STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

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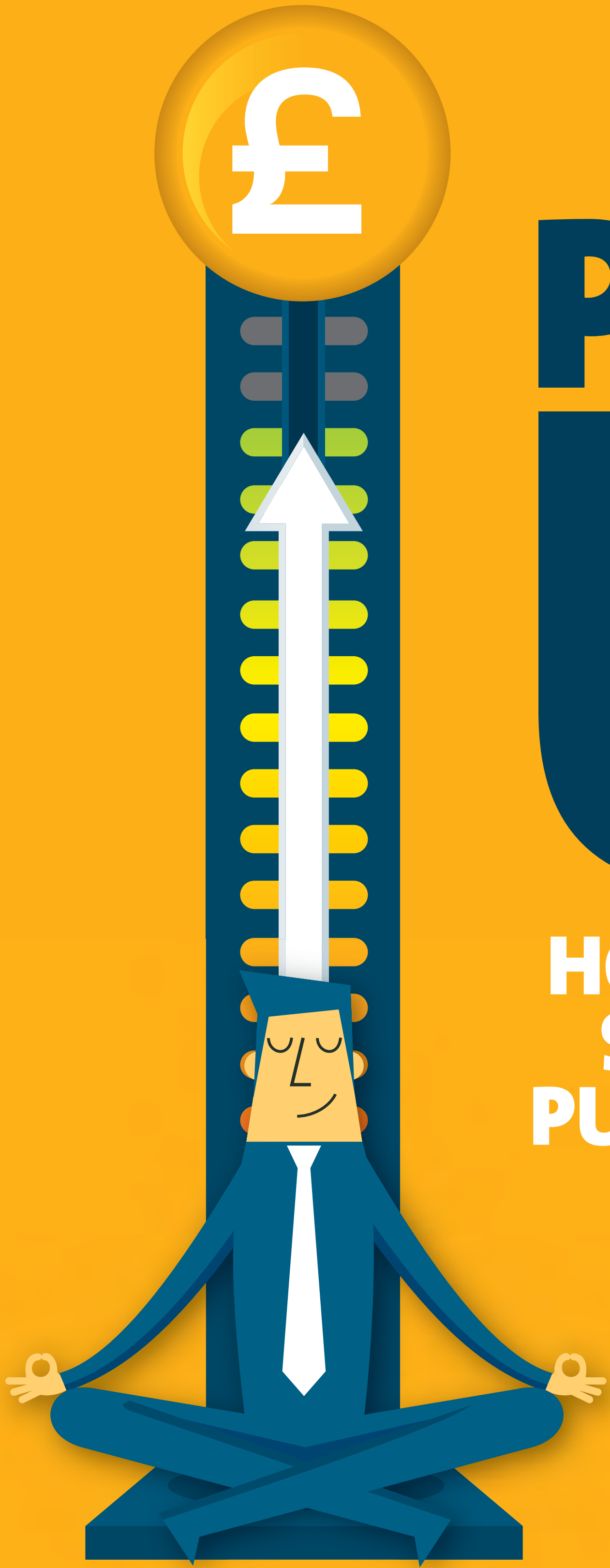

POWER UP

HOW TO OWN MORE SHARES WITHOUT PUTTING YOUR HAND IN YOUR POCKET

SHOULD YOU ACCEPT OR REJECT A TAKEOVER BID?

NATIONAL GRID 'SET TO GIVE' INVESTORS £4 BILLION REWARD

M&A BACK WITH A BANG: *BOVIS HOMES, AMEC*

Searching for ideas with stock screens

How to get a headstart with your investment strategy using financial websites

I've been having a play with some of the pre-populated stock screens on financial website Stockopedia, in the hope of finding some ideas for companies to research for future articles in *Shares*. One screen, in particular, caught my attention as it flags some interesting names in the small cap space.

Stockopedia has a screen called 'Tiny Titans' which has outperformed the FTSE 100 over the past six, 12 and 24 months. This screen is a small cap momentum investing strategy based on a system by US fund manager James O'Shaughnessy.

Stock screeners can be useful ways to filter the market. They apply a series of rules to find specific types of stocks, similar to the way smart beta exchange-traded funds use rules to find companies that might be sustainable dividend payers, for example.

Many ETFs will give you an overview of their rules but don't explicitly state the exact criteria for finding stocks. In contrast, Stockopedia publishes its rules line by line, enabling you to understand how it goes about finding stocks. This also gives you information on which to make any personal adjustments, such as if you want to widen the net to include bigger market cap sizes.

The downside to portfolios that appear on stock screeners is the need to buy each company individually, thus racking up large trading fees. In comparison, an ETF is a ready-made basket of stocks. You only pay a single transaction cost and an ongoing annual management fee which is likely to be fairly low.

WHAT IS THE CRITERIA TO BE A 'TINY TITAN'?

The Tiny Titans screen looks for companies valued between £15m and £150m. Qualifying companies need to trade on less than 1.0 times price to sales and be fairly liquid; the bid/offer spread needs to be less than 1,000 basis points. They must also have matched or outperformed the FTSE 100 over the past year.

O'Shaughnessy's strategy had a real average annual return of nearly 19% between 1951 and 2004, although there were periods of high volatility, claims Stockopedia.

Stockopedia's Tiny Titans screen has 25 qualifying names which are then equally weighted in a portfolio and rebalanced every three months. This portfolio is up 32.1% over the past year and 57.1% ahead over the past two years.

WHO IS IN THE PORTFOLIO?

Five stocks are in the mining sector, eight are industrial stocks. The rest are spread across a range of sectors including utilities, technology and healthcare. Two examples are **Shanta Gold (SHG:AIM)** and **Swallowfield (SWL:AIM)**.

Shanta is a Tanzania-based gold producer. Its shares are up 32% over the past year. The miner published a very good bit of news last week in the form of maiden drill results from a satellite deposit 12 kilometres from its New Luika operating mine.

The drill results showed high grades of gold fairly close to surface, which bodes well for having a new source of ore and extending the life of processing operations at New Luika.

Swallowfield makes beauty products and its shares are up just shy of 100% over the past 12 months. Half year results in February 2017 were ahead of expectations and shareholders were treated to a 112% increase in the first half dividend.

We'd love to hear from readers who regularly use stock screeners to support their investing. Why not drop us a line at yourviews@sharesmagazine.co.uk and tell us your favourite screens and the type of results you've enjoyed. We may do a feature on screens if we have enough interesting ideas. (DC)

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INTERACTIVE PAGES

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Where next for Bovis after marriage proposals?

Big housebuilders do not need to get hitched

Don't be tempted to chase **Bovis Homes (BVS)** shares higher after a surge on takeover interest (13 Mar) to 900p. For the really big housebuilders, organic expansion through land acquisition is already delivering strong returns and this removes the rationale for any deal.

Unsolicited merger offers from mid-cap operators **Galliford Try (GFRD)** and **Redrow (RDW)** have both been rejected by the board of embattled Bovis.

Galliford Try proposed an all share merger that would split the combined entity 52.25% to Galliford Try shareholders and 47.75% to Bovis shareholders, implying a valuation of 0.56 Galliford shares for each Bovis share.

UBS calculates that, as of 10 March, the proposal valued Bovis at £1.2bn or 886p or a 7% premium to the previous trading day's closing price.

Redrow has proposed £1.25 in cash and 1.32 new Redrow shares in exchange for each Bovis share, in addition to 30p dividend. This represented

814p per Bovis share based on Redrow's share price of 499p or in other words a slight discount of 2%.

Talks with Galliford are ongoing and Redrow still holds out hope of reviving a deal but we think it would be risky to hold out for a hefty premium.

Separate from the M&A situation, Bovis has a significant job on its hands to rectify the problems which led to two profit warnings around the turn of the year, the departure of chief executive David Ritchie in January, and a £7m compensation payment to customers for defects in their new homes. (TS)

Who should you buy in oil services after Amec merger?

We've spotted an interesting stock that looks very cheap at present

INVESTORS LOOKING FOR other undervalued opportunities in the oil services sector after **Amec Foster Wheeler (AMFW)** agreed to a $2.7bn merger with **Wood Group (WG.)** (13 Mar) could consider maintenance vessel provider **Gulf Marine Services (GMS)**.

A discounted valuation reflects a stretched balance sheet. A January trading update suggests market conditions are improving and we would expect a similarly positive message alongside full year results on 28 March to be well received. The shares at 69.81p trade at 5.5 times forecast earnings for 2018.

Wood's offer comes only a few days after we flagged Amec's shares in last week's issue of Shares as being too cheap. In dollar terms the deal values Amec Foster Wheeler at less than the $3.1bn it paid for Foster Wheeler in January 2014.

OWNERSHIP SPLIT

If the Amec deal is successful then Wood would own two thirds of the combined entity. The transaction is expected to achieve at least £110m worth of annual cost savings.

News of the transaction overshadowed a full year trading update from Amec. It reported an 8% decline in revenue on a like-for-like basis to £5.4bn, reflecting continuing struggles in oil and gas.

A £500m rights issue planned to accompany full year results on 21 March has been suspended in the wake of Wood's offer.

Segro hopes for Heathrow boost

Rights issue looks opportunistic as company plans for more than airport deal

Recent events at industrial properties landlord **Segro (SGRO)** are a double-edged sword for investors.

The full takeover of a portfolio of properties which includes cargo facilities at Heathrow airport looks a sensible move. However, a £556m one-for-five rights issue provides more than Segro needs for the airport assets at a heavy discount of 345p (the shares currently trade at 454.5p).

Investors are entitled to be somewhat miffed given the real estate investment trust tapped shareholders for £325m in an equity placing only seven months ago.

Segro is now paying £365m to Aviva Investors to acquire the 50% of the Airport Property Partnership vehicle it does not already own. The transaction comprises £216m in cash and a property swap involving four London properties and a recently completed manufacturing facility in Portsmouth.

The price paid looks high but there is logic behind the move. The investment offers an initial yield of 3.6% but the go-ahead for a third runway at Heathrow announced in October 2016 is likely to lead to increased demand.

The £175m left over from the rights issue will be used to fund existing developments and invest in its land bank.

Morgan Stanley is positive on the medium-term prospects for the business, reiterating its 'overweight position' with a 510p price target and commenting: 'Owners of well-located logistics and industrial property should see further improvement in pricing power.'

SHARES SAYS: ↗
We agree with Morgan Stanley's assessment and are positive on the investment case. (TS)

BROKER SAYS 7 9 3

Sturgeon fires starting gun on Scots independence push

Investors face new uncertainty over future of the Union alongside EU exit

INVESTORS HAVE EVEN more to think about at the macro level as Scottish first minister Nicola Sturgeon has announced (13 Mar) her intention to seek a second independence vote in 2018 or 2019. The move appears to have delayed the triggering of Article 50 – formerly starting the Brexit process – until the end of March.

Earlier reports had suggested Article 50 would be triggered this week as MPs approved Theresa May's Brexit bill. Sterling hit an eight-week low in the wake of Sturgeon's move, boosting the value of companies' overseas earnings. As we write the FTSE 100, made up of firms with largely international horizons, is back within touching distance of record highs.

We recently flagged companies which could be affected by IndyRef2 in *Shares*. Financial stocks seemed worse affected in the wake of Sturgeon's latest speech. (TS)

SCOTTISH FINANCIALS HIT ON 13 MARCH

Aberdeen Asset Management (ADN)	-2.1%
Royal Bank of Scotland (RBS)	-1.5%
Standard Life (SL.)	-2.2%

Source: Sharepad

WHAT COULD HAPPEN WHEN?

End March 2017 – Article 50 to be triggered

Autumn 2018 to Spring 2019 – Sturgeon's targeted timeframe for second independence vote

March 2019 – Implied end of Brexit process

Gold miner eyes profit even at low metal prices

Hummingbird is optimistic as its mine nears development halfway point

Hummingbird Resources (HUM:AIM) is confident it can make a decent profit even if gold falls to $1,100 per ounce, as was threatened in late 2016. The miner estimates its all-in costs for running the Yanfolila gold mine in Mali will be in the region of $695 for every ounce of gold it produces.

The gold price fell by nearly 20% between August and December 2016 to a low of $1,126 per ounce – effectively wiping out all the gains made earlier that year.

Although gold has since recovered to approximately $1,200, investors are understandably nervous about backing gold miners if they can only make a small profit.

Investors need to ensure they are being fully compensated for the risks involved with putting money in the mining sector.

WHEN WILL HUMMINGBIRD START MINING?

Hummingbird is approaching the halfway mark with development of Yanfolila. It hopes to be in production by the end of 2017.

It is expects to start pre-production mining in August to build up a stockpile of material; start testing the processing equipment in the fourth quarter of the year; and reach commercial production levels in March 2018.

It could potentially generate $50m to $60m in cash in the first full year of commercial production. That equates to 50% to 60% of its current market value ($100m or £82m). It starts to repay the bulk of debt used to build the mine from September 2018.

The miner expects to produce 132,000 ounces of gold in the first year and have 107,000 ounces average annual production over the seven-year life of the mine.

HOW CAN IT MINE FOR LONGER?

Hummingbird's challenge is to find more gold to extend the mine life. It cannot afford to do more exploration drilling until Yanfolila starts generating cash from operations. Once it reaches this milestone, the miner plans to recommence drilling at a satellite deposit 5km from Yanfolila called Gonka.

The miner tells *Shares* that Gonka could potentially contribute an additional 30,000 ounces a year of gold-rich material to be processed at Yanfolila. 'If we started drilling in Q1 or Q2 next year, within 18 months we could be processing this material,' it says.

