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SHARES

WE MAKE INVESTING EASIER

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WHY AIM STOCKS ARE RACING AHEAD

EVERYTHING **INVESTORS** NEED TO KNOW FROM THE **BUDGET**

TAKEOVER TIME FOR ASSET MANAGERS AND BANKS. WHO'S NEXT?

ALARM BELLS RING OVER INNOVATIVE FINANCE ISAS

CAN YOU MAKE ANY MONEY FROM ETHICAL INVESTMENTS?

New film makes me hungry for McDonald's shares

Discover the beauty of fast food seller's franchise model

By pure coincidence, the last three films I've seen have involved the stock market and the world of business. I can recommend all of them if you are looking for entertainment value and valuable lessons about investing.

Although billed as an action thriller, the plot of *The Accountant* includes tricks used by companies when preparing to list their shares on a stock market. The film's gun-wielding hero was able to spot missing money in a corporation by factoring in typical labour costs, commodity prices and other factors to see how profit figures weren't correct.

Without wanting to give any spoilers, the investing lesson was about taking cash out and putting it back in to a business to inflate its sales, and thus command a higher stock market valuation.

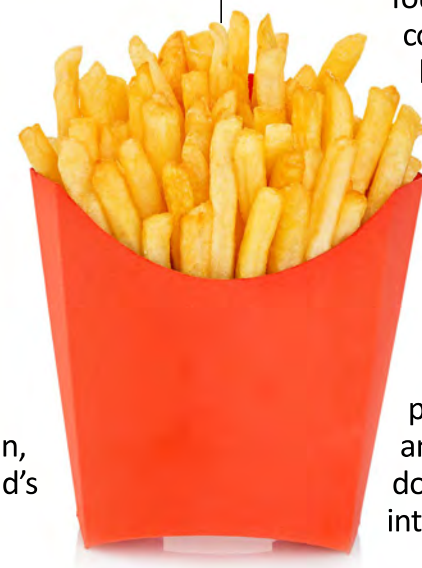
I flagged mining-based film *Gold* in this column in January as its story was based on a fraud that prompted greater protection measures for investors. I've now seen it. The film makers did a good job and showed how the general public can be easily duped into investing if a salesman spins a convincing story.

A TASTY TALE

The one film that really got me thinking for a long time afterwards was *The Founder*. This explored the origins of the McDonald's restaurant empire.

It told the story of how a chap called Ray Kroc ran the original founders of McDonald's into the ground through dirty tricks as the person in charge of franchising.

My key takeaway, to excuse the pun, from *The Founder* was how McDonald's is more than just a burger flipper.



Kroc is down on his luck during the film after realising that his franchise system isn't working in his favour. A 1.4% royalty on a 15c hamburger wasn't enough to cover his salary and provide money to fund field inspectors to ensure quality standards were maintained.

He was advised to set up a real estate business, owning land for future restaurants and insisting new franchisees had to lease this land for their business. That would provide higher returns and give an element of control as the lease could be cancelled if the franchisee didn't maintain quality standards.

WHY MCDONALD'S IS APPEALING

Many franchise owners profit from their franchisees by selling them supplies or demanding large royalties. McDonald's earns a rental income and takes a cut of sales. It does have some corporate-owned stores but the latest strategy is to concentrate on growth via franchising.

McDonald's is in a great position, if you think about it. It has two income streams and one of the most resilient businesses in the world.

You may argue there is intense competition for fast food, but that's been the case for a very long time. For all the changing consumer tastes, pressure on eating healthier food, etc, I still see queues of customers every time I pass a McDonald's outlet. The company has a clear plan to increase return on invested capital and boost operating margins.

It is a survivor, underpinned by a property asset-backed balance sheet and steady cash inflow. I personally don't like to eat there, but I'm certainly interested in feasting on its shares.

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CLICK ON PAGE NUMBERS TO JUMP TO THE RELEVANT STORY

Chancellor wields the axe on dividend tax benefits

The Budget failed to bring much good news for investors

Investors have been dealt a massive blow in the Budget on news that dividend allowances will be more than halved to £2,000. That is the amount of money you can earn tax-free on investments held outside of an ISA or self-invested personal pension (SIPP) and over and above the £11,000 personal allowance level.

Many investors won't be affected by the changes if they only hold their investments in an ISA or SIPP as income inside these wrappers is tax-free.

The changes are relevant to investors who have investments outside of an ISA or SIPP. You can earn up to £5,000 income from these investments tax-free each year under current rules.

You also need to consider that everyone in the UK has a personal allowance enabling them to earn up to £11,000 tax free each year.

So you only start paying tax an income from investments once you've used up the £5,000 dividend allowance and the £11,000 personal allowance.

Chancellor Philip Hammond says the rules will change. The £5,000 dividend allowance drops to £2,000 from April 2018; and the personal allowance will rise to £11,500 from April 2017.

Anyone earning 4% annual income on investments would need their portfolio (held outside of an ISA or SIPP) to be worth £50,000 or more to breach the dividend allowance level and start paying tax, for example.

It is a stark reminder to always use your ISA allowance each year to maximise tax benefits. The ISA allowance moves to £20,000 from 6 April 2017.

The Government says 80% of 'general investors' will pay no tax on dividends under its new proposals. (DC)

INFLATION COULD WIPE OUT RETURNS FROM NS&I BOND

THE GOVERNMENT HAS confirmed the new NS&I savings bond will pay 2.2% a year over a three-year term. In reality it is worthless when you take into account inflation expectations.

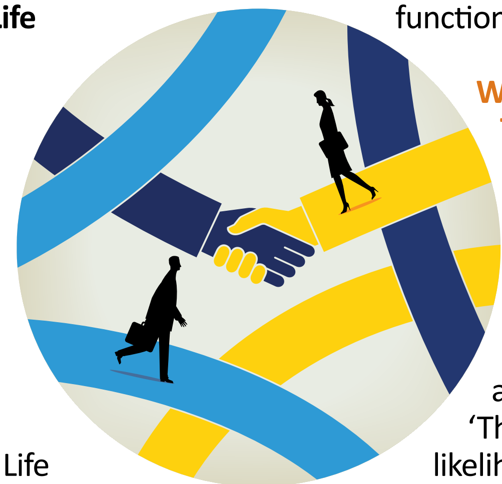
The Office for Budget Responsibility (OBR) forecasts inflation will hit 2.4% in 2017, falling to 2.3% in 2018 and 2% in 2019. Therefore there will be negative 'real returns' on the bond in the first two years if the inflation rate estimates are correct.

The savings product launches in April 2017 and you can invest between £100 and £3,000.

There were some more positive headlines from the OBR. It now expects the UK economy to grow 2% rather than 1.4% in 2017 although sees growth slowing to 1.6% in 2018, against a previous forecast of 1.7%. (TS)

Standard Life and Aberdeen still in play

Is this merger a purely defensive move or could it create a Scottish investment powerhouse?



Asset managers **Standard Life (SL.)** and **Aberdeen Asset Management (ADN)** may have shaken hands on their £11bn merger (6 Mar) but don't rule out a counter bid for either party.

WHAT ARE THE TERMS OF THE DEAL?

Aberdeen shareholders are getting no premium for a fairly straightforward merger. Standard Life shareholders would own two thirds of the combined operation.

The enlarged group would have a co-CEO structure with Standard Life's Keith Skeoch and Aberdeen's Martin Gilbert remaining in place.

WHY IS THE MERGER BEING PROPOSED?

Aberdeen's emerging market focus is not an area where Standard Life has much exposure. Their combined fund ranges could therefore be complementary.

An enlarged entity could have the scale and breadth of expertise and exposure to take on the US giants in the asset management industry.

A less generous assessment is that the merger is an entirely defensive move. Like many peers, both Standard Life and Aberdeen have been hit by the growth of passive investing through products such as exchange-traded funds.

These problems have been exacerbated at Aberdeen due to weak sentiment towards emerging markets and it has seen 15 consecutive quarters of outflows from its funds. Standard Life's flagship Global Absolute Return Strategies Fund saw outflows of £4.3bn in 2016.

They two companies hope to realise £200m a year cost synergies in the back-office, IT and sales functions three years after completion.

WILL IT HAPPEN AND COULD THERE BE A COUNTER BID?

Both parties have agreed to the plan and major Aberdeen shareholders **Lloyds Banking (LLOY)** and Japan's MUTB are backing the deal.

However, Canaccord Genuity analyst Ben Cohen comments: 'There must be a reasonable likelihood of a counter bid, for one or both of the parties, given accelerating consolidation in the asset management industry.'

Numis has previously suggested Aberdeen has many possible suitors including BlackRock, JP Morgan, Invesco, Prudential, Credit Suisse, Macquarie and Aviva.

WHAT ARE THE IMPLICATIONS FOR EARNINGS?

Investment bank Jefferies estimates the current merger plan would lift Standard Life's earnings per share by 11% in 2018 if cost savings are fully realised.

WHAT HAPPENS NOW AND WHO MIGHT BE NEXT?

Standard Life has until 1 April to make a formal approach pending further due diligence.

Numis says: 'We believe there is scope for further consolidation activity in the active asset management industry, driven by industry headwinds of low expected future investment returns, low organic growth, revenue margin pressure and cost pressures, as well as company specific attractions.'

Other potential takeover targets include **Man Group (EMG)**, **Ashmore (ASHM)** and **Jupiter Fund Management (JUP)**. (TS)

Who's next as Shawbrook battles takeover approach?

Challenger banks in the spotlight on back of surprise bid

Challenger bank **Shawbrook (SHAW)** has received a takeover bid from the company that originally floated it on the stock market. Is this the start of a new wave of takeovers among challenger banks?

Small business and retail bank **Aldermore (ALD)** could be the next target, according to some market commentators.

Despite announcing a 34% increase in underlying profit for 2016 and revealing it will consider introducing dividends this year, it trades on a fairly low 2017 price-to-earnings ratio of 8.2 times at the current 232p share price.

'Aldermore is a well-run business and well-positioned to continue to take market share in its specific niches,' says investment bank Liberum.

Shawbrook earlier this week said it had rejected a 332.7p approach from 38.9% shareholder Pollen Capital and BC Partners.

It also revealed a lower bid from the parties of 307p on 13 January. Don't rule out another improved bid, says Liberum.

So why is it a takeover target? Shares in many UK financial companies including Shawbrook struggled in the wake of the UK's vote to leave the European Union. Compounding weak sentiment towards Shawbrook was a £9m irregularity on loans in its asset finance division.

'We see Shawbrook as a strong business suffering from a perception problem, and our base case assumption is that as it continues to grind out robust results quarter after quarter, the stock should re-rate,' says Investec.

'If the proposal from Pollen and BC progress, shareholders may yet see that process accelerate.' (TS)

BT breaks the billion barrier with football deal

Investment bank says shareholders should question telecom group's latest move

A BELIEF IN the analyst community that inflation in the cost of sporting rights might be abating looks forlorn.

Telecoms giant **BT (BT.A)** is paying 32% more than its previous three-year contract for exclusive rights to broadcast Champions League football from 2018 to 2021.

The £1.2bn total amount is three times the value of the joint deal agreed by **Sky (SKY)** and **ITV (ITV)** before BT entered the market two years ago.

The spiralling cost of sporting rights is unhelpful at a time when BT is battling an accounting scandal in its Italian operations and straining under the weight of a £14.2bn pension deficit.

A key question for investors is whether the company can sustain the 10% dividend growth promised for this year and next year.

