STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 19 / ISSUE 13 / 06 APRIL 2017 / £4.49

SHARES

WE MAKE INVESTING EASIER

ISAs: WHERE TO PUT YOUR £20,000

WHY NOW IS THE PERFECT TIME TO INVEST IN SAGA

DISCOVER THE FUND WITH A REFRESHING ATTITUDE

FTSE 100 DIVIDEND SWEET SPOTS

USE AIM STOCKS TO AVOID 40% INHERITANCE TAX


AJBell
Adventurous
Moderately adventurous
Balanced
Moderately cautious
Cautious
Appetite for risk varies.
Appetite for charges doesn't.
AJ Bell Passive funds range in risk from 'Cautious' to 'Adventurous', but with a 0.5% capped annual charge, the risk of unexpected costs is always zero.
Also, until January 2019 we will waive our custody charge for these funds.
youinvest.co.uk
Full details of the capped annual charge are outlined in the Key Investor Information Document for each fund.
The value of investments can go down as well as up and you may get back less than you originally invested.

Don't lose sight of what stocks can deliver

Dividend reinvestment unlocks the wealth generating potential of equities

The old Chinese curse 'may you live in interesting times' has rarely felt more apt than it does in 2017. Amid all the noise about Trump, Brexit, European elections and the rest it can be useful to take a step back and appreciate just what the humble share can deliver in the long-term.

AJ Bell's latest edition of its quarterly *Dividend Dashboard* spells out the kind of returns you can achieve through reinvesting the dividends from shares.

The report assumes the FTSE All-Share continues to generate the compound annual growth rate since inception in the early 1960s of 6.8% a year and pays the same annual dividend of 3.8%.

On this basis if you had invested last year's ISA allowance of £15,240, and subtracted 1% a year for platform administration and dealing fees, you would be sitting on £231,577 after 30 years with dividends reinvested. This level of return dwarves those offered by cash on deposit.

SPIRIT OF ADVENTURE

In our main feature this week we make the case for including some high conviction stocks in your portfolio.

It is not sensible to invest in individual shares with money you cannot afford to lose and nor should you take unnecessary risks. However, there is a case to be made for retaining at least some spirit of adventure in your investing.

After all, the stock market's origins lay in backing the ventures of 16th and 17th century merchants targeting distant and exotic markets.

Being part-owners of the latest names looking to the public markets to back their plans for growth and wealth generation can be exciting and fun as well as potentially boosting the returns from your hard-earned cash. (TS)

WHO WE ARE

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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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06 April 2017

ADVERTORIAL

ALIGNED WITH
OUR INVESTORS

Seeking the best equity opportunities, globally

SARACEN share success

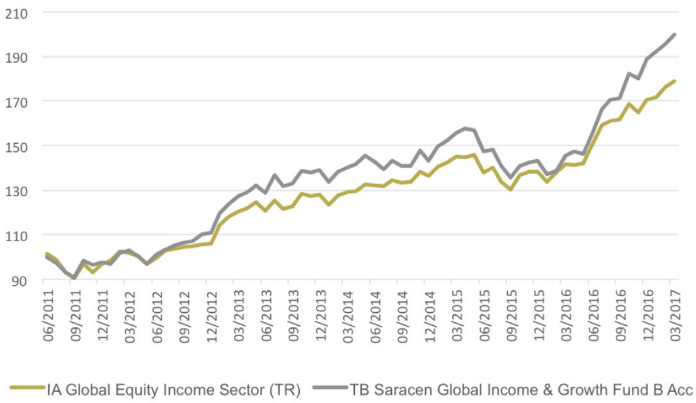
AT SARACEN FUND MANAGERS, WE ALIGN OUR INTERESTS WITH THOSE OF INVESTORS – WE ARE 100% EMPLOYEE OWNED AND HAVE SIGNIFICANT PORTIONS OF OUR PERSONAL ASSETS INVESTED INTO OUR FUNDS.

The TB Saracen Global Income and Growth Fund, co-managed by Graham Campbell and David Keir, aims to grow both capital and income over the long-term by investing in market leading businesses at attractive valuations and supportive dividend yields.

The most important part of any investment decision is the price you pay. We aim to identify and invest in 40-60 leading global businesses which we believe will be able to grow profits and increase dividends over the next 10 – 20 years.

The fund is independently rated by RSM and "A" rated by Square Mile Research. TB Saracen Global Income and Growth Fund has an active share of 90%.

Fund Performance since inception (from 06/11 – 03/17)



Source: Financial Express

Total Return, Bid to Bid, GBP terms. Past performance is not a reliable indicator of future results. The value of your investment and the income derived from it can go down as well as up and you may not get back the money you invested.

Currently ranked second out of 41 funds over 12 months to the 31st March 2017, the fund has delivered top quartile performance over 1 year, 5 years and since launch in June 2011.

Cumulative Performance after all ongoing charges to 31st March 2017

	1 year	3 years	5 years	Since launch[1]
TB Saracen Global Income and Growth Fund B Acc	+37.3%	+42.4%	+93.7%	+100.1%
IA Global Equity Income Sector Average	+25.4%	+38.7%	+75.8%	+79.0%
Quartile Ranking	1	3	1	1

[1]Source: Financial Express; launch date 07 June 2011

The historic dividend yield is 2.6%[2], which rose 8% year on year[3]. There is an annual management fee of 0.75% and an ongoing charges figure of 0.97% (B shares) and there is no entry or exit fee and no performance fees. We offer Income and Accumulation shares.

Saracen Fund Managers has a rigorous investment process. We have a long-term investment horizon and we focus on factors that drive returns, namely; cash and growth.

Many investors require income and capital to fund their aspirations. Banks and government bonds offer very low levels of return for savers. In comparison, equities still appear attractive and with signs that economic growth is strengthening, we believe we have identified a portfolio of quality businesses that offer value and will benefit from the persistence of global economic growth.

Click **here** to find out more information

Discrete Performance Table

	31/03/2016 to 31/03/2017	31/03/2015 to 31/03/2016	31/03/2014 to 31/03/2015	31/03/2013 to 31/03/2014	31/03/2012 to 31/03/2013
	%	%	%	%	%
TB Saracen Global Income & Growth B Acc in GB	37.3	-6.6	11.0	10.2	23.5
IA Global Equity Income TR in GB	25.4	-1.8	12.6	7.1	18.3
Quartile Ranking	1	4	3	2	1

Source: Financial Express as of 31/03/2017

Total Return, Bid to Bid, GBP terms. Past performance is not a reliable indicator of future results. The value of your investment and the income derived from it can go down as well as up and you may not get back the money you invested.

[2] Based on 4.27p per share on Income shares for 2016 - [3] 2017 rate was 3.94p per share

FTSE 100 dividend delight on overseas earnings boost

Payouts look generous but watch out for the risks too

The FTSE 100's approximate 4% yield could provide a useful way to combat rising inflation, according to AJ Bell's latest *Dividend Dashboard* report.

With 75% of earnings from the FTSE 100 coming from overseas, the devaluation of sterling has provided a significant boost to constituents of the blue chip index which can feed through to more generous dividend payments.

The report shows consensus profit forecasts for the FTSE 100 have increased from £171bn at the time of the EU referendum to £197bn with forecast dividends rising from £75bn to more than £80bn.

