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SHARES

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HELP! I'M NEW TO INVESTING

INSPIRATION

I'M PLANNING FOR THE FUTURE

I'M NOT SURE WHAT TO DO

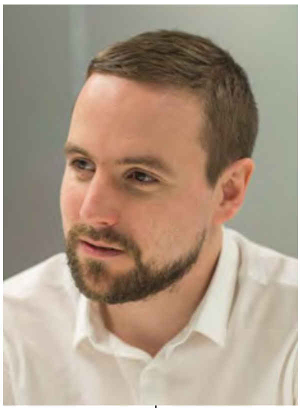
WORRIED ABOUT INFLATION?
We reveal a fund that could protect your portfolio

SMALL CAP RIPE FOR TAKEOVER
Construction equipment firm looks like a sitting duck

HOW TO SHELTER YOUR HOME FROM THE TAXMAN

Levelling the playing field on IPOs

Will proposed changes from FCA make any difference to ordinary investors?



The IPO market is picking up again after the post-Brexit vote hiatus. Some high-profile names are reportedly preparing to list in London in the coming months including warehouse company **Logicor** and mobile network **O2**.

At the same time the Financial Conduct Authority (FCA) is making progress with its shake-up of the rules governing companies heading for a flotation.

At present the full prospectus, containing chapter and verse on a company and the various risks it faces, is often not made publicly available until after a stock is already trading.

The FCA's latest plans, announced 1 March, aim to make the process more transparent.

The US has been cited as a model. Across the pond a registration document must be filed publicly before even the US market regulator, the Securities and Exchange Commission, sees it.

Shares has been vocal about the need for reform in this area, although it remains to be seen if retail investors will see any genuine benefit.

TELL ME ABOUT THE PROPOSED CHANGES

In broad strokes the FCA is looking to bring the publication of a company's prospectus forward and open up a process which currently only allows for 'connected research' from the banks which are running the IPO to be published ahead of time.

Two alternatives are proposed to address this problem. The first would see a company meet all independent analysts in one go, leaving them free to put out their research once an intention to float announcement is published.

The alternative would see 'connected' analysts meet the company first, briefing independent analysts within seven days, after which both would issue their reports.

The chief executive of research consultancy Lazarus David Knox comments: 'Bringing the publication of the prospectus earlier in the process has to be a good thing. This gives the institutional investment community the opportunity to see facts and figures.

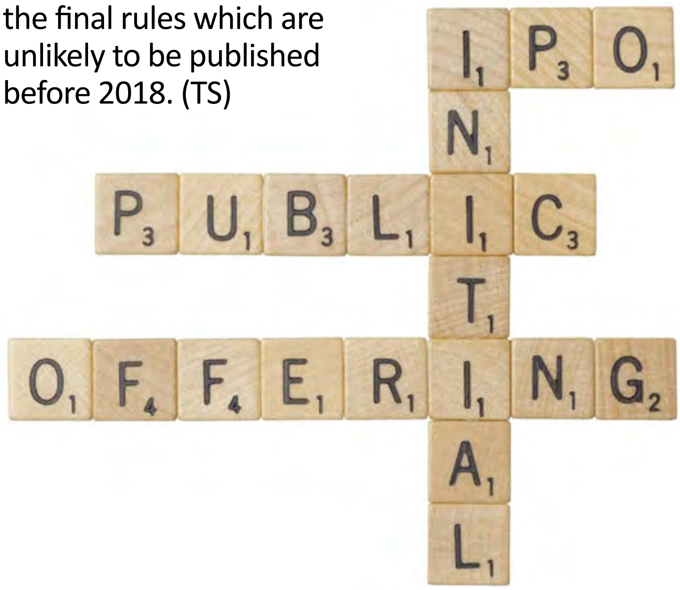
'Secondly allowing independent research analysts syndicated access to write unconflicted and independent research should lead to greater transparency and a better price discovery process.'

WHAT'S IN IT FOR PRIVATE INVESTORS?

Knox, formerly head of research at JPMorgan Cazenove, reckons the retail investment community could also benefit as independent analysts make research available to private client brokers and more information filters through to the retail investor base.

The key risk of the changes, according to Knox, is 'if not handled properly' that the process becomes too onerous for mid-sized and smaller companies and inhibits new stock market floats.

The FCA's consultation process runs until May and it will consider responses before drawing up the final rules which are unlikely to be published before 2018. (TS)



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Setting the course for Brexit

Volatility in the pound as UK prepares to trigger its exit from the EU

The starting gun on Brexit is set to be fired on 29 March. That is when Government will trigger Article 50 and formally begin the process of leaving the European Union (EU).

Sterling dropped in the immediate aftermath of the news. This is somewhat surprising given the guidance had always been for Brexit to be triggered at the end of March.

STERLING SWINGS WILDLY

The pound since recovered with a higher than expected inflation reading (21 March) building the case for a UK interest rate rise, but the reaction suggests the currency will remain volatile as the UK navigates its departure from the EU.

This has implications for all investors, not just currency traders, as the performance of sterling has a bearing on how the overseas earnings of UK stocks are valued.

WHAT HAPPENS NEXT?

An official response from the EU is expected within two days of Article 50 being triggered with negotiating guidelines for the bloc expected to be in place late April at the earliest, at which point talks are likely to begin in earnest.

Under the two-year timeframe mandated by Article 50 the UK should leave the EU in spring 2019. The Great Repeal Bill, which will ensure EU law no longer applies in the UK, is expected to be included in the next Queen's Speech in May.

The plan is to pass the legislation ahead of Brexit but for it to become law only once Brexit is complete.

We will explore what the triggering of Article 50 means for investors in next week's issue of *Shares*. (TS)

Argos saves the day for Sainsbury's

'So far, so good' from acquired catalogue brand

A MIXED FOURTH quarter trading statement from **Sainsbury's (SBRY)** was saved by a forecast-beating performance from recently-acquired Argos.

Like-for-like retail sales softened 0.5% in the core supermarkets business; in contrast Argos achieved 4.3% growth.

Argos' online strength and delivery skills could boost Sainsbury's general merchandise sales and help it battle Amazon and others.

Chief executive Mike Coupe, who has staked his reputation on buying Argos, has been quoted as saying the integration is a case of 'so far, so good'. A further update on progress is expected with Sainsbury's full year results on 3 May.

The market is positive on Sainsbury's despite its mixed performance and tough competitive landscape. Its shares are up 10% so far this year.

Our view is that competitive pressures will remain a key challenge for the business.

The performance of **Tesco (TSCO)** is strengthening; **WM Morrison Supermarkets (MRW)** has returned to like-for-like growth; Aldi and Lidl aren't going away and Asda is picking itself up off the floor. (JC)

Watch NHS risk with Medica

Company derives nearly all of its revenue from the health service

Teleradiology business **Medica (MGP)** is making a strong start to life as a public company. The shares rallied more than 30% after its £121m IPO on Tuesday (21 Mar) but investors should do their research before riding this momentum.

Medica uses consultant radiologists to interpret computerised tomography (CT) and magnetic resonance imaging (MRI) scans and help provide early diagnosis of various diseases.

It already offers services to more than 100 NHS trusts, as well as private hospitals and diagnostic imaging companies and hopes to expand into new areas.

This is necessary because the company is almost entirely dependent on the UK's cash-strapped health service for its work.

Medica will use the money raised through the flotation to pay down borrowings, although it still has £10m of debt after admission.

Private equity firm CBPE and management have both used the opportunity to sell down their holdings in the businesses and are left with respective stakes of 11.1% and 7.9%.

Management are upbeat, arguing its operating profit growth of 28.6% in the nine months to September 2016 provides a strong base from which to grow. (LMJ)

The fund which can help you beat inflation

SAINTS can be your saviour from the 'cruellest tax'

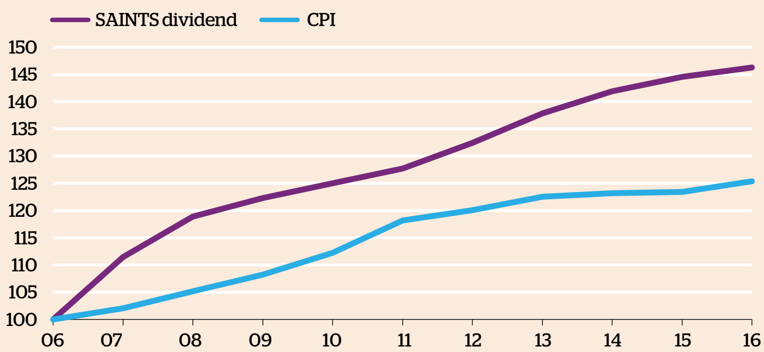
UK INFLATION PUNCHED through the 2% target with ease in February. The 2.3% rate of year-on-year price growth represented the highest level of headline CPI since 2013. Accordingly, assets able to protect portfolios from the so-called 'cruellest tax' should be on investors' shopping lists.

As the chart shows, one closed-ended fund with a formidable record of combating inflation is the **Scottish American Investment Company (SCAM)**. Baillie Gifford-managed 'SAINTS' aims to grow the dividend at a faster rate than inflation and boasts a 37 year track record of consecutive dividend increases.

Manager Dominic Neary buys exceptional companies delivering robust cash flow growth and dependable dividends.

Leading equity holdings include Coca Cola, Procter & Gamble and luxury goods group Kering. 'The business is a cash-generative one,' says Neary of Kering, 'so the dividend should be dependable. We also think the Pinault family have been excellent stewards of the business and we are glad to have the opportunity to invest alongside them.' At 339.5p, Scottish American is a portfolio must for its inflation-busting credentials. (JC)

Dividend versus CPI (figures rebased to 100 at 31 December 2006



Source: Thomson Reuters Datastream / Baillie Gifford & Co. The Consumer Price Index (CPI) is a measure of inflation that is used in the Government's target for inflation

Cheap mortgages could free up cash for investing

Experts predict a price war will bring down rates

A sudden decline in mortgage costs could benefit anyone trying to find ways to put more cash into their savings and investments.

Individuals taking out a new mortgage or simply remortgaging could get a great deal over the coming weeks, potentially leaving more money in their pocket for other things in life.

So why do we think this positive situation will arise? It's down to talk of a potential mortgage price war after Yorkshire Building Society launched a mortgage product with a rate below 1%.

Yorkshire's 0.99%, two year fixed rate deal is available to borrowers with a 40% deposit.

Breaking below the psychological 1% barrier could trigger more mortgage providers to cut their rates in order to win new business.

Discussing the Yorkshire product, L&C Mortgages' associate director David Hollingworth says: 'This rate is astonishingly low and on par with the lowest ever – but the fee is £1,495 and there's no help with other set up costs like valuation.'

Anyone lucky enough to get such a cheap mortgage deal should look at their finances and work out how much cash is left over after paying the bills to put into the stock market as long-term savings.

We'd suggest you set up a monthly direct debit so you drip feed cash into an ISA or self-invested personal pension (SIPP).

It is possible to invest in shares or funds with transaction fees as low as £1.50 if you use regular investment schemes. Most investment platforms offer this service. (DC)

888 comes up trumps

ONLINE GAMING GROUP **888 (888)** shrugged off currency headwinds to deliver forecast-busting full year results (21 Mar) showing strong organic growth and substantial free cash flow. Investec Securities is a buyer with a 260p price target, arguing 'given 888's size and superior technology offering, as well as its growing Sport product vertical (now 10% of the business), we regard 888 as either a consolidator or key potential take-out target.' (JC)

AstraZeneca to take a dose of Circassia

FTSE 100 DRUGS giant **AstraZeneca (AZN)** is to become a 14.3% shareholder in small cap speciality pharma business **Circassia (CIR)**. The latter is buying US commercial rights to two products from AstraZeneca in a cash and shares deal. AstraZeneca will displace **Touchstone Innovations (IVO)** as the biggest listed shareholder; Touchstone presently owns 9.3% of Circassia, according to Reuters. (DC)

Investor makes £2bn move on Anglo

VEDANTA RESOURCES' (VED) majority shareholder is to invest up to £2bn in shares in FTSE 100 miner **Anglo American (AAL)**. Volcan Investments is the family investment vehicle for Vedanta's chairman Anil Agarwal. It will buy the shares on the open market over the next few weeks. Volcan says it doesn't intend to make a takeover offer for Anglo, but analysts say 'don't rule it out' down the line. (DC)

Has Royal Mail delivered for investors?