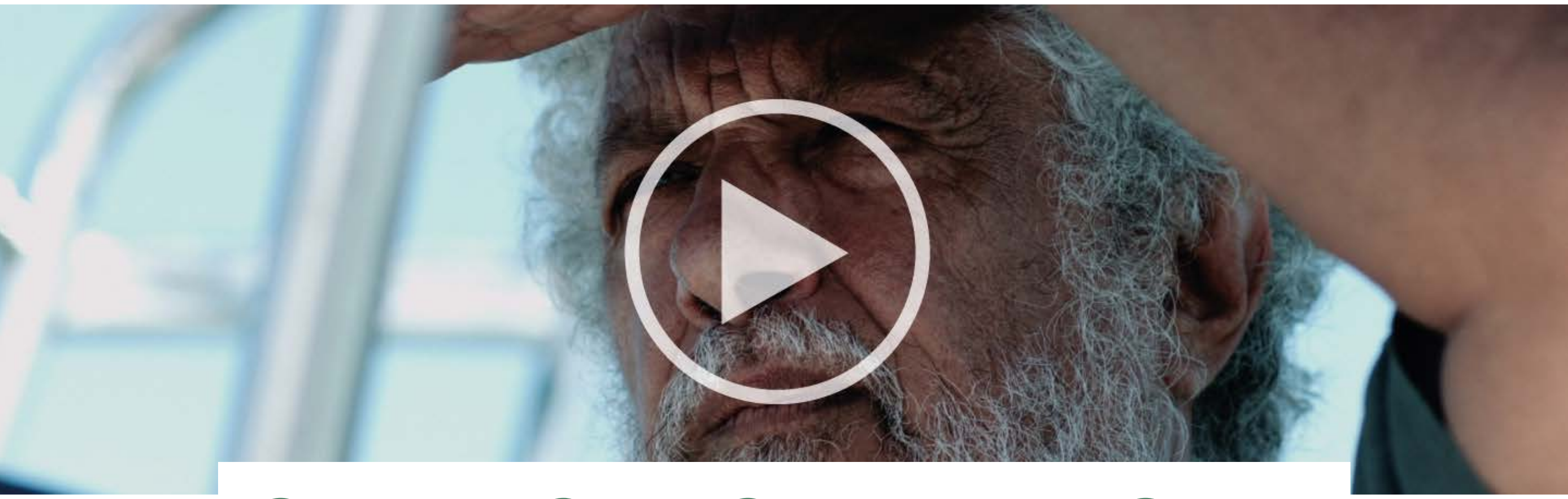
Investment bank Jefferies says: 'The speed with which (the new) auction result has followed the start-of-March deadline for tender submissions would suggest that BT faced limited opposition from Sky (or anyone else), and that bidding did not go to multiple rounds.

'BT shareholders might, therefore, question how necessary it was for their company to meet UEFA's price expectations in full. Moreover, we wonder what this implies for BT's negotiating leverage in future UEFA rights auctions.'

Elsewhere key rival Sky's £18.5bn takeover by Rupert Murdoch's 21st Century Fox looks set to be tied up by regulatory scrutiny as UK culture secretary Karen Bradley says she is 'minded' to refer the deal to regulator Ofcom on public interest. (TS)

Advertorial

CARMIGNAC
RISK MANAGERS



CARMIGNAC PATRIMOINE

MAN REMAINS THE MOST BEAUTIFUL MACHINE

Founded in 1989, Carmignac is an independent asset manager and is today one of Europe's leading asset managers. Teamwork, idea generation, know-how, in depth analysis, are the core components of the management philosophy of Carmignac.

Carmignac has an international management team of 38 fund managers and analysts, uniting 10 different nationalities between Paris and London. This international openness allows the managers to seize investment opportunities on financial markets.

The Patrimoine strategy is the accurate reflection of the soul of Carmignac.

Since 1989, the concept of Patrimoine has come to represent the success and longevity of Carmignac, and Carmignac's aim of achieving robust performance, based on a culture of long-term wealth planning.

Today the Patrimoine strategy is more than a strategy, it's a philosophy. Over the last decades, through a combination of journeys taken, lessons learned and the people we've met, our story continues to unfold. Whether old friends or new acquaintances, we look forward to enjoying the next chapter of the Patrimoine adventure with you.

Find out more

Gold miner shock as government bans exports

Millions wiped off the value of one of FTSE's best known gold producers

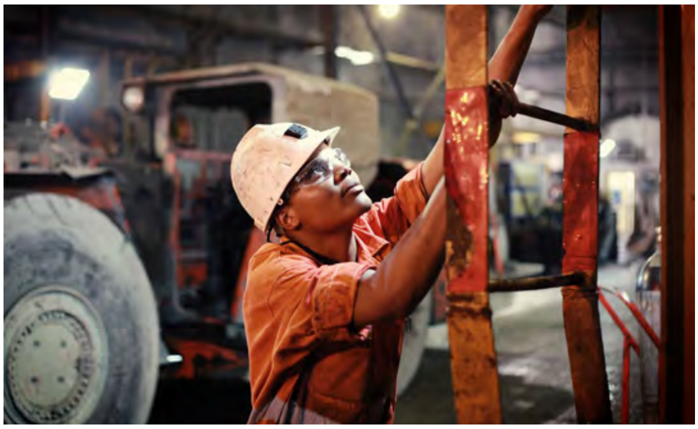
A ban on exporting unprocessed ore from Tanzania wiped one fifth off the market value of gold producer **Acacia Mining (ACA)** between 3 and 6 March. Don't be fooled by the subsequent small recovery in the share price; we believe there remains a significant risk to near-term earnings.

The Tanzania government wants miners to use local smelters, or build their own smelters in-country, to process ore. The Philippines could follow suit, according to reports.

This echoes Indonesia's decision in 2014 to ban exports of unprocessed nickel ore. That caused a disruption to global nickel supply and pushed up the metal price.

Acacia says 30% of its group revenue is affected by the new law in Tanzania, being the amount it made in 2016 from gold/copper concentrate exports from two of its mines. A third mine, North Mara, produces 100% gold doré and is unaffected by the news.

Analysts say Acacia can continue mining



operations and stockpile ore near-term. They point out that Acacia accounts for half of the country's gold production, so it is in the government's interests to resolve the problem as it could lose out on royalty and tax income.

Building a smelter seems highly unlikely given that Acacia's affected production is sub-scale to make this processing cost efficient. It is also worth considering Tanzania has high energy costs which are a negative factor for power-hungry smelters. (DC)

Just Eat wins back market favour

AFTER SEEING ITS share price drift on growth concerns online takeaway site **Just Eat (JE.)** is back in the market's good books as it guides for better-than-expected earnings in 2017 (7 Mar). Earnings before interest, tax, depreciation and amortisation (EBITDA) is expected in a range of £157m to £163m, slightly higher than previous consensus at £157.4m. Orders via mobile devices accounted for 73% of sales in 2016 versus 66% in 2015. (TS)

Mitie's destruction of value

A TOXIC MIX of looming banking covenants, broker downgrades and accounting failures continues to dog outsourcer and energy services business **Mitie (MTO)**. The company has just agreed to sell its loss-making home healthcare business – encompassing the Enara and Complete Care franchises – to private equity firm Apposite Capital for a nominal £2. Enara alone was bought for £111m five years ago. (TS)

Large risks hang over Aggreko's earnings

PANMURE GORDON ANALYST Michael Donnelly believes more than 40% of **Aggreko's (AGK)** profits this year are 'above-average risk'. Investors should approach the stock with caution. Donnelly reckons the shares have further to fall, even after dropping more than 10% on 7 March when the back-up power group issued a profit warning amid lower earnings on a contract in Argentina. (DC)

Gear4music is hitting the high notes

Musical instruments and equipment seller is a long-term structural winner

Online retailer **Gear4music (G4M:AIM)** continues to hit the right notes for investors. Chief executive Andrew Wass is now confident of delivering full year profits marginally ahead of recently-upgraded estimates.

In a year-end trading update (3 Mar), Wass reported a 58% increase in total like-for-like sales to more than £56.1m for the year to 28 February 2017.

This reflected continued strong growth in the UK and Europe. Scandinavian revenue grew 186% between November 2016, when Gear4music's Swedish distribution centre opened, and February 2017. Wass also confirmed Gear4music's German hub is now operational.

York-headquartered Gear4music is a retail structural winner selling own-brand instruments and premium third party brands including Fender, Yamaha and Roland.

The business, whose active customer numbers increased 49% to 339,800 last year, has a huge growth opportunity in a fragmented market, while sterling weakness is presenting a significant tailwind for its exports.

Panmure Gordon's Peter Smedley's 600p price target has been exceeded, although the analyst will use full year results (9 May) to reflect the latest upgrade in terms of forecasts and price target. For now, Smedley forecasts growth in pre-tax profit from £600,000 to £2.4m for the year to February 2017, rising to £2.9m in 2018 and £3.7m in 2019.

€10m

Punishing fine for data breaches

€10m: This is how much the Information Commissioner's Office (ICO) can fine companies that breach new UK regulations from May 2018. Alternatively businesses can be fined 2% of global turnover; the same applies if they fail to report a data protection breach within 72 hours.

The ICO is trying to strengthen data protection practices and encourage compliance by making the financial penalty more threatening than the implementation costs.

£3.24 AVERAGE WEEKLY SPEND ON FOOTBALL POOLS

THE ICONIC FOOTBALL Pools operation is being sold by **Sportech (SPO)** for £83m. Amid falling subscription numbers and only £3.24 average weekly spend by customers it is easy to see why management were open to a private equity-backed bid.

The company already plans to return £20m to shareholders after winning a VAT case against the taxman and could deliver another one-off return should the Pools deal complete. The remaining focus will be its US gaming business.

51% AMOUNT OF NEW BUILD HOMES WITH 'MAJOR FAULTS'

MORE THAN HALF of owners of new build properties experience problems around construction, fittings and utilities, according to a YouGov survey for housing charity Shelter. Sounds familiar? On 20 February **Bovis Homes (BVS)** apologised to customers and set aside £7m to pay compensation and fix problems after it admitted quality control dipped as it rushed to hit growth targets. The results of YouGov's survey imply other housebuilders could face similar issues and investors in the sector should at least be aware of this risk.

£57.7M: CENTAMIN CHAIRMAN'S NON-STOP SHARE SALE

THE CHAIRMAN OF Egyptian gold producer **Centamin (CEY)** Josef El-Raghy has sold £57.7m worth of shares in the miner this year. That represents 33m of the 53.8m shares he owned at the start of 2017.

We're told by the miner's advisers that El-Raghy is diversifying his investment risk by not having all his money tied up in a single asset.

However, we also note El-Raghy recently tried to do a corporate deal via another business interest with Tanzania-focused gold miner Indiana Resources. That didn't work, so he's now trying to oust some directors from Indiana and replace them with his associates. Maybe he's getting some cash ready for a connected deal?

6.5% CHINA SCALES BACK GROWTH EXPECTATIONS

CHINA EXPECTS SLOWER economic growth this year in the region of 6.5%. That is lower than the 6.7% rate seen in 2016, although in line with many economists' forecasts. The country is taking action to combat industrial over-capacity and tackle widespread pollution.

Last month BlackRock's global chief investment strategist Richard Turnill said he viewed a breakdown in trade triggered by US protectionism as the biggest near-term risk to China. He added: 'China's mounting debt levels are also a concern.'

Five-month low: UK business activity

THE LATEST UK economic data is a bit worrying, to be frank. February's composite PMI data for the services, construction and manufacturing sectors hit a five-month low of 53.7 and a significant decline from 55.1 a month earlier. PMI data gives an insight into the activity of purchasing managers.

Markit/CIPS, which compiled the data, says indications year to date suggest the UK economy will grow 0.4% in the first quarter of 2017, much lower than the 0.7% expansion seen in the fourth quarter of 2016.

BEST PERFORMING MAJOR STOCK MARKET INDICES SO FAR IN 2017

Nasdaq 100 (US)	10.2%
FTSE China 50	8.4%
S&P BSE 100 (India)	8.4%
Bovespa (Brazil)	7.9%
Hang Seng (Hong Kong)	4.6%
S&P 500 (US)	6.1%
Dow Jones Industrial (US)	6.0%
FTSE All-World	5.7%
Swiss Market	5.1%
SSE Composite (China)	4.2%

Source: SharePad. Data to 7 March 2017.

BEST PERFORMING UK-LISTED ASSET MANAGERS SO FAR IN 2017

Harwood Wealth	45.3%
River & Mercantile	31.0%
Ashmore	29.5%
STM	24.4%
Man	22.7%
Polar Capital	18.0%
AFH Financial	15.4%
Rathbone Brothers	15.2%
Aberdeen Asset Management	13.8%
City of London Investment	12.7%

Source: SharePad. Data to 7 March 2017.