RISK WARNING – 50% OF DIVIDENDS COME FROM JUST 7 STOCKS

There are some reasons for caution. Half of the £80bn of dividends from the FTSE 100 index are forecast to be paid out by just seven companies.

Only one of these seven companies has a dividend covered more than 1.5 times by forecast earnings and two look to be paying dividends out of debt or retained earnings with cover of less than 1.0.

A quarter of the constituents of the FTSE 100 are defined by the research as being in the 'dividend danger zone' with dividend cover of less than 1.5 and dividend yield of more than 4%.

Some are utilities which have predictable cash flows while others are housebuilders with net cash on the balance sheet but the majority do not enjoy these advantages.

DIVIDENDS IN THE SWEET SPOT

On the positive side of the ledger there are 14 firms with forecast yields of more than 3% whose dividends are covered more than twice over by earnings.

Of that list, both airline **EasyJet (EZJ)** and insurer **Old Mutual (OML)** have cut their dividends in the last 12 months.

A separate report from IHS Markit implies a very positive near-term outlook for dividends from the wider universe of FTSE 350 stocks, forecast to rise by 25% to a record £20.7bn in the second quarter of 2017.

Most of the hike is expected to come from currency translation benefits and a good chunk (circa £3bn) comes from **National Grid (NG.)** alone.

Dividend dependence

Company	Forecast contribution to FTSE 100 2017 dividend payments	Forecast dividend cover 2017
Royal Dutch Shell (RDSB)	15%	0.95x
HSBC (HSBA)	10%	1.35x
BP (BP.)	8%	1.07x
GlaxoSmithKline (GSK)	5%	1.43x
British American Tobacco (BATS)	4%	1.60x
Vodafone (VOD)	4%	0.63x
AstraZeneca (AZN)	3%	1.06x
Total	49%	

Source: AJ Bell

Dividend sweet spot

Company	2017 forecast dividend growth	2017 forecast dividend cover	2017 forecast dividend yield
Next (NXT)	0%	2.57x	3.9%
ITV (ITV)	11%	2.01x	3.9%
EasyJet (EZJ)	-29%	2.02x	3.8%
International Cons. Airlines (IAG)	10%	3.66x	3.7%
WPP (WPP)	12%	2.01x	3.7%
RSA Insurance (RSA)	36%	2.02x	3.7%
Kingfisher (KGF)	6%	2.14x	3.4%
Babcock International (BAB)	7%	2.86x	3.4%
Old Mutual (OML)	24%	2.81x	3.3%

Source: AJ Bell

Polar Capital makes a mint after Miton raid

Asset manager enjoying healthy inflows off the back of successful fund launch

Asset manager **Polar Capital (POLR:AIM)** is riding high having snaffled star fund managers from a rival outfit. It could enjoy earnings upgrades if its current momentum is sustained.

Polar, currently trading at 358p, launched **Polar Capital UK Value Opportunities (IE00BD81XX91)** in January with £111m of assets under management (AUM). By the end of the following month it had AUM of £151m, up 36%.

In April 2016 the firm raided **Miton (MGR:AIM)** for the current manager of UK Value Opportunities Georgina Hamilton and George Godber, who will join her in later this month. When the departures were announced, Miton lost 20% of its market value.

Broker Canaccord Genuity, which has a 'buy' rating on the stock, estimates Polar's total AUM could have hit £9.2bn at the end of February up from £7.3bn year-on-year.

The analyst attributes growth in AUM to two factors; inflows into Polar's insurance, technology and UK Value Opportunities funds of £200m (partially offset by outflows from its Japan funds) and strong market performance which added £600m.

SHARES SAYS: ↗
Polar looks to be on a good run. Canaccord has a price target of 385p. Buy at 358p. (DS)

BROKER SAYS 2 1 0

Brace yourself for more British takeovers

Further weakness in the pound could see more foreign companies swoop on UK firms

FURTHER WEAKNESS IN the sterling could lead to a second wave of incoming M&A as foreign companies would find it even cheaper to buy UK businesses.

Already in 2017 consumer goods giant **Unilever (ULVR)** has fought off a £115bn bid from Kraft Heinz. Engineering consultant **WS Atkins (ATK)** earlier this week received a £2bn takeover approach from a Canadian rival.

'Although there were, on average, more than two deals per week with a transaction value of more than £100m in the six months after the Brexit vote, the frequency for mergers has now stepped up a gear,' says Canaccord Genuity Wealth Management.

Its senior equity analyst Simon McGarry has identified 14 stocks which look particularly attractive to foreign companies including transport firm **Go-Ahead (GOG)** and civil engineer **Costain (COST)**.

The exercise involved looking at the free cash flow yield of firms based on them being acquired in a leveraged buyout (that is a takeover at least partly funded by debt). (TS)

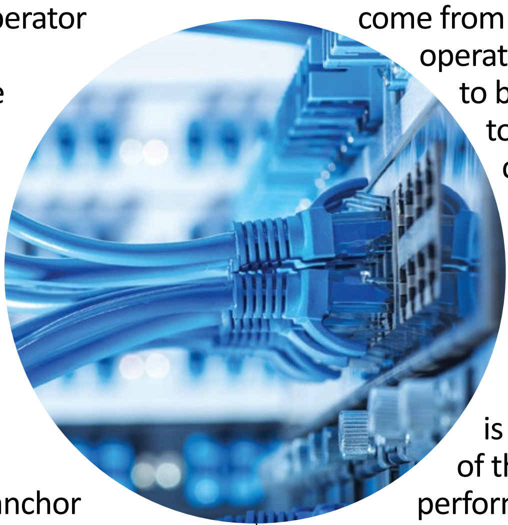
M&A candidates

Company	LBO free cash flow yield
Go Ahead (GOG)	25.4%
Costain (COST)	15.5%
Schroders (SDR)	15.3%
TP ICAP (TCAP)	15.0%
Staffline (STAF)	14.8%
Impellam (IPEL)	14.3%
WS Atkins (ATK)	14.2%
Wilmington (WIL)	12.6%
Wizz Air (WIZZ)	11.7%
Galliford Try (GFRD)	11.6%
Computacenter (CPU)	11.6%
Henderson (HGG)	10.7%
RPS Group (RPS)	10.7%
Hays (HAS)	10.4%

Source: Canaccord Genuity

CityFibre seeks fresh funding deal

Company wants better financing terms as it eyes ambitious growth



Gigabit city fibre networks operator **CityFibre Infrastructure (CITY:AIM)** is looking secure new financing arrangements to arm itself for the next leg of its ambitious growth plans. The company wants to renegotiate around £100m of debt because of onerous interest charges, believed to be close to 10% per year. It has access to an extra £80m of funding.

CityFibre has 42 city networks nationwide backed by long-term anchor tenants that provide the funding for the initial network build. Anchor tenants are typically local authorities or internet service providers.

A new deal could replace existing facilities on improved terms but also provide the firepower to meet a more rapid national scale-up of its network. Management are hopeful that such a deal could come from one or more of the big UK mobile operators. O2 and Three are thought to be very keen to add fibre muscle to bolster multi-play offers to customers, where a single supplier provides landline, mobile, digital TV and other services. **Vodafone (VOD)** may also be interested once it has fully untangled its Cable & Wireless network assets.

Equity financing to fuel growth is currently ruled out because of the disappointing share price performance. The stock is currently changing hands for 51p, a 15% discount to its 60p IPO price in January 2014. (SF)

SHARES SAYS: ↗
Avoiding heavy dilution of existing shareholders is the right move and we continue to like the long-term investment story. (SF)

Special dividend on cards for Central Asia Metals?

