors for the CTL019 therapy and hopes it will also be the supplier for the commercial launch of the product.

Jefferies analyst Peter Welford last October forecast at least $1bn worldwide peak sales for CTL019, potentially resulting in a recurring revenue stream for Oxford BioMedica.

'The collaboration with Novartis is a significant endorsement of Oxford BioMedica's technology, and cements its place as a world leader in the field of lentiviral vectors, in our view,' says Welford.

WHAT DOES THE SMALL CAP DO?

Oxford BioMedica uses its LentiVector technology platform to create viral vectors with new genes, which are used to deliver genetic material into cells.

White blood cells (also known as T-cells) are taken from the patient and the new genes are placed inside the cells.

DNA in the cells are designed to ensure receptors called chimeric antigen receptors (CAR) on the cell surface seek antigens (CD19) expressed on cancer cells.

The T-cells and genes are put back into the body so they can multiply, detect CD19 on cancer cells and kill them.

Compared to other treatments, the T-cells stay in the body to ensure the disease does not return.

TELL ME MORE ABOUT THE CTL019 THERAPY

In 2014, Oxford BioMedica agreed an initial three-year contract to manufacture CTL019 for Novartis, which believes the therapy has 'blockbuster potential'.

The therapy is designed to treat relapsed/refractory (r/r) in paediatric and young people with B-cell acute lymphoblastic leukaemia (ALL).

Novartis' Phase II clinical trial ELIANA evaluated the efficacy and safety of CTL019 for r/r B-cell ALL. The therapy met its primary endpoint with a strong overall response rate and an acceptable safety profile.

ROYALTY-GENERATING PARTNERSHIPS

The company generates royalties through partnerships including **GlaxoSmithKline (GSK)** and

'OXFORD BIOMEDICA USES ITS PLATFORM TO DEVELOP PRODUCTS TO HELP REDUCE SPECIFIC SYMPTOMS OF PARKINSON'S DISEASE, A PROGRESSIVE DISEASE OF THE NERVOUS SYSTEM. IT IS CURRENTLY IN A PHASE I TRIAL.'

Sanofi that use the technology to conduct clinical trials.

Its LentiVector platform has been used in 144 clinical trials to develop treatments. It is protected by several patents, with the earliest expiring in two years, and other safety features and manufacturing patents expiring in 2023 and 2034, respectively.

Oxford BioMedica uses its platform to develop products to help reduce specific symptoms of Parkinson's disease, a progressive disease of the nervous system. It is currently in a Phase I trial.

It is also in Phase I trials for corneal graft rejection and wet age-related macular degeneration, which can cause problems with vision.

In the future, Oxford BioMedica plans to spin-out or out-license its product pipeline, which will allow another party to use it without infringing intellectual property rights for a fee.

The business is in discussions with big pharmaceutical companies concerning potential licensing deals and venture capitalists regarding spin-outs.

ARE THERE RISKS TO GENE THERAPY?

While gene therapy is targeted, there are risks as normal B cells also express CD19 and are destroyed, although intravenous immunoglobulin replacement is used to prevent infection.

The rapid destruction of cancer cells produces a cytokine storm, a dangerous and possibly fatal immune response.

It essentially means your immune system can work against you, although this can be managed with effective drug treatment.

Within the healthcare and pharmaceutical sector, investors should tread with caution.

Oxford BioMedica is still undergoing trials as part of its product pipeline and if these fail to produce results, it may delay future revenue streams. (LMJ)

WHY SHOULD YOU INVEST IN OXFORD BIOMEDICA?

DANIEL WILKINSON, associate analyst (healthcare) at Edison gives his view on the investment case:

'While it is a complex business, investing in Oxford BioMedica offers the opportunity for investors to gain exposure to gene and cell therapies, both directly through its own internal pipeline and its partnerships, notably Novartis.

'Near term Oxford BioMedica is subject to the usual biotech risks, notably in relation to the clinical and commercial success of Novartis' CTL019 CAR-T therapy (a drug which Novartis recently in its Q4 results labelled as a potential blockbuster); OXB manufacture a key component of this.

'In the longer term, the unique nature of Oxford BioMedica's manufacturing capabilities within cell and gene therapy could attract further partnerships and may provide investors with a pure-play entry in to the cell and gene therapy space without the typical binary biotech risks.'

Searching out secure income via funds

Can asset-backed debt funds provide a port in the storm?

Of all the long-term consequences of the financial crisis of 2008, one of the most serious is the partial withdrawal of the banks from some of their traditional lending activities.