Interestingly, Gonka has higher grade gold than Yanfolila's main deposit once you go deeper into the ground.

Theoretically Hummingbird could produce even more than 107,000 ounces a year (on average) if the processing plant is being fed higher grade material, as there would be more gold contained within the rock. (DC)

Source: Thomson Reuters Datastream

ESURE ESCAPES OGDEN DAMAGE

THIS IS THE total adjustment to profit insurer **Esure (ESUR)** made in its 2016 results after the gear-shift in the Ogden rate which led to significant write-downs at several of its peers.

The Government recently went further than expected in reducing the rate, used to determine compensation for victims of car accidents, from 2.5% to -0.75%.

While **Direct Line (DLG)**, for example, reported a £217m hit to profit from the change, Esure says its low risk approach to underwriting and conservative reinsurance programme mitigated much of its exposure to the updated rate.

76% PERCENTAGE OF MONEY GOING INTO EUROPEAN TECH FIRMS BY US AND ASIAN INVESTORS

AROUND THREE quarters of money pumped into late stage tech firms in Europe over the past year has come from the US or Asia, according to investment bank Magister Advisors. This large proportion of overseas capital is partially down to the lack of EU investment funds versus demand from European tech firms. Magister Advisors predicts overseas investment will rise to 80% in the next few years.

RAMSDENS ON THE RISE

25%

THIS IS THE percentage increase in the share price of jewellery retailer-to-pawnbroker **Ramsdens (RFX:AIM)** since it floated on AIM last month (15 Feb), having ticked up from an 86p issue price to 107.45p at the time of writing.

Middlesbrough-headquartered Ramsdens is also involved in foreign currency exchange and its name adorns the shirts of the struggling top flight football team.

The company floated on the stock market to leverage its strong brand and balance sheet as a means of further growing the business, both organically and through acquisitions.

500 TONNES MORRISONS IS IN GOOD SHAPE

RECOVERING GROCER **WM Morrison Supermarkets (MRW)** is now selling over 500 tonnes of 'wonky veg' on average each week to half a million-plus customers across stores and online.

This is in response to a growing consumer clamour for mis-shaped or out of specification produce, which Morrisons processes then sells to customers at a cheaper price.

Doing its bit for corporate responsibility, the supermarket's strong full year results (9 Mar) revealed pre-tax profit of £337m, the first year of growth since 2011/12 and like-for-like sales positive in all four quarters.

3-MONTH LOW

OIL SLIPS AS US ACTIVITY RAMPS UP

OIL PRICES HAVE hit a three-month low as rising inventories and increasing activity in the US knocks OPEC's attempts to shift the balance of the market off course.

Despite two months of reduced output from the producers' cartel, there are signs North America is stepping in to fill the gap.

As we write European benchmark Brent is just over $51 per barrel and its US counterpart WTI is below $50. Data from US oil services business Baker Hughes shows US producers added more oil rigs for an eighth consecutive week.

7.9%

INVESTMENT TRUST'S BIG BET ON SPORTS DIRECT

Aurora Investment Trust (ARR) is taking a hefty bet that the market is too pessimistic with regards to **Sports Direct (SPD)**. The troubled retailer now accounts for nearly 8% of Aurora's portfolio and is its fourth largest holding. The trust is run by Phoenix Asset Management which likes to go big when it sees an investment opportunity. 'Phoenix's contrarian value approach is reflected in the fact that a stock will never be purchased at a price above the team's estimate of the company's intrinsic value under the worst feasible outcome,' says financial services group Winterflood.

BEST PERFORMING UK PHARMA & BIOTECH STOCKS SO FAR THIS YEAR

Name	EPIC	Year to date share price gain (%)
Synairgen	SNG	98.2
Maxcyte	MXCT	89.1
Faron Pharmaceuticals	FARN	69.8
Oxford Pharmascience	OXP	66.7
Summit Therapeutics	SUMM	44.6
Premaitha Health	NIPT	40.3
Ergomed	ERGO	39.7
Animalcare	ANCR	31.2
Allergy Therapeutics	AGY	29.3
Bioventix	BVXP	27.2

Source: SharePad. 13 March 2017

AIM STOCKS RANKED BY LARGEST FORECAST PRE-TAX PROFIT FOR CURRENT FINANCIAL YEAR

Name	EPIC	Forecast pre-tax profit (£m)
Datatec	DTC	103.2
Dart Group	DTG	90.7
ASOS	ASC	80.1
Highland Gold Mining	HGM	70.7
Burford Capital	BUR	66.7
Breedon	BREE	66.0
Abcam	ABC	61.4
Clinigen	CLIN	61.3
Origin Enterprises	OGN	58.7
Impellam	IPEL	58.2

Source: SharePad. 13 March 2017

PZ Cussons has heritage and growth potential

Time to turn positive on the soap, self-tan and baby food maker

Buy into a rebound at **PZ Cussons (PZC)**, the consumer products giant behind *Imperial Leather* soap, *St. Tropez* tan, *Morning Fresh* dishwasher liquid and *Rafferty's Garden* baby food brands.

We believe PZ Cussons' strong balance sheet and brands will help it weather macro and currency risks. Major product launches and progress on debt reduction offer catalysts for the share price.

BRAND CHAMPION

A bold but unsuccessful tilt at **Unilever (ULVR)** from Kraft Heinz demonstrates the allure of consumer goods groups with fantastic heritage and brands, enjoying deeply entrenched operations in emerging markets.

Manchester-headquartered PZ Cussons ticks many of the same boxes, making and selling personal and home care, electrical, beauty and food and nutrition brands across Africa, Asia and Europe. Significantly, the company offers highly prized exposure to the populous Nigeria and Indonesia, challenged-yet-attractive markets on a long-term view.

SHELTER FROM THE STORMS

Half year results (24 Jan) were solid, sterling pre-tax profits only slightly lower at £40.2m (2015: £42.1m). This was despite tough conditions in largest market Nigeria. The company faces £12m of foreign exchange losses in the African powerhouse due to sharp naira devaluation.

PZ CUSSONS BUY
(PZC) 326.90p
Stop loss: 261.52p

Market value: £1.39bn

Encouragingly, PZ Cussons still reported improved profits from Africa thanks to Nigerian price increases and also maintained profits in Europe, although the ultra-competitive Australian market was a drag on performance. With a 43-year track record of consecutive dividend increases, PZ Cussons upped the first half payout by 2.3% to 2.67p.

INNOVATIVE PIPELINE

The Nigerian consumer is under inflationary pressure but we think PZ Cussons should continue to benefit from its trusted local brands.

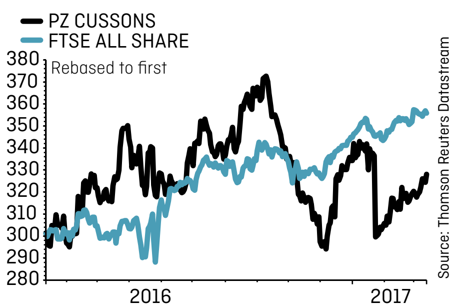
A strong balance sheet gives PZ Cussons the flexibility to invest in a significant new product pipeline – numerous product launches and relaunches are underway in the second half – as well as acquisitions.

Investec has a 394p price target suggesting 20.5% near-term upside. For the year to 31 May 2017, the broker forecasts lower pre-tax profits of £100m (2016: £103m), although half-year net debt of £191m should reduce to £150m.

Pre-tax profits are forecast to recover to £107m and then £113m in the years to May 2018 and 2019 respectively. This year, the dividend is expected to grow once again to 8.4p (2016: 8.1p), twice covered by forecast earnings of 16.9p.

Based on Investec's 14.2p free cash flow per share estimate, rising to 17.7p in 2018, PZ Cussons looks a good value recovery play, trading on a free cash flow yield of 4.3%-5.4%. The approximate 30% Zochonis family stake is an obstacle to a takeover. (JC)

BROKER SAYS: 1 4 0



Three reasons why you need shares in Cineworld

Leisure company is more resilient than the critics would have you believe

A very strong 2017 film release schedule, rising spend per customer and progressive earnings underpin a very attractive investment case at **Cineworld (CINE)**.

This is a fantastic business with high quality earnings. It generates lots of cash to self-fund expansion and pay more dividends every year to shareholders. Adjusted pre-tax profit increased by 12.5% in 2016 to £111.4m and the dividend went up by 8.6%.

We are enthused by the film release slate which includes new films in such blockbuster franchises as *Star Wars*, *Fast & The Furious*, *Despicable Me* and *Guardians of the Galaxy*.

Cinema is very resilient, in our view, and is in demand in both positive and negative economic conditions.

GROWTH AGENDA

Cineworld plans to open 13 new cinemas in 2017, roughly half in the UK and the rest in other parts of the world. Investment bank UBS is worried about over-supply of cinema screens in the UK. It says the pace of new screens being added to the UK cinema market is faster than historical levels and claims admissions per screen have been falling since 2009.

'We believe further screen growth will lead to a reduction in admissions per mature cinema, which risks eroding the profitability of UK cinema chains,' says the bank.

CINEWORLD BUY
(CINE) 632p
Stop loss: 443p

Market value: £1.7bn

In response, Cineworld's chief financial officer Nisan Cohen says: 'A lot of old cinemas will be closed in the coming years and they will be replaced by new cinemas with modern technology. As for other parts of the world, immature markets like Romania still need regular multiplexes built.'

You need to consider the UK only represents half of Cineworld's estate (118 sites, 1,042 screens). It also has 108 cinemas with 1,073 screens in other countries such as Poland, Israel, Hungary, Czech Republic and Bulgaria.

COMPETITION FROM STREAMING SERVICES

Another factor troubling UBS is the rise of home entertainment services like Netflix which continues to enjoy rapid growth in customer numbers.

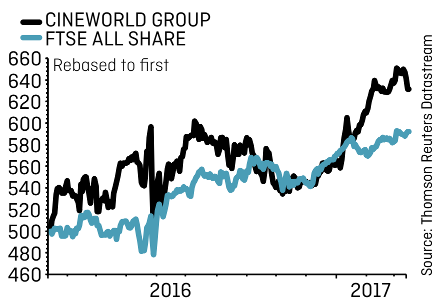
Cohen argues that people will still want to get out of the house to enjoy leisure activities and that cinema remains an affordable form of entertainment.

He also notes that cinema-goers are spending more in Cineworld's cinemas as a result of greater numbers of tickets being bought via the internet. 'They now don't need to queue up for tickets, which gives them more free time to buy a hot dog and a Coke,' he says.

'We've also introduced Starbucks areas in our cinemas which are very popular and you can even get a full meal at our VIP sites.'

Investec forecasts 10% pre-tax profit growth in 2017 to £122.6m, rising to £132.1m in 2018. (DC)

BROKER SAYS: 9 2 1



BURFORD CAPITAL

(BUR:AIM) 782p

Gain to date: 6.5%

Original entry point:

734p, 9 March 2017

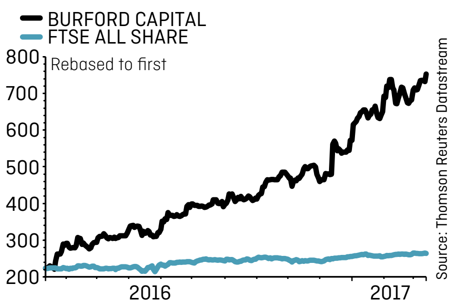
OUR POSITIVE CALL on litigation finance provider **Burford Capital (BUR:AIM)** is off to a good start as the company reports an extremely strong set of 2016 results (14 Mar 2017).

Revenue is up nearly 60% to $162.9m and adjusted earnings per share gains 78% to 56c. The dividend is hiked 14% to 9.15c but this translates into a 38% increase in sterling terms.

Alongside the results themselves Burford announces a further sale of its interest in the Petersen V Argentina case – litigation involving Spanish investment group Petersen which faced insolvency after the Argentine government summarily renationalised oil company YPF.

The company has now sold 10% of its interest in the case for $40m, which implies a total market value for its investment of $400m or 20 times what it initially put in.

The transaction leads N+1 Singer to upgrade 2017 earnings per share expectations by 43% to 63.3 cents. This implies a forward price-to-earnings ratio of 15 times which does not seem overly expensive for such a unique business.



The big upgrade from Singer reflects the inherent unpredictability of earnings which is an ongoing risk investors need to consider.

SHARES SAYS:

We remain comfortable with our bullish stance. Keep buying at 782p. (TS)

BROKER SAYS: 4 0 0

STOCK SPIRITS

(STCK) 179.75p

Gain to date: 10.3%

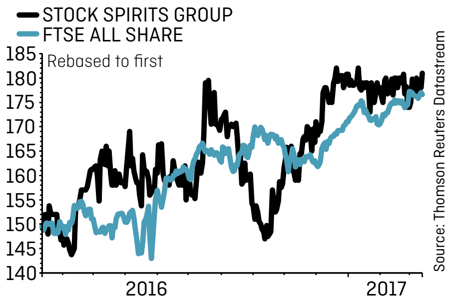
Original entry point:

Buy at 163p, 18 August 2016

A BOLD CALL on the turnaround afoot at Central and Eastern European branded spirits and liqueurs producer **Stock Spirits (STCK)** is 10.3% in the money. Not everyone is impressed with the progress to date though.

In-line full year results (8 Mar) served up by new CEO Mirek Stachowicz showed growth in volume and strong cash generation. Stock Spirits says it is pressing ahead with cost cutting initiatives and becoming more competitive in its key market Poland. Price cuts for key brand Zoladkowa de Luxe are helping to regain customer support.