FRIDAY 10 MARCH

FINALS	
ESURE	ESUR
INTERIMS	
JRP	JRP

MONDAY 13 MARCH

FINALS	
COMPUTACENTER	CCC
GRUPO CLARIN	GCLA
GRESHAM COMPUTING	GHT
HUTCHINSON CHINA MEDITECH	HCM
TELIT COMMUNICATIONS	TCM
TELECOM EGYPT	TEEG
AGMS	
ESERVGLOBAL	ESG
SSP	SSPG

TUESDAY 14 MARCH

FINALS	
ADVANCED MEDICAL SOLUTIONS	AMS
ANTOFAGASTA	ANTO
APPLEGREEN	APGN
BRADY	BRY
BURFORD CAPITAL	BUR
CROSSRIDER	CROS
FRENCH CONNECTION	FCCN
GRESHAM COMPUTING	GHT
THE GYM GROUP	GYM
INTERQUEST	ITQ
PRUDENTIAL	PRU
SIG	SHI
SURGICAL INNOVATIONS	SUN
TP ICAP	TCAP
TCS GROUP	TCSA
INTERIMS	
EAGLE EYE SOLUTIONS	EYE
KALIBRATE TECHNOLOGIES	KLBT
ECONOMICS	
UK	
BRC RETAIL SALES	

PRUDENTIAL (PRU)
The market's attention is likely to be on the Prudential's (PRU) dividend when it reports full year results on 14 March. Guidance in 2016 suggested the company would deliver 5% annual growth in the payout alongside additional distributions where appropriate. There may also be a response to talk the company plans to take on a large portion of the £12.5bn Bradford & Bingley-issued mortgages being sold by the Government.

BALFOUR BEATTY (BBY)
Look for an update on cash flow performance when construction firm **Balfour Beatty (BBY)** reports its full year numbers on 16 March. Chief executive Leo Quinn, hired in 2015 to turn things round at the struggling business, has focused on cash generation. It is also worth keeping tabs on the order book. This amounted to £9.1bn at the half year stage.

WEDNESDAY 15 MARCH

FINALS	
FUSIONEX INTERNATIONAL	FXI
GEM DIAMONDS	GEMD
MHP	MHPC
MARSHALLS	MSLH
ROBERT WALTERS	RWA
STATPRO	SOG
INTERIMS	
CLINIGEN	CLIN
THINKSMART	TSL

THURSDAY 16 MARCH

FINALS		
BALFOUR BEATTY	BBY	
CAPITAL DRILLING	CAPD	
AGMS		
BANCO BILBAO	BVA	
EX-DIVIDEND		
ADEPT TELECOM	ADT	3.75P
ALPHA REAL TRUST	ARTL	0.6P
BRITISH AMERICAN TOBACCO	BATS	118.1P
BLACKROCK WORLD MINING TRUST	BRWM	9P
CONCURRENT TECHNOLOGIES	CNC	1.3P
CREST NICHOLSON	CRST	18.5P
ECO ANIMAL HEALTH	EAH	2.5P
ESSENTRA	ESNT	14.4P
FAIR OAKS INCOME	FAIR	\$0.01
FORESIGHT TECHNOLOGY VCT	FTV	5P
GLANBIA	GLB	€0.08
HONG KONG LAND HOLDINGS	HKLB	\$0.13
HAMMERSON	HMSO	4.9P
HAMMERSON	HMSO	9P
HAYNES PUBLISHING	HYNS	3.5P
JPMORGAN MID CAP NVESTMENT TRUST	JMF	8P
LOW & BONAR	LWB	2P
MILLENNIUM & COPTHORNE HOTELS	MLC	5.66P
REVOLUTION BARS	RBG	1.65P
RM	RM.	4.5P
RANDGOLD RESOURCES	RRS	\$1
STOBART	STOB	3P
TRIFAST	TRI	1P
WATERMAN GROUP	WTM	1.6P

THE GYM GROUP (GYM)
Low-cost gym operator **The Gym Group (GYM)** reports its full year results on 14 March. Investors are likely to focus on guidance for the number of new sites planned for 2017 after 2016's 15 openings fell slightly short of expectations. There may also be further detail on how a plan to open gyms next to supermarkets fits into its ambitious expansion strategy.

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

The easy way to profit from legal battles

Litigation finance provider Burford Capital has excellent track record

Litigation finance provider **Burford Capital (BUR:AIM)** could be on course for big returns which are uncorrelated to traditional asset classes and the macro-economic backdrop.

Market leader Burford has two arms which both conduct the same activity, namely funding law suits in return for a share of a compensation award.

The established operation invests Burford's own funds. The $160m acquisition of rival Gerchen Keller, announced in December 2016, has helped establish an asset management business which invests third party funds.

The Gerchen Keller business also adds performance and management fees which could help smooth out the lumpy and unpredictable returns from court payments.

Burford has branched out into legal insurance and loans to law firms. It is also broadening its approach by investing in lawsuit defences in return for a share of the money saved by a successful defence.

WHY SHOULD I BUY THE SHARES?

Liberum sums up the appeal of the stock by saying: 'Burford is a leader in a market that appears to be at the very early stages of its development, with significant scope for multi-year expansion.'

BURFORD CAPITAL
BUY
(BUR:AIM) 734p
Stop loss: 587.2p

Market value: £1.52bn

It can be difficult to forecast short-term earnings performance. However, Burford announced in January the sale of an interest in the *Petersen V Argentina* case which implies the asset could be worth several multiples of its cost value of $18m. That could have positive implications for full year results published on 14 March.

The litigation concerns Spanish investment group Petersen which faced insolvency after the Argentine government summarily renationalised oil company YPF.

As well as a lack of visibility, Burford's earnings suffer from a lack of transparency. It is standard industry practice to keep the identity of most 'invested' cases under wraps. For this reason, litigation finance won't be for everyone but investors can draw comfort from the historic track record.

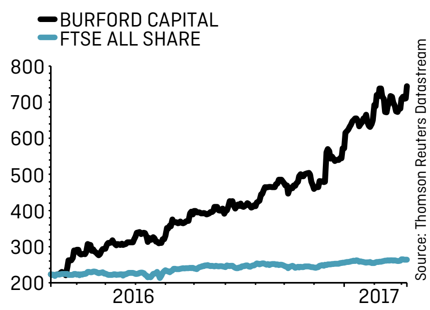
GOOD TRACK RECORD

According to Liberum, the company has historically delivered a return on invested capital (ROIC) of 70% and an internal rate of return of 28%. A company which generates ROIC in excess of its weighted average cost of capital (WACC) can truly be said to be creating shareholder value.

This success is underpinned by a robust team of more than 80 people, encompassing 40 experienced lawyers. The specialised nature of this activity and required expertise creates substantial barriers to entry.

A 231.5% advance in the shares over the past 12 months suggests the market is switching on to the potential in this nascent and little-understood industry and we see scope for further upside. (TS)

BROKER SAYS: 4 0 0



Card Factory is a gift that keeps on giving

Cash generation and competitor store closures are reasons to pocket retailer

Weakness at retailer **Card Factory (CARD)** presents a screaming buying opportunity.

Although the outlook for UK retail is uncertain following the Brexit vote, Card Factory is among those shopkeepers best placed to cope with currency-driven cost pressures, while generating cash to grow the business and fund surplus returns to investors.

Wakefield-headquartered Card Factory is the UK's biggest specialist greeting cards and gifts seller. A nationwide chain of over 850 stores, its store roll-out is on track with a strong future pipeline and the company also trades through the complementary GettingPersonal and Card Factory websites.

Card Factory's vertically integrated model, spanning in-house design and printing, then retailing is a key point of differentiation. It reduces external costs which Card Factory can pass on to customers and enable it to maintain high margins and generate copious amounts of cash. The model will also enable Card Factory to keep prices low and the tills ringing, should the UK economy experience a downturn.

FESTIVE WINNER

Investors greeted Card Factory's latest trading update (26 Jan) warmly. The retailer reported a good Christmas period with like-for-like store sales returning to growth in the fourth quarter.

CARD FACTORY BUY
(CARD) 273.10p
Stop loss: 218.48p

Market value: £931.9m

According to CEO Karen Hubbard pre-tax profit for the year to 31 January 2017 will be 'slightly ahead' of the £81.9m analyst consensus. Results will be published on 28 March.

Peel Hunt now forecasts adjusted pre-tax profits of £83m (2016: £82m), rising to £84.5m in the current financial year and £90.4m in the next year.

HOLDING ALL THE CARDS

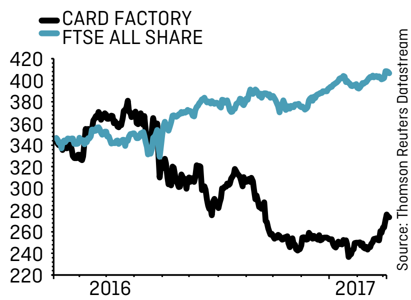
Bears will argue digital greeting cards are a long-term structural threat, yet the greetings card industry is in fact stable and Card Factory has an enviable position within it.

As Peel Hunt points out: 'We can't argue that it is flourishing but we see low, not no growth ahead and Card Factory's position as market leader and only vertical-integrated player is absolutely key.

'We expect Card Factory's competition to continue to downsize (especially Clintons, where a property review is currently taking place) and that will add to Card Factory's rediscovered like-for-like momentum.'

A buyer with a 400p price target for Card Factory, Peel Hunt adds: 'This is never going to be a company that delivers big upgrades but the cash flow is exceptionally stable and that just gets more entrenched as the competition falls away.' (JC)

BROKER SAYS: 3 2 0



JIMMY CHOO

(CHOO) 159.75p

Gain to date: 20.1%

Original entry point:

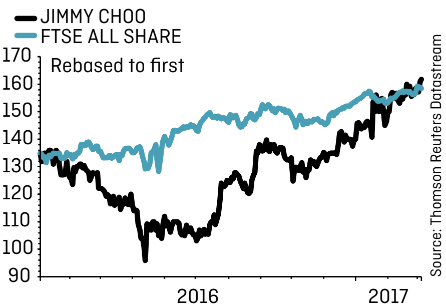
Buy at 133p, 08 December 2016

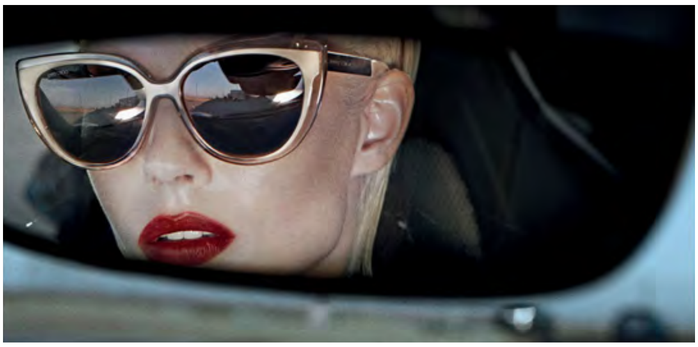
OUR BULLISH pre-Christmas call on high-end shoemaker **Jimmy Choo (CHOO)** is 20.1% in the money. We're staying positive following record full year results (2 Mar) and a positive outlook flagging 'improving retail trends across all regions'.

A testament to the growing global appeal of the British luxury brand, reported sales shot up 14.5% to £364m in 2016. Admittedly this number was flattered by sterling weakness following the EU vote.

Jimmy Choo's retail sales rose 17.4% to £243.9m last year. Second half like-for-like performance was boosted by a strong Christmas quarter. We view the 7.4% growth in wholesale as a credible achievement given fewer purchases from US department stores.

We are sticking with our positive stance on Jimmy Choo, as it offers a compelling combination of brand strength, pricing power and global growth potential.





SHARES SAYS: ↗

We're heartened by Jimmy Choo's sales and margin momentum and agree with the bullish consensus. (JC)

BROKER SAYS: 4 1 0

DEVRO

(DVO) 187.75p

Gain to date: 13.4%

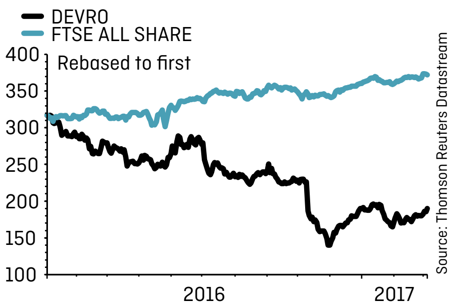
Original entry point:

Buy at 165.5p, 22 December 2016

A 13.4% GAIN for sausage skin maker **Devro (DVO)** is decent enough, although the company's turnaround is proving a protracted affair. The edible collagen casings maker's full year results (6 Mar) revealed in-line underlying pre-tax profit of £31.2m and a maintained dividend of 8.8p. Shore Capital forecasts modest pre-tax profit improvement to £32.6m for 2017.