Three-and-half years on, the stock now trades below its first day's closing price

Three-and-a-half years after joining the stock market, it is time to reappraise the high-profile listing of **Royal Mail (RMG)**.

The privatisation of the UK postal service was seen as being in the same vein as those of British Gas and British Telecom back in the 1980s and led to huge demand among the public.

The shares surged from their 330p issue price on the first day of trading, 11 October 2013, closing some 38% higher at 455p. This led to criticism that the Government had sold the business on the cheap.

Now they languish below the 419.5p price at which the shares closed on the first day of dealings. Industrial action, regulatory issues and a lack of growth have undermined the share price.

Anyone who participated at the 330p IPO price would have enjoyed 11% annualised return including dividends.

That is decent but not spectacular. The return on Zoopla property listings website parent **ZPG (ZPG)**, which floated a few months after Royal Mail in June 2014, looks significantly better, for example.

Unlike Royal Mail, Zoopla's IPO was not open to private investors. Taking the 230p close from its first day of trading (and despite a much less generous dividend policy than Royal Mail) the annualised return is above the 20% mark. (TS)

1.01%

BEST RATE FOR CASH ISA

EVERYONE SHOULD keep some of their money in cash, as you never know what's around the corner. Unemployment, a broken boiler, a failed MOT; the list is endless.

Virgin Money currently offers the best rate for an instant access ISA at 1.01%. The rate falls if you make more than three withdrawals a year.

Anyone wanting to regularly withdraw cash may find Post Office's ISA more attractive. You get paid 0.9% interest in the first year and can take out £10 or more as many times as you like in that period.

$23 BILLION

BEHEMOTH CREATED BY VODAFONE INDIA MERGER

VODAFONE'S (VOD) TORRID time in India could be over. After entering the market in 2007, the firm was embroiled in a tax dispute for $2.5 billion that is still ongoing.

Reliance Jio Infocomms' move into the telecoms market last year impacted Vodafone's profits as Jio was offering free services for months, forcing its competitors to slash prices. Vodafone's response was to merge with Idea, another major telecoms player.

The new entity will have the largest market share of customers and revenues by the third quarter according to Vodafone.

22%

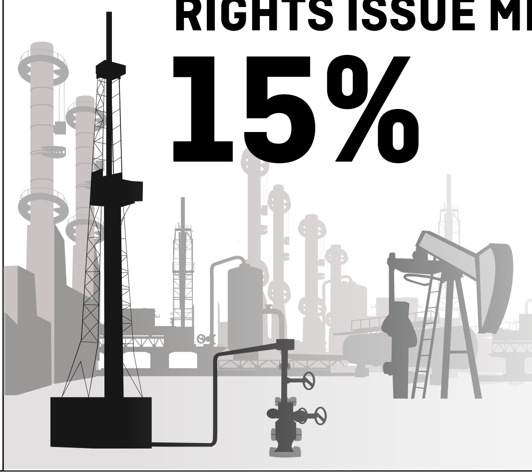
RECRUITER ENJOYS STRONG GROWTH IN ASIA

JAPAN IS A tough market for recruitment agencies because individuals are made to feel guilty if they seek a new job. There is a strong loyalty culture and employers love to play the 'loyalty card' if anyone hands in their notice.

Robert Walters (RWA) says it has taken years of hard work to persuade individuals in Japan to have the confidence to switch jobs. It has now cracked the market, as evidenced by a 22% rise in net fee income for 2016 for Asia Pacific to £117.6m.

Japan is Robert Walters' largest business in the Asia Pacific region.

RIGHTS ISSUE MIGHT NOT SOLVE TULLOW'S DEBT PROBLEM



15%

OIL PRODUCER **Tullow Oil (TLW)** is under the cosh as it progresses a $750m rights issue at 130p to reduce the pressure on its stretched balance sheet.

It hasn't raised enough money, in our view, as the rights issue is only 15% of the company's total net debt of $4.8bn.

Tullow's net debt hit an eye-watering five times earnings at the end of 2016.

Existing shareholders will receive rights to buy 25 new shares for every 39 shares they own.

2.1%

HOUSE PRICE GROWTH IN EAST MIDLANDS IN TOP FORM

AVERAGE HOUSE PRICES jumped by 2.1% in the East Midlands during March, surpassing £200,000 for the first time according to Rightmove.

The region exceeds general price growth of 1.3%, outpacing cheaper properties in the North and the more expensive commuter belt in the South of England.

In bad news for property owners looking to sell, annual growth in house prices for the UK as a whole is only 2.3% compared to 7.6% in March 2016 as the heat comes out of the market.

£1.1BN

HANSTEEN DISPOSAL WORTH MORE THAN ITS MARKET CAP

IN A DEAL worth more than its current market valuation (£913m), real estate investment trust **Hansteen (HSTN)** has agreed to sell its German and Netherlands industrial assets for £1.1bn. Shareholders are likely to get a cash bonus from some of this money.

The price represents a 6% premium to its year-end valuation. According to the company, which is left with a mainly UK-focused portfolio, this was a ‘compelling opportunity’ to crystallise both ‘revaluation gains’ and favourable movements in exchange rates.

BEST PERFORMING FTSE 100 STOCKS BETWEEN BREXIT VOTE AND CONFIRMATION ON ARTICLE 50

Company	EPIC	Gain (%)
Glencore	GLEN	110
Anglo American	AAL	96
Antofagasta	ANTO	95
Rio Tinto	RIO	74
Ashtead	AHT	63
BHP Billiton	BLT	51
HSBC	HSBA	57
Burberry	BRBY	51
InterContinental Hotels	IHG	42
Coca-Cola HBC	CCH	40

Source: SharePad, 21 March

UK MEDIA COMPANIES WITH LOWEST PRICE TO EARNINGS RATIOS

Company	EPIC	Forward PE
Johnston Press	JPR	1.2
Future	FUTR	2.1
Independent News & Media	INM	4.3
NAHL	NAH	5.3
Mission Marketing	TMMG	6.3
Quarto	QRT	6.7
TLA Worldwide	TLA	8.7
Tarsus	TRS	10.3
Ebiquity	EBQ	10.6
Jaywing	JWNG	10.7

Source: SharePad, 21 March

Somero looks ripe for a takeover offer

It is cash-rich, has healthy earnings and plenty of growth opportunities

Rising profit, elimination of debt, generous dividends and potential for an additional special dividend later this year; what's not to like about **Somero Enterprises (SOM:AIM)**? We view it as a superb investment and a potential takeover target.

The concrete levelling equipment specialist sells into 93 countries. North America represented 71% of sales in 2016.

US President Donald Trump's desire to improve the country's infrastructure, stop relying on imports and reduce corporation tax could have a positive knock-on effect for domestic construction activity and therefore benefit Somero.

American companies could have more money to reinvest in their business such as building new factories or warehouses. A growing economy could also encourage more commercial real estate development.

Somero's equipment is used entirely in the commercial non-residential sector. 'Our kit is used when building new schools, offices, warehouses and retail outlets,' says CEO Jack Cooney.

WHAT DOES SOMERO DO?

Its kit allows customers to install high-quality horizontal concrete floors faster, flatter and with fewer people. 'Concrete is difficult; it sets in an hour and is a perishable. It is very expensive to move once set,' says Cooney, explaining why customers need reliable equipment and good back-up support.

Growth isn't restricted to the US. Investments have been made by Somero in China and India. Activity is picking up in Brazil and it says the outlook is good for the Middle East and Australia among other locations.

SOMERO ENTERPRISES ↗ BUY
(SOM:AIM) 285.62p
Market value: £160m

HEALTHY POSITION

Pre-tax profit increased by 22% in 2016 to $21.3m. The business recently paid off its debt and it had a $20.2m net cash position three months ago. The balance sheet is particularly strong thanks to a large cash pile and plenty of property-backed assets.

The company has a policy to maintain at least $10m net cash position. Any additional cash will primarily be used for acquisitions or product development.

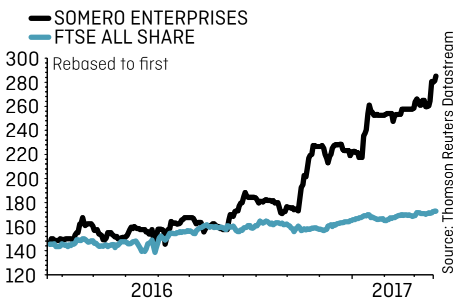
Cooney tells *Shares* that Somero has struggled to find suitable acquisition opportunities but it is trying. 'We want something existing customers would use and that isn't a commodity-type product.'

The board will meet in the first half of the year to assess spending requirements and decide whether to return some extra cash to shareholders as a special dividend in the second half of the year.

Somero isn't risk-free as it serves cyclical markets. But as things stand today, a business with growing profit, excess cash, a strong balance sheet and operating in positive market conditions would be an obvious takeover target, in our view.

'We have private equity firms poking around all the time,' reveals Cooney. 'We actually had takeover interest 15 years ago from a business that is now part of German equipment group Wacker Neuson.' (DC)

BROKER SAYS: 1 0 0



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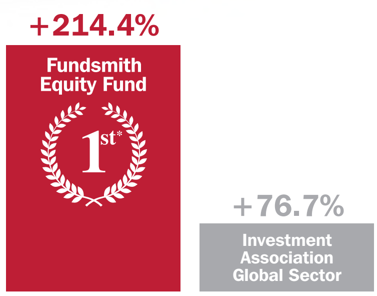
Fundsmith Equity Fund % Total Return

Year to end Feb	2017	2016	2015	2014	2013
Fundsmith Equity Fund[1]	+29.8	+15.5	+29.2	+9.8	+22.4
Investment Assoc. Global Sector	+29.2	-3.6	+11.1	+8.8	+12.0
Quartile Rank	3rd	1st	1st	2nd	1st

1 Source: T Class Acc Shares in GBP, net of fees, priced at midday UK time. Source: Financial Express Analytics.

Performance Since Inception



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Time to pounce on small cap defensive earner

Take advantage of price weakness and buy fire and water safety firm Marlowe

The 25% decline in fire and water services group **Marlowe (MRL:AIM)** to 310p over the past few months puts the stock at a much more attractive level for new investors, in our opinion.

MARLOWE BUY
(MRL:AIM) 310p
Stop loss: 217p

Market value: £95.8m

REGULATED MARKETS

Marlowe is buying small businesses that serve heavily-regulated markets. Companies and organisations ranging from hotels and shops to universities and hospitals face very large fines if they don't take measures to ensure people on their premises are safe.

Laws require property owners to regularly check their fire detection and fire alarm systems. On the water side, Marlowe helps to ensure third parties have clean water and check if areas such as showers in hotels or offices are harbouring waterborne diseases.

Marlowe operates in an area of non-discretionary spend. It also enjoys significant levels of repeat business as well as having some contracts lasting three to five years.

Of the eight acquisitions made so far, the average customer length is eight years in fire and seven years in water, says chief executive Alex Dacre.

Marlowe's strategy is to create a national presence, improve operating profit and grow faster than the underlying market by taking business off rivals. It also wants to cross-sell additional services.

OFF TO THE RACES

This plan is working. Dacre says the fire and safety services market is growing at about 2% to 3% a year. He claims Marlowe is achieving 8% to 9% organic growth, partially because the large service providers are too sleepy and slow to get anything done.

The company raised £10m last September at 170p per share to buy more businesses. It could have raised four times this amount judging by the orders from institutional investors.

A further £10m was raised in December at 290p, also oversubscribed. That's a really interesting point; large investors clearly felt 290p was a great price at which to buy more shares – and the current price is only a fraction above this level, so get in now.