COPPER MINER **CENTRAL Asia Metals (CAML:AIM)** has hinted to *Shares* it may pay a special dividend later in the year if surplus cash isn't needed elsewhere for acquisitions or exploration work. Its capital expenditure requirements are greatly reduced this year, having completed work to expand a tailings reprocessing operation in Kazakhstan. The miner already pays a generous dividend, yielding 7.1%. (DC)

Sophos shines and shares at record high

SURGING FOURTH QUARTER demand and currency tailwinds will see cyber security business **Sophos (SOPH)** outperform market expectations for the year to 31 March 2017. That news sparked a 12% rally in the share price to 303.6p, the stock's highest level since its London IPO at 225p on 1 July 2015. Sophos is one of *Shares'* top picks, currently up 30%. (SF)

Margin pressure hits ASOS

ONLINE FASHION RETAILER **ASOS (ASC:AIM)** is coming under pressure after first half results (4 Apr) revealed a fall in profit margins.

Although guidance for sales growth for the year to the end of August was increased to 30% to 35%, profit guidance was left unchanged as it charged lower prices for non-UK customers.

Discounting, alongside weakness in sterling, helped international sales grow 42% year-on-year in the first half. (TS)

Genus gets green light to launch GSS

Animal genetics specialist set to benefit from favourable ruling

It's all systems go as animal genetics specialist **Genus (GNS)** can launch its Genus Sexed Semen (GSS) technology in the US and other global markets as legal issues are resolved.

Using GSS, farmers can produce female calves for milk.

A ruling by the US District Court in Wisconsin removes contractural restrictions which prevented Genus subsidiary ABS Global from launching an alternative to existing solution Sexing Technologies, owned by Inguran. The court decision effectively breaks the latter's monopoly on this market.

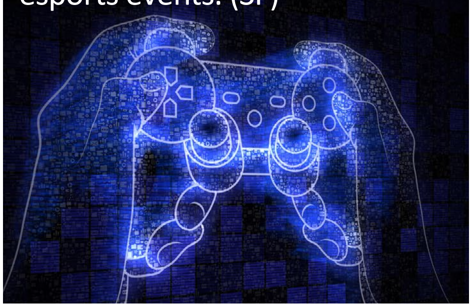
Other companies in the US who use Sexing Technology have to provide a year's notice before using GSS, which may slow uptake.

Peel Hunt analyst Charles Hall says the ruling provides Genus with the chance to greatly reduce its GSS license fee, expand its market and supply its products to third parties. (LMJ)

$1.49bn

PLAYING AND WATCHING OF ESPORTS TO SOAR

ANNUAL GLOBAL revenues from esports are set to explode by 2020, with 200%-plus growth predicted by analysts. This is down to increasing numbers of people not only playing, but also tuning in to watch. The *League of Legends World Championship* is the world's biggest esports tournament with prize money topping $2m in 2016. Staggeringly, 43m people watched the finals, according to researchers at Newzoo. AIM-quoted **Gfinity (GFIN:AIM)** is one way to invest – it promotes esports events. (SF)



2,300 WEBSITES

BULL CASE ON XLMEDIA

APPROXIMATELY 2,300 websites are used by **XLMedia's (XLM:AIM)** publishing division to drive users to its clients' gambling and social gaming platforms.

Berenberg, which rates the shares a 'buy' with a 150p price target, reckons only a 100 of these are generating substantial revenue with the remainder in 'build-up' phase.

It is optimistic the publishing arm could beat a 13% growth estimate for 2017.

275,213 tonnes

THIS IS THE total amount of meat processed by **Hilton Food Group (HFG)** over the course of 2016.

It was a 9% increase on 2015 and marked the the highest growth level since 2009, as carnivores in the UK, Ireland and Australia tucked into more meaty dishes.

Panmure Gordon analyst Peter Smedley says the meat packing business is in top form as it has the financial firepower to simultaneously fund investment in the business and maintain its healthy dividend. It has a 2.7% prospective yield.

87.5%

EARNINGS DOWNGRADE FOR AO WORLD

SLOWER THAN expected UK sales growth, pressure on profit margins and guidance for no change in trading patterns near-term has led stockbroker Numis to dramatically slash forecasts for fridges-to-washing machines seller **AO World (AO.)**.

It has reduced EBITDA (earnings before interest, tax, depreciation and amortisation) forecasts for the financial year to March 2018 by 87.5% to a mere £2m.

'While we have no reliable industry data to corroborate this, management is firmly of the view the softer trading performance is being driven by a significantly tougher white goods market,' says Numis analyst Andrew Wade.

100P UPLIFT

HARGREAVES SERVICES' PLANNING JOY

THE GRANTING last week of planning permission to convert an old mine site into a property development adds 100p to **Hargreaves Services' (HSP:AIM)** net asset value, says N+1 Singer.

The broker's new intrinsic value for the business is now 460p which compares to the trading price of 333.5p as of 4 April 2017.

Last August Hargreaves said it had amassed an 18,500 acre portfolio of property which included a range of agricultural and development land.

It has been working on this portfolio to clean up the land and try and extract significant value through a mix of property, industrial and energy developments.

£20.80

WS ATKINS IN $2.6BN APPROACH

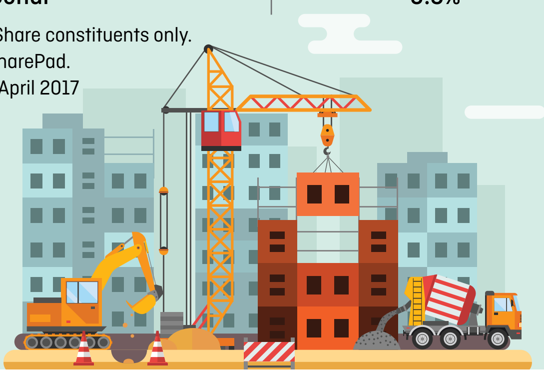
CANADIAN GROUP SNC-LAVALIN has proposed to pay £20.80 per share for engineering consultancy **WS Atkins (ATK)**.

This values the firm at $2.6bn and supported a 27.3% rise to £19.50, suggesting the market does not expect rival bid interest. Atkins' board seems satisfied with the proposal, saying it delivers value to shareholders and all that is left is to reach agreement on other terms and conditions. Investment bank Liberum says the deal is a stretch for SNC but is likely to be well supported.

BEST PERFORMING CONSTRUCTION STOCKS SO FAR THIS YEAR

Morgan Sindall	33.1%
Costain	28.7%
Marshalls	22.3%
Tyman	16.9%
Polypipe	16.3%
Forterra	14.4%
Henry Boot	13.5%
Ibstock	12.8%
Volution	12.3%
Low & Bonar	9.5%

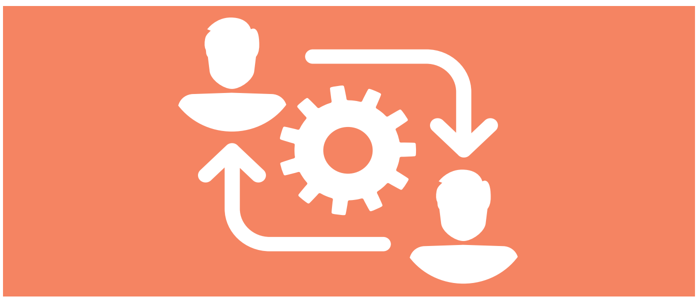
FTSE All-Share constituents only.
Source: SharePad.
Data to 4 April 2017



BEST PERFORMING SUPPORT SERVICES STOCKS SO FAR THIS YEAR

WS Atkins	35.2%
Grafton	30.5%
Exova	30.3%
G4S	30.2%
IWG	29.4%
Robert Walters	26.3%
Paysafe	24.8%
Communisis	24.8%
Sanne	18.6%
RPS	17.8%

FTSE All-Share constituents only.
Source: SharePad. Data to 4 April 2017



GCP Student Living's capital comforts

London focus is attractive given strong fundamentals

Student accommodation is a specialist asset class which offers investors returns relatively uncorrelated to the wider financial markets.