There was also news of a programme to drive revenue and profit growth, called Devro 100. This will come at the cost of a further £10m to £12m of exceptional items through 2017 and 2018 and entail £7m to £8m of additional capital expenditure. We still like the fundamentals of the collagen casing market, which grew 4% in a tough 2016, but Devro needs to demonstrate it can regain market share to turn investor sentiment round.

Although Devro's volumes declined by 6.6% in 2016, reflecting reduced demand in Latin America, Russia, China and Continental Europe, China returned to growth in the final quarter. Encouragingly, CEO Peter Page also highlighted increased volumes and stable or increasing sales prices in Japan, South East Asia and the UK & Ireland.



SHARES SAYS: ↗

We're sticking with Devro for its long-term growth potential, although the additional costs of the turnaround are a short-term setback. (JC)

BROKER SAYS: 1 6 1

Alarm bells ring over Innovative Finance ISAs

Lack of creditworthy borrowers may see lower standards among P2P platforms

Investors are being urged not to get blindsided by the impressive yields advertised by Innovative Finance ISAs amid concerns providers could lower their lending standards.

MAKE SURE YOU CHECK THE BAD DEBT HISTORY ON A P2P PLATFORM BEFORE YOU MAKE AN INVESTMENT

Innovative Finance ISAs are designed to hold investments made via peer-to-peer (P2P) platforms; interest from your investments is tax free.

Zopa, the biggest player in the P2P lending market, put a temporary freeze on new investments at the end of 2016 when the number of creditworthy borrowers fell. The company refused to lower its underwriting criteria and did not want investors' money sitting around for weeks before it could be lent out.

Trevor Clark, operations director at financial advice firm Rutherford Wilkinson, warns that other P2P lenders might not employ the same stringent standards, especially if they have launched specifically to take advantage of the Innovative Finance ISA opportunity.

REGULATORY BACKGROUND

P2P platforms are regulated by the Financial Conduct Authority (FCA) and have reserve funds that aim to protect the lender in the event of a borrower default. But in a report on the post-implementation review of crowdfunding rules, the FCA said some firms applying for authorisation hadn't demonstrated that they meet the required minimum standards.

'By achieving authorisation, we can hopefully say they have met these conditions, but the issue lies in the fact that as a nascent sector there isn't enough history to test such standards,' says Clark.

'Regarding continuing to meet regulatory standards once in the market, the FCA said firms may not always meet their expectations and they have challenged some firms to improve their client money handling standards.

'Commercial pressure with the launch of the Innovative Finance ISA and the popularity of the sector may lead firms to relax creditworthiness and underwriting standards.'

Clark says investors should wait until the sector is more mature before making the plunge.

PROVIDER CHECKLIST

If you are still attracted by the high yields on offer, there are a few things to check before making an investment.

Providers usually publish details on their defaulted and written-off loans and late payments. Clark says investors should look for the level of detail provided and how far back it goes.

'A longer history of low rates in these areas is more reliable and the P2P lender should be able to provide you with information on their due diligence processes in assessing the creditworthiness of borrowers. Some providers give you more control over which businesses (rather than individuals) to whom you lend your money and this can facilitate insight into their due diligence process,' he explains.

Zopa, whose Innovative Finance ISA is due to launch in April, says the temporary freeze put in place in December last year reflected the seasonal downturn in demand for loans from high quality borrowers. 'We believe money should be simple and fair, so we don't think it's fair for investors to wait too long to lend out their money. As expected, borrower demand picked up again in January,' it says.

The provider claims it only allows lending to carefully selected borrowers who meet strict criteria. As a minimum, borrowers have to be at least 20 years old, have a credit history, have a good track record of repaying debt, be a current UK resident, have at least three years of UK address history, and have an annual income of at least £12,000.

ALLOCATING YOUR MONEY

A shortage of creditworthy borrowers could result in your money sitting idle rather

than being invested, but most Innovative Finance ISA providers claim this situation wouldn't arise. Michael Todt, content manager at Lending Works, says the company has been entering partnerships and using other initiatives to unlock new channels for loan origination.

'As such, we have continued to strike the right balance between incoming lending capital and prime borrowers, and we expect this to continue for the foreseeable future,' he says.

Karteek Patel, chief executive of Crowdstacker, which facilitates loans to businesses rather than consumers, says the firm doesn't work on an allocation basis, so monies would never sit idly for weeks on end in a holding account.

'And for this reason also we don't envisage freezing investment. If there are businesses on our platform asking for a loan, then lenders will be able to lend immediately,' he states.

Your money would take longer to be invested if you opted for the likes of Landbay, which lends money to landlords applying for buy-to-let mortgages. Consumer loans take a few days to underwrite whereas buy-to-let mortgages can take up to four months.

John Goodall, Landbay's chief executive, says if there was an imbalance of borrower supply and investor demand, Landbay would queue funds ready to be invested once loans become available.

'The recent launch of our Innovative Finance ISA and our relationships with a growing panel of key intermediaries that are continuing to drive new business and capital inflow mean this scenario is uncommon, however we are committed to ensuring that loan security wouldn't be compromised if it did,' he states.

HIGHER RISK PERIOD

The next 12 months are likely to see more Innovative Finance ISA providers enter the market. Patrick Connolly, head of communications at independent financial adviser Chase de Vere, says investors should stay alert to the fact that P2P lending is an investment and not a savings account.

'There will be some instances where they will go wrong and it is likely that some people will lose money,' he says.

'While it is positive that P2P lending is regulated by the FCA, it still isn't covered by the Financial Services Compensation Scheme. This means if a provider defaults those who invest could be left out of pocket,' he warns. (EP)

Why people are questioning the 4% rule

Investors should consider life expectancy trends when planning retirement

Anyone in retirement faces the difficult task of ensuring their money lasts as long as they do. Historical income strategy rules suggested investors could afford to take 4% of your pot each year. Nowadays people are living for longer, so should their aim for a much lower percentage withdrawal?

WHAT IS BENGEN'S '4% RULE'?

American financial planner Bill Bengen postulated that retirees with a diversified portfolio (50% in equities, 50% in bonds) should be able to take out 4% of the initial balance, adjusted for inflation, throughout retirement and be confident their pot wouldn't run out.

He reached this conclusion based on rigorous analysis of historical data, going back to 1926.

Bengen said 4% should, based on historical returns, last for 30 years in retirement. You need to consider around one in three babies born in the UK today are expected to reach their hundredth birthday. That implies retirees in the future might need to take less than 4% annually if the money needs to last for more than 30 years.

WHY ARE PEOPLE QUESTIONING BENGEN NOW?

Bengen's 50/50 portfolio would have delivered returns in excess of 4% in almost every year between 1926 and 2011. At its peak in 1982, the portfolio's average yield was 10.6%, according to Vanguard. By 2011 it had dropped to just 2.8%.

Consultant McKinsey last year analysed the markets and said the past 30 years or so had been a 'golden' era for investing. It suggested investors would seriously struggle to achieve similar returns over the next 20 years.

Whether the so-called 'safe' withdrawal rate is 4%, 3% or even 2% today, the reality is neither Bill Bengen nor McKinsey have a crystal ball.

In fact, there's an argument to suggest the very idea of a safe, no risk level of withdrawals is a dangerous fallacy and you certainly shouldn't blindly follow such things.

It's also worth remembering a few years of bad returns at the start of retirement have a hugely detrimental impact on the longevity of your pension pot as early losses are more difficult to recover.

The reality for many retirement investors is that spending will go up and down depending on individual circumstances. Some will want to spend more in the early years and then reduce outgoings as they get older, for example – for these people a Bengen-type rule might be too inflexible.

Ultimately the best way to ensure your retirement pot lasts long enough is to regularly review your investment and withdrawal strategy and, where appropriate, make adjustments so that your spending and investing remain in balance.

TOM SELBY,
senior analyst, AJ Bell

Investors have got it wrong with these two stocks

Analyst predicts big things for Inspired Energy and Smart Metering Systems

Inspired Energy (INSE:AIM)** and **Smart Metering Systems (SMS)** are the two most mispriced stocks in the support services sector, claims Panmure Gordon analyst Michael Donnelly.

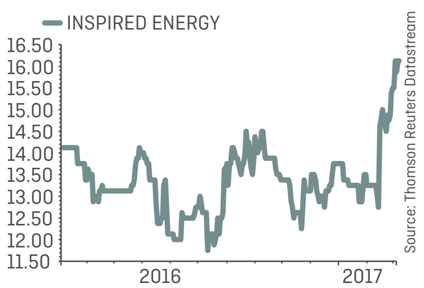
He believes you could make a mint buying now as the market has made wrong assumptions about the stocks which should eventually be corrected.

Their shares could trade much higher once investors properly understand each of these businesses and why they are not the same as two particular peers.

Admittedly shares in both Inspired Energy and Smart Metering Systems have already started to rise in price; Donnelly's argument is that they've still got a long way to travel upwards.

WHAT DO THEY DO?

The two companies in question both serve the energy market, albeit in slightly different ways. Inspired Energy helps businesses to find cheap energy deals; Smart Metering Systems installs and manages smart gas and electricity meters.



Investors have looked at these two businesses and automatically assumed they are identical to two companies: **Utilitywise (UTW:AIM)** and Energy Assets Group. The latter was taken over last year and is no longer on the stock market, although investors still remember the business.

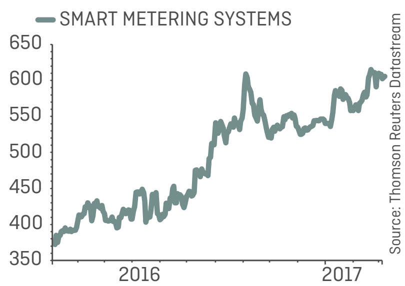
Utilitywise has long been criticised for having questionable accounting practices. It quickly recognises revenue from helping a client move to a new energy deal but it can take years for the cash to appear in its bank account. That's because utility companies can be slow at paying commission for the types of customer Utilitywise brings them.

Energy Assets was a fairly simple business to understand. It installed smart meters for corporate energy users on behalf of utility companies and enjoyed a recurring revenue stream from hiring out these meters.

It was great as an annuity investment, thanks to its reliable cash flow. However, Energy Assets' growth was reaching a natural end because there are only so many meters to install among UK-based corporations.

WHY HAS THE MARKET GOT IT WRONG?

Donnelly argues investors have



assumed the same negative factors surrounding Utilitywise and Energy Assets also apply to Inspired Energy and Smart Metering Systems, respectively.

That could be why they've traded on much lower equity valuations than the analyst believes they deserve.

He says the latter two businesses are different, implying they have unrecognised qualities which make them superior investment propositions.

The lesson from this situation is simple: buy shares in both Inspired Energy and Smart Metering Systems before the broader investment community cottons on to the mistake.

INSPIRED VS UTILITYWISE

Inspired Energy helps large companies such as Kwik Fit to save money on energy prices and be more efficient when it comes to energy consumption.

'People wrongly think Inspired is serving SMEs (small to medium sized enterprises); it isn't. That's the domain of Utilitywise,' says the Panmure Gordon analyst.

'The pace at which these companies get paid for moving a business onto another energy deal is dependent on the size of the client.

'Inspired tends to get cash within a year because its clients are big and more valuable to utility providers; Utilitywise often has to wait years for its cash, even when it has already booked the revenue in its accounts.'

HOW TO SPOT PROBLEMS

Donnelly recommends looking at the asset part of each company's balance sheet. He says the 'non-current trade and other

receivables' line on Utilitywise will have a big number, Inspired will have zero. 'Non-current receivable is a promise (after more than 12 months) of cash against the booked revenue, but actually money that won't arrive for many years in the case of Utilitywise.'

The analyst says both companies' services are very topical as energy wholesale prices have rocketed over the past year. The higher the cost of energy, the more likely a corporate will think about finding ways to switch to a cheaper deal or reduce consumption.

Utilitywise last week confirmed to *Shares* that the bulk of its business was still in the SME space, despite making an acquisition a few years ago to exploit the larger corporate market.