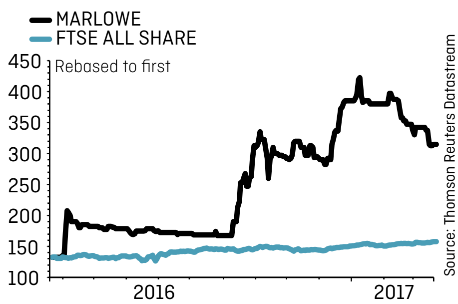
Dacre says many of the businesses being acquired by Marlowe have 10% operating margin. The company's target is 15% operating margin, which the CEO claims is achievable through having more efficient operations and better IT support.

He claims Marlowe is buying companies fairly cheaply, typically paying four to six times earnings. 'Many of these businesses were set up by entrepreneurs in the 70s and 80s. They've now reached the age where they want to sell and there aren't many buyers in the market apart from us.'

He hopes to add a third leg to the business in the coming year, keeping the focus on critical asset maintenance.

Stockbroker Cenkos forecasts a maiden pre-tax profit of £3m for the year to 31 March 2017, rising to £4.8m a year later. (DC)

BROKER SAYS: 1 0 0



SDX ENERGY

(SDX:AIM) 48.3p

Gain to date: 26.3%

Original entry point:

Buy at 38.23p, 2 February 2017

OUR POSITIVE CALL on North African oil and gas producer **SDX Energy (SDX:AIM)** is already off to a positive start. It has now commenced drilling a well which could act as a further catalyst for the share price.

The SD-1X well on the South Disouq concession in Egypt's Nile Delta is targeting up to 100 million barrels of oil equivalent. Results are expected within 45 days.

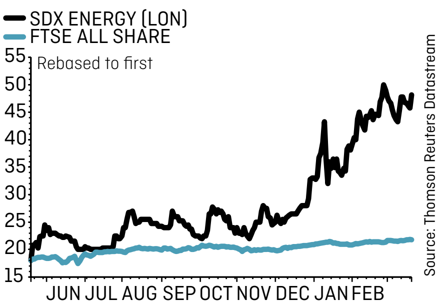
SDX has a 55% interest and is fully carried on the drilling costs by its partner IPR.

The company's focus is on low-cost and low-risk production growth but this exploration activity adds some fizz to the investment case.

The company has received a six-month extension from the Egyptian authorities to its first exploration period out to 19 September 2017. This will allow time to interpret the results of the well.

Broker Cantor Fitzgerald, which has a 78p price target on the stock, values SD-1X at 11.9p per share based on a 10% chance of success.

Despite recent strength in the shares they still trade on an ultra-low price-to-earnings ratio of 2.4 for the year to January 2018.



SHARES SAYS: ↗

Keep buying at 48.3p. (TS)

BROKER SAYS: 1 0 0

SERCO

(SRP) 114p

Loss to date: 19.1%

Original entry point:

Buy at 141p, 22 December 2016

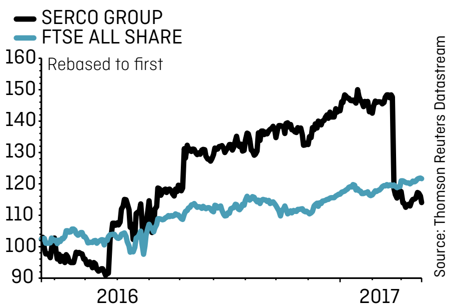
Outsourcing firm **Serco (SRP)** hasn't made the best of starts as one of our ***Top 10 for 2017***.

Boss Rupert Soames admitted alongside a pretty desperate set of 2016 figures (22 Feb) that the company's recovery would be a 'long and winding' road.

However, he also pointed to six big contracts that could be secured in the coming months and there has been some positive news of late which suggests the company has a brighter future.

The company has just won a £1.6bn contract to run Australia's largest prison when it opens in 2020. The 1,700-capacity New Grafton Correctional Centre in New South Wales, Australia will hold 1,000 men and 300 women in maximum security and house 400 minimum security inmates.

Serco was the top performer in our portfolio of picks for 2016 and we remain positive on the investment case, despite the recent share price weakness.



SHARES SAYS: ↗

We're sticking with our positive stance. (TS)

BROKER SAYS: 2 12 2

CAPITAL DRILLING (CAPD) 54.7p

Gain to date: 43.9%

Original entry point: Buy at 38p, 14 July 2016

DON'T BE PUT off by **Capital Drilling's (CAPD)** latest full year results. Resurgence in activity across the mining sector might have suggested its results would show booming profit. That wasn't the case.

Not only did the company remain loss making, it also saw average revenue per operational drill rig fall 5.9% to $177,000.

Closer analysis of the numbers shows that Capital Drilling is making good progress and the market backdrop continues to be more favourable.

A lot of the new business in the year came from a revival in exploration drilling for gold miners which is currently less profitable for the group.

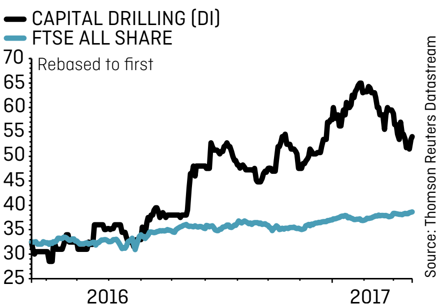
'Pricing for exploration drilling is still low relative to historical levels,' explains executive chairman Jamie Boyton. 'We've started work on two-to-three month jobs. They've been single shifts not double shifts we see with production drilling. As the mining cycle improves, we will see double shifts and higher rates with exploration.'

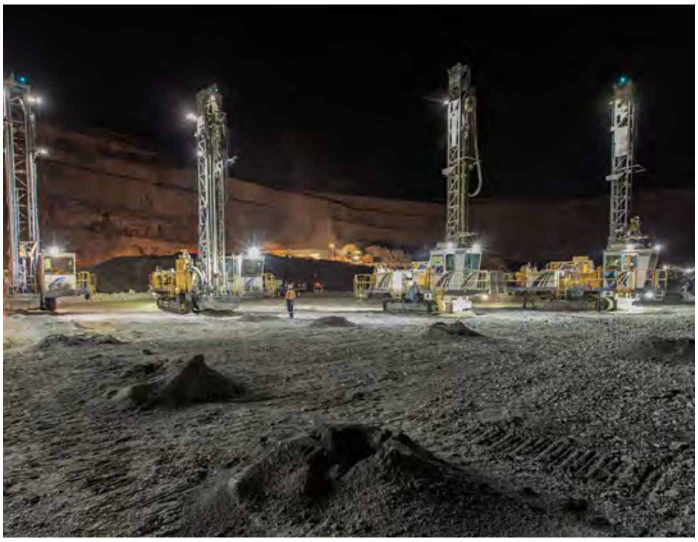
Boyton says most of the contract opportunities for exploration drilling lie in gold, although he believes there could soon be more work in base metals in light of recent commodity price gains.

Importantly, Capital Drilling saw a return to revenue growth in 2016 when looking at all its drilling work. Its rig utilisation rate increased from 34% at the start of the year to 58% at the end of the year.

The company is now making plans to offer a broader range of services than drilling. It will invest up to $3.8m in a private laboratory testing business called A2 in a bid to get more money from its existing clients.

'If you look at historical mining cycles, the best margins among mining service companies are found with lab businesses,' says Boyton. 'One





of the biggest complaints from miners is the slow pace at which they get lab results back. It holds up their decision making.' He hopes A2 will be able to provide a more efficient service.

SHARES SAYS:

FinnCap has a 95p price target and forecasts a return to profit in 2017. We remain big fans of the stock, which is also one of our top picks of the year. Keep buying at 54.7p. (DC)

ALLIED MINDS (ALM) 372.1p

Gain to date: 13.4%

Original entry point:

Buy at 328p, 8 September 2016

TAKE PROFIT IN **Allied Minds (ALM)** after the sudden departure of its chief executive and co-founder Chris Silva. The company failed to explain why Silva has gone; merely saying it was by mutual agreement.

Allied Minds helps people with bright ideas to commercialise technology; we are worried about how Silva's departure will affect relationships with these important people. Sell at 372.1p. (DC)

FRIDAY 24 MARCH

FINALS	
FRONTIER SMART TECHNOLOGIES	FST
INTERIMS	
SMITHS GROUP	SMIN
ECONOMICS	
UK	
BBA MORTGAGE APPROVALS	

MONDAY 27 MARCH

FINALS	
BANK OF CYPRUS	BOCH
INSPIRED ENERGY	INSE
SPACEANDPEOPLE	SAL
INTERIMS	
YOUGOV	YOU
TRADING STATEMENTS	
TOOPLE	TOOP

TUESDAY 28 MARCH

FINALS	
AA	AA.
CLOUDCALL	CALL
CARD FACTORY	CARD
EBIQUITY	EBQ
GULF MARINE SERVICES	GMS
INSTEM	INS
LADBROKES CORAL	LCL
LIDCO	LID
PREMIER TECHNICAL SERVICES	PTSG
SILENCE THERAPEUTICS	SLN
YU GROUP	YU.
INTERIMS	
ARTILIUM	ARTA
MOSS BROS	MOSB
WOLSELEY	WOS
TRADING STATEMENTS	
THOMAS COOK	TCG
UNITED UTILITIES	UU.
AGMS	
CHENAVARI CAPITAL SOLUTIONS	CCSL

WEDNESDAY 29 MARCH

FINALS	
ALLIANCE PHARMA	APHA
BBGI SICAV	BBGI
CENTAUR MEDIA	CAU
CAMBRIDGE COGNITION	COG
FARON PHARMACEUTICALS	FARN
INDIA CAPITAL GROWTH FUND	IGC
JACKPOTJOY	JPJ
JOHNSTON PRESS	JPR
SAGA	SAGA
INTERIMS	
ALLERGY THERAPEUTICS	AGY
JAMES HALSTEAD	JHD
TRANSENSE TECHNOLOGIES	TRT
TRADING STATEMENT	
STAGECOACH	SGC
AGMS	
ADEPT4	AD4
ANGUS ENERGY	ANGS
ECONOMICS	
UK	
MORTGAGE APPROVALS	

AA (AA.)

Roadside assistance provider AA (AA.) is trading just north of the 250p issue price from its July 2014 IPO as investors remain cautious towards the stock amid high levels of debt.

The pace of new customer acquisitions will be a key focus when it reports full year results on 28 March. Proving to the market that it can sign up more people and also get them to take out multiple products is paramount to having any chance in driving up the share price.

YOUGOV (YOU:AIM)

Pollster and market researcher YouGov (YOU:AIM) posts its first half results on 27 March. An update at the end of January pointed to trading ahead of expectations.

It is worth keeping an eye on the level of adjustment to its earnings – an issue *Shares* has looked at before.

THURSDAY 30 MARCH

FINALS	
AMRYT PHARMA	AMYT
ANGLO PACIFIC	APF
BOOKER GROUP	BOK
GENEL ENERGY	GENL
INTERNATIONAL PUBLIC PARTNERSHIP	INPP
SCISYS	SSY
TRADING STATEMENTS	
BOOKER GROUP	BOK
RPC	RPC

THOMAS COOK (TCG)

Investors should look out for early bookings growth at travel agent **Thomas Cook (TCG)** when it updates the market on trading on 28 March. Broker Panmure Gordon & Co analyst Mark Irvine-Fortescue warns that early bookings in the UK have previously waned and this could hit margins if they fail to improve.

AGMS		
ABERDEEN DIVERSIFIED INCOME AND GROWTH TRUST	ADIG	
CATHAY INTERNATIONAL	CTI	
INTELLIGENT ENERGY	IEH	
MILESTONE GROUP	MSG	
EX-DIVIDEND		
ABBEY	ABBY	€0.07
BRITISH LAND	BLND	7.3P
CRANEWARE	CRW	8.7P
THE DIVERSE INCOME TRUST	DIVI	0.7P
DEVRO	DVO	6.1P
FOREIGN & COLONIAL INVESTMENT TRUST	FRCL	2.7P
GO-AHEAD	GOG	30.17P
HEADLAM	HEAD	8P
IDOX	IDOX	0.65P
JARDINE LLOYD THOMPSON GROUP	JILT	20.6P
KINGSPAN	KGP	€0.24
LSL PROPERTY SERVICES	LSL	6.3P
MAVEN INCOME AND GROWTH VCT 3	MIG3	3.75P
MAVEN INCOME AND GROWTH VCT 5	MIG5	1.7P
ORIGIN ENTERPRISES	OGN	€0.03
OLD MUTUAL	OML	3.39P
PPHE HOTEL	PPH	11P
SCHRODERS	SDR	64P
SMITH & NEPHEW	SN.	$0.19
SYNECTICS	SNX	2P
VALUE AND INCOME TRUST	VIN	2.6P
WYNNSTAY	WYN	8P

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

Funds versus investment trusts

How to choose between similar pairs of products

It may seem strange but there are a number of open-ended funds that have very similar investment trusts, run by the same manager and which follow an almost identical mandate.