Within this subset, we view real estate investment trust (REIT) **GCP Student Living (DIGS)** as being in a particular sweet spot and therefore attractive to investors looking to secure an inflation-busting income.

The company currently offers a dividend yield of 3.8% based on consensus forecasts.

Raising £70m alongside its stock market listing in May 2013, the REIT has gone from having a single asset to six, comprising a diversified portfolio of more than 2,000 beds.

This expansion has been supported by a partnership with development manager Scape Student Living and generously backed by shareholders.

SUPERB RETURNS

Aiming to generate an annualised total return of between 8% and 10%, it has done substantially better. Managed by Gravis Capital Partners through Tom Ward and Nick Barker, since IPO it has delivered an annualised return of 16.3%.

As an asset class student accommodation has low volatility and does not react in the same way as commercial property.

According to Tom Ward it has delivered rental growth in excess of retail price inflation in 15 out of the last 17 years.

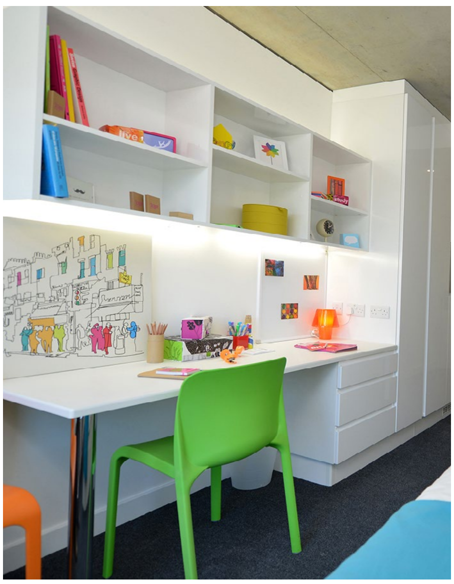
GCP STUDENT LIVING
BUY
(GCP) 150p
Stop loss: 120p

Market value: £506m

In the UK there were 183,000 more applicants than places to study at university in 2016/17 with most of the growth coming from international students.

The focus for GCP Student Living is predominately on London where the supply-demand dynamics look particularly favourable due to heavy competition for land.

In 2015, for example, there was demand from 275,000 students for just 75,000 beds.



This is likely to support continued rental growth.

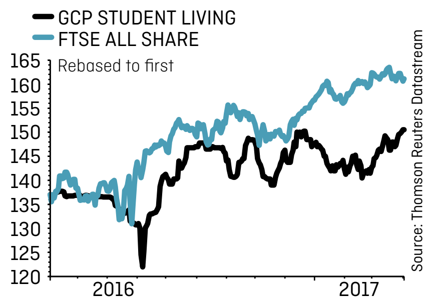
BANKING ON INTELLIGENT DESIGN

Ward says the model involves offering mid-level pricing to target the broadest market segment. Teaming up with leading architect Ab Rogers, Scape uses customised design, including fitted furniture, to squeeze more studios in its developments and keep rental prices for individual students relatively low.

On average six Scape studios can fit into every five typical studios with rent around 20% lower than the typical level for London.

The capital has the largest international student population with more than 100,000 students but could Brexit see this population shrink if EU students stay away. That is a risk to consider, however Ward says he is positive on UK universities' ability to 'pick up a lot of numbers' from outside the EU.

BROKER SAYS: 1 0 0



SciSys ignites growth flame

Expansion firmly back on the agenda for project software firm

After several years of treading water **SciSys (SSY:AIM)** has at last found its growth groove and *Shares* believes there is a substantial profit opportunity for investors.

Our back of an envelope calculations suggest that a modest price to earnings (PE) multiple re-rating to 14 by the end of this year could see the share price hit the 170p mark, implying 54% upside. The current 2018 PE stands at just 9.1.

Chippenham-based SciSys provides project based IT skills and services to large public sector (the ESD division), broadcast media (M&B) and space industry clients.

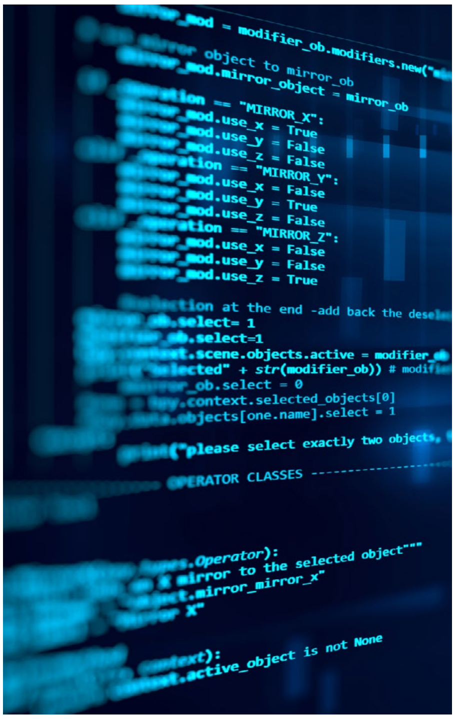
The Ministry of Defence (MoD) is a big public sector client. SciSys also does a lot of work with the European Space Agency (ESA), including its Galileo project and on Mars missions, and the satellites industry.

This has previously made the company look rather disjointed with a hotch potch of software enterprises with little reason to sit under the same corporate umbrella. But more recently management has been able to spin internally developed intellectual property (IP) into multiple applications.

For example, it has piggy-backed initial project information management work for the RNLI to build its *MACSYS* integrated marine management platform.

SCISYS BUY
(SSY:AIM) 110.5p
Stop loss: 88p

Market value: £32.1m



A similar development root produced its *PLENITER* advanced metrological system.

EXCITING OPPORTUNITY IN BROADCAST MARKET

Exciting in the near-term is the potential from its broadcast media arm, its most profitable division with operating profit margins of a 31.25% in 2016 (ESD 26.9%, Space 21.1%).

Up until the £23.8m acquisition of German business ANNOVA in November 2016 it was also its smallest division.

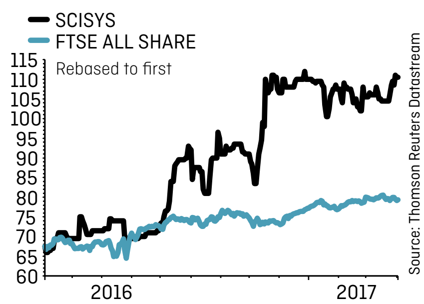
ANNOVA is a newsroom software supplier to many of the biggest European media organisations. It has a 12-year deal with the BBC. SciSys sees ANNOVA IP as a perfect fit to develop existing and new products, plus it brings a substantially bigger international presence.