Tougher capital adequacy requirements have made it more expensive for them to provide loans, which has left key areas of the economy short of funding and created a lucrative gap in the market.

Part of the shortfall has been met by the launch of a series of asset-backed debt funds. These specialist investment trusts lend to a variety of different sectors and typically aim to generate secure dividend yields in excess of 6% per annum for income investors.

LOANS TO SMALL FIRMS

Arguably the worst affected area is small and medium sized enterprises (SMEs). Many of these businesses need to borrow in order to grow and are willing and able to pay in the region of 10% per annum for a loan that is secured on the firm's assets.

RM Secured Lending (RMDL) raised just over £50m when it launched in December and plans to lend the money to businesses with a good visibility over cash flow and earnings.

The loans will typically pay 8% to 12% per annum with each being in the £2m to £10m bracket and lasting for three to 15 years. RMDL aims to pay a 4% dividend yield in 2017 as it invests its capital with the figure rising to 6.5% in 2018 with quarterly distributions.

James Robson, chief investment officer of RM Capital, which manages RMDL, says that they have a large pipeline of opportunities to lend into the targeted space.

'Our loans are typically project finance style loans where as a lender we take enhanced security rather than traditional SME balance sheet lending, which would be the more typical solution from the general corporate banking market. These loans are secured and should anything go wrong we have a number of credit enhancements to ensure we are likely to be repaid.'

It is similar to **Hadrian's Wall Secured Investments (HWSL)**, which raised £80m when it floated last June. By the end of December the company had made secured loans of £22m with an average interest rate of 8.4% over a four year term. It had also signed commitment letters on behalf of another £40m. If executed these would be sufficient for it to achieve its target annual dividend yield of 6% with quarterly distributions.

OTHER ASSET-BACKED DEBT OPTIONS

Another option worth considering are the mortgage-backed debt funds such as the **TOC Property Backed Lending Trust (PBLT)** that recently raised £17.3m. It is managed by the direct lending specialist Tier One capital, which plans to concentrate on regional housebuilding across the UK, as well as small serviced offices and hotel developments.

The fixed rate loans will mainly be secured on land or property and the intention is to grow the fund to £150m over the next 12 months. It is targeting a 7% dividend yield with quarterly distributions.

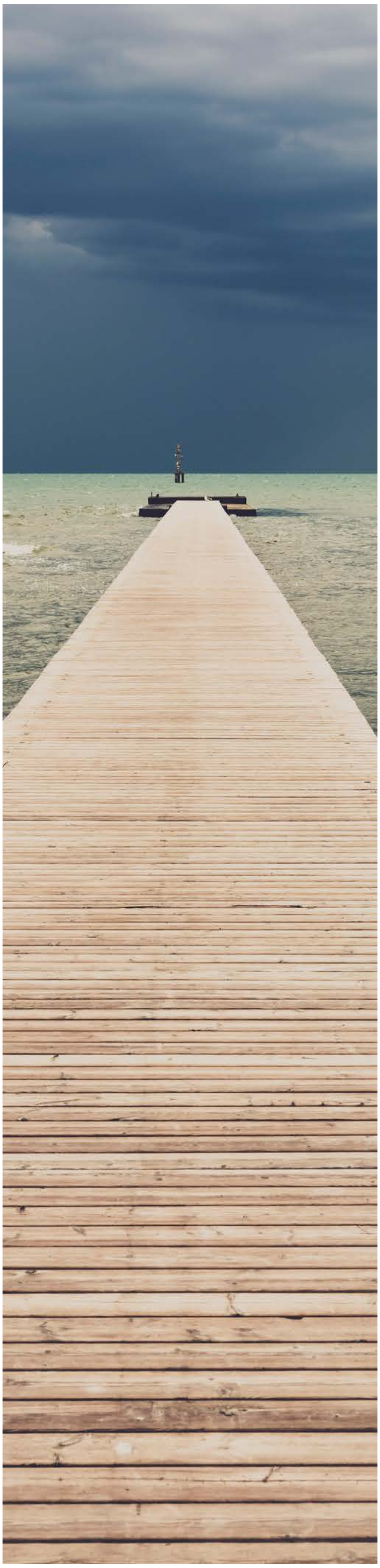
UK Mortgages (UKML) was created in July 2015 and aims to provide shareholders with stable income returns via a portfolio of loans secured against UK residential property. It is targeting a net total return of 7% to 10% per annum and has an historic yield of over 6% with quarterly dividends.