A research report published in late 2016 by Canaccord Genuity identified 51 of these product pairings. The list includes many well-known funds such as: **Fidelity Special Situations (GB0003875100)**, **Jupiter European (GB0006664683)**, **BlackRock World Mining (LU0075056555)**, and **JPMorgan Emerging Markets (GB0030881550)**.

'The pairings are a product of history, where it become fashionable to offer a similar fund in different structures, but is not something that is seen regularly today,' explains Ryan Hughes, head of fund selection at AJ Bell.

Closed-ended fund = Investment trust/Investment company

Open-ended fund = Unit trust or OEIC

WHICH TYPE OF FUND PERFORMS THE BEST?

Alan Brierley, director of the investment companies team at Canaccord Genuity, says he expects the inherent competitive advantages of the closed-ended structure to continue to underpin superior long-term returns.

'Just 45% of investment companies in our report now have a lower ongoing charge, yet 84% of them – 32 out of 38 with a relevant five-year record – have outperformed comparable open-ended funds over five years.'

Four of the investment trusts generated annualised outperformance based on shareholder total returns of 4% or more over the five years to the end of September. They are: **Baillie Gifford Japan (BGFD)** versus **Baillie Gifford Japanese (GB0006014921)**; **Impax Environmental Markets (IEM)** versus their identically named open-ended fund **Impax Environmental Markets (IE00B04R3307)**; **Baillie Gifford Shin Nippon (BGS)** versus **Baillie Gifford Japanese Smaller Companies (GB0006014921)**; and **Monks (MNKS)** versus **Baillie Gifford Global Alpha Growth (GB00B61DJ021)**.

Only one open-ended fund in the study did the opposite with **Threadneedle UK (GB0001529782)** outperforming **Threadneedle UK Select Trust (UKT)** by an annualised return of 4.4%.

Matthew Read, a senior analyst at QuotedData, says he tends to find that, when investing personally, fund managers invest more in their closed-ended vehicles.

'They will usually say that, whilst they like both structures, closed-ended funds do not face the same liquidity constraints as open-ended funds. This means it is easier for them to take a longer term view and perhaps invest in less liquid opportunities, which offer superior returns, but whose liquidity is not appropriate for an open-ended vehicle. This additional flexibility is perhaps why we often see the closed-ended fund trump its open-ended equivalent over the long-term.'

Edinburgh Investment Trust (EDIN)
VERSUS
Invesco Perpetual High Income (GB0033054015)

Invesco Perpetual High Income aims to achieve a high level of income, together with capital growth, by investing mainly in UK companies with the balance invested internationally. It has a very similar portfolio to the £1.75bn Edinburgh Investment Trust that seeks to increase net asset value by more than the FTSE All-Share and grow its dividend ahead of UK inflation.

Both funds have been managed by Mark Barnett since the departure of Neil Woodford in 2014, but there are some key differences afforded by the use of the two alternative structures. These include the fact that the investment trust has gearing (borrowing to invest the proceeds) of 15%, and ongoing charges that are 0.3% less than the open-ended fund.

The historic yields are both around 3.3%, but the open-ended fund has two distributions a year, whereas EDIN pays every quarter. As with all other investment trusts it also has the flexibility to use its revenue reserves to smooth the annual dividends so as to maintain a steadily rising level of income.

'Edinburgh Investment Trust has been a constituent of our model portfolio since 2008. Over five years, it has outperformed the £11.6bn Invesco Perpetual High Income unit trust and FTSE All-Share by an annualised 2% and 3.5% respectively,' explains Brierley at Canaccord.

Fidelity Special Values (FSV)
VERSUS
Fidelity Special Situations (GB0003875100)

Both of these UK funds are run by Alex Wright, who is a contrarian value manager. Their portfolios are almost identical with the main difference being the ability of the investment trust to employ gearing to generate extra returns. This has produced strong outperformance during periods of rising markets, although the impact is negative when markets fall as it has the effect of amplifying the losses.

'I currently favour the open-ended fund, Fidelity Special Situations. The discount of the investment trust is very narrow, while the market is trading high despite the spectre of Brexit looming large. With this in mind, I'd prefer to avoid the gearing and potential additional volatility that this could bring should markets have a wobble,' explains Hughes.

The £605m Fidelity Special Values investment trust is trading on a tighter than normal discount of 5.9% and has ongoing charges of 1.1%, which is higher than the 0.94% charged by the £2.96bn Fidelity Special Situations. Its net gearing is currently 8%.

Jupiter European Opportunities (JEO)
VERSUS
The Jupiter European fund (GB0006664683)

Alexander Darwall has managed the £652m Jupiter European Opportunities investment trust (JEO) since November 2000 and the £3.8bn Jupiter European fund since January 2001. They each have a concentrated portfolio of just 36 stocks and have outperformed their peer groups over the longer term.

It is interesting to note that the investment trust is the more expensive of the two – possibly on account of the fact that it is much smaller – with ongoing charges of 1.08% versus 0.99% for the open-ended fund. It also has a performance fee of 15% of relative performance subject to a high watermark and a cap of 4.99%.

'2016 was more challenging and this, accompanied by European headwinds, has seen the (investment trust shares) suffer a de-rating. While acknowledging the performance fee, we think this is a good opportunity to buy one of the best stock-pickers on a discount of 5.9%,' says Brierley. (NS)

Understanding the dividend risk on funds

Many collective investments still leave you reliant on a handful of stocks for your income

Are funds a safer way to generate income from dividends than individual company shares? The answer is generally 'yes', but not to the extent as you might imagine.

Individual companies can cancel or scale back dividends at their own discretion, meaning anyone owning such a company would suffer a drop in income in this circumstance.

Theoretically a fund shouldn't be reliant on a single source for income, so there isn't the same level of risk for lower dividend payments if something goes wrong with one or more of its investments.

Yet funds are not risk-free when it comes to dividend cuts.

OVER-RELIANCE PROBLEM

Data from Morningstar, cited by Neptune Investment Management, shows around a third of funds in the UK Equity Income sector rely on their top 10 holdings to deliver more than half of their yield.

In a first for a fund manager, Neptune is set to reveal the extent to which dividend yield is diversified across its range of equity income funds.

A new section titled 'Dividend Risk' will be added to its website and factsheets of **Neptune Income (GB0032325093)**, **Neptune Quarterly Income (GB00B8J70J62)**, **Neptune US Income (GB00B909HB91)** and **Neptune Global Income (GB00B91SJC09)**.

This new resource will highlight the proportion of yield that comes from the top 10 holdings. The figures will be updated monthly.

At present, the top 10 holdings in the Neptune Income fund, for example, account for 25.8% of the total yield.

AIMING FOR TRANSPARENCY

Neptune's founder and manager of Neptune Income, Robin Geffen, says: 'In the interests of transparency, we are taking measures to improve investors' understanding of dividend risk.

'In today's low yielding environment, a diversified income stream from equity income funds is a huge help to investors.

'Understanding the extent to which yield is diversified is of crucial importance, and as such we are proud to be the first fund manager to make this information readily available to investors.'

It will be interesting to see if other asset managers follow Neptune's lead. We wouldn't be surprised to see dividend risk become as readily available as data such as active share (the percentage of holdings in a fund which differ from the benchmark).

The financial regulator FCA is pushing for more transparency in the asset management industry and Neptune's actions certainly seem to tick the right box. (TS)

INSPIRATION

Do you need some inspiration for stocks or funds to put in your ISA? We're here to help, whether you are new investing, a bit rusty on what to do, or are even highly experienced at putting your money to work in the markets.

With the end of the tax year just around the corner, it's certainly a good time to think about making the most of ISAs.

If you haven't invested the whole £15,240 ISA allowance for the 2015/16 tax year you might want to consider topping up your pot. This will ensure you make full use of the tax breaks available. Any money you put into an ISA is free of income tax and capital gains tax (CGT).

DON'T MISS OUT

Any unused allowance doesn't roll over into the new tax year. For example, if you've only invested £5,240 by the end of 5 April this year in your ISA, you can't add the remaining £10,000 unused portion to the amount of money permitted in an ISA once you get into the new tax year.

The annual allowance is increasing to £20,000 from 6 April this year. You can spread the allowance across the whole range of ISAs, including Cash ISA, Stocks and Shares ISA, the Innovative Finance ISA and the new Lifetime ISA.

HELP FROM THE EXPERTS

Whether you're relatively new to investing or have years of experience, it can be difficult to decide which assets to add to your investment portfolio.

To help you, we've spoken to a number of experts to get the lowdown on what strategy might be suitable for a range of different people and which stocks and funds could help you reach certain goals.

This week we discuss investments for three types of individuals: the beginner, the forward thinker, and the undecided.

Keep your eyes peeled for another three scenarios in next week's issue of *Shares* which comes out on Thursday 30 March 2017.

THE BEGINNER

ALEXA HAS A FEW STOCKS BUT SHE WANTS TO GET SERIOUS ABOUT INVESTING. SHE IS CONFUSED ABOUT HOW TO SET UP A DIVERSIFIED PORTFOLIO ESPECIALLY AS SHE CAN'T AFFORD TO INVEST EVERY MONTH. WHAT SHOULD SHE DO?

SETTING UP A diversified portfolio is an important first step when you start investing because it ensures you spread risk, rather than putting all your eggs in one basket.

You can build a balanced portfolio by selecting a range of asset classes, such as bonds, stocks, property, commodities and cash. The balance between these assets will depend on your personal investment strategy, target returns, time horizon and appetite for risk.

Justin Urquhart Stewart, director at investment manager 7IM, says investors should only think about equities for a longer-term horizon like retirement saving.

Although younger investors have time on their side, Urquhart Stewart says many have had their fingers burned and made the expensive mistake of avoiding shares for the rest of their lives.

'You've got a few stocks and hopefully they've done well and you've enjoyed watching their performance. But being serious about investing doesn't mean just buying stocks.

'In fact, if you've not got a lot of money, you can easily find that the transaction costs of buying individual stocks are a big drag on performance – especially if you make the common mistake of overtrading. The first step towards disciplined investing is disciplined saving,' he says.

ONE-STOP-SHOP

A simple way to build a balanced portfolio is to buy a multi-asset fund, which invests in a combination of asset classes, such as cash, equities and bonds.

'THE FIRST STEP TOWARDS DISCIPLINED INVESTING IS DISCIPLINED SAVING'

'This gives you easy access to one professionally managed fund that invests in a broad range of equities, as well as bonds and other assets, so you get the benefits of diversification and expert fund management in a cost-effective package,' says Urquhart Stewart.

He suggests beginner investors start with a low risk multi-asset fund and then build up so they get comfortable with the way markets operate.

WHAT ARE MULTI-ASSET FUNDS?

Multi-asset funds are risk-rated so you can find one which suits your individual risk profile. Henderson, for example, has four multi-asset funds which have been assigned risk profiles of 3, 4, 5 and 6 by Distribution Technology, a risk-profiling company.

Henderson Core 3 Income Fund (GB00B8289886) is considered low risk. It has a 37% exposure to bonds, 26% exposure to cash and 20% exposure to equities.

Holdings include direct property fund **Henderson UK Property (GB00BP46GN32)**; **RWC Enhanced Income (LU0539372689)**, which invests in UK and US large-cap stocks; and **ETFS Physical Gold (PHAU)**, a gold exchange-traded fund.