However Luis Amaral, the Portuguese businessman and biggest independent shareholder, takes a different view. He argues 'costs have not fallen at all' and 'shareholders simply do not understand why the company insists on keeping its expensive head office in the UK.'



Amaral also contends: 'All the many changes the company has made in the last 12 months seem to have had no impact on what is important to investors: an improvement in the core market of Poland; and a reduction in bloated costs. Further radical change is required to address this downward spiral.'

SHARES SAYS:

Amaral's comments could be the precursor to a more substantial overhaul of the strategy and we stay bullish. (JC)

BROKER SAYS: 2 2 1

Should you accept or reject a takeover bid?

We debate the merits of three M&A scenarios

Investors put money into stocks with the hope of making a profit in the future. You'd therefore expect corporate takeovers to be good news, particularly if they are priced at a premium to the market price. In reality not everyone accepts them with open arms.

Some people don't like the thought of their investments being taken away against their will; they can become angry at missing out on the opportunity to make more money in the future.

Other investors become irate when companies reject takeovers, seeing it as a missed opportunity to lock in gains as further growth may be harder to achieve. With those scenarios in mind, we now take a look at a few topical takeover situations.

ACCEPT THE BID; IT'S THE BEST OFFER YOU'LL GET

Shareholders in gambling group **NetPlay TV (NPT:AIM)** will soon be asked to vote on a 9p cash per share takeover offer from Betsson.

We've heard rumblings from private investors that many shareholders aren't happy with the price, saying it is less than half the level at which the company traded three years ago.

We believe shareholders should accept the bid as the business faces an extremely tough period should it remain as an independent entity.

NetPlay has been hammered by tougher taxes in the gambling sector over the past few years and the situation will only get worse. An additional tax comes into force later this year on 'free bet' offers which will eat into another large chunk of its earnings.

The company lacks sufficient scale in our view and has failed in its attempts to diversify geographically. It doesn't have the money to make investments to stay competitive. As such, we believe investors need to accept that the share price is highly unlikely to return to its 20p+ dizzy heights seen in 2014.

We see little chance of someone else making a higher offer. NetPlay talked to various third parties in the second half of 2016 and didn't attract a single bid.

WAS RIGHT NOT TO HAVE ACCEPTED THE BID

Palm oil producer **MP Evans (MPE:AIM)** did the right thing in not accepting a 640p takeover late last year from Asian group KLK, saying that price undervalued the business, its unique position and its future growth potential. It even resisted an upgraded offer of 740p per share.

The bid helped to put a spotlight on certain assets previously ignored by the market. For example, its property assets are worth more than people thought, based on an independent valuation report.

In December when the shares were trading at 655p, the market was effectively valuing the company's majority-owned plantation assets at $10,000 per hectare. Quoted peers traded at an average $18,600 per hectare, said stockbroker FinnCap, 'clearly highlighting the value in the shares'.

MP Evans now trades above the second rejected bid at 744.75p. FinnCap believes the shares are worth 835p on a sum of the parts basis.

SHOULD HAVE ACCEPTED THE BID

One takeover attempt collapsed; let's hope another bid comes for **Premier Foods (PFD)** so shareholders don't have to put up with yet more profit warnings.

According to a recent report in *The Sunday Times*, a leading investor in Premier Foods is pressing Nissin Foods to make an offer or clear the way for a rival bid.

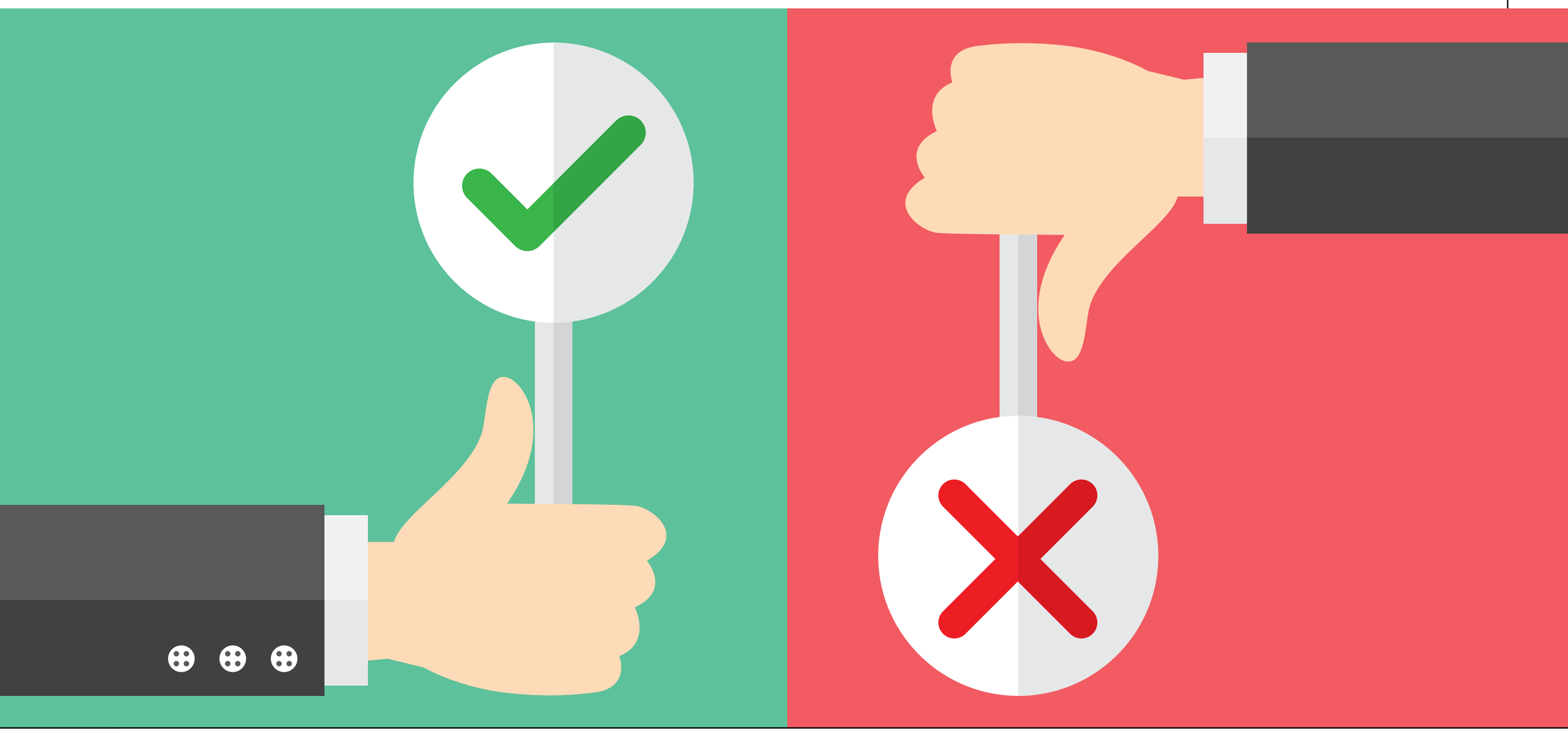
It regards the Japanese instant noodle leader's near-20% holding as a blocking stake preventing a sale of struggling Premier Foods. Its £525m net debt is a key reason for our continuing negative view on the stock.

Premier Foods spurned an offer last year from McCormick & Co. Its third and final offer was pitched at 65p in cash, 54% higher than the current 42.25p share price, suggesting Premier Foods should have bitten the US spice giant's hands off.

Rather than surrendering to McCormick, Premier Foods inked a collaboration deal with Nissin. Since then, shares in the *Mr Kipling* cakes-to-*Bisto* gravy maker crashed following a warning (18 Jan 2017) that full year profits would be around 10% lower than previous expectations; its second earnings alert in less than four months.

The company pointed to changing promotional strategies by supermarket customers and 'significant input cost inflation' driven by sterling depreciation.

Criticised by hedge fund firm and shareholder Paulson & Co, Premier Foods is also under pressure from activist Oasis Management. Now its second largest shareholder, Oasis has taken a seat on the board and is working with the food producer to unlock value from a brand portfolio we still view as rather tired. (DC/JC)



FRIDAY 17 MARCH

FINALS	
REACT GROUP	REAT
INTERIMS	
INVESTEC	INVP
AGMS	
CHEMRING	CHG
PREMIER AFRICAN MINERALS	PREM
SPITFIRE OIL	SRO
TORO	TORO

MONDAY 20 MARCH

FINALS	
JOHN LAING INFRASTRUCTURE FUND	JLIF
MAXCYTE	MXCT
ONE MEDIA IP	OMIP
SATELLITE SOLUTIONS WORLDWIDE	SAT
TAPTICA	TAP
INTERIMS	
DIURNAL	DNL
VOLUTION	FAN
FINSBURY FOOD	FIF
ECONOMICS	
UK	
RIGHTMOVE HPI	
CBI INDUSTRIAL ORDER EXPECTATIONS	

TUESDAY 21 MARCH

FINALS	
888	888
AMEC FOSTER WHEELER	AMFW
AUGEAN	AUG
EKF DIAGNOSTICS	EKF
ENQUEST	ENQ
FEVERTREE DRINKS	FEVR
HANSTEEN HOLDINGS	HSTN
IQE	IQE
JUDGES SCIENTIFIC	JDG
NAHL GROUP	NAH
SAFECHARGE	SCH
SMART METERING SYSTEMS	SMS
VECTURA	VEC
INTERIMS	
BELLWAY	BWY
EARTHPORT	EPO
TRADING STATEMENTS	
IG GROUP	IGG
AGMS	
ELECTRONIC DATA PROCESSING	EDP
ONE MEDIA IP	OMPI
BLUE PRISM	PRSM
RIVER & MERCANTILE UK MICRO CAP INVESTMENT COMPANY	RMMC
ECONOMICS	
UK	
PPI	
CPI	
RPI	
EU	
FLASH SERVICES PMI	
FLASH MANUFACTURING PMI	

ENQUEST (ENQ)

The Kraken development project is likely to be in focus when North Sea oil producer EnQuest (ENQ) reports its full year results on 21 March. Previous production guidance of 45,000 to 51,000 barrels of oil equivalent per day in 2017 is dependent on first oil from the field being delivered in the second quarter of the year.

KIER GROUP (KIE)

Half year results on 23 March from builder and civil engineering business Kier Group (KIE) are likely to be scanned for an update on conditions in the UK construction market. A January trading update ahead of these numbers highlighted 'good underlying organic growth' with a £9bn order book.

WEDNESDAY 22 MARCH

FINALS	
KINGFISHER	KGF
QUIXANT	QXT
XAAR	XAR
INTERIMS	
SOFTCAT	SCT

THURSDAY 23 MARCH

FINALS		
CURTIS BANKS	CBP	
FUTURA MEDICAL	FUM	
NEXT	NXT	
SOCO INTERNATIONAL	SIA	
SCIENCE IN SPORT	SIS	
INTERIMS		
KIER	KIE	
TRADING STATEMENTS		
HALMA	HLMA	
AGMS		
CONYGAR	CIC	
EX-DIVIDEND		
BLACKROCK LATIN AMERICA	BRLA	$0.09
BOVIS HOMES	BVS	30P
DUNELM	DNLM	6.5P
GALLIFORD TRY	GFRD	32P
HEAVITREE BREWERY	HVT	3.75P
MEGGITT	MGGT	10.3P
NWF GROUP	NWF	1P
OCTOPUS SECOND AIM VCT	OSEC	2P
PRIVATE & COMMERCIAL FINANCE GROUP	PCF	0.1P
REDROW	RDW	6P
SEGRO	SGRO	11.2P
TRISTEL	TSTL	1.4P
ECONOMICS		
UK		
BBA MORTGAGE APPROVALS		
RETAIL SALES		
US		
UNEMPLOYMENT CLAIMS		

NEXT (NXT)

Expectations are subdued ahead of hard-pressed clothing retailer Next's (NXT) full year results (23 Mar). Commentary on the recent performance of the retail and directory businesses, as well as the outlook for costs, will be closely scrutinised by analysts. Next kicked off the festive retail reporting season with a worse-than-expected fourth quarter update (4 Jan), CEO Simon Wolfson downgrading profit forecasts again and warning the cyclical slowdown in clothing and footwear spend would continue into 2017.