The deal led analysts to increase their 2017 earnings forecasts for SciSys by 25%, which gives you some idea of the potential.

Management are a naturally cautious bunch, demonstrated by the company's solid cash generation and dividend that will yield 2% this year.

So if FinnCap sees earnings per share jumping from 9p to 11p in 2017 (a 22% increase), it's because the company is very comfortable with that estimate. This puts the possibility of beating expectations on the cards too, and positive newsflow through the year could act as a catalyst for a share price re-rating. (SF)

BROKER SAYS: 1 0 0



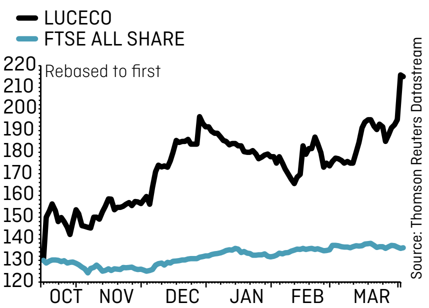
LUCECO
(LUCE) 215.54p

Gain to date: 43.7%
Original entry point:
Buy at 150p, 20 October 2016

BETTER THAN EXPECTED full year results on 3 April have given another lift to shares in **Luceco (LUCE)**. They are now nearly 45% ahead of the price at which we said to buy six months ago.

Luceco makes and sells wiring accessories, USB charging plugs and LED lighting. Post-tax profit increased by 67.2% in 2016 to £9.7m.

It has a policy to pay 20% of profit after tax as a dividend. It has declared a maiden dividend of 0.3p, a lower figure than you might expect when doing the maths. That represents the portion of profit after tax for the two and a half months it was a listed business (it floated in October 2016).



Unfavourable foreign exchange rates could mean retailers have to put up the prices of Luceco's goods. It says this hasn't happened yet because retailers have currency hedges in place – although it warns these hedges could soon run out. Retailers account for 40% of its sales.

SHARES SAYS:
Chief executive John Hornby says the biggest risk to Luceco would be a recession in the UK. For now, Hornby claims demand is strong from its core customer base of housebuilders, construction firms and retailers. We remain positive, albeit keeping a close eye for any signs of trading weakness which could be a trigger to lock in profit. (DC)

BROKER SAYS: 2 0 0

IOMART
(IOM:AIM) 295.5p

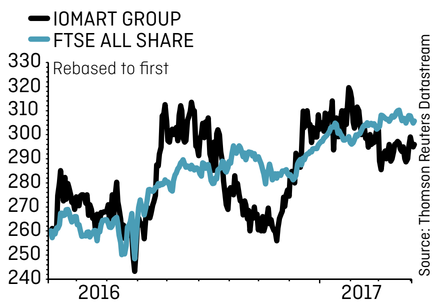
Gain to date: 14.3%
Original entry point:
Buy at 258.5p, 23 June 2016

MORE ORGANIC GROWTH at an accelerating pace is the key takeaway for *Shares* from what is another reliably fine pre-close trading update for **Iomart (IOM:AIM)** (31 Mar). The company pulled off 17% headline revenue growth, which translates into rough high-single digits on an underlying basis.

Shared hosting arm Easyspace is also back on the growth path, putting up 9% organic expansion, a solid bounce after a period of decline.

The resulting free cash flow (FCF) growth provides justification for its capital deployment strategy of bolting on small, value-adding acquisitions while maintaining infrastructure investment so kit remains at the cutting edge.

It also gives confidence that Iomart's decision to lift the dividend payout ratio upper cap from 25% to 40% of adjusted diluted earnings is more than merely playing to the cheap seats. We see the move as a real attempt to satisfy shareholder demands regardless of income or capital growth objectives. A 'pick-and-shovel cloud play' is how one analyst describes the company. We completely agree and it remains one of the best ways to invest in the wider cloud story on the UK market.



SHARES SAYS:
Even at 360p the implied forward earnings multiple of 18.9 would still not be too demanding. Firmly a buy. (SF)

BROKER SAYS: 3 1 0

UK STOCK MARKET AWARDS 2017

WINNERS

GROWTH COMPANY OF THE YEAR (sponsored by Progressive Equity Research)
Boohoo.com Plc

M&A TRANSACTION OF THE YEAR (sponsored by Squire Patton Boggs)
Micro Focus International Plc

FUNDRAISING OF THE YEAR (sponsored by Squire Patton Boggs)
Sirius Minerals Plc

IPO OF THE YEAR (sponsored by Squire Patton Boggs)
Blue Prism Plc

INNOVATION OF THE YEAR (sponsored by NEX Exchange)
Purplebricks Group Plc

INVESTOR RELATIONS TEAM OF THE YEAR (sponsored by Shares)
Sound Energy Plc

FINANCIAL PR TEAM OF THE YEAR (sponsored by Shares)
Camarco

CORPORATE SPONSOR OF THE YEAR (sponsored by Shares)
finnCap

BEST CUSTOMER FOCUS (sponsored by AJ Bell)
Metro Bank Plc

CEO OF THE YEAR (sponsored by Redleaf Communications)
David Lewis - Tesco Plc

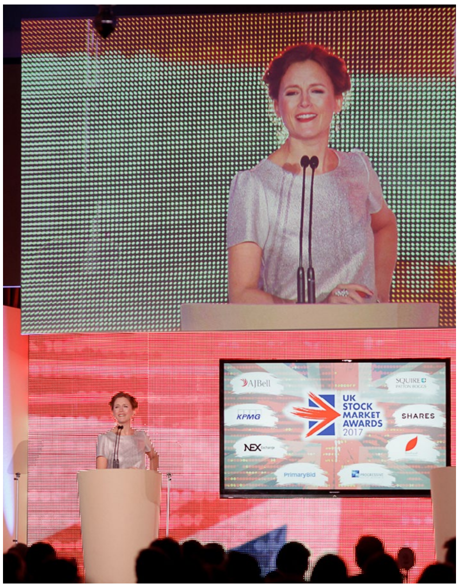
FD OF THE YEAR (sponsored by Redleaf Communications)
Carole Cran - Aggreko Plc

BEST PERFORMING SHARE (sponsored by PrimaryBid)
Ferrexpo Plc

AIM COMPANY OF THE YEAR (sponsored by PrimaryBid)
Boohoo.com Plc

MAIN MARKET COMPANY OF THE YEAR (sponsored by KPMG)
GVC Holdings Plc

ENTREPRENEUR OF THE YEAR (sponsored by KPMG)
Andy Michuda - Sopheon Plc



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The hazards of client concentration

Apple u-turn highlights risk of being too reliant on a few customers

The devastating slide in **Imagination Technologies (IMG)** shares on 3 April after being ditched by its largest customer Apple is just the latest and most high profile in a string of setbacks for firms with heavily-concentrated client bases.

Shares in the microchip designer fell by more than 60%, with more than £500m wiped off its market value, as Apple said it would stop using the group's graphics intellectual property (IP) within the next 18 months to two years.

BIG CHUNK OF REVENUE

According to one forecast before the news, Apple was expected to be worth £65m of Imagination's £140.3m revenue for the year to 30 April 2017.

The share price collapse was compounded by the market also effectively removing a takeover premium previously applied to the stock. Investors had long expected Apple to make a bid for Imagination.

The companies clearly won't be getting hitched now that Apple has decided to develop its own graphics solution internally.