Henderson Core 6 Income & Growth Fund (GB00B96RS580) is considered to be high-medium risk. It has a 59% exposure to equities, 16% exposure to bonds and 10% exposure to cash.

Holdings include **iShares UK Dividend ETF (IUKD)**, **JP Morgan Global Emerging Markets Income Trust (JEMI)** and **Henderson Asian Dividend Income (GB0003243465).**

FUNDS VS SHARES

A single fund can provide greater diversification than buying single stocks. This is because funds can own hundreds of individual stocks and/or bonds.

Russ Mould, investment director at AJ Bell Youinvest, says you can spread risk across different geographies using global funds or collectives that target more than one region.

'You should certainly think twice about parking all of your money in the UK simply because you know it best, as such behavioural biases can mean you miss out on better returns elsewhere,' he says.

Mould reckons buying individual stocks is too bold a step for beginners because you need to conduct thorough research and have specialist knowledge.

However, he suggests a good way to start is to look at the top 10 holdings of a top-performing fund and watch how they do before putting your capital at risk by buying individual company shares.

ARE YOU NEW TO INVESTING? WHY NOT START WITH FUNDS AS THEY ARE AN EASY WAY TO GET INSTANT DIVERSIFICATION AND SPREAD YOUR RISKS

WHAT TO BUY FIRST?

If you are like Alexa and can only afford to buy investments every other month it can be difficult to decide what to buy first. Although much will depend on your personal investment strategy, the prevailing market conditions will be a big factor.

Mould says if stock markets have just collapsed and bond markets have surged that may present an opportunity to glean exposure to shares, directly or via a fund, at attractive valuation levels.

'That said, trying to time the market is a fearsome task and whether you target stocks, bonds or property first will depend on the returns you are seeking, the time period you have available and how able you are to withstand some losses along the way,' he explains.

THE FORWARD THINKER

NIGEL HAS 10 YEARS UNTIL HE RETIRES. HE HAS A LARGE PENSION POT BUT HE WANTS TO BUILD UP A DECENT ISA TO ENSURE HE CAN KEEP UP HIS CURRENT STANDARD OF LIVING, BUY HIS DREAM CAR, TRAVEL, HELP HIS PARENTS WITH THEIR LONG-TERM CARE NEEDS AND COVER ANY UNFORESEEN EXPENSES. HOW SHOULD HE INVEST?

A LOT OF PEOPLE underestimate how much money they will need for their retirement and often start saving late in life.

Family spending data produced by the Office for National Statistics suggests the average pensioner would need £215 a week just to cover basic costs like food, clothes, travel and heating, equating to £11,000 a year.

Many investors would find the idea of merely covering the basics unappealing – you probably have some ideas or dreams about how you

'MANY PEOPLE NOW CHOOSE TO DRAW MORE HEAVILY ON ISAS IN THE FIRST PART OF THEIR RETIREMENT RATHER THAN THEIR PENSION'

envisage your retirement.

According to Saga Investment Services, Brits over age 50 need double the amount of pension for which they've budgeted in order to generate a decent income in retirement.

HAVE YOU GOT 10 YEARS UNTIL YOU RETIRE? A GLOBAL INVESTMENT FUND COULD BE AN IDEAL WAY TO STRENGTHEN YOUR PORTFOLIO NOW

WHY AN ISA CAN HELP

An ISA can be a good way of backing up pension savings in retirement. This is particularly the case if you've already used up your pension allowances. The lifetime allowance for pensions is £1 million and the annual allowance is £40,000, but this reduces for higher earners.

'The lifetime allowance can pose a problem for individuals with large pension pots. Unless there are significant changes by the time an individual draws benefits, there are penal tax charges for exceeding this (up to 55% tax on any excess).

For these individuals, an ISA can be an attractive vehicle for additional savings,' explains Carl Lamb, managing director at Almary Green Investments.

There are lots of other reasons why focusing on building an ISA pot is a good idea for people with a large pension. Charles Calkin, a financial planner at James Hambro & Co, says if all your retirement income comes from a pension you may find yourself paying a fair bit of income tax.

'If you can limit how much you draw on your pension and complement this by drawing down on your ISAs too – money that is free of income tax and capital gains tax – then you can really bring your income tax bill down and make sure your savings are working efficiently for you.

'This is also a good way of managing inheritance tax liabilities because pensions are now a smart vehicle for cascading wealth down the generations tax-efficiently on death. Many people now choose to draw more heavily on ISAs in the first part of their retirement and then on their pensions last,' says Calkin.

WHAT SHOULD SOMEONE LIKE NIGEL DO?

Calkin suggests someone like Nigel should consider sharing assets with his spouse, using both ISA allowances to save and using both personal allowances when taking income.

If you are like Nigel and have 10 years until retirement, choosing investments for your ISA will depend on your attitude to risk and the goals for your ISA and pension pot.

James Horniman, a partner at investment manager James Hambro & Partners, says if your pension is edging close to the £1 million lifetime allowance, you might want to reduce the investment risk – and therefore growth potential – of your pension.

You could then take enhanced risk with your ISAs. There are limits on how much you can put into an ISA each year but no limits on how much they can grow.

'It's worth trying to work out your attitude to risk and that of any partner. Couples all view and manage their money differently. If you see your savings as one pot, then find an approach to investment risk that you're both comfortable with and try to make sure that, on balance, your overall portfolio is in line with that risk. If you view it as separate pots you might have a different investment approach for each person's assets,' Horniman says.

Horniman suggests looking at ready-made portfolios, funds that are risk rated or target return funds which aim to generate the return you need in as low risk a way as possible.

'Whichever route you take, remember the old adage that money is like manure. It needs to be spread,' he adds.

GETTING ADVENTUROUS

Martin Jarvis, associate consultant at financial advice firm Mattioli Woods, says if an investor's bills are covered by their pension, they could be more adventurous with their ISA portfolio.

However, if one of your goals is to buy a dream

FUND FOCUS

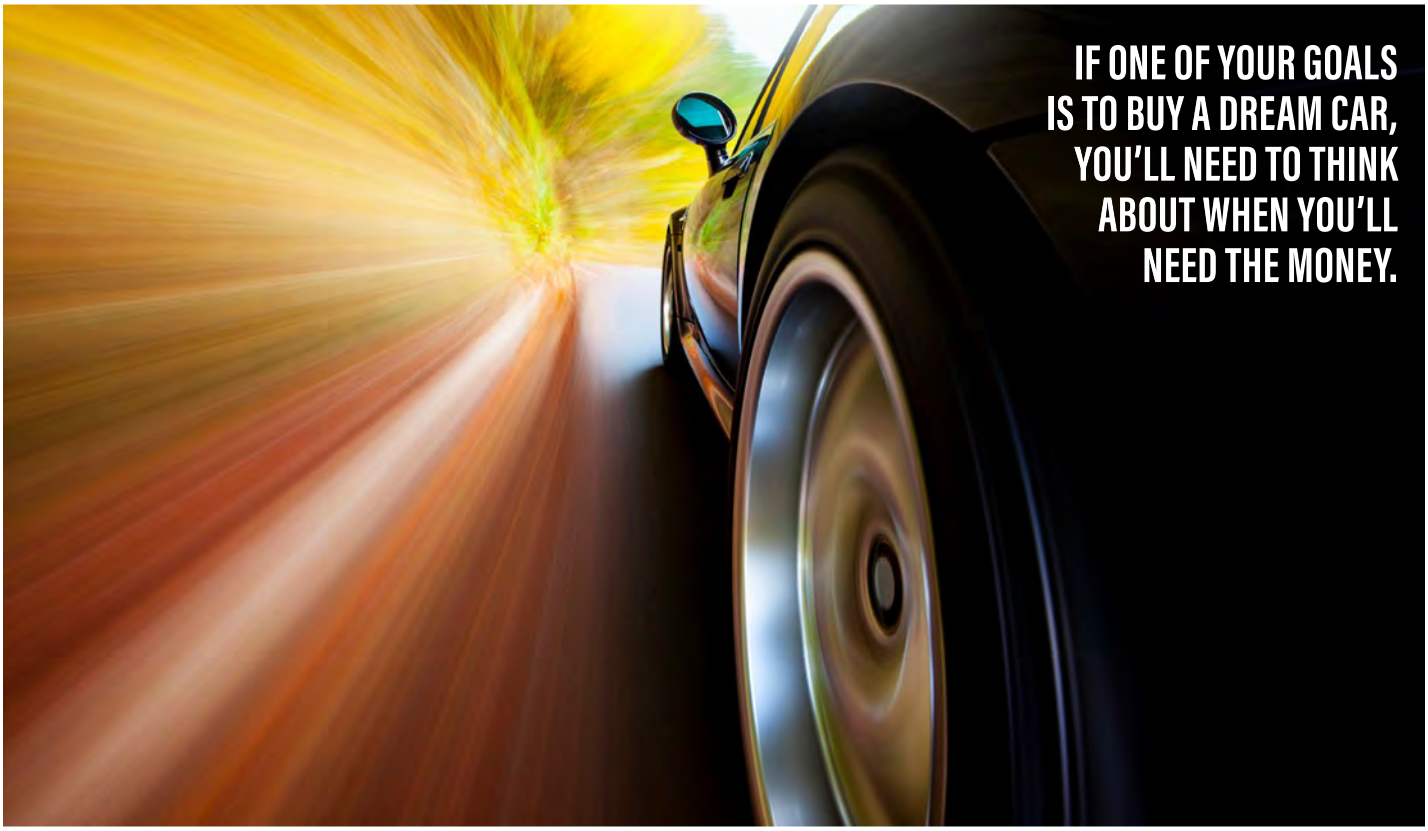
Newton Global Equity

5 year annualised return: 14.6%

Ongoing charge: 0.8%

Newton Global Equity seeks long-term capital growth by investing in a portfolio of global stocks. It identifies themes which encompass major areas of change in the world and uses these themes as the basis of its investment ideas. The goal is to outperform the MSCI AC World Index by 2% a year. The fund typically has 60 to 90 holdings.

Top holdings include Microsoft, Apple, Citigroup, United Technologies and Japan Tobacco.



car, you'll need to think about when you'll need the money. In general, if you have a short investment time horizon your attitude to risk will be lower because you won't have time to ride the stock market's highs and lows.

'Typically, high-risk offers potentially high returns so investments in equities or, more specifically, mid to small cap in the UK and abroad. Investments in emerging or developing economies, which have the highest volatility, could in turn offer the highest potential return or, indeed, loss,' says Jarvis.

Lamb at Almary Green suggests keeping a cash buffer to call upon if unforeseen expenditures crop up. This would avoid having to access the more adventurous investments during periods of short-term market volatility.

He reckons adventurous investors could consider a global equity fund. This would spread the risk across different geographical areas, with the manager making decisions over the splits.

'This might be preferable to selecting a number of single-sector funds because the manager could pursue global themes, adjusting the country allocation according to markets,' he explains. An example of a global equity fund is **Newton Global Equity (GB00B8376K50).**

DON'T STUFF YOUR ISA FULL OF HUNDREDS OF STOCKS AND FUNDS – TAKE A MORE SELECTIVE APPROACH

USING AN ISA FOR LOWER RISK ASSETS

Colin Low, managing director at Kingsfleet Wealth, says an alternative investment approach would be to put lower risk assets into an ISA and higher risk, longer-term assets in a pension.

He suggests holding some of the portfolio in funds which offer limited growth but also low levels of volatility, such as **Pyrford Global Total Return (IE00B1XBN520)**.

The product has a five-year annualised return of 4.3% and 1.07% ongoing charge. It seeks to provide a stable stream of real total returns over the long-term with low absolute volatility and significant downside protection.

The fund invests in asset classes and securities which the manager believes offer fundamental value. It invests in investment grade sovereign debt securities and equities that have a minimum market cap of $500 million.

It emphasises North America, Europe (including the UK) and Asia Pacific (including Japan). The fund currently has 56 equity holdings and 13 bond holdings.