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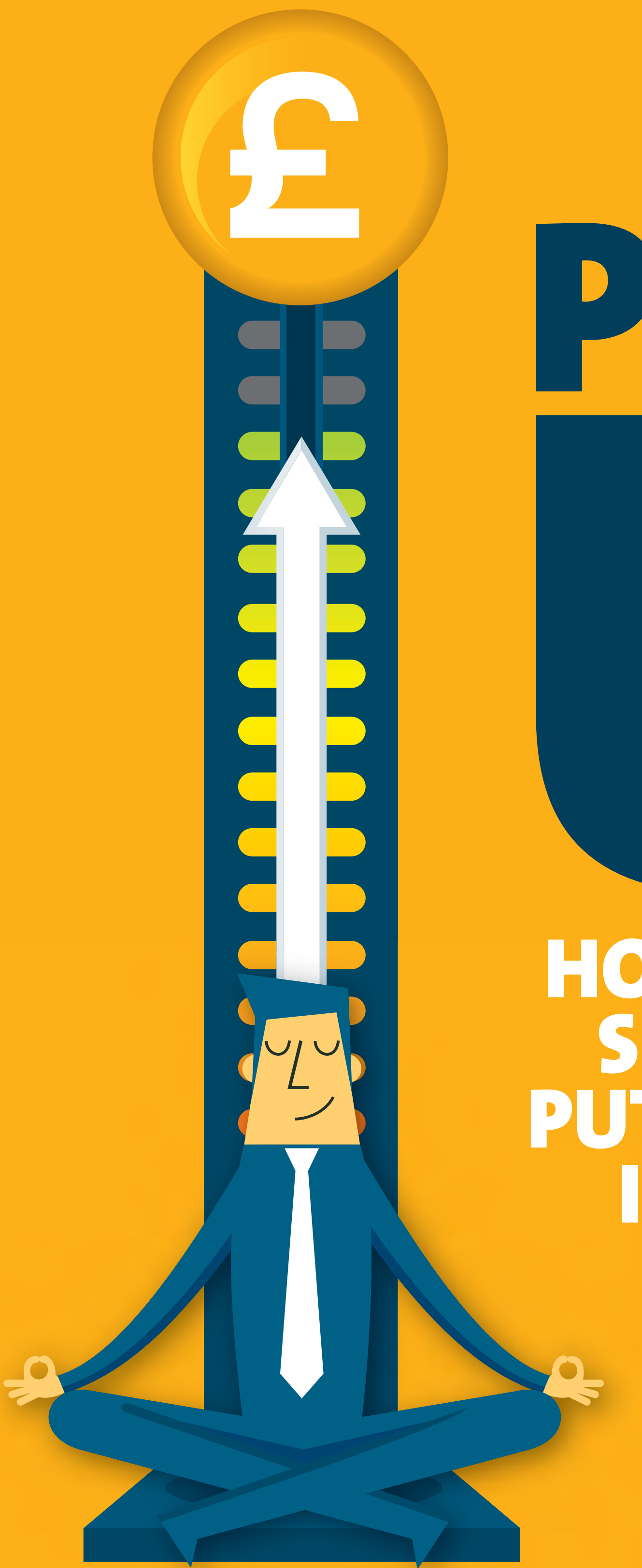
DIVIDEND REINVESTMENT SPECIAL



POWER UP

HOW TO OWN MORE SHARES WITHOUT PUTTING YOUR HAND IN YOUR POCKET

If you're a long-term investor one of the simplest ways to boost your returns is to reinvest dividends. You end up owning more shares or units in a fund without putting your hand in your pocket for more cash beyond the original investment.

Let's say you own £10,000 worth of shares in Company X. This pays 5% dividend each year, equal to £500 on your £10,000 investment.

If you reinvest that £500 in more Company X shares, you will have an investment worth £10,500. Fast forward one year and your 5% yield on the bigger-sized investment equals dividends worth £525 – so £25 more than you got last time.

If you reinvest that £525 in more Company X shares, your overall pot will be worth £11,025. A 5% yield a year later on that pot equates to £551.25. That's £51.25 extra money from dividends versus what you received two years earlier.

You can see how your dividend keeps getting bigger each year, so too the size of your overall investment – and that's without assuming any share price appreciation.

If you keep recycling your dividends into buying more shares or fund units, in time you can really power up the value of your portfolio.

► HOW DO I REINVEST?

Historically, the only way for investors to automatically reinvest dividends was to join each individual company's dividend reinvestment plan, also known as DRIP. These plans, which are operated by the company's registrar, are usually only provided by the largest companies on the stock exchange.

Sadly the number of companies offering scrip dividend schemes has fallen rapidly over the past decade to around 25 blue-chip stocks.

Thanks to technological advances at investment platforms, it's now possible to get nearly all your dividends reinvested via a different route – that applies to stocks, exchange-traded funds (ETFs) or investment trusts.

Dividend reinvestment isn't suitable for everyone so it's important to assess your individual circumstances before jumping on board.

DIVIDEND REINVESTMENT IN ACTION

You have three main options when your investment pays a dividend:

- **Take the cash.**
- **Accept payment in stock rather than cash, known as a scrip dividend. Very few companies offer this option these days.**
- **Reinvest your dividend.**

If you want to reinvest, you can set up automatic dividend reinvestment online via your investment platform and they will ensure the monies received are used to acquire more shares in the same quoted company.

► HOW MUCH DOES IT COST TO REINVEST?

Dividend reinvestment won't be free via your ISA or SIPP (self-invested personal pension) provider. You will have to pay a charge, although it is normally much cheaper than the normal fees to buy and sell shares.

On average, platforms charge a flat fee of £1.50 or a percentage-based fee of 1% of the dividend value (subject to a minimum of £1.50 and a maximum of £9.95). The fee will be levied on every reinvestment deal the platform carries out. You will also have to pay stamp duty.

In the vast majority of cases it's likely the fees levied for dividend reinvestment will be far lower than if you received the dividend and then bought more shares via a standard trade. At AJ Bell Youinvest, for example, the standard dealing charge is £9.95 unless you made 10 or more trades the previous month, in which case it is £4.95. Its dividend reinvestment fees can be as low as £1.50.

'Dividend reinvestment schemes are more cost-effective and efficient than buying shares through a normal trade at a broker,' comments Jon Wingent, head of portfolio specialists at Lloyds Wealth Investment Office.

► WHAT'S THE MINIMUM AMOUNT I CAN REINVEST?

In order for a dividend to be reinvested it must meet the platform's specified minimum amount, which is usually £10. It also needs to be sufficient to buy at least one share in the company.

You can choose whether to reinvest individual dividend payments or to reinvest all the dividends for all the investments you have now and will have in the future.

You will need to instruct your broker for each account you hold with them – so if you have an ISA and a SIPP you'll have to make an election for each one.

Most platforms enable you to reinvest dividends from a wide range of shares, investment trusts, trackers and ETFs. Some restrict their service to FTSE 350 stocks, or at the very least UK-listed companies.

It is possible to apply automatic dividend reinvestment to funds at some brokers, but this isn't the most cost-effective approach. If you want to reinvest the income received from a unit trust or OEIC fund it's better to buy the accumulation ('acc') version of the fund rather than the income ('inc') version.

The 'acc' version will automatically reinvest dividends so you don't even have to use your broker's reinvestment service to arrange for that trade to be made.

► SHOW ME MORE EVIDENCE THAT REINVESTING IS WORTHWHILE

By reinvesting dividends, you have mathematics on your side because you get to harness the power of compounding.

'With dividend reinvestment you're building up your capital without having to buy more shares or do much at all,' says Wingent.

The effects of compounding will be more pronounced the longer you remain invested, which means dividend reinvestment is better for those who have a long-term time horizon.

"WITH DIVIDEND REINVESTMENT YOU'RE BUILDING UP YOUR CAPITAL WITHOUT HAVING TO BUY MORE SHARES OR DO MUCH AT ALL"

Russ Mould, investment director at AJ Bell Youinvest, gives the example of an investor who invests the 2016/17 ISA allowance of £15,240 and then makes no further contributions. His working example assumes the FTSE All-Share generates a compound annual growth rate of 6.8% and pays a dividend yield of 3.8%.

After subtracting 1% a year for platform administration and dealing fees, the initial £15,240 will be worth £26,610 after 10 years, £46,464 after 20 years and £81,129 after 30 years. You would have also banked £1,011, £1,765 and £3,082 respectively in cash dividends as well.

These are attractive figures, but they are far lower than those received by an investor who banks the same capital return and reinvests dividends. In this case, the initial £15,240 investment becomes £37,747 over 10 years, £93,496 over 20 years and £231,577 over 30 years.

'This is a simplistic example, as returns will not come in straight lines. However, it shows the potential offered by compounding and how stock market investing can be a way to get rich slowly.

'It requires to you to work to a long-term time horizon, be able to identify stocks or funds where

THE POWER OF DIVIDEND REINVESTMENT

	6.8% compound annual capital return only	Dividends paid in cash (3.8% yield)	Investment value + cash dividends	6.8% compound annual capital return PLUS 3.8% dividend yield reinvested
Initial investment	£15,240	-	-	**£15,240**
After 5 years	£20,138	£765.2	£20,903.2	**£23,985**
After 10 years	£26,610	£1,011.2	£27,621.2	**£37,747**
After 15 years	£35,163	£1,336.2	£36,499.2	**£59,407**
After 20 years	£46,464	£1,765.6	£48,229.6	**£93,496**
After 25 years	£61,397	£2,333.1	£63,730.1	**£147,144**
After 30 years	£81,129	£3,082.9	£84,211.9	**£231,577**
After 40 years	£141,659	£5,383.0	£147,042.0	**£573,585**
After 50 years	£247,347	£9,399.2	£256,746.2	**£1,420,696**

Source: AJ Bell Youinvest / Shares

the dividend payments are safe and reliable, and withstand the inevitable bear markets that will follow the bull ones along the way,' says Mould.

► WHEN SHOULDN'T I REINVEST DIVIDENDS?

There are some instances when dividend reinvestment won't be suitable, so it's important to think about your overall investment strategy, target returns, time horizon and appetite for risk.

'If you are in drawdown in retirement, for example, you may wish to start banking dividends. If you are much younger and still building your savings pot then you may prefer to reinvest them and try to get the power of compounding to work in your favour,' Mould says.

Even if you're young and have a high risk appetite, you might want to consider keeping a residual portion of your portfolio in cash.

'The liquidity can help in case of unexpected emergencies, meet any fees and also provide a buffer so that you have some cash around when you need it and are not forced to sell holdings at what could be an inconvenient time, such as during a bear market when prices could be depressed,' Mould explains.

► KEEP AN EYE ON YOUR PORTFOLIO

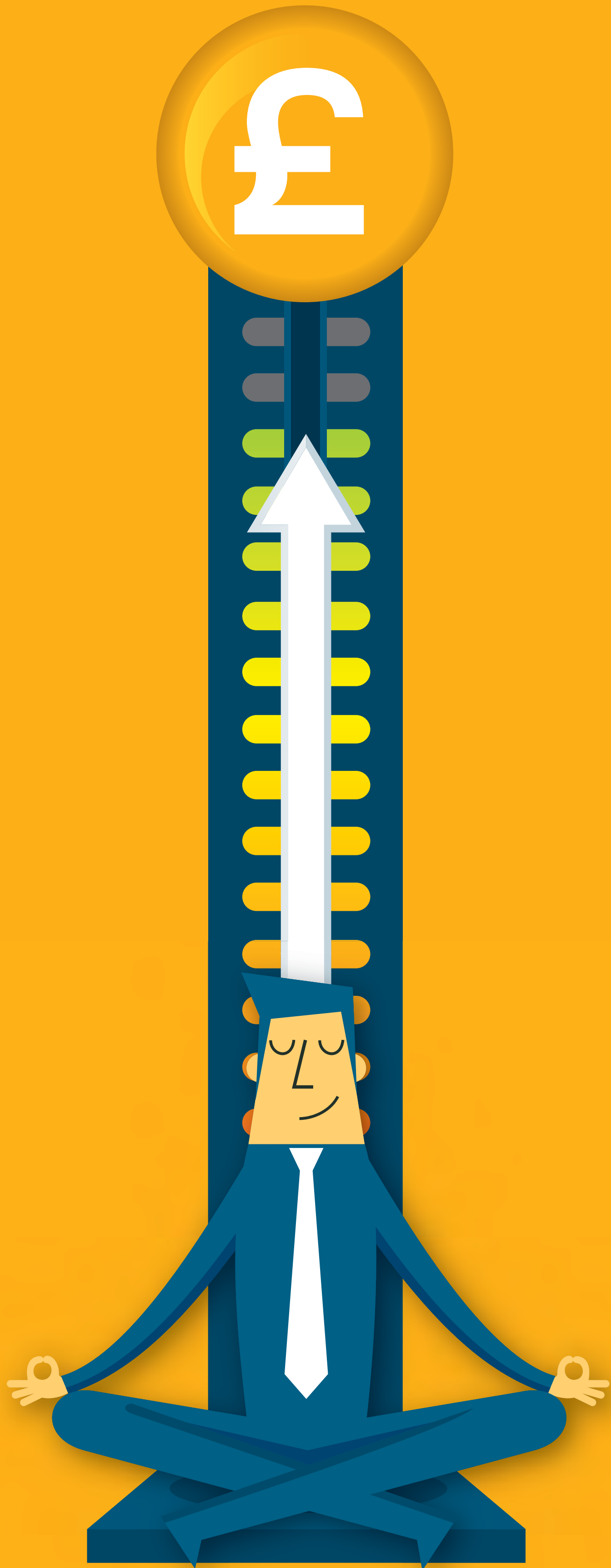
If you have a portfolio comprised of dividend and non-dividend paying stocks, your portfolio could become unbalanced if you opt for dividend reinvestment. This is because reinvesting dividends increases your holding in these stocks.