'We would never carry the full amount of long dated receivables (owed cash) on our balance sheet; there would be a discount,' says Utilitywise chief financial officer Richard Laker, adding that some suppliers pay its commission in as little as six months.

He says Utilitywise is expanding its proposition via technology so clients can monitor their energy consumption as well as switch to cheaper deals and potentially provide more immediate cash income for the business. 'These will be subscription revenues on a recurring monthly basis,' explains Laker.

HOW MUCH CAN YOU MAKE?

Donnelly believes Inspired Energy's shares will hit 19p in the next year, implying 20% upside from the 15.89p price at the time of writing. He says that price target is very conservative versus the true potential of the business.

As for Smart Metering Systems, its investment case is considered more attractive than Energy Assets because it has an additional growth driver.

'Its business is split into two. It enjoys the revenue from the installed smart meter base with corporate customers; that's very low cost to run and very cash generative. Secondly, it does the same thing again for residential homes.

'The Government wants all homes to have smart meters by 2020; I think it will be more like 2022,' adds the analyst.

'Over the past six years Smart Metering Systems has proved it can secure debt to buy smart meters and generate a big yield. The market thinks it only has limited growth like Energy Assets, not the growth in the years ahead from home installations.'

He believes the shares will hit 868p in a year's time, implying 43% upside from the current 605.4p share price. (DC)

FULL THROTTLE

WHY AIM STOCKS ARE RACING AHEAD

The AIM market has come out of the blocks in 2017 like Usain Bolt, leaving the mainstream stock market indices trailing in its wake. This article contains some of our best AIM stock ideas and explains why the market has been racing ahead.

The FTSE AIM All-Share index has rallied 7.9% year to date to close at 910.38 on 1 March 2017, the highest the junior index has been since 2011. That compares to a 3.7% gain from the FTSE All-Share and 4.2% advance from the FTSE Small Cap index.

The stock market's often smallest and typically riskiest companies might appear to be suddenly attracting unprecedented attention from investors. Yet AIM's outperformance can be tracked further back from the start of 2017.

AIM has been beating other traditional UK stock market indices for the past two years, although it really started racing away last summer.

WHY HAS AIM RALLIED?

Some of this apparent new enthusiasm for the junior stock market is thanks to tax benefits that come with investing in AIM stocks. Yet Amati Global Investors small cap fund manager Douglas Lawson believes company and sector specifics are having a much larger impact on performance.

'Nearer-term, the recovery in many resources companies is having an effect,' he explains. Oil, gas and mining companies on AIM are collectively worth in excess of £10.6bn, or 12.6% of the AIM All-Share's combined £84.7bn market cap at present. Even more important is the influence of AIM's very biggest companies.

8 STOCKS ON AIM ARE WORTH A COMBINED £14.7BN

WHO ARE THE LARGEST FIRMS ON AIM?

'The top companies, **ASOS (ASC:AIM)**, **Boohoo (BOO:AIM)**, **Fevertree (FEVR:AIM)**, **Burford Capital (BUR:AIM)** have done incredibly well,' says Lawson.

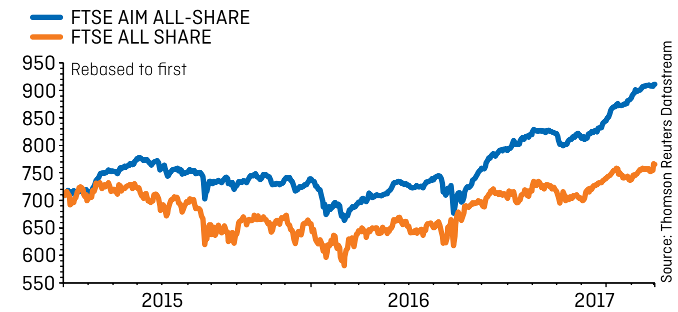
That's an understatement. Online retailer ASOS is up 78% during the past 12 months.

Boohoo, another digital fashion business, has rocketed 269% in a year; litigation funder Burford Capital is 217% ahead. Tonic water supplier Fevertree has seen its share price soar 163% over the past 12 months.

Back in January 2016 there were four companies with a market cap over £1bn; they had an aggregate market value of £7.3bn. By comparison, at the start of March 2017 there were eight AIM companies with market capitalisations in excess of £1bn. The aggregate market value stands at £14.7bn.

'ASOS would be a FTSE 100 company if it was on London's Main Market,' says Amati's Lawson, pointing out the firm's £4.59bn market value. The other three would theoretically all slip comfortably into the FTSE 250, among the 50-odd AIM stocks that might feasibly qualify as mid-caps.

AJ Bell investment director Russ Mould says: 'Remember that AIM's total market cap of £84.7bn compares to around £2tr for the FTSE 100 and once you add in the FTSE 250, Small Cap and Fledgling, AIM is only 3% to 4% of the UK total market cap.'



AIM PERFORMANCE

	Return %				
	3 months	6 months	1 year	3 years	5 years
FTSE AIM 50	4.4	12.1	28.2	7.2	67.1
FTSE AIM 100	7.5	17.4	31.4	13.0	28.3
FTSE AIM All Share	7.8	17.8	29.3	7.2	23.0

Source: FTSE Russell

A SHIFT FROM QUANTITY TO QUALITY

Many experts believe there is an incremental shift from quantity to quality of companies on the AIM market. At the end of 2016 there were 982 companies quoted on AIM, down from a high of 1,694 at the end of 2007.

Research by chartered accountant UHY Hacker Young shows 105 companies left AIM in 2016; with 46 delistings caused by financial stress or strategy failure.

'Many AIM firms are less mature than the more established concerns of the FTSE 100, FTSE 250 or even the FTSE Small Cap and as such the risks are generally higher,' reminds AJ Bell's Mould. 'Companies can be more dependent on one particular geographic market, product, service or manager, so the margin for error is less if something does go wrong, as their businesses are less diverse.'

But the plunging pound has also had a big impact. Weaker sterling has made every London listed company effectively more attractive to overseas buyers. On UHY's numbers, 34 companies were acquired from AIM in 2016, up from 28 a year earlier; 13 of them in the final quarter.

'It's difficult now to get an IPO (initial public offering) away if a company doesn't tick lots of quality criteria,' says Amati's Lawson. 'As well as the fairly obvious elements, such as management having a firm grasp of company financials and having a clear vision of where they want to take the business, UK investors would rather have lower growth with profits. It's one of the differences with many fast growing US businesses.'

Sadly a large proportion of companies on AIM are under-researched by analysts, so investors don't have the necessary research notes and earnings forecasts to help them get a better handle on the investment case.

However, you could say this situation is positive for more experienced stock pickers if they can spot opportunities not yet picked up by the broader market.

HELPING YOU FIND OPPORTUNITIES

To help you on your investment journey, we've analysed the market using SharePad's data system to give you a wealth of AIM stock ideas based on three criteria: growth, income and momentum.

We've looked for robust growth prospects from profitable businesses and where we think the share price will enjoy a decent lift over the next year or so. We've sought income opportunities backed comfortably by earnings.

We appreciate a good share price run for smaller companies can go on far longer than anyone might expect. Therefore we have looked for the best share price gains so far this year to find 'momentum' trades. We've excluded loss-making businesses and companies on soaring price to earnings (PE) multiples.

From each list we have selected our preferred option, plus picked out a couple of other interesting ideas. We hope this provides a decent level of quality control so you've got a more informed starting position for your own further research. Keep reading to discover our top stock picks.


Secured investments available now
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GROWTH AT A REASONABLE PRICE

WHAT'S PE, EPS AND PEG?

PE is price to earnings, a valuation metric.
EPS is earnings per share.
PEG is price to earnings to growth, another valuation metric. A figure between 0.1 and 1.0 generally means the stock is cheap compared to its growth prospects.

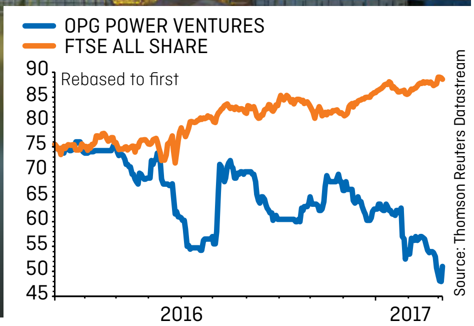
OPG POWER VENTURES (OPG:AIM) 47P

THE POWER GENERATOR in India has spent years building its 714MW asset base of coal-to-electricity plants, and is increasingly looking at solar and wind for environmentally-friendly energy. That is good for investors who want growth and income.

Plans were dealt a major blow in February with a series of unfortunate events in the Tamil Nadu area of India capping output at the company's Chennai-based power projects. That implies a £5m to £6m hole in revenue for the year to 31 March 2017.

In the context of market expectations of £204.5m income this year (even after downgrades) the shares' rough 20-odd% decline looks like a big over-reaction. India will require vast new energy sources to meet requirements in the future, underpinned by both internal development and demographic change.

A first year of dividends this year implies a rough 0.8p payout shooting up to 2p in 2018 and 3p to 31 March 2019 for OPG. (SF)



GROWTH AT A REASONABLE PRICE

	PE (between 6-15)	EPS growth %	PEG (0-1)
Mytrah Energy	9.3	712.5	0.1
SciSys	12.9	583.3	0.1
Rotala	9.6	566.7	0.7
Venn Life	7.2	500	0.7
Castleton	13.8	253.4	0.7
Touchstar	9.1	114.6	0.4
Parity	11.1	91.5	0.5
Conviviality	13.6	62.9	0.9
Styles Wood	10.7	61.5	0.3
Inspired Energy	14.1	52.8	0.8
Pan African Resources	8.3	41.8	0.3
Central Asia Metals	13.6	32.4	0.8
Stadium	10.3	25.7	0.7
OPG	8.1	22.8	0.3
Martinco	11.4	22.7	0.5
CentralNic	14.6	22.6	0.6
Defenx	6.9	22.0	0.1
Empresaria	12.3	19.3	0.6
Impellam	7.7	17.0	0.6
Flowtech	9.0	16.5	0.6

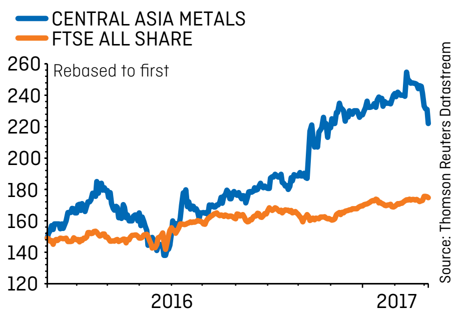
Source: SharePad

CENTRAL ASIA METALS (CAML:AIM) 233P

ALTHOUGH DESCRIBED AS a mining stock, this is essentially a recycling business. It reprocesses waste from old copper mines in Kazakhstan to extract metal that's been left behind. It does this at low cost, resulting in high profit margins. Strong cash generation enables it to pay a decent dividend and it is currently yielding 5.5%.

The company is highly disciplined and won't start any new projects unless it can make a high return on investment. That approach should be applauded.

It recently said a project in Chile wouldn't start development until it had 'reviewed its options'. We translate as being a no-go for the project as its economics look weak. The focus now shifts back to Kazakhstan where it hopes to undertake exploration on a copper prospect. (DC)



EMPRESARIA (EMR:AIM) 152.6P

OUR TOP GROWTH STOCK TO BUY

RECRUITMENT CONSULTANT
Empresaria is enjoying considerable earnings momentum thanks to diversification benefits. It serves a wide range of sectors in many different countries.

There will inevitably be a few industries or countries where economic conditions are negative for the jobs market in any given year. Fortunately, Empresaria tends to have enough good sectors or countries to more than offset the bad ones. The shares trade on an undemanding valuation of 10.7 times forecast earnings for 2017.

Broker Arden Partners believes the shares could rise by up to 50% over the coming year. It reckons earnings per share growth will jump from 12.6% in 2016 to 22.7% in 2017.

We like Empresaria's general bias towards temporary placements. Recruiters earn more money through permanent job placements, yet the current economic environment favours more flexibility when it comes to corporates managing staff numbers. Employers want to be able to hire people when they need them, but not be stuck with too many staff if there is a downturn in economic conditions.