Rob Ford, founding partner and portfolio manager, says the strategy behind the fund is to buy a number of UK mortgage portfolios and then take advantage of the securitisation markets to issue AAA-rated paper that will provide around seven times gearing.

'We buy mortgages from many different organisations including the high street banks and building societies and also have an agreement with The Mortgage Lender to originate mortgages for us on an ongoing basis.'

The more established £450m **TwentyFour Income Fund (TFIF)** invests in European asset-backed securities including collateralised loan obligations. It is managed by TwentyFour Asset Management, which also runs the UK Mortgages fund, and is one of Winterflood's investment trust recommendations for 2017.

'It targets a net total return of 6% to 9% per annum and aims to pay quarterly dividends of at



least 6p per annum. Based on the fund's current share price this equates to a prospective dividend yield of at least 5.3%,' explains Innes Urquhart, a member of the investment trust research team at Winterflood.

FLOATING RATE EXPOSURE

Secured debt funds with a short duration or exposure to floating interest rates should do well when interest rates finally start to go up. A prime example is the £990m **NB Global Floating Rate Income fund (NBLS)**.

NBLS provides a diversified exposure to US senior secured loans with a bias towards higher quality issuers. These debt securities rank at the top of the capital structure with any further increases in US three-month LIBOR likely to feed through into higher returns.

'We believe that NB Floating Rate Income is an attractive way to gain a diversified exposure to the US loan market. The dividend yield is 4.5% and has scope to grow as US interest rates rise,' says Ewan Lovett-Turner, director, investment companies research at Numis Securities.

He also likes the £225m **CVC Credit Partners European Opportunities (CCPG)** fund that invests in European senior secured loans. This is yielding 4.8% and has recently switched to quarterly distributions.

Before buying any of these funds it is important that you are comfortable with the areas where it invests, the security of the loans and the level of gearing. It is also essential to check that it is not trading at an excessive premium to net asset value. (NS)

FRIDAY 3 MARCH

FINALS	
BERENDSEN	BRSN
LONDON STOCK EXCHANGE	LSE
STV	STVG
WPP	WPP
AGMS	
ACTUAL EXPERIENCE	ACT

MONDAY 6 MARCH

FINALS	
DEVRO	DVO
INFORMA	INF
SYNTHOMER	SYNT
ULTRA ELECTRONICS	ULE

TUESDAY 7 MARCH

FINALS	
AGGREKO	AGK
AUTINS	AUTG
TRITAX BIG BOX REIT	BBOX
DIRECT LINE INSURANCE	DLG
ESCHER	ESCH
HEADLAM	HEAD
INTERTEK	ITRK
JUST EAT	JE.
LSL PROPERTY SERVICES	LSL
PADDY POWER BETFAIR	PPB
SDL	SDL
SERVELEC	SERV
WORLDPAY	WPG
XLMEDIA	XLM
INTERIMS	
ASHTEAD	AHT
ST IVES	SIV

WEDNESDAY 8 MARCH

FINALS	
CLS HOLDINGS	CLU
CAIRN ENERGY	CNE
DIGNITY	DTY
G4S	GFS
HILL & SMITH	HILS
LEGAL & GENERAL	LGEN
LOOKERS	LOOK
LOOPUP GROUP	LOOP
PAGEGROUP	PAGE
RESTAURANT GROUP	RTN
STOCK SPIRITS	STCK
TYMAN	TYMN
WANDISCO	WAND
XP POWER	XPP
INTERIMS	
CERES POWER	CWR
AGMS	
IMPAX ASSET MANAGEMENT	IPX

RESTAURANT GROUP
Frankie & Benny's owner **Restaurant Group (RTN)** announces full year results on 8 March. The focus will be on the company's recovery plan after a series of profit warnings in 2016. Investors can expect updates on the company's turnaround efforts, the strategic reviews of its brands and a cost-cutting programme.