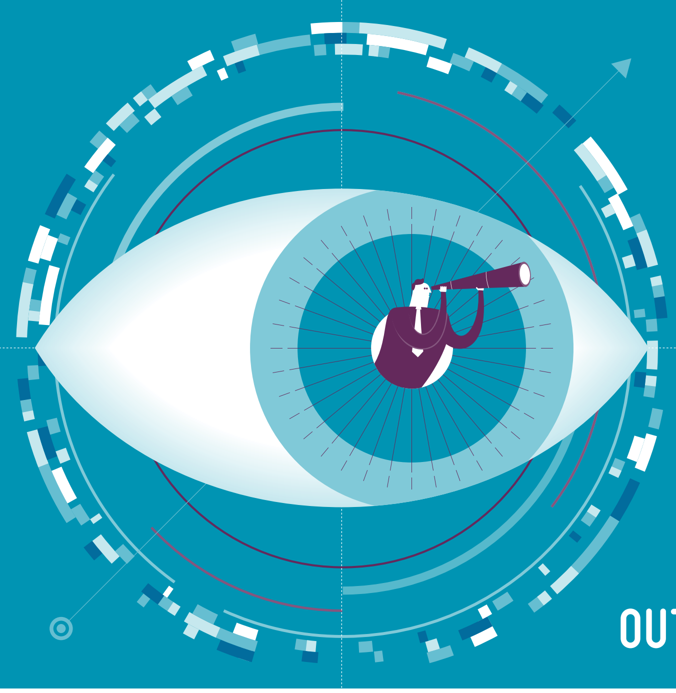
You might need to adjust your portfolio in order to ensure your exposure to certain stocks, sectors and geographies continues to match your risk profile.

Furthermore, it's important not to let the availability of dividend reinvestment schemes cloud your judgement when choosing which investments to buy.

Wingent says if a stock has a very high dividend it could be a sign the company is not of a high quality and dividend payouts might not be sustainable.

To help you on your investment journey, this week's issue of *Shares* includes two articles that discuss stocks and investment trusts which might interest anyone seeking ideas to support a dividend reinvestment strategy. You will find them straight after this article. (EP)





HOW TO FIND THE RIGHT SHARES IF YOU WANT TO REINVEST DIVIDENDS

FREE CASH FLOW IS A GOOD INDICATOR AS TO HOW MUCH MONEY CAN BE PAID OUT TO SHAREHOLDERS

DIVIDEND REINVESTMENT SPECIAL

Would you like some help in spotting individual companies that could be interesting candidates for a dividend reinvestment strategy? This article discusses a way to find stocks that are highly cash generative and so have the potential to pay more and more dividends each year.

We also run through some stocks that have been suggested by stock screening systems, based on criteria meant to find good dividend growth stories. More on that later.

WHERE DO I START?

The combination of dividend growth and dividend reinvestment can be very powerful in terms of powering up the value of your portfolio.

A quick and straightforward way of checking a company's ability to grow the dividend and provide plenty of income that you can reinvest is to look at how many times the dividend per share is covered by earnings per share.

However, to be really sure you need to go further as dividends are not paid out of earnings but from a company's free cash flow. Essentially this is all the cash left after a company has paid tax, the cost of borrowing and put money back into the business for areas like new equipment – also known as capital expenditure or capex.

Here's how you calculate free cash flow. Find net cash from operations in a company's results statement, add dividends received from joint venture companies (if there are any), take away capex, interest paid to lenders, dividends paid to any preferred or minority shareholders and add back any income from interest payments.

To work out a per share number, take the free cash flow and divide it by the number of shares in issue – which you can find in recent stock market announcements or the latest set of financial results (it will be buried in the numbers near the end).

HOW CAN I TELL IF A DIVIDEND IS SUSTAINABLE?

Dividing free cash flow per share by the dividend per share would help determine the sustainability of a payout. Any figure less than one would imply the company is funding its dividend through debt or retained earnings.

For example, **BP's (BP.)** free cash flow per share of 8.7 cents in 2016 failed to come close to

THE DOWNSIDE OF DIVIDENDS

A DIVIDEND PAYMENT can be seen as a company telling investors 'I don't know what to do with this cash, so you have it'. It could also be an admission the investment case has gone stale and the only way to keep people interested is by paying a dividend.

The ideal situation is for the dividend to be paid from genuinely surplus cash rather than money which could be used to invest for future growth, in smart acquisitions or to pay down any excessive borrowings.

Depending on the share price it could also make sense for a company to conduct a share buyback, given this is more tax efficient for shareholders.

covering a full year dividend of 40 cents. The stock currently yields 6.8%. A high yield generally in excess of 5% can be a signal from the market that a dividend is risky and potentially unsustainable.

On the other side of the coin, **Bunzl's (BNZL)** free cash flow per share of 93.8p in 2016 comfortably covers a dividend per share of 42p. A prospective yield of 1.5% may look pretty skinny but the consistent growth in the dividend makes Bunzl very interesting from a dividend reinvestment perspective.

The company says its dividend has gone up every year for the past 24 years, at a rate of more than 10% compound annual growth.

By putting money into an investment that delivers a consistent return – and then reinvesting that cash in to buying more shares – you capture the future returns on your reinvested profits as well as from your original investment.

DIVIDEND REINVESTMENT CANDIDATES

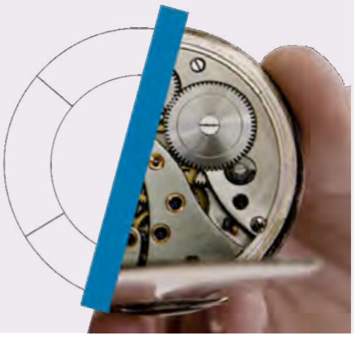
STOCKOPEDIA HAS A system that identifies stocks which could potentially fit a dividend reinvestment strategy.

Let's now look at seven stocks that appear in Stockopedia's screener alongside an exchange-traded fund which may interest someone who wants a more diversified investment.

BROOKS MACDONALD (BRK:AIM) £19.85

THE WEALTH MANAGER specialises in a profitable niche, serving clients with investable assets between £100,000 and £1m. It continues to benefit from industry changes designed to rid the finance industry of controversial practices which have historically seen investors receive bad advice and poor value for money.

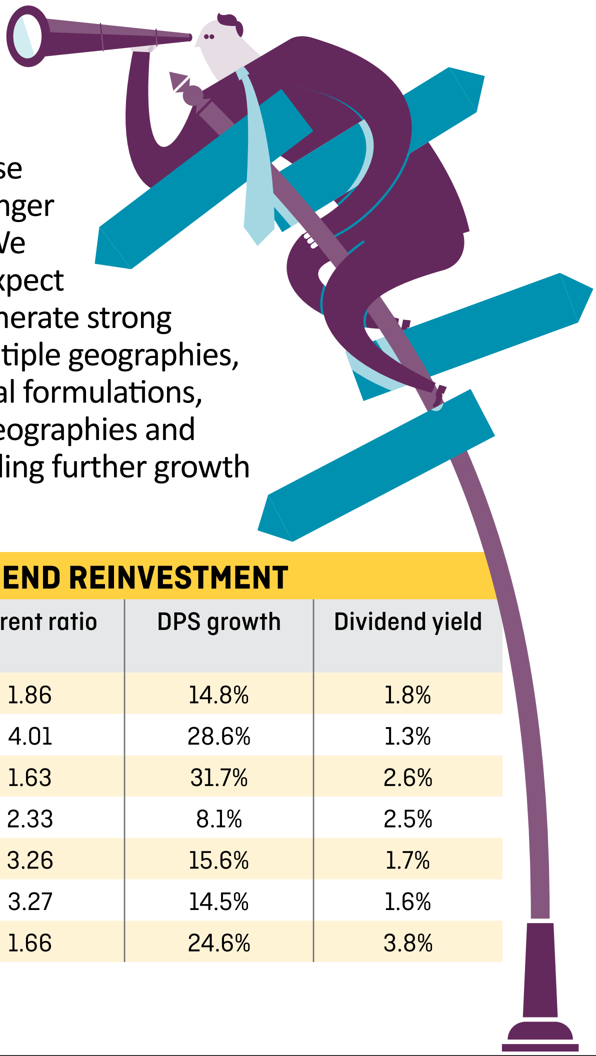
Among the first to structure its service around fee-based advice rather than commissions, Brooks was well positioned before new regulations tightened up the industry in 2013.



ECO ANIMAL HEALTH (EAH:AIM) 510P

VETERINARY DRUGMAKER **Eco Animal Health (EAH:AIM)** is enjoying strong demand for its pig and poultry antibiotic Aivlosin. Early in 2017 the company received approval for the use of water soluble Aivlosin in chickens laying eggs for human consumption in Mexico. This was an important step as Mexico is one of the five largest egg producing countries in the world.

The company is in the process of submitting regulatory filings in other key egg producing markets. House broker N+1 Singer comments: 'We continue to expect Aivlosin to generate strong growth in multiple geographies, with additional formulations, indications, geographies and species providing further growth potential.'



STOCKOPEDIA'S DIVIDEND ACHIEVERS – CANDIDATES FOR DIVIDEND REINVESTMENT

Company	EPIC	Dividend growth streak (years)	EPS 5 year CAGR %	Current ratio	DPS growth	Dividend yield
Brooks Macdonald	BRK	9	14.2	1.86	14.8%	1.8%
Eco Animal Health	EAH	6	26.3	4.01	28.6%	1.3%
4imprint	FOUR	7	39.5	1.63	31.7%	2.6%
Howden Joinery	HWDN	5	17.4	2.33	8.1%	2.5%
James Latham	LTHM	7	12.1	3.26	15.6%	1.7%
Nichols	NICL	9	12.6	3.27	14.5%	1.6%
Photo-Me International	PHTM	6	15.7	1.66	24.6%	3.8%

Source: Stockopedia

4IMPRINT (FOUR) £16.52

PROMOTIONAL PRODUCTS BUSINESS **4imprint (FOUR)** is the market leader, although there is still plenty of room to grow as it only has a 2% share of a $24bn addressable market in the US.

The company is inherently cash generative with limited requirements for working capital or capital expenditure. Now that action has been taken to address the company's pension liabilities (76% of which are now insured), the company should be able to deliver more generous dividends to shareholders.

HOWDEN JOINERY (HWDN) 426.1P

KITCHENS SELLER **HOWDEN Joinery (HWDN)** has a strong balance sheet and a good track record of managing costs during downturns to preserve profitability. It sells to trade customers through a network of more than 600 depots in the UK.

In 2015 it supplied in excess of 400,000 kitchens, 2.4m doors and 750,000 appliances to UK homes. If it delivers the forecast 11.2p per share payout in 2017, Howden will have served up a 30.1% compound annual dividend growth over five years.

JAMES LATHAM (LTHM:AIM) 897P

THE TIMBER MERCHANT was founded at the dawn of the 20th century and has been profitable through any number of stock market cycles.

Improving revenue and prudent cost control is having a positive impact on operating results for the business. The company has net cash on the balance sheet and the first half dividend was covered 6.9 times by earnings. That implies plenty of scope for further dividend increases.

NICHOLS (NICL:AIM) £18.56

THE COMPANY OWNS a range of highly profitable niche soft drink brands which are sold across the globe. Key brands *Vimto, Levi Roots, Sunkist* and *Panda* are consumer favourites in some key geographies.

Recent additions to the portfolio include the purchase of premium juices outfit Feel Good and iced drinks specialist the Noisy Drinks Co. Its long standing position as a reliable dividend payer is underpinned by a strong balance sheet.

PHOTO-ME INTERNATIONAL (PHTM) 167P

PHOTOBOOTH AND LAUNDRY machine operator **Photo-Me International (PHTM)** has been beset by one-off setbacks in the last 12 months including delays to a Japanese ID programme last summer and the UK Home Office considering if photos taken on mobile phones can be used for passports.

Long-term growth is likely to come from the introduction of 3D photo and e-signature technology in photo booths and the roll-out of Photo-Me's laundry machine division. The company is highly cash generative and this has supported double-digit growth in the ordinary dividend alongside a number of special payouts.

SOURCE FTSE RAFI UK EQUITY INCOME PHYSICAL (DVUK) £10.23

LAUNCHED IN MARCH 2016, this exchange-traded fund tracks UK-listed stocks that have the potential to offer a high, sustainable income. It has a total expense ratio of 0.35%.

A large chunk of the fund (22.8%) is in the financial sector. Top holdings include bank **Standard Chartered (STAN)**, miner **Rio Tinto (RIO)**, oil major BP and pharmaceuticals business **GlaxoSmithKline (GSK)**. (TS)

DIVIDEND REINVESTMENT SPECIAL

INVESTMENT TRUSTS THAT PAY MORE AND MORE DIVIDENDS EVERY YEAR

20 FUNDS THAT HAVE CONSISTENTLY GROWN THEIR PAYOUTS FOR MORE THAN 20 YEARS

Investment trusts can be ideal products for anyone seeking to enjoy compounding benefits from reinvesting dividends.

They are allowed to stash away up to 15% of income every year in a pot called 'revenue reserves'. This rainy-day money can help them to keep paying dividends even if market conditions are bleak and there is temporarily a lower income from their underlying holdings.

Twenty investment trusts have raised their dividend every year for at least the past 20 years in a row, according to the Association of Investment Companies (AIC) which labels them as 'dividend heroes'.

Don't be put off by many of these trusts only having dividend yields in the region of 2% to 3%. The real attraction is their dividend growth, in our view.

Let's now take a look at seven investment trusts on the AIC's dividend heroes list.