HIGHER QUALITY BUSINESS

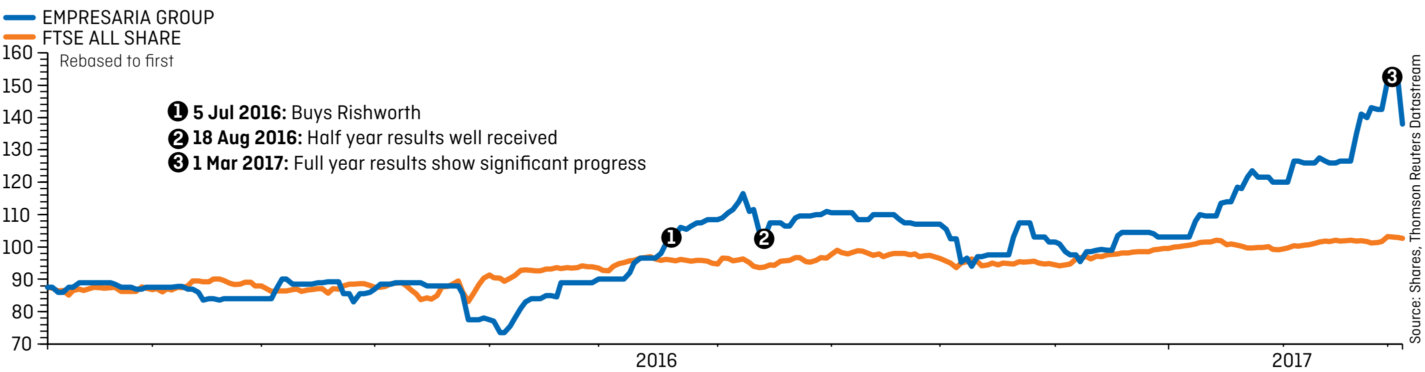
Earnings quality should improve thanks to recent investments. Last summer it bought New Zealand-based Rishworth which places pilots in jobs with commercial airlines, typically on three to five year contracts. Recruiters normally pay their candidates' salaries before they get paid by clients, thereby requiring a pot of cash to cover these outgoings which is known as 'working capital'.

Empresaria says it normally gets paid 50 days later.

The situation is different with Rishworth. Airlines either pay the pilot salary costs to the recruiter in advance or within a short period. That is positive for the group's working capital.

Empresaria also bought an IT recruitment business last year which sources talented people for jobs on innovative technology projects. Candidates are in high demand, so salaries can be fairly decent. This, in turn, generates a good chunk of commission for Empresaria.

Don't worry about a large jump in net debt during 2016. That's principally down to the acquisitions. It is a cash generative business and it says debt will quickly come down over the next few years. (DC)



INCOME VIA DIVIDENDS

WHAT'S YIELD, COVER AND PEG?

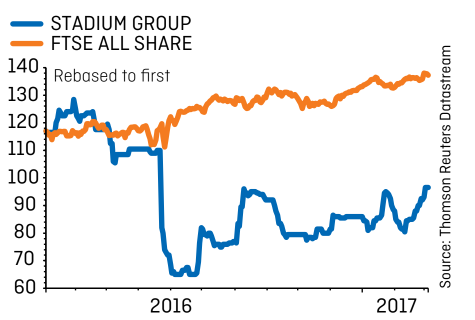
Yield is the expected return in one year via dividends compared to latest share price.
Cover is how many times earnings per share in a year will pay for the dividend per share.
PEG is price to earnings to growth, another valuation metric. A figure between 0.1 and 1.0 generally means the stock is cheap compared to its growth prospects.

STADIUM (SDM:AIM) 95P

IN-HOUSE DESIGNED bespoke solutions are dragging the electronics company higher up the value chain with judicious acquisitions accelerating the process.

Stadium has its eyes firmly fixed on niche areas where it is developing longer-term partnerships. The focus is on areas such as human machine interfaces or high-tech control panels to run complex technology kit. It also has various wireless and power components playing into an artificial intelligence background theme.

It lost a major customer last summer which hurt its share price temporarily. The shares are now slowly recovering, helped by the lure of attractive dividends from typically robust cash flow. A 3p expected dividend this year (3.2% yield) might be bolstered by a modest special dividend, in our view, after the company tidied up its balance sheet towards the end of January 2017. (SF)



INCOME STOCKS ON AIM

	Yield	Cover	PEG (0-1)
Gattaca	7.9	1.7	0.9
Martinco	4.8	1.8	0.5
Pan African Resources	4.8	2.5	0.3
Flowtech Fluidpower	4.5	2.4	0.6
Telford Homes	4.5	2.3	0.3
Conviviality Retail	4.4	1.7	0.9
Begbies Traynor	4.4	1.5	1.0
Rotala	4.3	2.4	0.7
Utilitywise	4.1	2.7	0.7
Produce Investments	4.0	3.2	0.9
TLA Worldwide	3.9	3.6	0.2
Mission Marketing	3.4	4.5	0.7
Caledonia Mining	3.3	4.0	0.1
Stadium	3.2	3.1	0.4
First Property	3.2	3.7	0.8

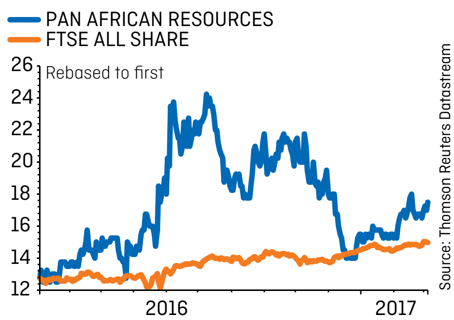
Source: SharePad

PAN AFRICAN RESOURCES (PAF:AIM) 17P

THE SOUTH AFRICAN miner has long been known as a generous dividend payer. We'd argue that reward is necessary given it is a higher risk business than some of the bigger gold players on the London stock market.

A 4.8% prospective yield is attractive but we'd expect the share price to be quite volatile given its mixed operational track record.

Pan African has several gold mines and a platinum reprocessing operation. One of the mines, Evander, is very high grade – sadly it has a troublesome operational history both under Pan African and its previous owner Harmony Gold. There have been many fatalities over the years.



A planned gold tailings plant will help increase group gold output and bring down costs. (DC)

INCOME VIA DIVIDENDS

CONVIVIALITY (CVR:AIM) 279.25P

CONVIVIALITY COULD stand as an exemplar of all three growth, income or momentum categories. Investor awareness of its growing size and influence in the UK drinks market has helped drive up the share price and the clamour for exposure to its compelling income characteristics has returned following a brief wobble last summer amid the Brexit vote stock market sell-off.

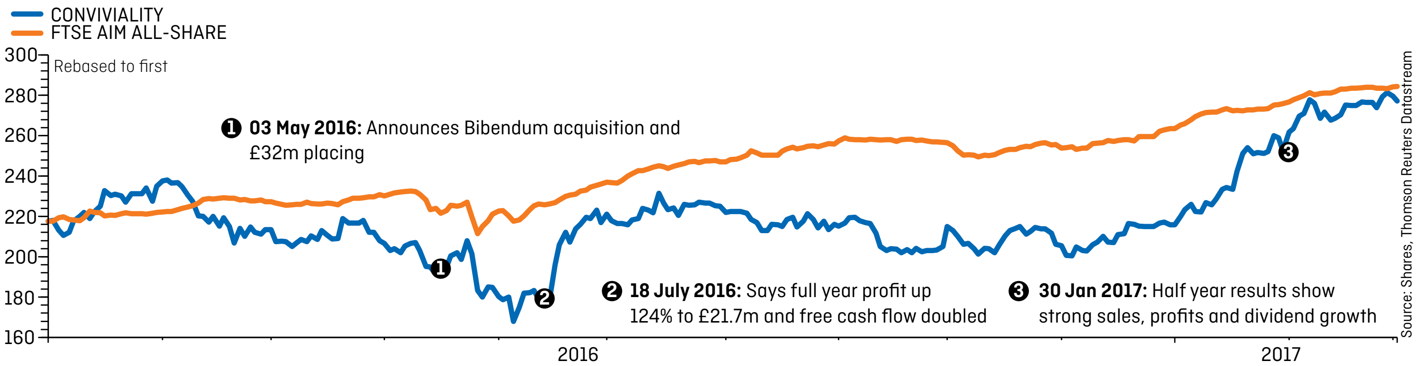
Half year results on 31 January 2017 illustrated how the business has changed for the better through M&A. Pre-tax profit fizzed 295% higher to £15.4m on a sales surge to £782.5m (H1 2016: £252m), reflecting the transformation of Conviviality through the acquisitions of Matthew Clark, the UK's biggest drinks distributor to the on-trade, and wines and spirits wholesaler Bibendum.

These major deals are already yielding cost synergies and cross-selling benefits, although Conviviality is serving up robust organic growth amid difficult market conditions. For the six weeks ended 1 January 2017, seasoned retailer and CEO Diana Hunter also reported positive like-for-like sales in retail, where Conviviality trades as Bargain Booze, Bargain Booze Select Convenience and Wine Rack.

Investors also warmed to the doubling of the interim dividend to 4.2p, indicating Hunter's confidence in Conviviality's future growth prospects and cash flow at a time when the competitive threat is evolving.

The proposed takeover of food wholesaler **Booker (BOK)** by **Tesco (TSCO)** is a competitive risk to consider. However, it is worth considering that Conviviality is an alcohol specialist rather than a broad convenience store and Bargain Booze's keen prices should help keep the tills ringing even if the UK economy turns down.

For the financial year to April 2017, N+1 Singer forecasts pre-tax profit of £46.1m (2016: £21.7m) for earnings per share of 21.2p. That puts Conviviality on an undemanding PE of 13.2 and offering a decent 4.5% yield, based on a 12.6p dividend forecast. Analysts expect the dividend to grow to 13.6p in 2018 and 14.4p in 2019. (JC)



TAKE ADVANTAGE OF SHARE PRICE MOMENTUM

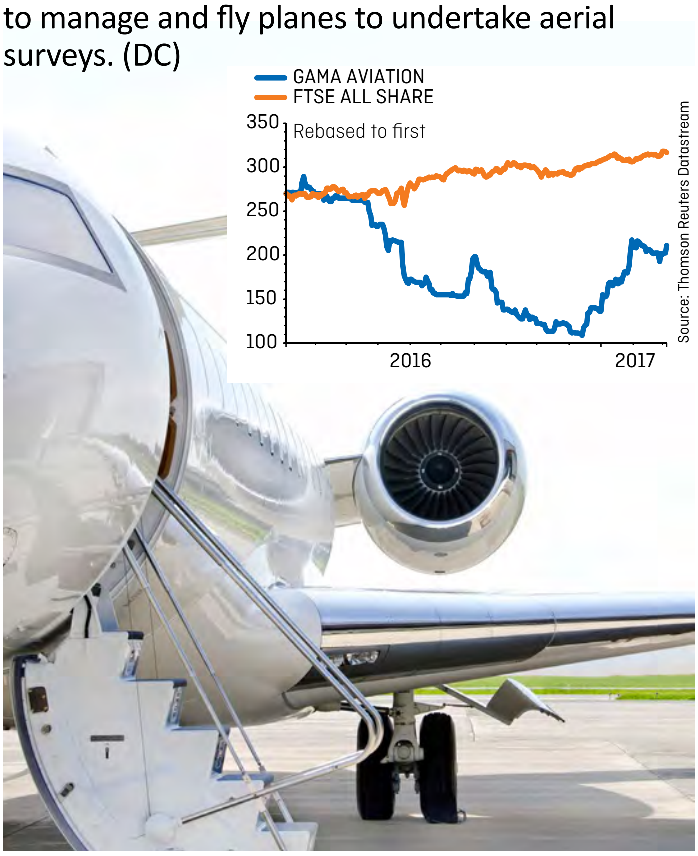
WHAT'S PE AND PEG?

PE is price to earnings, a valuation metric.
PEG is price to earnings to growth, another valuation metric. A figure between 0.1 and 1.0 generally means the stock is cheap compared to its growth prospects.

GAMA AVIATION (GMAA:AIM) 202.5P

SHARES IN GAMA have raced ahead since it announced the merger of its US aircraft management and charter business with parts of BBA Aviation. This boosts the size of its managed fleet and should help achieve at least $2m cost synergies over the next two years.