60% OF COHORT'S WORK IS FOR THE MOD

Imagination is crying foul over potential patent infringements but given the relative size and balance sheets of the two firms any battle on the issue looks a mismatch.

WHO ELSE IS IN THE SAME BOAT?

In October 2016 electronics and high performance materials firm **Laird (LRD)** also saw a bite taken out of its share price thanks to its reliance on Apple.

Around 20% of its business came from providing radio frequency shielding for iPhones. Softer handset sales were a big factor behind Laird's significant profit warning.

In February 2017, a little over six months after joining AIM, Rugby-based **Autins (AUTG:AIM)** shocked the market with its own profit warning linked to a single customer.

Autins supplies specialist compound materials designed to cut noise nuisance and reduce wasted heat, largely used in the automotive industry.

PREMIER FOODS GETS 80% OF ITS BUSINESS FROM FOUR SUPERMARKET CHAINS

Jaguar Rover is thought to account for half of Autins' annual revenue. And it was reportedly a contract with Jaguar Rover, where the terms of a supply deal saw volumes cut and the timing of deliveries altered, which blew an estimated 15% hole in Autins' forecast revenue for the year to 30 September 2017.

PLAYING WITH A WEAK HAND

This illuminates the other key issue with being reliant on just one or a handful of major customers, namely you are left in a very weak negotiating position.

In early 2017 food producer **Premier Foods (PFD)**, which in its previous financial year derived 80% of its revenue from four UK supermarket chains, cut its full year profit guidance by 10%. The company said it was taking longer than expected to agree supply deals with food retailers.

The maker of *Mr Kipling* cakes and *Bisto* gravy has been trying to pass on higher input costs resulting from the devaluation of sterling.

Given **Tesco (TSCO)**, in particular, was widely perceived as having won a battle over pricing with a much more heavyweight opponent in the form of consumer goods giant **Unilever (ULVR)**, it is hard to fancy Premier's chances.

APPLE HAD ACCOUNTED FOR 46% OF IMAGINATION'S FORECAST REVENUE

And with the shares currently trading at 44.9p, it's little wonder management are continuing to take heat from activist shareholder Paulson & Co over rejecting a 65p per share offer from US rival McCormick in April 2016.

IN THE FIRING LINE?

We note that cash-generative defence outfit **Cohort (CHRT)** derived more than 60% of its revenue from the UK Ministry of Defence (MoD) in its financial year to April 2016.

The acquisitive firm has been on a growth tear and shareholders have been rewarded with a four-and-half-fold increase in its share price in the last five years to the current 434.5p.

Investors should be aware of a risk to earnings from having so much business with one party, particularly given recent reports of a £1bn shortfall in the MoD's budget.

Another stock deriving a decent portion of earnings from one customer is online payment processing firm **Paysafe (PAYS)**.

It generates 20% of revenue from a single merchant in Asia. Admittedly the percentage of group earnings from this undisclosed party has been slowly decreasing over the years. (TS)

Why now is the perfect time to buy Saga shares

Over-50s specialist could be on cusp of major growth breakthrough

'We are no longer an insurance company with a small travel business on the edge,' proclaims **Saga's (SAGA)** chief executive Lance Batchelor. The FTSE 250 stock has been trying to get this message across ever since floating on the stock market in 2014; and now it has clear evidence to back up this claim.

Full year results published on 29 March revealed a 10.4% rise in pre-tax profit from its travel division to £14.9m. While only a small fraction of the £215.1m profit it made from insurance, Saga says it has reached a turning point in terms of how travel contributes to the group.

'Three years ago when we floated, we set ourselves a five year ambition to double the travel arm's profitability,' Batchelor tells *Shares*. 'That will now be delivered a year early.

'We are also setting ourselves a new target. We will increase travel profit by four to five times this year's level over the next five years, helped by having two new cruise ships.'

The company is very excited about its future prospects; you should be too.

WHAT DOES IT DO?

Saga is known as a specialist in the provision of holidays and insurance for the over-50s market. It has a very well-known brand; it is highly profitable; and it pays decent dividends. It should also benefit from favourable demographics, such as people living for longer and many retirees being financially comfortable.

We believe it has right ingredients to reward investors handsomely over the long-term. So why hasn't the share price gone anywhere over the past few years?

At the moment few analysts seem to be truly excited about the business (that's a good sign, in our view). We've also heard comments from retail investors that they view growth as being too pedestrian. That might explain why the share price seems to be stuck in an 180p to 220p trading range.

Fundamentally we think Saga could be one of those stocks where people in 10 years' time look back and kick themselves for not buying when no-one was really interested in it (i.e. now).

ENVIABLE POSITION

Saga is a rare beast on the stock market in that many of its customers are extremely loyal to the brand. They have multiple products from the company and some even consider themselves as being part of a community. How many other retailers or insurers can say the same?

Batchelor says 20% of Saga's customers account for 80% of the group's profit. The company has spent a long time understanding how this segment came to become so loyal, so that it can a) try and sell more relevant products to them (483,000 individuals) and b) see which other customers have similar characteristics.

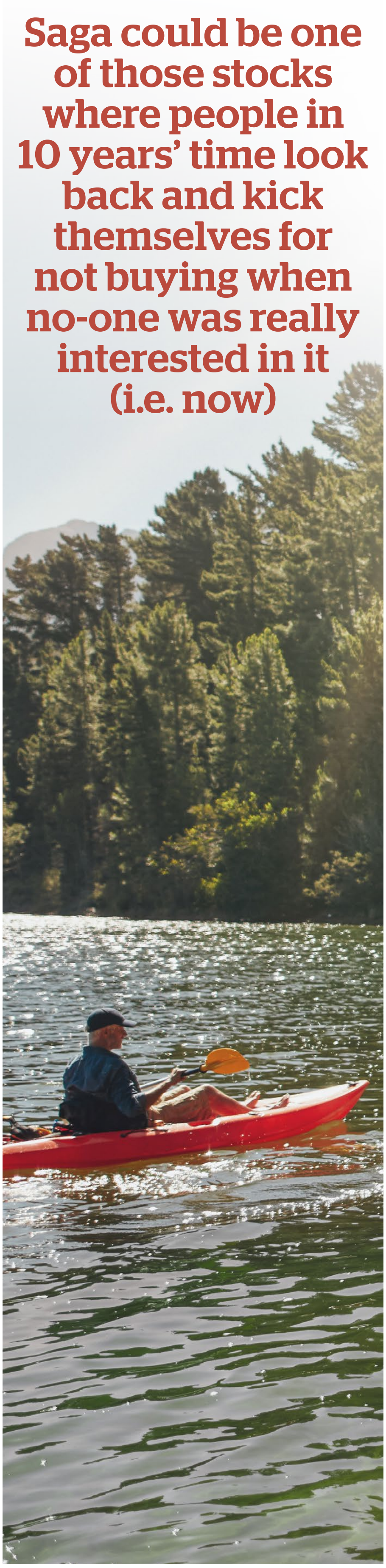
'We've looked at where they live, what they've done, where they go on holiday, among many other attributes,' says the CEO. 'We've then analysed our database to see who else is a similar match.' The company says it has found 511,000 relevant customers.

A CLEARER FOCUS

This isn't the first time the company has explored ways in which to have a deeper relationship with customers. It already has three operational pilots to see if there is merit in developing new strands to its business.