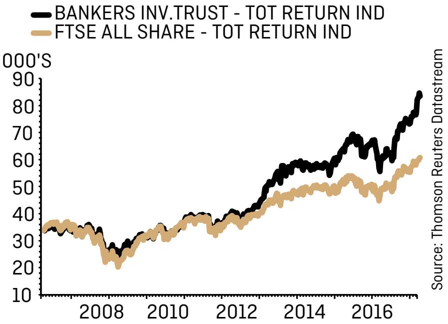
INVESTMENT TRUST DIVIDEND HEROES

	Sector	Number of consecutive years of dividend growth
City of London Investment Trust	UK Equity Income	50
Bankers Investment Trust	Global	50
Alliance Trust	Global	50
Caledonia Investments	Global	49
F&C Global Smaller Companies	Global	46
Foreign & Colonial Investment Trust	Global	46
Brunner Investment Trust	Global	45
JPMorgan Claverhouse Investment Trust	UK Equity Income	44
Murray Income	UK Equity Income	43
Witan Investment Trust	Global	42
Scottish American	Global Equity Income	37
Merchants Trust	UK Equity Income	34
Scottish Mortgage Investment Trust	Global	33
Scottish Investment Trust	Global	33
Temple Bar	UK Equity Income	33
Value & Income	UK Equity Income	29
F&C Capital & Income	UK Equity Income	23
British & American	UK Equity Income	21
Schroder Income Growth	UK Equity Income	21
Northern Investors Company*	Private Equity	20

*Northern Investors Company is winding up. Source: AIC

BANKERS INVESTMENT TRUST
(BNKR) 768P

DISCOUNT TO NET ASSET VALUE: 4.8%
NUMBER OF CONSECUTIVE YEARS OF DIVIDEND GROWTH: 50



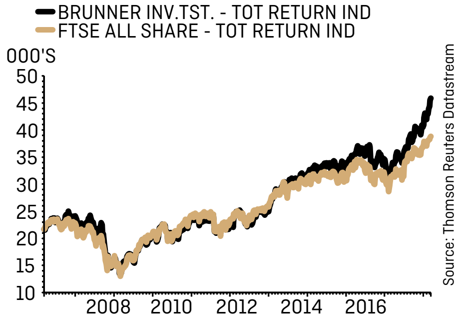
Bankers' fund manager Alex Crooke says a careful focus on investing in companies capable of growing their dividends over time has meant that even through the market crash in 2008, Bankers Investment Trust has avoided regularly dipping into reserves to keep growing its own dividends to shareholders.

'Over the last 10 years Bankers has only had to dip into reserves once, in 2011, when it was decided to increase investment into Japanese equities,' says Crooke. 'It was judged that the potential total return meant a short term reduction in dividends would be offset by higher capital returns. A year later dividends were once again covered by earnings.'

One of Crooke's favourite stocks is **Cranswick (CWK)**, a supplier of pork and meat products to UK food retailers. 'They have increased their dividend every year since 1991 and have a great record of using internally generated cash to fund growth and acquisitions.'

BRUNNER INVESTMENT TRUST
(BUT) 671P

DISCOUNT TO NET ASSET VALUE: 14.5%
NUMBER OF CONSECUTIVE YEARS OF DIVIDEND GROWTH: 45



Allianz-managed dividend hero Brunner Investment Trust is a concentrated global equity portfolio with a focus on high quality growth and attractive valuations. Manager Lucy Macdonald has reduced the trust's UK exposure to have a greater portion of income derived overseas.

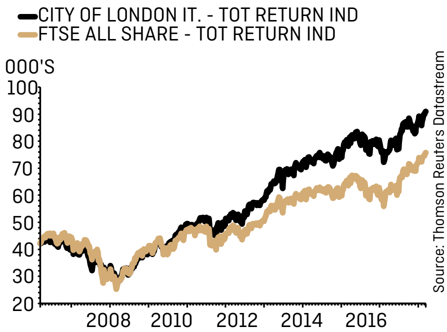
'I look for a company with good growth potential, favourable industry structure and profitability, management with proven ability to allocate capital effectively and, preferably, a valuation opportunity,' says Macdonald.

'The technology sector has growth and an increasing willingness to distribute via dividends, such as Microsoft and Apple. The financial sector, after a period of enforced restraint by regulators post financial crisis, is now a recovering source of income, particularly in the US,' she adds.

'Geographically Europe, Asia and emerging markets have good yield potential. We have exposure to income from all regions via stocks like Schneider, Jiangsu Expressway and Brazilian infrastructure company CCR.'

CITY OF LONDON INVESTMENT TRUST
(CTY) 417.5P

PREMIUM TO NET ASSET VALUE: 1.4%
NUMBER OF CONSECUTIVE YEARS OF DIVIDEND GROWTH: 50



Managed by Job Curtis since 1991, the trust has dipped into its revenue reserves in seven out of the last 25 years to grow the dividend, demonstrating the advantages of the closed-ended structure over open-ended funds in terms of income.

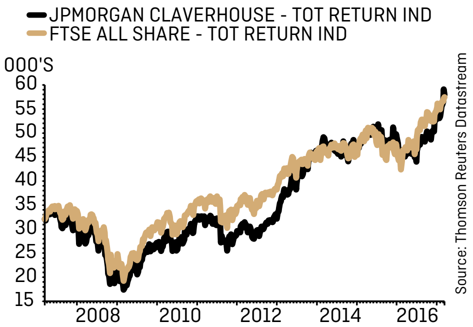
Curtis looks for a combination of an above average yield and growth in his investments. The fund manager likes strong balance sheets which he believes are key to 'avoiding the disasters' during a downturn.

Favoured picks include classic defensive **British American Tobacco (BATS)**, the cash-generative, dividend paying tobacco titan being 'the most successful stock in my career'. The trust has stakes in such stocks as **GlaxoSmithKline (GSK)**, **Royal Dutch Shell (RDSB)**. Curtis is also keen to highlight the dividend growth prospects for the UK housebuilding sector, owning both **Taylor Wimpey (TW.)** and **Persimmon (PSN)**.

JPMORGAN CLAVERHOUSE (JCH) 674.5P

DISCOUNT TO NET ASSET VALUE: 5.3%
NUMBER OF CONSECUTIVE YEARS OF DIVIDEND GROWTH: 44

Dividend-paying stalwart JPMorgan Claverhouse has a focused portfolio of 62 stocks and looks for value, momentum and quality in the UK equities space.



Co-manager William Meadon says the ideal stock would have all three characteristics. 'It would be cheap, have good momentum of both earnings (profit) and share price, and have a strong balance sheet. There are very few of these stocks, so when we find them we buy a lot.'

He says **Ashtead (AHT)**, **Micro Focus (MCRO)** and **Imperial Brands (IMB)** currently meet all three criteria.

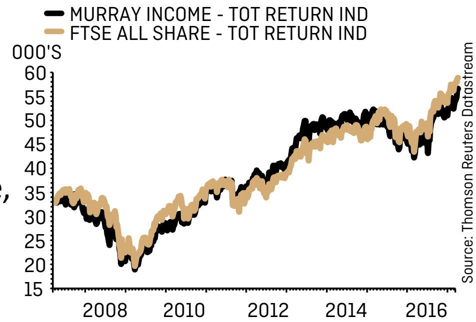
Meadon cites **Fevertree Drinks (FEVR:AIM)** as 'an out and out momentum stock with great share and earnings momentum'. He points to Taylor Wimpey and other quality UK housebuilders having cash rich balance sheets and says insurer **Aviva (AV.)** looks very cheap.

MURRAY INCOME TRUST (MUT) 771.5P

DISCOUNT TO NET ASSET VALUE: 8.4%
NUMBER OF CONSECUTIVE YEARS OF DIVIDEND GROWTH: 43

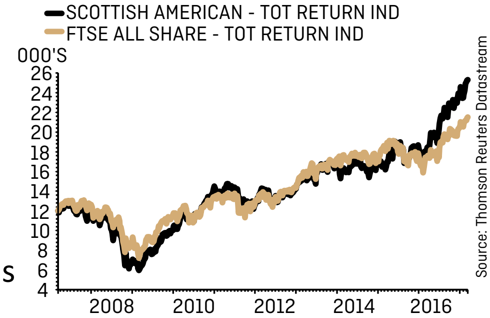
Murray Income focuses on fundamentals such as a strong business model, experienced management team and conservative balance sheet. 'It aims to invest in good quality companies with attractive dividend yields that are capable of growing their earnings and dividends over the long term,' says manager Charles Luke.

Over the last decade, the trust has accessed its revenue reserve only twice. Its favourite source of income is the pharmaceutical sector with holdings including GlaxoSmithKline, **AstraZeneca (AZN)** and Roche.



SCOTTISH AMERICAN INVESTMENT COMPANY (SCAM) 342P

PREMIUM TO NET ASSET VALUE: 3.6%
NUMBER OF CONSECUTIVE YEARS OF DIVIDEND GROWTH: 37



Baillie Gifford-managed Scottish American Investment Company – also known as 'SAINTS' – aims to grow the dividend at a faster rate than inflation.

Global equities are its focus, although investments are also made in bonds, property and other asset types.

'We focus on identifying exceptional companies which will persistently deliver both robust cash flow growth and dependable dividends,' says manager Dominic Neary.

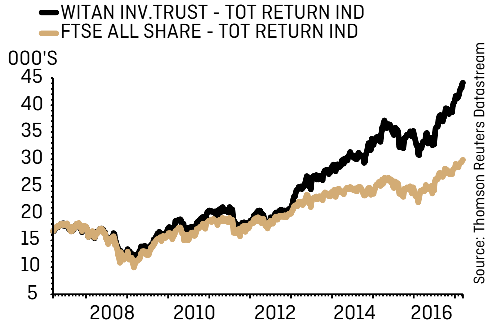
Neary's favoured stocks include TSMC, 'the Taiwanese semiconductor manufacturer, which has built up the leading position in making chips for a huge range of end-markets.

'We can see demand for silicon rising enormously over the next five to 10 years as the number of devices proliferates – and TSMC is now one of the only businesses who have the scale and skills to meet this growth in demand.'

A recent portfolio addition is cash-generative dividend payer Kering, a luxury goods business which owns Gucci and many other brands. 'We see two big drivers of growth; an improvement in the performance of Gucci and Puma under revitalised creative teams, and continued growth from the collection of smaller luxury brands the group has incubated over many years.'

WITAN INVESTMENT TRUST (WTAN) 953.5P

DISCOUNT TO NET ASSET VALUE: 4.8%
NUMBER OF CONSECUTIVE YEARS OF DIVIDEND GROWTH: 42



Witan Investment Trust uses a multi-manager approach to deliver long-term growth in income and capital for shareholders. Chief executive Andrew Bell comments: 'Over the past 25 years, we have only twice paid dividends that were higher than the earnings for that year.

'The first was 1999, when the dividend was 7.6p and revenue earnings 7.54p. The second was 2010, when the dividend was 10.9p and revenue earnings 9.6p. That was the year when **BP (BP.)** cut its dividend and a number of manager changes meant we were less fully invested than normal.

'Since 1974, the dividend has risen from 0.38p to 19p in 2016, an annual growth rate of 9.8% over the 42 years, during which UK consumer prices rose by 5.7% per annum, so our dividend has on average risen 4% faster than inflation.' (JC/LMJ)

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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.

Dealing with new pension and dividend rules

How to manage your finances and reduce nasty tax bills

Chancellor Philip Hammond has earned the moniker 'spreadsheet Phil' for his reportedly waspish attention to detail. However, his first Budget has been mired in controversy amid accusations a manifesto pledge to not increase National Insurance contributions was flagrantly broken.

Away from this furore two big announcements could have a significant impact on retirement investors. Here, I break down those changes and how you can limit their impact on your retirement plans.

MONEY PURCHASE ANNUAL ALLOWANCE SLASHED

No news is usually good news when it comes to pension tax relief. Savers should be delighted to see the Chancellor resist the temptation to follow in the footsteps of his predecessor, George Osborne, by hacking back the main annual and lifetime allowances.

However, the Government is continuing full steam ahead with plans to reduce the annual allowance for those who have taken income from their pension flexibly – known as the Money Purchase Annual Allowance – from £10,000 to just £4,000 from April 2017.

This is different from the annual allowance taper, which gradually reduces the annual allowance for those with an income of more than £150,000.

WHAT ARE MY OPTIONS?

You can still take up to 25% tax-free from your pension from age 55 and retain the £40,000 annual allowance provided you don't take anything else. So you should consider spending this before drawing down an income or taking a taxable lump sum from your pot.

If you do trigger the MPAA, all is not lost – alongside your £4,000 pension savings allowance, you still have a £20,000 annual ISA limit from 6 April 2017.

DIVIDEND ALLOWANCE

Less than a year after it was conceived, Hammond decided the £5,000 dividend income allowance was far too generous and announced a whopping 60% cut to just £2,000, kicking in from April 2018.

This is a hugely important change with potentially significant implications for anyone who holds dividend paying investments outside a tax wrapper.

WHAT ARE MY OPTIONS?

You should review where your dividend paying investments are held to ensure you don't end up being hit by a nasty tax charge.

If you hold your dividend paying investments in an ISA or SIPP, for example, you won't pay any tax on the income you receive. If you do go down this route, consider prioritising those investments that are likely to pay the highest dividend (and thus be hit with a tax charge post-April next year) as ones to switch into an ISA or SIPP first.

TOM SELBY,
senior analyst, AJ Bell

We like zero dividend preference shares

Lower taxes and predictable payouts are the reward for patient investors

Zero dividend preference shares (ZDPs) are a niche yet overlooked form of investment that can offer fixed and relatively low risk returns.

ZDPs are issued by split capital investment trusts, which are similar to other investment companies in that they own and manage a portfolio of investments. The difference is they have more than one type of share – in addition to ZDPs, they offer income shares and capital shares.

Split-caps were embroiled in a big mis-selling scandal in the early 2000s when they became overleveraged and suffered huge losses during the market downturn. Many split-caps invested in each other which made the damage even worse.