Gama is a good way to get exposure to the private jet market. It undertakes aircraft maintenance and finds ways for aircraft owners to benefit from greater usage of their fleet. It also gets involved with charter work. For example, it recently won a three-year contract with the National Police Air Service for maintenance work and a five-year deal with an unnamed client to manage and fly planes to undertake aerial surveys. (DC)



MOMENTUM-TYPE LIST

	Year-to-date share price rise (%)	PE (between 6-15)	PEG (0-1)
600	49.4	7.4	0.7
Gama	48.9	8.2	0.8
Empresaria	44.2	12.3	0.6
Caledonia Mining	37.3	7.5	0.1
Conviviality	29.4	13.6	0.9
Entu	18.6	9.4	0.1
Inspired Energy	16.4	14.1	0.8
Mytrah Energy	16.0	9.3	0.1
STM	15.9	12.2	0.2
Styles Wood	14.7	10.7	0.3
Martinco	13.6	11.4	0.5
Defenx	12.1	6.9	0.1
Serabi Gold	12.0	9.5	0.1
Vertu Motors	11.2	7.8	0.8
Pan African Resources	9.7	8.3	0.3
Produce Investments	9.4	7.9	0.4
Telford	9.2	9.8	0.4
Stadium	8.1	10.3	0.7

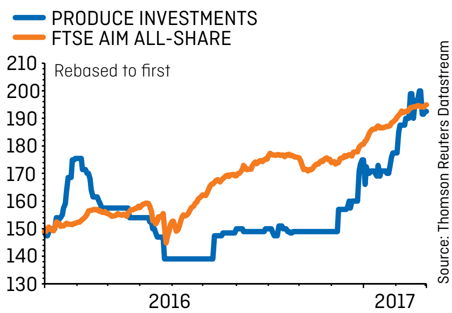
Source: SharePad

PRODUCE INVESTMENTS (PIL:AIM) 194.5P

SINCE DECEMBER, shares in potato and daffodil company Produce Investments have raced higher to 194.5p, in part reflecting increased liquidity following Toscafund Asset Management selling down and out completely.

The re-rating of Produce Investments also reflects momentum in the business. Full year results (29 Sep 2016) revealed operating profit up over 14% to £9.21m. Volumes in the core potato market steadied and Produce's new business model helped to absorb crop price volatility.

The vertically integrated business has nearly all the major UK supermarkets as customers. Produce's diversification into daffodils and ownership of the Jersey Royal potato brand provide some fertile grounds for expansion. (JC)



TAKE ADVANTAGE OF SHARE PRICE MOMENTUM

TELFORD HOMES (TEF:AIM) 350P

OUR TOP MOMENTUM STOCK TO BUY

WE ARE FANS OF Telford Homes as we believe its niche exposure plays well into the dynamics of the London property market. The company is focused on 'non-prime' London, exemplified by its £30.2m purchase for development of the former London Electricity Board building in Bethnal Green in February.

RESILIENT DEMAND DRIVERS

Given the concentration of jobs in the capital and the chronic undersupply of available homes we think it is easier to predict demand for this type of development than high end properties which are often reliant on overseas purchasers. This point is particularly relevant in the wake of the Brexit vote.

The company has ambitious growth plans – aiming to double in size within five years and exceed £50m in pre-tax profit by 31 March 2019.

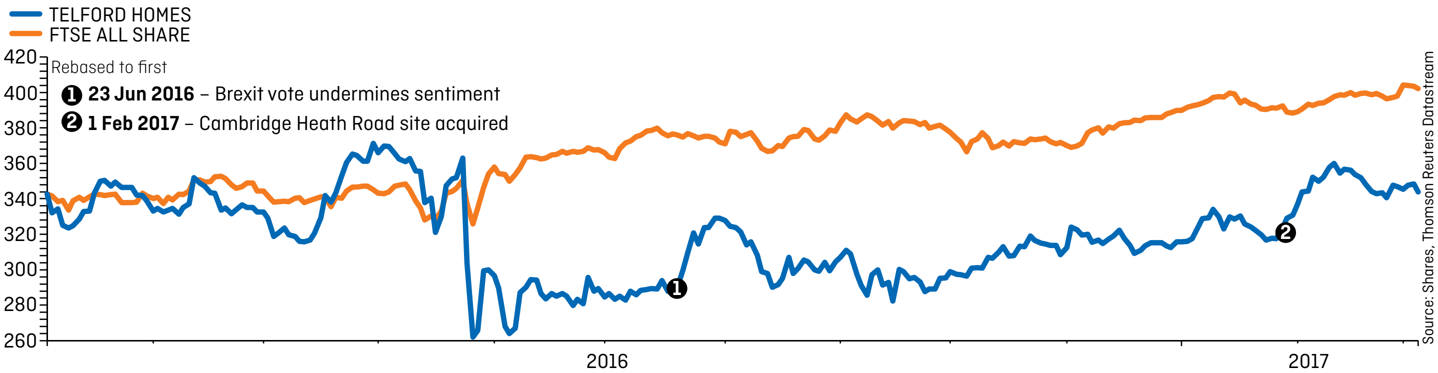
It has a £1.4bn pipeline at the last count, comprising some 4,000 homes. This potential and visibility is not fully reflected in the valuation. The stock trades at 1.1 times house broker Peel Hunt's forecast March 2018 net asset value and offers a prospective yield of 4.6%.

Achieving growth will require investment and the company is already sitting on net debt of more than £100m, however increasing exposure to the 'build-to-rent' market could help reduce any strain on the balance sheet.

Build-to-rent or private rented sector developments see all the properties built for rent rather than sale. Increasing exposure to this space could limit borrowings in the future as the deals are typically forward funded by institutional investors.

Canaccord Genuity says: 'The group looks well placed to significantly increase the scale of the business over the next five years, with management expecting to double its size. There is also the choice of using more build-to-rent sales to de-risk the balance sheet or to drive more growth.'

The company is next set to update on trading on 12 April.



KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY

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BROKER RATINGS EXPLAINED:

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

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

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

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

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

Is it time to buy Amec Foster Wheeler?

Oil services play may have bottomed out after long period of underperformance

A series of disposals may stave off the need for the big rights issue many investors fear will happen at energy services business **Amec Foster Wheeler (AMFW)**.

Buy at 449.2p ahead of an investor day on 21 March which may help win over the market as Amec will be able to properly explain its business opportunities and current state of play.

LOOK OUT FOR INVESTOR DAY ON 21 MARCH

Amec needs to win back investor support because its shares have underperformed its peers in the oil services sector. In the last six months its shares are down more than 20% against a 1.4% advance for the FTSE 350 Oil Equipment, Services & Distribution sub-sector.

WARNING HIT SHARE PRICE HARD

Much of the damage was caused by a big profit warning in October 2016. As a result, the company has a much lower equity valuation than its peer group as the market is effectively pricing in a discount around trading issues and balance sheet strength.

It trades on a 2018 price-to-earnings ratio of 7.4 times against peers which trade on multiples of between 10 times and 16 times next year's earnings. It also offers a prospective dividend yield of nearly 5%.

A big black mark against the stock has been the company's heavy debt burden.

The company leveraged up the balance sheet to acquire US rival Foster Wheeler for $3.2bn in November 2014.

Canaccord Genuity estimates Amec hit a net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) ratio of 3.1 times a the end of 2016. That level of debt-to-earnings would be beyond the comfort zone for many companies.

The broker also believes the sale of most of its Global Power Group unit as well as infrastructure assets and a specialist project services consultancy in Australia (announced 2 Mar) plus its nuclear business, currently advertised for sale, could bring in between £480m and £520m combined.

This windfall would help to reduce net debt to EBITDA to a more manageable 1.6 times by 2018, based on Canaccord's estimates.

Although these sales would dilute earnings in the short-term, they should also reduce interest costs and the need for a fundraising.

YIELD AND VALUE ATTRACTIONS 'TO COME TO THE FORE'

Canaccord analyst Alex Brooks, who has a 'buy' recommendation on the stock and 600p price target says: 'Amec Foster Wheeler has been a challenging stock to be a buyer of, with repeated profit warnings and a stressed capital structure, and likely to see the fourth successive year of year-on-year earnings falls in 2017.

'However, we believe much of this is now behind the company, and its yield and valuation attraction should start to come to the fore.'

SHARES SAYS: ↗

At current levels the company looks attractive, as long as it can avoid a big equity issue. Nonetheless, investors should still treat this as a high risk stock.

BROKER SAYS: 6 10 2

This newly-listed firm may have brand magic

UP Global Sourcing is the energy behind many big names in the consumer goods industry

An expert in reviving distressed British heritage brands could be a nice little investment, in our opinion. **UP Global Sourcing (UPGS)** floated on 6 March on London's Main Market and has already seen its share price rise 21% to 155.45p.

We think the share price rally still has much further to travel, particularly as the stock is not yet on the radar of most investors.

The £128m company buys well-known brands which it believes it can develop as mass-market, value-led propositions.

It helps to revitalise these brands and get their products stocked by leading retailers including Argos, **B&M European Value Retail (BME)**, **Tesco (TSCO)**, Amazon and Robert Dyas.

The company, better known as Ultimate Products, designs and distributes consumer goods for the home to more than 300 retailers spanning 38 countries. Product categories span blenders and juicers, an array of housewares, headphones, radiators and fans as well as luggage, sold under proprietary and licenced brands.

The business is chaired by former Poundland boss Jim McCarthy. Although it has a global reach, three quarters of revenue in the year to July 2016 came from the UK and most of the remainder came from mainland Europe.

Its brand portfolio includes ironing board specialist Beldray, audio equipment brand Intempo, as well as British heritage kitchenware brands Salter and Russell Hobbs, both sold under licence. United Products recently bought cookware and bakeware brand Progress.

'We want every family to have beautiful things for their home,' says managing director Andrew Gossage, explaining Ultimate Products offers branded products 'priced at a notch above own label', so 'everything we do has to be low cost'.

Key strengths include its ability to spot consumer trends and get products to the mass market

quickly, helped by an extensive, in-house product development team.

The company made a £6.2m pre-tax profit in the year to July 2016 on sales of £79m.

'As we outsource all our manufacturing, we're quite a capital light business,' says Gossage. Most of its products are sourced from third party manufacturers based in China.

Its cash-generative business model means Ultimate plans to pay out half of its adjusted profit after tax in dividends.

SHARES SAYS: ↗
We're excited by the momentum, the growth potential and dividends on top. (JC)

Harvest Minerals talks 50% share price slump

Agri-miner blames internet trolls for wiping millions off its market value

Harvest Minerals (HMI:AIM) has blamed a recent 50% share price decline on people spreading malicious comments online. Chairman Brian McMaster insists the aspiring fertiliser business has done everything according to plan and news will be forthcoming on when it might be able to start commercial production.

The £16m business has a mining project in Brazil called Arapua which it hopes can provide farmers with an alternative form of fertiliser to help improve crop yields. It plans to dig up a layer of soil and extract material underneath that is naturally enriched in nutrients.

Brazil is considered to have poor quality soil and imports most of its fertiliser products. Harvest would have an advantage as a local supply source.

Donald Trump's plan to build a wall on the US/ Mexico border may encourage Mexico to import more food, particularly corn, from Brazil rather than the US. Brazilian farmers would be under pressure to grow more food, thus increasing the argument for using extra fertiliser.

WHAT IS HARVEST MINERALS SUPPOSED TO HAVE DONE WRONG?

The company has faced accusations from people on investment bulletin boards that nothing is happening with Arapua. McMaster says the site isn't meant to be operational at present, as Harvest is waiting for test results.

The first test is being done with the Brazilian government to see if its product helps improve crop yields. 'If successful, we will get a certificate to call the product a soil remineraliser,' he says. 'We could get an answer in two months' time.'

He says further test work running into 2018 would be required in order for its goods to be certified as a fully-approved fertiliser product.

It is replicating the same government test work with a university to have a second source of verification.