THE UNDECIDED

STEPHAN HAS GOT £5,000 OF HIS ISA ALLOWANCE LEFT TO USE AND ALREADY HAS A DIVERSIFIED PORTFOLIO. HE IS UNSURE WHETHER TO BUY MORE OF THE STOCKS AND FUNDS HE'S ALREADY GOT OR INVEST IN SOMETHING NEW. WHAT SHOULD HE DO?

THE DECISION OF whether to top up your existing investments or buy something new depends on how many holdings you already have in your portfolio and what they are.

Legendary US investor Warren Buffett said on several occasions that a portfolio of 12 to 15 stocks would give ample diversification; provided they are from a range of industries.

Russ Mould at AJ Bell Youinvest says if your portfolio contains just funds, then a lower number of funds would provide the same level of diversification because they could contain hundreds of stocks as well as fixed income securities. This approach would help to keep costs down.

Patrick Connolly, head of communications at financial advice firm Chase de Vere, says if you already have a diversified investment portfolio which is suitable for your needs then there is probably no need to change strategy.

'In these circumstances, it is usually best to review and then top up your existing holdings. This keeps your portfolio manageable, as you won't have too many different investments, and on track,' he explains.

It may be that you want to take more risks with your extra £5,000 in the hope of generating better returns. Connolly says investors could do this but should be wary of steering away from their long-term strategy. If you take more risk, there is more chance you will lose money.

WHAT'S POPULAR WITH INVESTORS NOW?

Fundsmith Equity (GB00B41YBW71) is one of the most popular funds with investors at present, according to lists published by various investment platforms. It invests in high quality stocks, even if they are expensive, because it believes these will do well over the long-term.

YOUNGER PEOPLE CAN USUALLY AFFORD TO TAKE MORE INVESTMENT RISK BECAUSE THEY HAVE MORE TIME TO CLAW BACK ANY SHORT-TERM LOSSES.

The fund has achieved a 21.8% annualised return over the past five years and has a 0.97% ongoing charge. Its top holdings include Stryker, IDEXX Laboratories, PepsiCo and Philip Morris International.

WHY TIME HORIZON IS SO IMPORTANT

Younger people can usually afford to take more investment risk because they have more time to claw back any short-term losses. Connolly says a young investor's focus can be solely on capital growth, meaning they could invest almost everything in equities.

'Even if stock markets fall, this simply means they can buy their investments at a cheaper price until markets recover, which pushes down their average buying price,' he explains.

REVIEW YOUR PORTFOLIO EVERY 6 TO 12 MONTHS

As people get older and the value of their investment portfolio grows, they need to consider capital protection as well as capital growth. This is particularly important for investors who will be relying on their investments to help generate an income when they retire.

DON'T IGNORE YOUR PORTFOLIO

To ensure you don't end up taking too much or too little risk, Connolly advises rebalancing your portfolio regularly. This involves selling some of your investments which have performed well and now represent a larger proportion of your portfolio. You might want to reinvest into ones which have performed poorly and are now a smaller proportion of your portfolio.

Connolly recommends reviewing and rebalancing your portfolio every six or 12 months. If you do it any more often, the charges involved could outweigh the benefits.

For example, let's say you invested £10,000 a year ago in each of the average US equities, emerging market equities, UK gilts and absolute return funds.

Based on their respective performance over the 12 months to the present day, you would now have £13,780 in US equities, £13,800 in emerging market equities, £10,670 in UK gilts and £10,360 in an absolute return fund, changing the risk profile of your portfolio considerably.

Rebalancing ensures you don't take too much risk. Selling investments that have done well in favour of those that have done badly means you are effectively locking in profit and then buying cheaply.

'This is the holy grail of investing and something which very few investors consistently achieve,' notes Connolly. (EP)

DAN COATSWORTH, WHO EDITED THIS ARTICLE, HAS A PERSONAL INVESTMENT IN FUNDSMITH EQUITY

ADVERTORIAL

ROBOTICS, AUTOMATION AND CYBER SECURITY

Invest in tomorrow, today

Our world has entered a transformational period as a new wave of technological innovation challenges every aspect of how we live and work. This disruption is being viewed as the fourth industrial revolution; the key driver of this technological megatrend is the same unending human quest for productivity improvement. This has led to accelerated growth in the use of automated technologies, data and a shift to digital, resulting in the exponential growth in both the robotics & automation and cyber security sectors.

How can investors respond to these transformational industries that could potentially generate higher returns in the coming years relative to traditional investments?

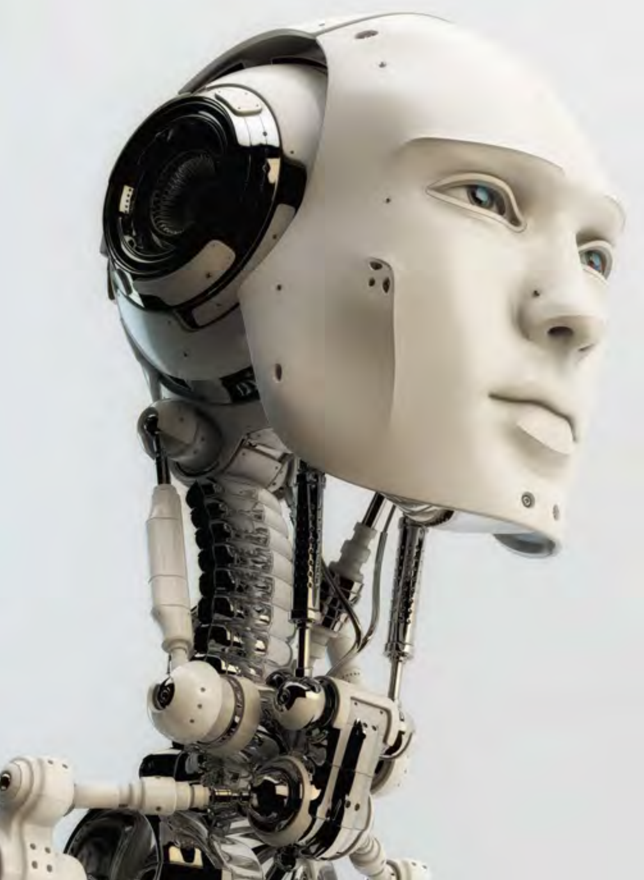
THE REVOLUTION IS HERE

The key drivers of these megatrends are not difficult to understand. Globally, we face numerous major challenges: ageing populations, overcapacity of healthcare systems, and cyber attack threats on governments and multinational corporations. In this environment, the need for robotics, automation and cyber security is clear and is now perceived to be essential expenditure for businesses and governments alike.

WHY INVEST IN... ROBOTICS AND AUTOMATION

The robotics and automation industry is expected to be worth $1.2trillion by 2025[1], as change is adopted across virtually all industries and markets. Due to technological advancements, robots are able to perform increasingly sophisticated knowledge-based work, paving the way for robotics and automation to be the tool to reboot productivity and growth worldwide.

There is also a rising appetite for mergers and acquisitions. From less than five mergers and acquisitions in 2011, M&A activity in the robotics and automation space hit an all-time high in 2016 with more than 50 companies being sold, 11 of which were for more than $500 million[2], underlying the huge growth potential within the industry.



CYBER SECURITY

Cyber security has become crucial in recent years, as governments, corporations, and individuals collect, process, and store vast amounts of confidential information on integrated cloud systems. As digital interconnectivity grows, it is estimated that $1 trillion will be spent globally on cyber software and solutions in the next 5 years[3].

High profile hacks are becoming commonplace, increasing the demand for sophisticated technology solutions as corporations and governments fear the financial and brand damage that can come hand in hand with a data breach. The consequences are significant: the Office of Personnel Management (OPM) lost some 20 million identities of individuals who underwent Federal background checks to hackers in 2016[4] while closer to home, TalkTalk's data breach left 157,000 people's records to risk.[5]

HERE AND NOW

The growing trend for robotics, automation and cyber security is set to accelerate further in 2017. Philip Hammond, the UK Chancellor, has pledged £270m for research and innovation into the next generation of science including robotics, artificial intelligence and batteries in his Spring Budget. Mr Hammond has also set up the National Cyber Security Strategy, underpinned by a £1.9 billion investment to ensure the UK becomes a global leader in cyber security.

HOW DO INVESTORS GAIN EXPOSURE?

Understanding which companies offer true robotics and cyber security exposure may be difficult for investors given their status as relatively new and unique industries.

Growth of cyber security market size (in USD billions)

Source: MarketsandMarkets 2016

We are too early in these megatrends to clearly identify winners with confidence due to many competing technologies and the importance of securing patents effectively. Accordingly, we believe in an investment approach that maximises exposure to the growth of robotics and cyber security while diversifying portfolio risk by holding a broad number of companies that focus on them as their core business.

ETF Securities' Future Present range began with the first European robotics and automation ETF in 2014 and cyber security ETF in 2015. With this range, we provide investors with valuable tools to access potentially high growth investment opportunities happening in new and exciting megatrends today.

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1 Myria Research, The Chief Robotics Officer, January 2015
2 The Robot Report, January 2017
3 Cybersecurity Ventures, Cyber Security Market Report, February 2017
4 OPM Cybersecurity Resource Center, OPM.gov.uk, June 2015
5 Information Commissioner's Office, October 2016

Protect your home from the taxman

How to benefit from the residence nil-rate band

New legislation coming into force this April could save your family an additional £140,000 in inheritance tax (IHT). Not everyone will benefit, so getting your estate in order is imperative.

WHAT'S CHANGING?

Each individual currently has an IHT nil-rate band of £325,000. For every £1 of your estate above this level, 40% goes to the taxman when you die.

On 6 April, the residence nil-rate band (RNRB) will be introduced. This can be offset against your home provided you're passing it down to your direct descendants.

The RNRB will start at £100,000 and steadily increase to £175,000 in 2020/21, at which point your family could escape IHT on up to £1 million of your wealth. This is because both nil-rate bands pass to the surviving spouse, effectively giving them a £650,000 IHT nil-rate band and £350,000 RNRB.

WHO WILL BENEFIT?

Jess Franks, IHT specialist at Octopus Investments, says the RNRB will help everyone who has been a homeowner and whose joint estate is worth more than £650,000.

The band is reduced by £1 for every £2 that a home exceeds £2 million, so there'll be no RNRB for homes worth more than £2.2m (£2.35m in 2021).

Law firm Skerritts suggests switching property ownership from joint tenancy to tenants-in-common. This would enable someone to pass a share of their home to children on the spouse's death in order to reduce assets.

You don't have to own your home at death to get the RNRB. If you've downsized or moved into a care home on or after 8 July 2015, you simply need to demonstrate that your home would have qualified if you'd kept it and the proceeds are passing to your descendants.

The RNRB doesn't cater for lifetime gifts – it only applies on death.

BEWARE TRUSTS

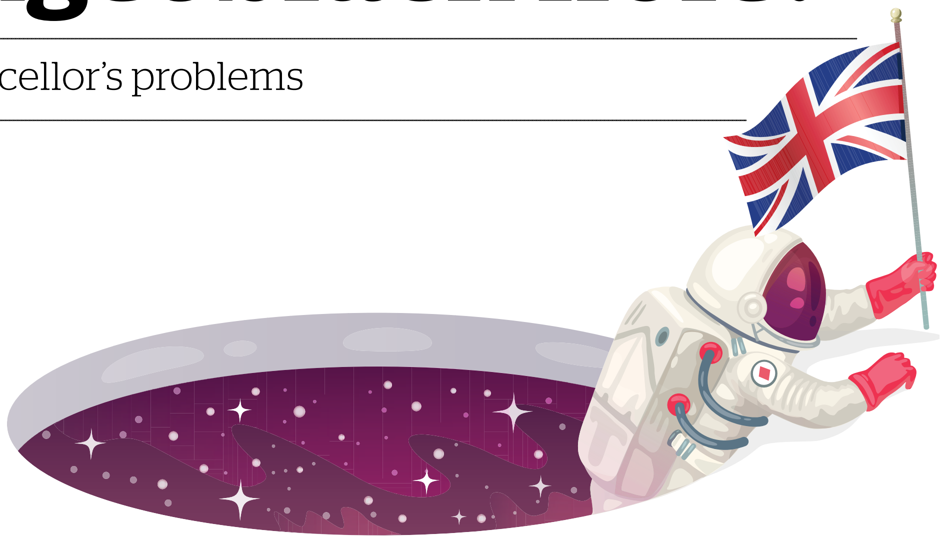
If your home has been placed into a discretionary trust the RNRB will be lost. These trusts are flexible so there is not enough legal certainty that the home will be passed to descendants.