WANDISCO
Cash burn at WANdisco (WAND:AIM) will come under investor scrutiny when full year results are announced on 8 March. The data replication technology designer lifted shareholder spirits in January when it reported $0.2m of cash consumed by the business in the fourth quarter of 2016, a massive improvement on the $6.9m chewed through for the same period in 2015. This hints at first ever positive cash generation through 2017, among management's key objectives. Also interesting is momentum from the company's channel partner network (including IBM, Oracle, Amazon Web Services), which scored several contract successes for the company in late 2016. (SF)

THURSDAY 9 MARCH

FINALS	
AVACTA	AVCT
CAPITAL & REGIONAL	CAL
CAIRN HOMES	CRN
COUNTRYWIDE	CWD
DOMINO'S PIZZA	DOM
MORRISON SUPERMARKETS	MRW
OLD MUTUAL	OML
OPHIR ENERGY	OPHR
PREMIER OIL	PMO
RESTORE	RST
SECURE INCOME REIT	SIR
SPIRAX-SARCO ENGINEERING	SPX
AGMS	
88 ENERGY	88E

EX-DIVIDEND		
ACORN INCOME FUNDS	AIF	4.5P
ASHMORE	ASHM	4.55P
AVIVA	AV.B	4.19P
CARETECH	CTH	6.25P
HARGREAVES LANSDOWN	HL.	8.6P
JP MORGAN GLOBAL GROWTH INCOME	JPGI	2.2P
LAKEHOUSE	LAKE	0.5P
LAND SECURITIES	LAND	8.95P
OXFORD INSTRUMENTS	OXIG	3.7P
RENISHAW	RSW	12.5P
SAFESTORE	SAFE	8.05P
SCOTTISH AMERICAN INVESTMENT COMPANY	SCAM	2.73P
SHIRE	SHP	20.64P
ST MODWEN PROPERTIES	SMP	4.06P
THOMAS COOK	TCG	0.5P
UTILICO INVESTMENTS	UTL	1.88P
WYG	WYG	0.6P

WM MORRISON SUPERMARKETS'
Bradford-based grocer WM Morrison Supermarkets' (MRW) full year results on 9 March will be watched closely for the outlook statement. Forecasts were upgraded following a fabulous festive trading update (10 Jan), which revealed 2.9% like-for-like sales growth over the nine weeks to 1 January. This represented the recovering supermarket's strongest Christmas performance for seven years. Chief executive David Potts upgraded full year profit before tax guidance to a £330m-to-£340m range, which will be the first increase in profit delivered since 2011. (JC)

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

KEY

- Main Market
- AIM
- Fund
- Investment Trust

Aberdeen Emerging Markets Investment Company (AEMC)	29
Admiral (ADM)	6
Ashmore (ASHM)	28
Ashmore Global Opportunities (AGOL)	29
Athelney Trust (ATY)	3
Babcock (BAB)	7
BAE Systems (BA.)	8
Barclays (BARC)	20
Blue Prism (PRSM:AIM)	33
BT (BT.A)	8
Bunzl (BNZL)	12
CF Woodford Equity Income (GB00BLRZQ620)	8
Conygar Investment Company (CIC:AIM)	8
CVC Credit Partners European Opportunities (CCPG)	47
Direct Line (DLG)	6
Diversified Gas & Oil (DGOC:AIM)	34
Fidelity China Special Situations (FCSS)	29
Fundsmith Emerging Equities (FEET)	29
Genus (GNS)	32
GlaxoSmithKline (GSK)	44
Hadrian's Wall Secured Investments (HWSL)	46
Hastings (HSTG)	6
HSBC (HSBA)	21
IMI (IMI)	11
Intu Properties (INTU)	11
JP Morgan Emerging Markets (JMG)	28
Koovs (KOOV:AIM)	34
Lloyds Banking (LLOY)	21
MJ Gleeson (GLE)	7
Moneysupermarket.com (MONY)	6
NB Global Floating Rate Income fund (NBLS)	47
Next (NXT)	3
Oxford BioMedica (OXB)	44
Restaurant Group (RTN)	48
RIT Capital Partners (RCP)	3
River & Mercantile (RIV)	34
RM Secured Lending (RMDL)	46
Royal Bank of Scotland (RBS)	21
Saffron Energy (SRON:AIM)	34
Serco (SRP)	14
Sky (SKY)	8
Standard Chartered (STAN)	20
Standard Life (SL.)	7
Templeton Emerging Markets (TEM)	29
TOC Property Backed Lending Trust (PBLT)	46
Treatt (TET)	14
TwentyFour Income Fund (TFIF)	47
UK Mortgages (UKML)	47
Utilico Emerging Markets (UEM)	29
WANDisco (WAND:AIM)	48
Weir (WEIR)	7
Weiss Korea Opportunity Fund (WKOF:AIM)	29
WM Morrison Supermarkets (MRW)	48
Woodford Patient Capital (WPCT)	8
Zytronic (ZYT:AIM)	13