The split-cap market is vastly smaller than it used to be, but this shouldn't put investors off. Tim Cockerill, investment director at Rowan Dartington, says ZDPs represent a secure, safe and predictable form of investment. They are first in the queue of share classes in the event of the trust failing, although they do still rank behind debt.

Instead of paying regular income during their lifetime, zero dividend preference shares have a predetermined value which is paid to shareholders on a specific redemption date in the future when the trust is wound up.

ZDPs publish a 'promised yield', which is the effective annual yield you'll get if you hold the shares until maturity and the trust doesn't go bust. These yields currently range from around 2% up to around 5%.

The predictable nature of ZDPs makes them a popular tool for school fees planning. They can also be useful if you need returns delivered at specific times in retirement.

As part of a split capital investment trust, ZDPs are listed and traded on the stock exchange which, in theory, means you can buy and sell them at any time.

Some trusts are relatively illiquid so it might be difficult to sell the shares when you want to. They are designed as buy and hold investments.

TAX BENEFITS

Zeros are helpful from a tax planning perspective because the return is taxed as a capital gain rather than income.

'This tax treatment is generally advantageous for UK resident taxpayers as the current top rate of capital gains tax (CGT) is

28%, compared to top rates on income tax of 40% and 45%. It is also normally easier to reduce CGT liabilities using personal allowances and by offsetting capital losses,' explains Mick Gilligan, partner and head of fund research at Killik.

The fact that the returns are predictable means you can figure out what your likely CGT bill will be when the zero matures. 'If you invested in a portfolio of zeros with differing maturity dates, you may be able to generate a succession of returns that do not generate any CGT liability,' says Ryan Hughes, head of fund selection at AJ Bell.

You can shelter ZDPs from capital gains tax by holding them in an ISA or SIPP (self-invested personal pension).

UNDERLYING INVESTMENTS

Split-caps invest in a range of underlying assets. You can get mainstream ones like **Acorn Income Fund (AIFZ)**, which invests in UK small and mid-cap companies such as **Conviviality (CVR:AIM)**, **Safestyle UK (SFE:AIM)** and **Secure Trust Bank (STB)**.

There are esoteric options like

Ranger Direct Lending (RDLZ), which invests in a portfolio of debt obligations, and **Taliesin Property (TPFZ)**, which invests in residential property in Germany. Ranger Direct Lending offers one of the highest yields at 4.5% but Cockerill says this is because direct lending is a higher risk, relatively new concept.

NB Private Equity Partners (NBPP) has a 3.2% yield. The company's cover – the number of times it could pay off its ZDPs at redemption – is a healthy 10.44.

It also has a good hurdle rate of -32.1%; this means that if its net asset value fell by 32.1% a year until wind-up, it could still afford to redeem its ZDPs. A negative hurdle rate shows a trust's underlying can fall and your returns can still be paid.

THE FUND ROUTE

It is possible to invest in ZDPs via a specialist fund such as **Smith & Williamson Multi Manager Cautious Growth (IE00B7SMSG88)**.

Hughes at AJ Bell says investors should look beneath the bonnet of these funds because they may be different to how they first appear.

Because the universe of zeros is very small, the funds often diversify into other investments like structured products and more generalist investment trusts.

'While investing in a fund will give you exposure to a broad spread of different zeros, you will lose the natural use of your CGT allowance unless you redeem units in the fund.

'You should also remember that the fund route will be more expensive given the additional operating costs a fund incurs,' he concludes. (EP)

ZERO DIVIDEND PREFERENCE SHARES HAVE TAX BENEFITS

ZERO DIVIDEND PREFERENCE SHARES

Trust	Redemption date	Price	Redemption price	Promised yield	Hurdle	Cover
Acorn Income Fund (AIFZ)	28 Feb 2022	144.3p	167.2p	3.0%	-17.1%	2.63
Chelverton Small Companies (SDVZ)	8 Jan 2018	134.5p	136.7p	1.9%	-77.9%	3.83
JPMorgan Income & Capital (JPIZ)	28 Feb 2018	187.8p	192.1p	2.3%	-37.3%	1.61
JZ Capital Partners (JZCZ)	1 Oct 2022	415.5p	483.7p	2.7%	-26.3%	10.71
NB Private Equity Partners (NBPP)	30 Sept 2022	106.4p	126.7p	3.2%	-32.1%	10.44
Premier Energy and Water (PEZ)	30 Nov 2020	113p	125.7p	2.9%	-14.8%	1.85
Ranger Direct Lending (RDLZ)	31 July 2021	105p	127.6p	4.5%	-24.0%	3.40
Taliesin Property (TPFZ)	30 Sept 2018	136.3p	144.3p	3.6%	-40.1%	7.14
UIL (UTLF)	31 Oct 2022	110p	147p	5.2%	-14.5%	7.08

Source: Morningstar, 20 February 2017. Shares with a 2017 redemption date have been omitted.

National Grid is about to give £4bn away

Powerful income story remains in face of inflation threat

Electricity utility **National Grid (NG.)** is to return a large chunk of cash to shareholders in 2017 after selling a 61% stake in its gas distribution networks.

The sum will be substantial, analysts estimate around £4bn will find its way back into the pockets of shareholders through a special dividend of something close to 85p per share. There will also be an accompanying share consolidation and £1bn share buyback.

That payout alone would represent an 8.7% income yield, and that's before ordinary dividends that come with a promise of RPI-linked growth for the foreseeable future. Total income next year to 31 March 2018 could be worth as much as 130.7p, for a yield of 13.4% at the current 972.9p share price.

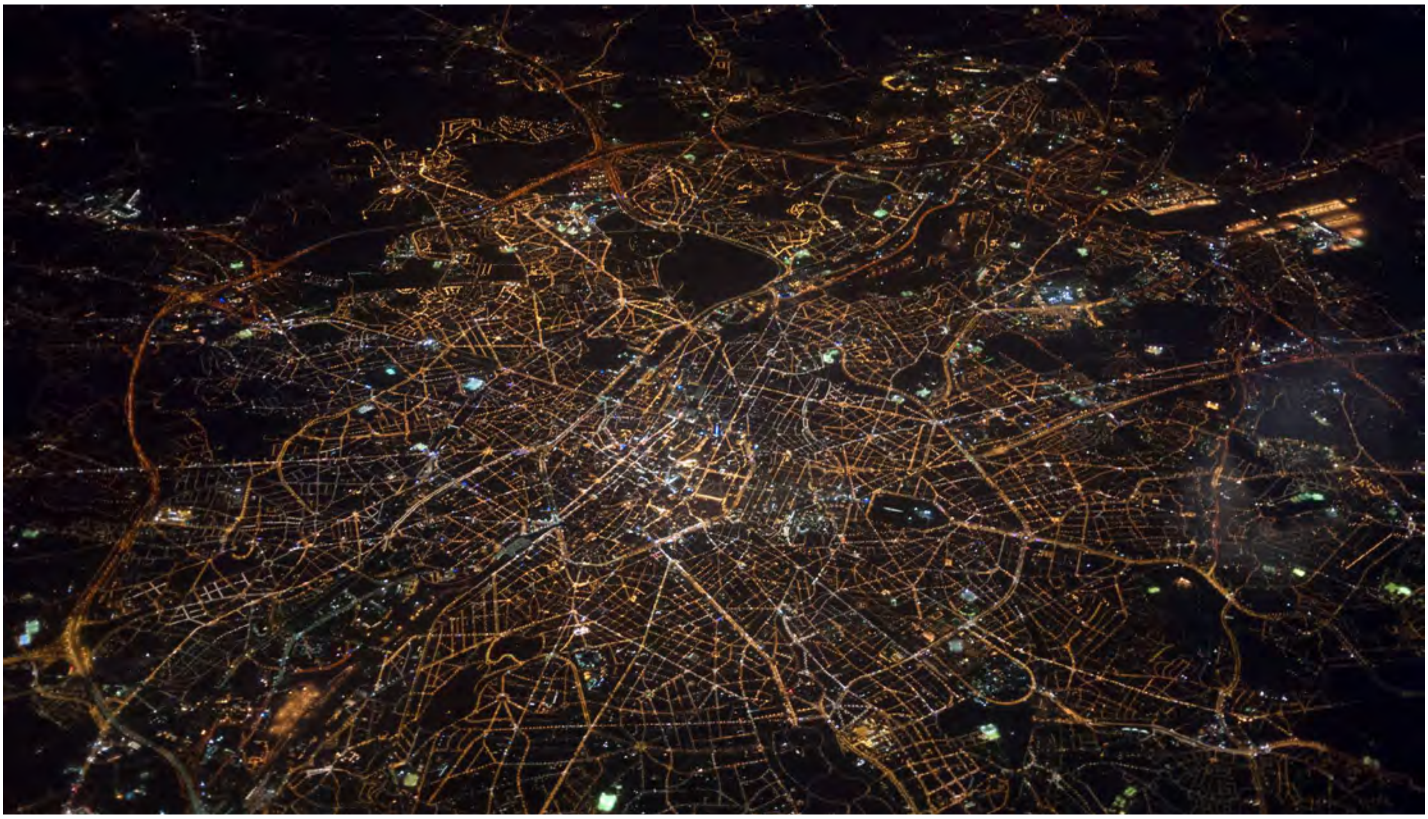
For such a close on guaranteed return investors might well wonder why the group's share price has not risen more sharply since the gas distribution sale was announced almost three months ago.

The simple answer is the increasing likelihood of a UK interest rate rise this year to quell returning inflation. This would act as a brake on all bond proxy-type equities, of which National Grid is one.

UNDERSTANDING NATIONAL GRID

National Grid, the UK's largest listed utility worth just shy of £36.9bn, sits in an enviable position. While increasing competition bites across the retail energy field as consumers are encouraged to switch, National Grid owns the infrastructure through which homes and businesses get their power regardless of supplier.

It's a business that has been performing reasonably well in both the UK and US. Newish CEO John Pettigrew, who replaced Steve Holliday in March 2016, unveiled half year to 30 September results in November. These showed adjusted operating profit of £1.85bn, and adjusted pre-tax profit of £1.36m. That's about flat on both counts versus 2015 first half figures although the



rough £2.09bn of cash generated is plenty to pay the £571m first half dividend (15.17p per share) commitment and meet the interest payments on its £29.2bn of net debt.

The consensus of analyst forecasts for the full year to 31 March 2017 stands at £5.77bn and £3.04bn operating and pre-tax profit respectively, implying earnings per share (EPS) of about 64p. That implies a price to earnings (PE) multiple of 15.2, or about a 4% or 5% discount to the wider utilities sector and the FTSE All Share index.

HOW BIG ARE THE THREATS?

We have already seen the first interest rate rise in the US for about a decade. There is a strong anecdotal argument to support a similar move in the UK at some point in 2017, mainly due to the emergence of marginal inflation for the first time in years.

Between early October and early December 2016 the stock slumped 19%, neatly tying in with a rapid jump in the yield of 10 year government bonds (gilts) (yields went from about 0.75% to more than 1.4%).

The counter claim is that rising costs of living in Britain may prove temporary. 'Our economics team sees only a 30% risk of an interest rate hike later this year,' explain analysts at investment bank Berenberg. They believe that higher input costs due to weaker sterling may well be a relative flash in the pan, and it is highly possible that ongoing uncertainties surrounding the complex issue of Brexit could restrain the Bank of England.

Since early February gilts have softened and this tallies with a spell of strength for National Grid stock. Although arguably is not fully reflected in a share price which has edged just 6.7% higher from 911.7p lows on 1 February.

KEEP AN EYE ON THE STOCK

As Berenberg's analysts note, 'if investors are convinced that bond yields will continue to rise, then National Grid is probably not the stock for them; it is more one to keep a watchful eye on.'

Selling the gas distribution stake made a lot of sense, exiting most of a maturing asset to free capital investment resources for stronger growth options in UK transmission and US operational assets. A deal with watchdog Ofgem also removes an irritation over its small UK electricity balancing business.

SHARES SAYS: ↗

Ordinary dividends should yield 4.7% in the year to 31 March 2018, and that RPI-beating promise provides some level of natural hedge if inflation does hang around. (SF)

BROKER SAYS: 6 6 4

There is plenty of life left in Dignity

Sell-off following growth target downgrade seems severe

A correction at funeral services provider **Dignity (DTY)** has created a buying opportunity in a quality company. We consider the mark-down of this defensive, cash-generative outfit overdone and believe any obituaries to Dignity's market share gain potential are premature.

REDUCTION IN EARNINGS GUIDANCE NOT CAUSE FOR ALARM

NOT AT DEATH'S DOOR

Sutton-Coldfield-based Dignity's shares slumped on full year results (8 Mar), despite the delivery of better-than-expected pre-tax profits of £75.2m and a 10% total dividend hike to 23.59p, as 2016 UK deaths came in at an unexpectedly high 590,000 (2015: 588,000).

The £1.27bn cap warned the number of deaths in 2017 'could be significantly lower than 2015 and 2016' as the abnormally high death rate of the last two years reverts to the mean. Given the size of the group and 'increasing competition in each of our markets', Dignity also revised its medium-term underlying earnings per share (EPS) growth target from 10% per year to 8%.

COMPETITION CONCERNS

Admittedly, Dignity is finding growth harder to deliver with each strong set of results. A larger funeral market share decline in 2016 than seen before, down from 12.3% to 11.8% of the UK market (excluding Northern Ireland) is cause for concern.

However, guided by CEO Mike McCollum, Dignity will continue to argue for regulation of the funeral and pre-arranged funeral industries, which have attracted some unscrupulous players.