It's possible to reverse a trust via a deed of variation. But Tom Lloyd Read, head of advice at Thomas Miller Investment, says it's better to arrange your affairs correctly before this situation arises, especially as deed of variations could be legislated against in the future.

Lauren Parker, principal associate at law firm Mills & Reeve, suggests reviewing your will to ensure the RNRB can be claimed. You should also ensure both spouses have an interest in the property. 'Also consider death bed tax planning so as to reduce the unwell spouse's estate below £2 million,' says Parker. (EP)

How could Hammond fill £2bn Budget black hole?

Three ways to fix the Chancellor's problems



Chancellor Philip Hammond has got himself into a right old mess over plans to increase National Insurance contributions for the self-employed.

The rationale behind the move was perfectly reasonable. Following the introduction of the single-tier state pension in April 2016, self-employed people can build up state pension rights in exactly the same way as employed people.

While they still miss out on other benefits – such as workplace pensions and sick pay – it makes sense to bring the National Insurance contributions of both groups closer together.

However, politics – namely former Prime Minister David Cameron's unequivocal manifesto pledge not to raise National Insurance during this Parliament – forced Hammond into an embarrassing U-turn, leaving a gaping £2bn hole in his first Budget as Chancellor.

The big question now is: how to plug the gap? Here are three options Hammond might consider:

1 CUT PENSION TAX RELIEF

Whenever the Government needs to raise money, speculation mounts that pension tax perks could be cut away.

The Government spent around £38bn on pension tax relief in 2015/16, so reducing these generous incentives – perhaps by lowering the annual or lifetime allowance – could be tempting.

Treasury financial secretary Jane Ellison has ruled out radical reform of pension tax relief in a letter to AJ Bell chief executive Andy Bell (my boss). This is good news for savers who would benefit from a period of stability in the pension tax system.

2 REDUCE PENSION DEATH BENEFITS

Alternatively, our beleaguered Chancellor could make the tax treatment of pensions on death less generous. At the moment if you die before age 75 your pensions can be passed on tax-free, while if you die after age 75 the money is taxed at the marginal rate of your beneficiary.

These rules make pensions extremely tax-efficient from an inheritance tax point of view – and might well be viewed as overly generous by a Treasury desperate to make ends meet.

3 CURB PENSION SALARY SACRIFICE

Under salary sacrifice, you can agree to give up part of your take-home pay, which your employer then pays into your pension.

By lowering your salary in this way, both you and your employer pay lower National Insurance contributions.

Lower National Insurance contributions mean less money for the Treasury; so it would be no surprise to see these schemes come under scrutiny.

Ultimately there are no easy options for the Chancellor. The Treasury has squeezed the pips of the public finances, so raising £2bn will likely involve more unpopular choices.

We can only hope Hammond resists hitting savers and investors in their pockets when his second Budget of the year rolls round in the Autumn.

TOM SELBY,
senior analyst, AJ Bell

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CLICK ON THE BOXES TO JUMP TO A STORY

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EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

REPORTER David Stevenson @SharesMagDavid

JUNIOR REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTERS: Emily Perryman, Tom Selby, Nick Sudbury

PRODUCTION
Head of Production
Michael Duncan

Designer
Rebecca Bodi

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

MANAGING DIRECTOR
Mike Boydell

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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.

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Why buy an investment trust at a premium?

We discuss reasons why some products trade higher than their underlying assets

It goes against the grain to pay more for an investment trust than the underlying net assets are actually worth, but sometimes it can make a lot of sense. The most highly rated trusts tend to experience heavy demand and normally trade at a premium to reflect their superior performance.

In some cases the demand is sufficient to lift a whole sector. For example, strong investor appetite for safe sources of income has resulted in many of asset-backed debt, real-estate debt, infrastructure, renewable energy and property trusts trading at persistent premiums to their net asset value (NAV).

RARE AND ILLIQUID ASSETS

Ben Conway, senior fund manager at Hawksmoor Fund Managers, says that on the rare occasions when his team considers buying trusts on a premium the most important criterion is that the closed-ended structure is being used appropriately, such as to access an illiquid asset class where permanent capital is most useful.

'Another important consideration is that the underlying assets in the portfolio are cheap even after taking into account the premium and that they are relatively scarce.'

Hawksmoor recently purchased a holding in **BB Healthcare (BBH)** at a small premium. The main reason was because the closed-ended structure enables the fund's highly regarded managers to run a far more concentrated portfolio than the UCITS rules would allow using an open-ended fund.

'Another trust we have purchased at a premium is **GCP Infrastructure (GCP)**. We like the assets within the trust, which give access to reliable, often government agency-backed inflation-linked revenues, and believe that they are scarce with GCP uniquely placed to source them,' explains Conway.

It is also worth bearing in mind that investment trusts with infrequent portfolio valuations may trade on a premium to their historic NAV that does not fully reflect the current situation.

ZERO DISCOUNT POLICY

Ewan Lovett-Turner, director of investment companies research at Numis, says he is wary of buying investment trusts trading on large premiums, which can be vulnerable if sentiment changes towards the fund or asset class.

'I would be comfortable

buying funds on a small premium that operate zero discount control mechanisms that limit the downside of the discount widening, such as **Troy Income & Growth (TIGT)**, **Personal Assets (PAT)** or **Capital Gearing (CGT)**.'

A lot also depends on the investor's time frame, because over the long-term the key driver of returns is likely to be the underlying asset performance rather than changes in the premium or discount.

'I believe that **Bluefield Solar Income (BSIF)** is attractive on a 4% premium given that it offers investors a yield of 6.6% from a portfolio of UK operational solar farms with revenues supported by government backed subsidies,' suggests Lovett-Turner.

SOLID SOURCE OF INCOME

Another reliable source of yield is **TwentyFour Income (TFIF)** that was launched in March 2013 and offers investors access to UK and European asset-backed securities. The trust currently trades on a premium of around 3% with a yield of 6%.

Anthony Leatham, an analyst at Peel Hunt, says he rates the team at TwentyFour Asset Management highly and considers them to be best-placed to navigate the opportunity set across mortgage-backed securities and collateralised loan obligations.

'Given the importance of differentiated sources of yield in portfolios, the experience of the management team and the triennial option to redeem up to 100% of shareholdings at close to net asset value, it is likely that this trust will continue to trade at a premium.'

The current portfolio has a weighted average credit quality of BBB and is made up predominantly of floating rate instruments that should benefit from a rising interest rate environment. In addition, the euro exposure is hedged back to sterling.

THE INFLUENCE OF RETAIL INVESTORS

Emma Bird, a research analyst at Winterflood Investment Trusts, says historically it was relatively rare for investment trusts to trade on premiums for any length of time, but this has changed in the years following the global financial crisis and reflects a fundamental shift in the nature of the shareholder base of investment trusts.

'Self-directed retail investors using platforms to access listed closed-ended funds have grown in importance and appear to be less sensitive to premium ratings. An example is the **Lindsell Train Investment Trust (LTI)**, which has a predominantly retail shareholder base and is currently trading on an excessive premium of around 30%.'

One fund that Winterflood likes is Capital Gearing Trust, which aims to preserve capital over the short run and generate strong risk-adjusted returns over the long-run.

'Capital Gearing is currently trading on a small premium and we believe discount risk is alleviated by the fund's zero discount policy, which was implemented in August 2015. It has an impressive record of delivering strong absolute returns with considerably lower volatility than equity markets.' (NS)

Is Debenhams doomed?

Heritage British brand is in 'Catch-22' situation, says broker

Heritage British retail brand **Debenhams (DEB)** is struggling for relevance in the new world of retailing. Throw in an uncertain consumer outlook and margin pressure from weak sterling into the mix and former Amazon executive and new CEO Sergio Bucher has his work cut out in reviving the department store.

BEARISH BERENBERG

Structurally challenged Debenhams, a surprise festive winner, is re-balancing its business away from fashion while rolling out concessions to fill 'under-optimised space'. Investment bank Berenberg is unconvinced.

In a research note published ahead of April's half-year results and strategy update from Bucher, Berenberg downgraded its rating from 'hold' to 'sell' with a 46p price target. Debenhams currently trades at 54.78p.

'We believe its UK market share and top-line growth are under threat, hindered by an undifferentiated customer proposition to that of peers in an increasingly competitive market,' write Berenberg's retail analysts. 'Debenhams is also severely structurally challenged by prohibitively long store leases, which restrict it from adapting to declining footfall and the transition of sales online.'

INFERIOR PROPOSITION?

Alarmingly, UK store like-for-like sales have declined for four consecutive years amid cut-throat competition and with its online growth cannibalising store sales. Berenberg sees top line growth slowing given what it believes is an 'inferior customer proposition', rising competition in health and beauty and the department store model losing relevance in retail.

Restructuring Debenhams' 'very inflexible store estate' with 20 year average lease lengths is the biggest challenge facing Bucher. 'We believe it is in a Catch-22 situation, forced to continue to invest in stores which are in long-term structural decline, leading to falling ROIC (return on invested capital) and margin erosion,' explains Berenberg. It estimates 'average lease break costs could be in the region of circa £15m', heaping further pressure on Debenhams' cash flow and posing a risk to dividends.

For the financial year to August 2017, Berenberg forecasts pre-tax profit of £102m (2016: £114m), ahead of a further drop to £90m in 2018. Based on this year's 6.6p earnings per share estimate and flat forecast dividend of 3.4p, indebted Debenhams trades on a prospective price-to-earnings (PE) ratio of 8.2 with a 6.25% dividend yield.

The shares are cheap for a reason, though Berenberg does caution: 'New CEO Sergio Bucher will leverage his previous online and merchandising experience to try to reinvigorate Debenhams' customer proposition. If he achieves this faster and more cost effectively than we anticipate, it would pose a risk to our (negative) investment case.'

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Companies presenting

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Litigation finance treats litigation claims as financeable assets, just like real estate or receivables. Burford's capital is used by businesses to pay legal expenses, relieve budget and P&L pressure, and monetize legal claims as the valuable assets they are. Litigation finance can also serve as an accounting tool, allowing businesses to litigate claims without impacting corporate balance sheets.

Berkeley Energia (BKY) Paul Atherley, Managing Director
Is a high impact, clean energy company focussed on its wholly owned Salamanca project in Spain. The Company's objective is to provide a reliable source of base load clean energy from the heart of the European Union. It will be able to fulfil approximately 10% of the continent's total requirement once in production.

Doriemus (DOR) David Lenigas, Executive Chairman
Doriemus is a British oil and gas company focussing on the Weald Basin in Southern England, with interests in the Horse Hill licence as well as two producing licences in Brockham and Lidsey.

Karoo Energy PLC (KEP) Noel Lyons, Non-Executive Director
Karoo Energy PLC is involved in the exploration, development and production of unconventional gas, shale gas and coal bed methane deposits.
We adopted a strategy when applying for licences to keep our work programmes at a minimum cost so that our minimum work obligations would be relatively easy to finance.

Walls & Futures REIT PLC (WAFR) Joe McTaggart, Chief Executive Officer
Walls & Futures is a Real Estate Investment Trust committed to delivering long-term income and capital growth by investing in residential property across the UK. Our focus is on providing homes for the Supported Housing and Private Rented Sector.
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Forterra looks great now debt is under control

Shares look undervalued now that balance sheet fears have subsided

The UK's second-biggest brick maker **Forterra (FORT)** looks undervalued as its debt reduction plans progress ahead of schedule and demand from the housebuilding sector remains robust.

We recently added its peer **Ibstock (IBST)** to our *Great Ideas* portfolio and Forterra trades at a significant discount to its larger rival. While Ibstock is on a 2017 price-to earnings (PE) ratio of 11.3 times, Forterra trades on a 2017 PE of 8.7.