The first is financial services, namely Saga-branded credit cards, savings, loans, wealth management, share trading and equity release.

A home care pilot is going so well that Saga has now announced plans to expand the service. 'We are sending carers to look after Saga members in their own home as they get older,' says Batchelor. That certainly plays to the Government's desire to reduce pressure on hospitals and increase the amount of care given in the home.



The third pilot is retirement villages. It is identifying suitable residents from its database and introducing them to a retirement village operator. The CEO says he wants to expand this pilot in the next year or two.

A membership scheme will be launched later this year under the banner of 'Saga Possibilities'. It is billed as a loyalty initiative and every customer will be enrolled in the scheme. 'We will provide access to events, opportunities for people to learn new skills, help build communities, have discounts; all as a way of saying thank you for customers' loyalty.'

POWERFUL PLANS

The combination of all these initiatives to interact with customers and try and get them to do more with Saga could have very powerful results, in our opinion.

Earlier initiatives are already proving successful. In 2015 it added a panel of independent underwriters alongside its own underwriter to provide a broader range of motor insurance policies. That is now having a positive impact on profit.

It has also ordered a new cruise ship that will offer modern facilities and use less fuel, so more profitable for the group. Initial customer interest for the ship has been very positive.

Saga's new growth target for the travel division assumes another new ship is ordered, most likely costing £300m.

You certainly cannot accuse the business of being pedestrian. This is an essential stock to own, so buy at 201.7p. (DC)

SSE dividend 'safe for now'

Payout looks secure in the immediate future despite earnings shortfall

Income seeking shareholders of **SSE (SSE)** can breathe a sigh of relief as the group reassures on its dividend next year despite a squeeze on earnings. The energy supplier says operating profit from its Networks business will be around £100m lower in the year to 31 March 2018 than the previous 12 months.

6.2%
PROSPECTIVE DIVIDEND YIELD

A series of complex issues are being blamed for the shortfall, including lower income from electricity transmission charges. There is also going to be a revenue hit for its gas distribution unit, in which it sold a 16.7% stake in October 2016.

COMPLEX ISSUES

Operating profit forecasts have been nudged lower, with the consensus now pitched at a little over £1.7bn.

'The operating environment has presented SSE with a number of complex issues to manage, but in this financial year we have been able to offset the impact of disappointing renewable energy output caused by drier and less windy weather conditions,' says Gregor Alexander, group finance director.

Importantly, SSE expects dividend cover this year to be within the expected range of around 1.2-times to 1.4-times, albeit towards the bottom end of that range. 'We are on course to deliver adjusted earnings per share (EPS) of between 122p and 125p,' spelled out Alexander. City analysts anticipate 123p EPS on a consensus basis, which implies 1.3-times cover of the currently predicted 94.1p dividend this year.

Full year to 31 March 2017 figures will be reported on 17 May.

BIG SIX SQUEEZE

As one of the UK's so-called big six energy suppliers, SSE has faced stiff competition for customers from a swathe of new and existing independents. The group revealed in January that its customer numbers had dropped to 8.08m from 8.21m at the end of March 2016, although SSE added it had begun to halt the exodus.

This has put profits from the firm's retail division under pressure. 'Retail operating profit is expected to be slightly lower than in 2015/16,' was one of the bullet points of its most recent trading update. The 13 March announcement of a hefty consumer tariff price hike may imply a new wave of customer departures.

The group then unveiled an average 6.9% annual increase in a typical dual fuel bill that included an average 14.9% electricity supply increase thanks to rising wholesale pricing. That came amid a swathe of energy tariff price increases from major providers, including Eon, Scottish Power, Npower and EDF. **Centrica (CNA)**-owned British Gas has extended its own price freeze until August. (SF)

Important turning point for Be Heard

Four acquisitions provide platform to start chasing decent deals

Digital marketing buy-and-build venture **Be Heard (BHRD:AIM)** is starting to look very interesting now it has laid the foundations for an ambitious growth push.

Investors should accept the business may need to keep issuing new shares to raise money for acquisitions. That's one of the key reasons why companies list on the stock market in the first place – to access capital markets. We believe equity dilution is a price worth paying given the inherent potential in the business.

Finance director and chief operating officer Robin Price says using debt to fund deals may become an option from 2018 onwards, assuming the company has reached sufficient scale by that point.

Targeted revenue per employee = £100,000

PILLARS OF STRENGTH

Executive chairman Peter Scott is a veteran of the advertising industry with a successful track record. He is helping Be Heard to create an integrated digital marketing agency built around four key pillars. These are media planning/buying; design, build and user experience; creative and content; and strategy, innovation and analytics.

It has completed four deals since inception in November 2015. Be Heard has acquired media buyer Agenda21, web and app designer MMT Digital, content marketing agency Kameleon and marketing analytics outfit Freemavens. These businesses will be brought under one roof before the end of the year.

All four businesses were in Portugal in March to pitch to the world's second largest wine producer and the quartet are already acting in concert for four clients, the largest of which is mobile telecoms giant **Vodafone (VOD)**.

Scott says the team will only make an acquisition if the existing stable of companies would be happy to leave their clients alone with the targeted firm.

'To be honest we take a private equity approach. For every 100 companies we get information on, 80% go in the bin. Of the remaining 20%, a further 80% go in the bin. We are very prudent and we know what we are looking for.'

CAPITALISING ON YOUTUBE SCANDAL

The head of Agenda 21, Rhys Williams, says the YouTube scandal, which has seen big advertisers pull their adverts from the site after they featured alongside extremist content, is creating opportunities for the Be Heard subsidiary.

Williams explains his business can help brands get the 'right ads, at the right time in the right environment'.

Be Heard's full year results (30 Mar) were in line with house broker Numis' forecasts with normalised pre-tax profit of £700,000 on revenue of £9.5m but only included a full year contribution from Agenda21. Scott's medium-term ambition is to hit £100m of revenue.

SHARES SAYS: ↗

We think Be Heard has significant potential to generate value for shareholders. Buy at 3.6p. (TS)

BROKER SAYS: 1 0 0

Bleak future for Pebble Beach

Broadcast technology firm's existence in jeopardy

Shareholders in beleaguered broadcast technology firm **Pebble Beach (PEB:AIM)**, formerly known as Vislink, are almost certainly facing a painful sale process that could leave their stock virtually worthless.

The divestment of its Vislink Communications Systems (VCS) business to NASDAQ-listed XG Technology has failed to shore up the threadbare balance sheet and the company anticipates breaching its banking covenants in the 'foreseeable future,' casting the company's very existence into doubt.

Shares twice warned of the threat that the VCS sale may not provide the silver bullet solution to Pebble Beach's debt problem. We first flagged possible problems in October, and again in January. Since then the company's share price has collapsed from 16.25p to 4.62p.

Developments finally came to a head on the publication of full year results to 31 December 2016. 'The results confirm below-expectations performances across both the Pebble Beach and VCS businesses,' says Rob Warensjo, analyst at the IT analysis group Megabuyte.

The company's 'future appears uncertain, and very much reliant on the lenience of its bankers,' Warensjo concludes.