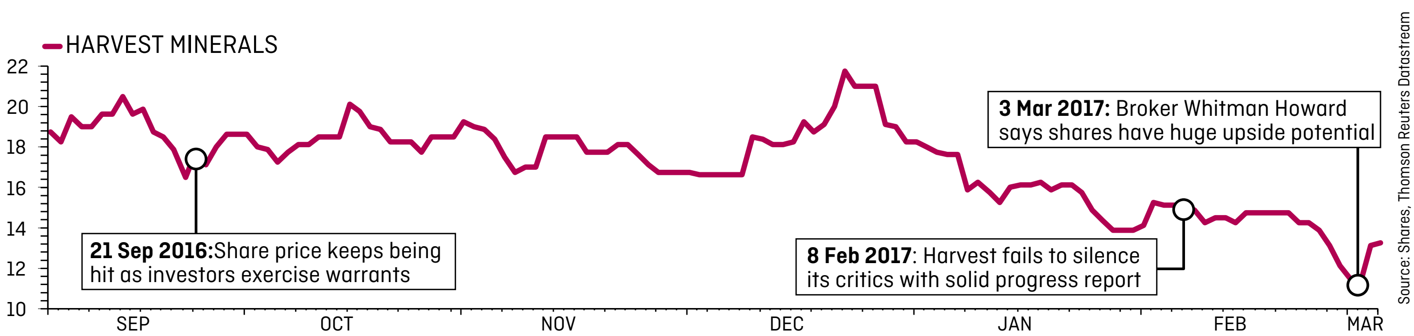
A further test is being done with a coffee grower which has signed a letter of intent to buy product once there is proof it works on its crops.

WHAT'S GOING TO HAPPEN NEXT?

McMaster says some farmers may only want the remineraliser certificate before agreeing to buy its product.

'Brazil is just coming out of its main growing season and entering its winter months. I'd expect farmers to want to apply the next season's fertilisers in August or September, so they will want to know by June that they have adequate supply,' says the chairman.

The shares enjoyed a 20% rally last Friday (3 March) to 13.5p when broker Whitman Howard issued a research note saying it would only require modest success at Arapua for Harvest to be worth more than double the 11.4p share price at that time. (DC)



How to access mining's great comeback via trusts

Take a more diverse approach to playing the commodities game

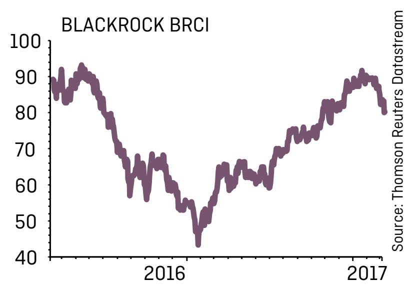
Mining was the second best performing FTSE 350 sector in 2016 and is still in the top 10 so far this year. Improving commodity prices, stronger balance sheets and more lean mining operations have all contributed to share price success.

Anyone who wants exposure to the sector without the individual country risk should look at the wide range of investment trusts that invest in miners. You should be able to get diversified exposure to numerous companies via a single product.

Some natural resources-themed investment trusts even have stakes in oil and gas firms, particularly if they have a broad commodities remit. One example is **BlackRock Commodities Income Investment Trust (BRCI)** whose portfolio includes **Royal Dutch Shell (RDSB)**.

The product's co-fund manager Tom Holl says many commodities are seeing an improvement in the balance between supply and demand. Some commodities, such as zinc, are even forecast to move into meaningful deficit.

'This should be supportive for prices and the lack of capital investment in new projects means that the supply side should remain tight, at least in the next year or two,' says Holl, who runs the investment trust alongside Olivia Markham.



'Some of the bulk commodities performed exceptionally well in 2016 and could fall from their highs if speculative activity in China does reverse strongly but we think they would still settle at prices above those forecast at the start of 2016 as the underlying fundamentals have improved.

'There is the risk that an economic shock in China could derail the mining recovery but, as we have seen early in 2016, the authorities in China have levers which they are not afraid to pull to avoid a hard-landing scenario.'

VALUATION OPPORTUNITY

Holl says natural resource companies are in a stronger financial position than a year ago, particularly on the mining side, and are still valued at a discount to the wider equity market.

'If management teams remain

disciplined in their capital allocation and do not make the same mistakes they made in the post financial crisis upcycle then the sector is well positioned to deliver for investors.'

Holl's associate Markham also co-manages **BlackRock World Mining (BRWM)** alongside Evy Hambro. The trust reported a 92.9% surge in net asset value per share to 383.98p for calendar year 2016, during which its shares doubled in price.

Hambro and Markham focus on quality companies with strong balance sheets, while eschewing miners with higher debt levels and lower quality reserves.

During 2016, shares in key copper holding First Quantum raced ahead, while the improving nickel price buoyed Norilsk Nickel in the second half of the year.

Also boosting performance was silver miner **Fresnillo (FRES)** and an exposure to the rallying iron ore price through Vale, **BHP Billiton (BLT)** and Rio Tinto.

DIVIDEND ROLLERCOASTER

One significant disappointment was the cut in the total dividend from 21p to 13p, reflecting previous commodity price falls which forced a number of portfolio holdings to cut or cancel dividends.

'Dividends are expected to grow in 2017 as companies either increase the amounts paid out or return to paying them after having been forced to cancel them in the downturn,' explain Hambro and Markham. 'In addition, we see room for other companies to return surplus cash by either paying special dividends or starting share buyback programmes.'

TRADING BELOW NET ASSET VALUE

Investment Trust	Share price (p)	Discount to net asset value (%)
Geiger Counter	28.75p	4.1%
BlackRock Commodities Income	83p	4.7%
New City Energy	16.5p	6.9%
BlackRock World Mining	372.75p	13.5%
Golden Prospect Precious Metals	42.5p	15.5%
City Natural Resources High Yield	135.25p	17.0%
Riverstone Energy	£13.35	18.5%
Baker Steel Resources	39.25p	21.7%
El Oro	65p	29.6%
Global Resources	10.75p	50.5%

Source: AIC via Morningstar: Data taken 3 March 2017

FURTHER OPTIONS

Other ways to ride the resources rally include **Riverstone Energy (RSE)** which invests exclusively in the global energy industry. It has a focus on the exploration, production and midstream sectors.

Languishing on a discount of 21.7% is **Baker Steel Resources Trust (BSRT)**, which predominantly invests in attractively valued pre-IPO opportunities, but also backs listed companies where it spots pricing anomalies.

Run by New City Investment Managers is the **City Natural Resources High Yield Trust (CYN)**, trading at a 17% discount and offering a 4.1% dividend yield. It has exposure to gold, oil and gas, nickel and uranium, as well as recent strong base metal performers zinc and lead.

Portfolio holdings ranging from Trevali Mining and First Quantum Minerals to **Central Asia Metals (CAML:AIM)** and Americas Silver.

BRIGHTER OUTLOOK

New City also manages **Golden Prospect Precious Metals (GPM)**, currently on a material 15.5% discount to net asset value; as well as running **Geiger Counter (GCL)** which invests in uranium explorers and producers.

Interestingly, in the latest Geiger Counter fund commentary, the fund managers flag a fundamental turn in the fortunes of the uranium sector in January 2017, following the announcement that one of the world's biggest uranium producers would cut output by 10% this year. (JC)

Can ethical investment deliver adequate returns?

We examine if ESG funds actually do any good

The election of president Trump may have been a setback for environmentalists and those keen on good corporate governance, but these sorts of social issues are not going to go away and for a company to succeed it has to be able to navigate them.

Those that fail to do so can suffer enormous harm, with recent examples including the reputational damage done to **Sports Direct (SPD)** following revelations about the poor treatment of its workers and the devastating impact of the emissions scandal on Volkswagen.

To avoid these sorts of disasters companies need to put environmental, social and corporate governance (ESG) factors at the heart of their policies, especially as a growing number of retail and professional investors now look at these issues when deciding whether or not to invest.

SUSTAINABILITY RATINGS

Data provider Morningstar has developed a Sustainability Rating that measures how well an investment fund's holdings are managing the ESG issues most relevant to their industries and the extent to which they are involved in ESG-related controversies.

The ratings are normally distributed within each fund sector with the funds that receive the lowest rating being awarded one globe and those with the highest rating – the top 10% – five globes. You can see how they measure up on Morningstar's website and can screen out those that score poorly.

Jon Hale, director, sustainability research at Morningstar, says the group created the Sustainability Rating because of the rapid growth of interest in sustainable investing from mainstream investors.

'Many of the world's largest companies now explicitly consider sustainability as part of their long-term business strategies and a growing body of research suggests correlations between better company ESG performance and higher-quality management, higher growth and lower cost of capital.'

WHAT IS THE EVIDENCE?

There is some evidence that links good governance with improved investment returns, but it is too early to draw any firm conclusions. Until this changes ESG funds will mainly be of interest to investors with socially responsible or ethical preferences.

Martin Bamford, managing director of Informed Choice, Chartered Financial Planners, says ethical investing was long thought to reduce the potential for returns, as it limited the available universe of stocks from which managers could select their portfolios.

'Choosing from a restricted universe means the potential for higher risks, especially in the short term, but over the longer term we would expect the sustainable and socially responsible themes in these funds to deliver strong returns for shareholders,' he comments.

Fund managers can take into account ESG factors by investing in best-in-class companies, screening out those involved in unacceptable practices, or proactively investing in businesses that are trying to solve social or environmental problems.

Ryan Hughes, head of fund selection at AJ Bell, says there appears to be increasing academic evidence that companies that incorporate ESG into the DNA of their business generate better long term returns.

'It is hard to confidently state whether this can be attributed to the funds market, given the explicit incorporation of ESG into investment processes for funds is in its infancy. The challenge is that it is likely that the "real" benefit is seen over the long term, which makes it difficult to judge the impact at the present time.'

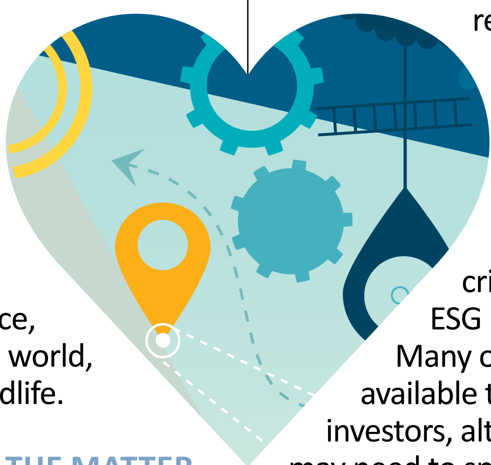
ESG FUNDS

Funds with the highest Morningstar Sustainability Rating (five globe) that have the best five-year performance record relative to their sector averages include: **EdenTree UK Equity Growth (GB0008445982)**, **MFM Slater Income (GB00B6YSXJ10)**, **Henderson Global Care UK Income (GB0005027338)** and **Royal London Sustainable Leaders (GB0001615102)**.

'We often recommend the Royal London Sustainable Leaders Trust to clients who have ESG criteria,' agrees Bamford. 'It operates in the UK All Companies sector and focuses on the core themes of the environment, human welfare and sustainability. The fund has delivered first quartile performance over the past three and five years, and scores very well against our measures of risk-adjusted returns, consistency and low cost.'

For those who would prefer an international exposure he recommends **F&C Responsible Global Equity (GB0033145045)**, which is managed by Alice Evans, who has achieved above-average performance over the past one, three and five years.

Evans invests in companies whose products and operations are considered to be making a positive contribution to society and avoids those which, on balance, are harming the world, its people or wildlife.



THE HEART OF THE MATTER

A handful of fund management groups have embedded ESG into everything they do with Hughes recommending Hermes and Nordea as two groups worth further investigation.

Hermes Investment Management provides active investment strategies and stewardship, with the goal being to help people invest better, retire better and create a better society for all. Hermes is well known for active engagement with companies and it operates a range of funds across all the main sectors.

It is a similar situation at Schroders where global head of stewardship Jessica Ground says the company sees itself as a long-term steward of its clients' capital.

'Our approach involves engaging with companies about their activities and helping them manage risks to drive better performance. Our investment experience and academic research show that companies with good ESG management often perform better and deliver superior returns over time, both for investors and society.'

Nordea is the largest Nordic retail fund provider and aims to deliver returns with responsibility. In order to do this it ensures that each of the companies it invests in live up to various criteria for sound ESG performance.

Many of its funds are available to UK-based investors, although you may need to speak to your platform provider as they might not be automatically accessible online. (NS)

KEY

- **Main Market**
- **AIM**
- **Fund**
- **Investment Trust**