Robust full year results added to the recent momentum behind the shares and we think Forterra can close the valuation gap over time.

The size of the company's borrowings had been a drag on performance but strong cash generation has helped reduced net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) from 2.2 times at its stock market debut in April 2016 to now sit at 1.3 times which is below its targeted ratio of 1.5 times.

Demand for Forterra's bricks in the first two months of 2017 was ahead year-on-year. The company is guiding for a strong first half, with slightly more limited visibility in the second half period. Numis expects volume growth of 2% in 2017 and 3% in 2018.

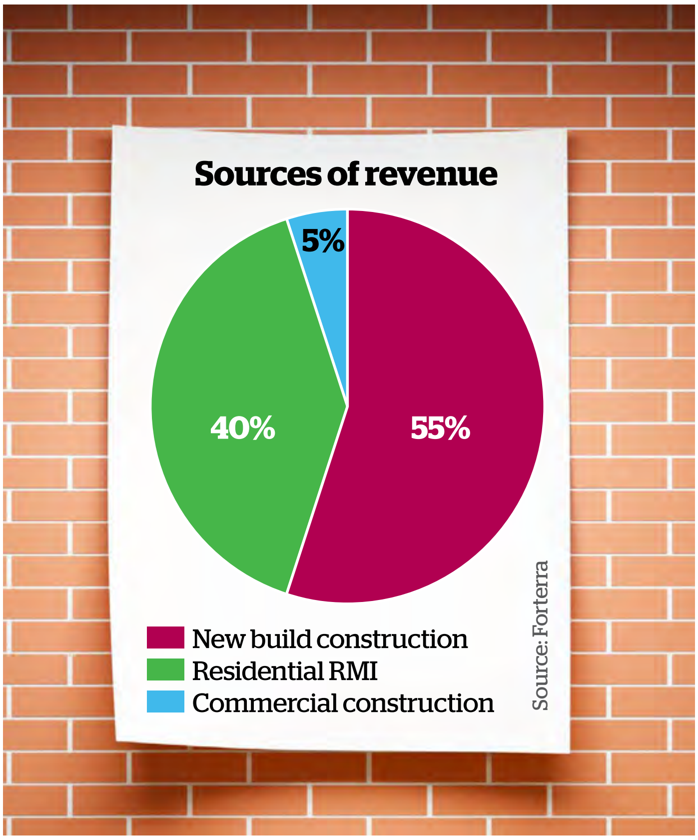
Chief executive Stephen Harrison tells *Shares* he is confident on demand from the housebuilding sector given the solid dynamics underpinning the industry.

He is more uncertain about the RMI (repair, maintenance and improvement) space given current pressures on consumer spending. Encouragingly, historically more than half of the company's business has come from new build homes.

DESTOCKING PROCESS 'LARGELY COMPLETE'

After a period in which the market became oversupplied, Government statistics show brick stocks are now down 14% on their most recent peak in May 2016 at 544m.

Forterra says that 'destocking in the builders merchants' supply chain is now largely complete'.



In a demonstration of its confidence, the company plans to bring its Claughton plant back on stream by mid-year.

The facility was mothballed last summer in the wake of the Brexit vote and Harrison says the ability to bring it back online in the wake of more robust demand reflects a flexibility to respond to market conditions.

With debt largely under control, the company has the firepower to consider bolt-on acquisitions to add to its range of products and services.

SHARES SAYS:

Debt is no longer an issue and at 209p cash-generative Forterra looks undervalued on a single-digit PE. (TS)

BROKER SAYS: 6 2 0

Zotefoams eyes higher margin sales boost

Small cap is excited about growth prospects for high-performance products arm

British business Champion

Lightweight foam sheet material specialist **Zotefoams (ZTF)** is hoping to enjoy a snowball effect with its High-Performance Products (HPP) business.

It believes greater marketing investment should result in higher sales, thereby enabling it to put further resource into the business and chase even more sales.

Success could have a positive impact on earnings as HPP commands much higher profit margins versus its core Polyolefin foams business which currently accounts for 80% of its earnings.

Zotefoams believes PEBA foams could be one of the first HPP products to really catch on, based on progress made to date. It is reluctant to give too much detail on PEBA to avoid competitors copying its innovation. However, it does say the products are well suited to the sports and leisure industries.

'PEBA is about energy management and impact protection,' says the company. 'If you get hit during sports, you want material to absorb the blow. Or you might want that energy returned such as insoles for football boots or pads within other footwear.'

HPP revenue grew by 21% in 2016 to just shy of £10m, representing 17% of group sales. The reported profit margin was 25% (up from 10% a year earlier) although Zotefoams tells *Shares* the actual margin was 30% in the second half of the year.

In contrast, the Polyolefin arm made 18% profit margin in 2016, the same as the previous year.

Shares in Zotefoams have risen by 17% to 312p since we said to buy last summer. (DC)

Expect fireworks at French Connection

A FIFTH SUCCESSIVE year of losses, sales down in retail and wholesale and a prolonged restructuring programme leave shares in fashion brand **French Connection (FCCN)** languishing at 38.25p. Don't write off the company just yet as there could be excitement ahead. Activist shareholders are arguing for board changes and retailer **Sports Direct (SPD)** has built up an 11.2% stake. (JC)

Crossrider's cyber security move

APP DISTRIBUTION PLATFORM **Crossrider (CROS:AIM)** is continuing the transformation process launched by chief executive Ido Erlichman last year. Don't worry about 2016 revenue falling by a third to $56.5m. That reflects the company's withdrawal from the ad tech space. More recently it spent €9.2m on buying German cyber security software provider CyberGhost. At 67.9p the shares are up more than 80% since we explained the company's plans last October. (TS)

M&C Saatchi makes strong start to 2017

PR AND ADVERTISING outfit **M&C Saatchi (SAA:AIM)**, currently trading at 350p, is continuing the strong momentum seen last year. On 16 March 2017 the company reported revenue ahead of consensus up 26% to £225.3m for 2016 with the net cash position at £3.6m. The company says the new financial year has started well and expresses its confidence for 2017 and beyond. (TS)

HOW DO TRAIN OPERATORS TURN A PROFIT?

Every day millions of us struggle with the constant grind of commuting, facing delays ranging from signal problems to more anarchic excuses like swans running loose on the tracks.

While experiencing these hold-ups, do you ever stop to think about how transport companies turn a profit? In this article we look at the main operators which are listed on the UK stock market and which names are best and worst placed.

WHY ARE RAIL FRANCHISES IMPORTANT?

Most train companies in Britain operate under a franchise lasting on average seven years, which has been the case since the mid-1990s and the privatisation of the rail network.

Britain's franchising model has been criticised as 'no longer fit for purpose' in some quarters for its failure to deliver consistent performance and affordable fares.

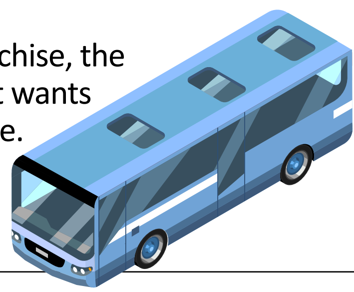
According to analysts, the most important factor for operators is passenger revenue, which is driven by the volume of people using their services.

Companies aim to keep existing franchises or win additional ones to boost the number of passengers and revenue.

They 'bid' to take control of a franchise and submit evidence of a reliable track record. When a franchise is two years from completion, the UK Government issues an 'invitation to tender' to generate competitive bids.

While price is important, there is a growing emphasis on the delivery of services following recent failures on the West Coast franchise. Falling short of performance targets can lead to financial penalties.

When considering a franchise, the Government knows what it wants the new business to achieve. Potential bidders have to work out what they can



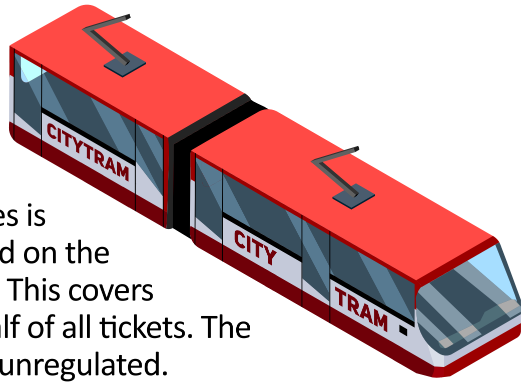
deliver, how to meet these objectives, and whether they can provide extra benefits.

If the bidder wins the franchise, they have to deliver premia payments to the Government every year. The franchise is at risk if they do not pay. In 2009, for example, **National Express (NEX)** defaulted on the East Coast franchise due to the economic downturn and rising fuel prices.

Depending on the company, the state sometimes shares the revenue risks. South West Trains receives a proportion of the shortfall if actual revenue falls short of the anticipated revenue included in the bid from operator **Stagecoach (SGC)**.

WHAT ABOUT COMPENSATION PAYMENTS?

Over the last few years, price hikes and compensation issues have been thrust into the spotlight.



An increase in regulated rail fares is determined based on the retail price index. This covers approximately half of all tickets. The remaining half is unregulated.

Money from operators is paid to delayed passengers, assuming they make a claim. Infrastructure operator Network Rail compensates train operators for unscheduled delays if its infrastructure is responsible, to offset the impact of poor performance.

In its 2015/2016 financial year Network Rail paid out around £106m, with Govia Thameslink Railway (GTR) receiving the most at £22.4m and Southeastern getting £18.2m.

WHAT ARE THE MAIN SOURCES OF PROFIT FOR RAIL COMPANIES?

GO-AHEAD (GOG)

Go-Ahead operates Southeastern, London Midland and Govia Thameslink Railway (GTR), which is responsible for Southern; 74% of its revenue comes from the rail operations.

Over the last year, Southern has suffered strikes following a row over driver-only trains, which could hit Go-Ahead's profits by up to £15m.

The Government is considering taking direct control of the rail franchise for Southern as it is responsible for a proportion of the revenue risk for GTR and is therefore directly affected by the dispute.

According to analysts, the Government chose to help due to the uncertain impact on passenger numbers during the reconstruction of London Bridge station and knock-on effect to services.

Go-Ahead is also at risk if the Government does not agree to force majeure provisions that would render the strikes 'financially neutral'.

Broker Investec analyst Alex Paterson has cut operating profit expectations for Go-Ahead from £161.2m to £152.9m for the full year 2017.

WHAT ARE THE MAIN SOURCES OF PROFIT FOR RAIL COMPANIES?

FIRSTGROUP (FGP)

FirstGroup operates Great Western Railway (GWR) and TransPennine Express.

Its rail division is expected to deliver lower operating profit, falling from £72.9m to £42.6m in 2017. FirstGroup recently attracted more rail passengers, but network upgrade work took its toll on GWR.

Liberum transport analyst Gerald Khoo believes FirstGroup is making good progress with the turnaround in its North American bus division with a potential return of dividends in the future.

NATIONAL EXPRESS (NEX)

Earlier this year, National Express sold its only franchise C2C to Italian firm Trenitalia for £72.6m. So at the moment it doesn't have a train franchise in the UK.

STAGECOACH (SGC)

At Stagecoach, 55% of its revenue is generated through its rail division, which includes South West, East Midland and Virgin Trains.

In its half-year results in December 2016, the group admitted revenue at Virgin Trains East Coast is failing to reach its original target for the franchise.

WHO SHOULD I CONSIDER INVESTING IN?

If FirstGroup can mitigate the impact of network upgrade work on GWR and continue to strengthen its current operations, its shares could represent an attractive opportunity for investors. It currently trades at 11.7 times prospective earnings per share.

WHO SHOULD I AVOID?

Alongside half-year results last year, Stagecoach warned of declining profitability in its South West Trains and Virgins Trains East Coast franchises. Management says passenger revenue growth is insufficient to cover increased premia payments to the Government and higher operating costs.

Liberum's Khoo highlights that Stagecoach's risk is concentrated on this franchise and it faces renewal risks. This is reflected in a forward price-to-earnings ratio of just 7.4 times.

Go-Ahead is one to avoid until industrial action at Southern is resolved as that is hurting profitability and rendering the outlook uncertain. (LMJ)

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KEY

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