Any future regulation, combined with Dignity's unrelenting focus on customer service, implies the opportunity to consolidate a fragmented market remains attractive.

Dignity invested £56.3m in acquisitions last year. Its future funeral revenues are supported by the 404,000 (2015: 374,000) active pre-arranged plans in issue, and three new crematoria are set to open in 2018 and 2019.

IN RUDE HEALTH

In any event, Dignity's new earnings target is still very healthy for a consumer defensive stock. For the years to December 2017 and 2018, Panmure Gordon analyst Michael Donnelly forecasts improved pre-tax profits of £77.4m (2016: £75.2m) and £83.4m respectively, with EPS set to rise to 123p (2016: 119.8p) this year ahead of 135.1p next year.

Panmure sees Dignity, which has an enviable record of cash returns, increasing the dividend from 22.2p to 26p this year. We also note Investec Securities has upgraded its discounted cash flow (DCF)-based price target from £27.95 to £29.40.

SHARES SAYS: ↗

While the earnings target downgrade is unwelcome, Dignity remains a quality company whose resilient earnings and formidably strong cash flow justify the high rating. Keep buying at £24.98.

BROKER SAYS: 2 2 0

Valuation anomaly puts spotlight on Metal Tiger

Miner claims its shares are trading below true value of its assets

Small cap mining group **Metal Tiger (MTR:AIM)** believes its shares are trading below the value of its investment in Australia-listed MOD Resources. If true, it would mean anyone invested in Metal Tiger effectively gets its other assets for free including interests in Thailand and a few investments in AIM-quoted resource companies.

PROJECT STAKE COULD BE WORTH MORE THAN INVESTOR'S MARKET CAP

Metal Tiger has a 30% stake at the project level in MOD's Kalahari copper project in Botswana, as well as approximately 5% of MOD at the company level plus 1.5m warrants exercisable at 6c.

MOD's share price has risen by 110% so far this year to 7.9c off the back of positive exploration results at its Botswana copper project and a rising copper price.

'I'd say 95% of MOD's market value is its copper project,' says Metal Tiger chief executive Michael McNeilly, adding that minimal value is being attributed to MOD's gold interests in New Zealand.

Applying that 95% ratio to MOD's A$128m (£79m) market valuation at the time of writing equates to its 70% share of the copper project being worth A$121.6m (£75m). Metal Tiger's 30% stake would therefore be worth approximately £32m – which is higher than Metal Tiger's £19.9m current valuation.

You have to remember Metal Tiger also owns that 5% stake in the business as well.

In a previous conversation with *Shares* earlier this year, McNeilly said he has turned down an offer for Metal Tiger's shares in MOD, adding that private equity firms had been looking at the Australian-listed firm as a whole.

'We don't want to give away any value yet. People should be excited about the asset, as we've barely scratched the surface,' he said.

The MOD copper assets used to be owned by former AIM-quoted Discovery Metals. McNeilly says that company missed the copper mineralisation now being worked by MOD when it previously drilled the licence area.

MOD continues to drill out decent copper grades and on 6 March said it had found a new zone of copper mineralisation located beneath its T3 Resource area.

MINING SPIN-OFF

Metal Tiger has a joint venture with several parties in Thailand who hold mining lease applications for two former-producing silver/lead/zinc mines.

It wants to get approval from the government to reopen the mines. A new Minerals Act in the country comes into force on 30 August 2017.

The company intends to spin off its Thai assets into a separately-listed company to be called KEMCO Mining. This is expected to float on AIM in June or July.

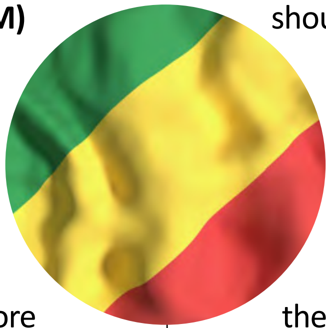
Metal Tiger raised £514,500 via the issue of warrants earlier this month to fund IPO costs and working capital for the Thai operations.

Failure to admit KEMCO to AIM by 13 October 2017 would see the warrants automatically convert into Metal Tiger shares. (DC)

Another oil firm plans juicy dividends

Newly listed small cap targets low risk production

Anglo African Oil & Gas (AAOG:AIM) believe its newly-acquired asset in the Republic of Congo offers a combination of low risk production growth and high octane exploration.



The company raised £10m at 20p per share alongside its IPO (initial public offering) on 6 March to fund the acquisition of a 56% stake in the near shore Tilapia field.

The immediate priority is to lift output from the current 38 barrels of oil equivalent per day (boepd) to 250 boepd through a workover programme on two existing wells, expected to complete by May.

Executive chairman David Sefton tells *Shares* this will take the company to breakeven on a cash flow basis.

The plan is to then drill a new multi-horizon well through the already-producing R1 and R2 sands and an undeveloped discovery called Mengo which should lift production to 750 boepd.

EXPLORATION UPSIDE

Here's the interesting bit. The well will test the Djeno horizon from which, in a neighbouring field, French sector giant ENI is producing upwards of 5,500 boepd.

Chief executive Alex MacDonald says the funds raised at IPO cover this work programme with future costs met out of cash flow. There are plans to pay 75% of net free cash flow after capital expenditure as dividends in the future.

MacDonald dismisses fears over security. 'This is the nice Congo,' he says, adding that costs are low as the company can drill from onshore.

SHARES SAYS: ↗
Looks interesting at 26.25p. (TS)

Portmeirion is unbreakable

GEOGRAPHICALLY DIVERSIFIED ceramics maker **Portmeirion (PMP:AIM)** is showing resilience in the face of South Korean and Indian struggles. Full year results (9 Mar) revealed a 7.5% dividend hike to 32.25p, continuing Portmeirion's record of never cutting or withholding the payout since its 1988 stock market debut. Cantor Fitzgerald has a £12 price target for Portmeirion, currently 960p and with potential to develop home fragrances brand Wax Lyrical overseas. (JC)

Mountfield is looking healthier

SHARES IN CONSTRUCTION and support services micro cap **Mountfield (MOGP:AIM)** have started to move upwards as a trading update reveals it is overcoming previous problems. Subsidiaries Connaught Flooring (CAF) and Mountfield Building Group (MBG) both traded profitably in 2016. CAF has started the new financial year strongly with two contract wins. MBG is benefiting from a new structure and strategy. (TS)

Quadrise is out of fuel

FUEL TECHNOLOGY BUSINESS **Quadrise Fuels (QFI:AIM)** once again experiences the downsides of agreements with larger companies as a trial of its proprietary MSAR fuel faces another delay. Shipping giant Maersk has prematurely suspended a trial of MSAR as the relevant vessel is no longer available. Work is not expected to recommence until the fourth quarter of 2017 at the earliest. (TS)

Funds in turnaround mode

What should you do if there is a major change to your fund?

In an ideal world a fund would provide investors with a long-term exposure to the markets where the manager is able to consistently add value through a clear and transparent strategy. Unfortunately, things don't always go according to plan.

It's possible that a fund could suffer a prolonged period of poor performance. If things get bad enough this could result in a change of manager and potentially a new strategy or mandate.

Where an overhaul is necessary it should follow a well-documented procedure, as was the case with **Alliance Trust (ATST)**. The investment trust announced in May 2016 that it was going to undertake a strategic review. This process resulted in the board recommending a new multi-manager strategy that was recently ratified by shareholders and that has been welcomed by analysts such as Canaccord Genuity who have issued a 'buy' recommendation.

The problem is that some funds change things around then run into problems and have to go through it all again. A prime example is the former British Assets Trust that changed its mandate and manager to become BlackRock Income Strategies in February 2015. Unfortunately for investors its new managers failed to deliver and were sacked after less than two years with the responsibility passing to Aberdeen Asset Management.

REVERSAL OF FORTUNE

Patrick Connolly, a certified financial planner at Chase de Vere Independent Financial Advisers, says that virtually every investment fund and manager will have periods of underperformance.

'We've seen this recently with renowned manager Neil Woodford, who set up his own investment company and launched his first fund, **Woodford Equity Income (GB00BLRZQ737)**, in June 2014. It has performed well since launch, although over the past year it is ranked only 73rd of 79 funds in its sector.'

It can be difficult for investors to understand why their funds are underperforming, which is why some people exit at the wrong time, often as performance is about to improve, and switch into top performing funds that could be on the verge of going into decline.

One fund that is heading in the other direction is **M&G Recovery (GB0031289217)**. It has been managed by Tom Dobell since 2000 and invests in beaten-up stocks that look as if they are ready to recover.

'For a number of years the fund performed well and Dobell was considered one of the top UK managers, but his style went out of fashion following the financial crisis as investors sought solid earnings and dividends in better quality stocks and the fund suffered as a result,' explains Connolly.

M&G Recovery underperformed the FTSE All-Share Index in every year from 2011 to 2015, but anyone who had jumped ship would have missed out on the turnaround with the fund returning 37% over the last year as the manager's style came back into favour.

NEW MANAGER

A sustained period of poor performance will often result in the replacement of the manager. This sort of drastic intervention could open up the potential for some significant changes to the fund.

Ryan Hughes, head of fund selection at AJ Bell Investments, says that investors need to be careful when looking at these sorts of turnaround opportunities as they need to be fairly certain that the worst is over.

'When a new manager is appointed, it is often the case that there is a lot of portfolio turnover where they sell the stocks in the portfolio they don't like and replace them with the ones they do. This generates transaction costs that can hamper returns in the short-term.'

If you own a fund that goes into a turnaround situation, it is often best to remain patient as otherwise you could end up crystallising your losses at the bottom of the cycle just before a recovery kicks in.

A recent example is the **Miton UK Value Opportunities (GB00B8QW1M42)** fund, where the managers George Godbar and Georgina Hamilton resigned in April 2015 to join Polar Capital. Their departure came straight after the EU referendum, which had a disastrous effect on their mid-cap orientated fund.

'This was a highly popular fund with over £800m in assets, but their departure sparked a mass exodus with circa £600m leaving the fund. The new manager Andrew Jackson took the helm in June and has now repositioned the portfolio,' explains Hughes.

'WHEN A NEW MANAGER IS APPOINTED, IT IS OFTEN THE CASE THAT THERE IS A LOT OF PORTFOLIO TURNOVER WHERE THEY SELL THE STOCKS IN THE PORTFOLIO THEY DON'T LIKE AND REPLACE THEM WITH THE ONES THEY DO.'

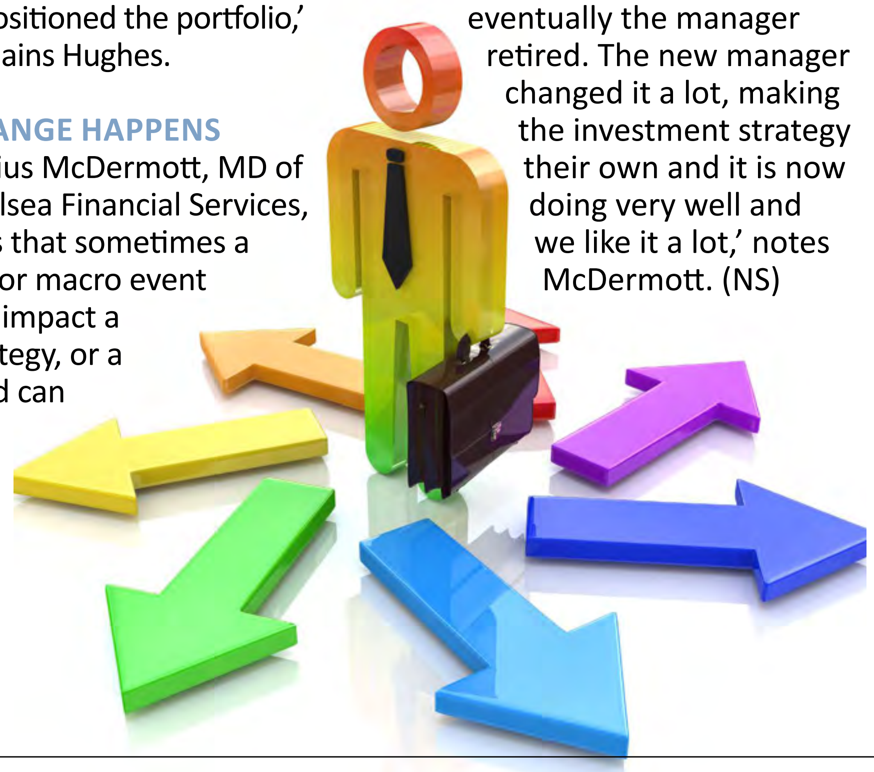
CHANGE HAPPENS

Darius McDermott, MD of Chelsea Financial Services, says that sometimes a major macro event can impact a strategy, or a fund can get too large for its mandate, such as with a smaller companies fund.

'If you like the new manager or the new strategy suits your investment goals you may consider investing. When it comes to divesting, a red flag would be underperformance of three years or more, or underperformance that the manager can't explain or that you wouldn't expect given the prevailing market conditions.'

Stewart Investors Asia Pacific Leaders (GB0033874214) had a manager change about 18 months ago. The new manager has put their mark on the fund by having more sustainable investments in the remit, which is a relatively small change but one that Chelsea thought was worth sticking with.

'Another example is **Jupiter Absolute Return (GB00B5129B32)**. This fund was very good for a while but then had a long period of underperformance and eventually the manager retired. The new manager changed it a lot, making the investment strategy their own and it is now doing very well and we like it a lot,' notes McDermott. (NS)



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