SHARES SAYS:
Shareholders can do little more than cling on in the hope that their stock proves to be worth something more than nothing. (SF)

Touchstone eyes software scale

START-UP commercialisation firm **Touchstone Innovations (IVO:AIM)** plans to double its software investment portfolio as it looks to expand more significantly beyond its healthcare and biotech roots. It recently upped its stake in London-based cyber security business Garrison Technology to 22.5%, having first backed the business in 2015. Well-known fund manager Neil Woodford remains a big fan of Touchstone's ambitions. (SF)

Hayward Tyler in play

ORDER DELAYS could cost embattled pumps specialist **Hayward Tyler (HAYT:AIM)** its independence after it admitting ongoing talks over a possible takeover by niche engineer **Avingtrans (AVG:AIM)**. The company says negotiations are at a 'very early stage' and there are no details of an implied price. Hayward Tyler warned in February of delays to £30m worth of contracts. (SF)

Battle for Trafalgar after revenue warning

MICRO-CAP residential property developer **Trafalgar New Homes (TRAF:AIM)** is under some pressure after confirming it will post *no* revenue in the second half of its March 2017 financial year. The guidance stems from the fact it is yet to sell a unit at two developments in Kent. Marketing began in February and sales from the sites are expected to contribute to the financial year ending March 2018. (TS)

ISAs: WHERE TO PUT YOUR £20,000

20
holdings is often considered the maximum number of stocks you would need for a decent portfolio

You can now tuck £20,000 into a tax-sheltered ISA every year, a 31% increase on the previous tax year. To help you take advantage of this generous allowance, we've produced a list of 10 must-have stocks to fill your ISA.

The list includes a mix of selections from the *Shares* team and some picks from leading equity analysts. We've split them into five groups, making it as easy as possible for you to pick and choose certain types of investments.

The five groups are income, growth, recovery trades, picks for investors with an appetite for higher-risk investments and top quality businesses. All the stock ideas are aimed at an investor with a longer-term time horizon.

On a related note, anyone new to investing may prefer to first invest in funds in order to spread risks and develop a strong backbone to their portfolio before adding individual stocks. Read our recent articles on filling ISAs with funds here and here to get a head start.

HOW SHOULD I ALLOCATE MY MONEY?

So how should you spread up to £20,000 across a new ISA? Anyone able to invest a large lump sum needs to think about the risks of putting all that money in just a few stocks – or whether they would be better served by spreading the cash among five or more holdings.

What about those who can only afford to invest a little bit out of their pay packet every month? We'd suggest you consider prioritising investments that will enhance your portfolio, rather than duplicate existing holdings.

£20,000 annual ISA allowance for 2017/18 tax year

GO FOR QUALITY OVER QUANTITY

Many experts believe 20 holdings, whether individual shares or funds, is the maximum you need in an investment portfolio.

Anyone new to investing and fortunate enough to have a large lump sum of cash to invest may wish to spread some of their £20,000 ISA allowance across 10 funds, investment trusts or exchange-traded funds (ETFs). That would form the foundations of your portfolio, so you could then invest in five or so 'high conviction' stocks at any one time.

THE BENEFITS OF REGULAR INVESTING

Many of you will not be fortunate enough to have £20,000 to invest straight away but the good news is you can drip feed funds from your monthly pay packet into the market. Regular investment even offers some handy benefits.

Many stockbrokers offer something called a 'regular investment service'. You can place an order for a specified amount of money to buy the same share or a fund each month in the same way you'd set up a direct debit to pay your utility bill or a gym membership, for example.

Transaction fees are generally much lower than normal trading costs, often as little as £1.50 a time versus £10 typical dealing fee.

Investing regularly also enables you to take advantage of an effect known as pound cost averaging. This process can iron out the ups and downs in the price of a fund or share over time. Your money buys you more shares or fund units when the price is low and fewer when the price is high.

That can be better than mistiming the market and only making one transaction and buying when the price was high, for example.

The hypothetical example below compares the return on £1,000 invested as a lump sum versus regular investment over five months. It shows how buying regularly at higher and lower prices can sometimes result in you owning a greater number of shares than via lump sum investing.

This is just an illustration and not a guarantee you will make more money this way.

WHY INVESTING AT REGULAR INTERVALS CAN OFTEN BE A GOOD APPROACH

		REGULAR INVESTING		LUMP SUM INVESTING	
Month	**Share Price**	**Regular investment (made at start of month)**	**Shares purchased**	**Lump sum investment**	**Shares purchased**
1	£5.00	£200	40	£1,000	200
2	£4.50	£200	44		
3	£4.25	£200	47		
4	£4.75	£200	42		
5	£5.25	£200	38		
	Average share price: £4.40	**TOTAL INVESTED: £1,000** Portfolio value at the end of five months, based on a £5.15 share price	**TOTAL SHARES HELD: 211** £1,086.65	**TOTAL INVESTED: £1,000** Portfolio value at the end of five months, based on a £5.15 share price	**TOTAL SHARES HELD: 200** £1,030.00
		Dealing costs 5 x £1.50 = £7.50		Dealing costs 1 x £9.95	

Source: Shares

TASTY YIELD STOCKS: GREAT FOR INCOME

NATIONAL GRID (NG.) £10.18

NATIONAL GRID (NG.), the UK's largest listed utility worth just shy of £36.9bn, sits in an enviable position.

While increasing competition bites across the retail energy field as consumers are encouraged to switch, National Grid owns the infrastructure through which homes and businesses get their power regardless of supplier.

Like most utility stocks, income is the big attraction and National Grid's implied yield of 4.5% for the year to 31 March 2018 stands roughly in line with the wider sector. It comes with an RPI-beating growth promise, adding a level of natural hedge if inflation does hang around for a prolonged spell.

Investors also stand to share a potential £4bn windfall in the near future from the group's sale of US gas assets. That implies a rough 85p per share special dividend, according to analysts, plus an accompanying share consolidation and £1bn share buyback. (SF)

CARD FACTORY (CARD) 271.6P

SPECIALIST GREETING CARDS-TO-GIFTS retailer **Card Factory (CARD)** is a 'highly attractive' business paying very attractive dividends, according to investment bank Investec.

Its vertically integrated model, spanning in-house design, printing and retailing, is a key point of differentiation. It reduces external costs which Card Factory can pass on to customers and enables it to generate industry-leading margins and prodigious sums of cash.

The model enables Card Factory to keep prices low, despite currency-driven cost headwinds; competitors will be forced to raise prices and close stores. We don't believe digital greeting cards are a structural threat.

Record full year results revealed 3.8% growth in underlying pre-tax profit to a better-than-expected £85.1m, albeit on slower like-for-like sales growth of 0.6% (2016: 3%).

Card Factory continues to expand via new store openings and sees scope to improve the performance of its Getting Personal website.

The company lifted its ordinary dividend by 7.1% to 9.1p in its most recent financial year. It also paid 15p special dividend on top.

Investec expects another batch of generous payments to shareholders in the current financial year. It forecasts 24.2p per share in total (including another special dividend) which implies 8.9% yield.

Card Factory dividends

Company	Share price gain
2016 (A)	**23.5p**
2017 (A)	**24.1p**
2018 (E)	**24.2p**
2019 (E)	**24.6p**
2020 (E)	**25.4p**

Year ending 31 January, includes special dividends
Source: Investec Securities

Looking at the forecasts beyond 2017, it seems Investec expects the special dividend to be a regular feature every year. (JC)

GROWTH FIRMS: ON A WINNING STREAK

RENISHAW (RSW) £31.31

SHARES IN PRECISION engineer **Renishaw (RSW)** have been on a roll since December 2016, hitting an all-time high in late March 2017 at £32.42.

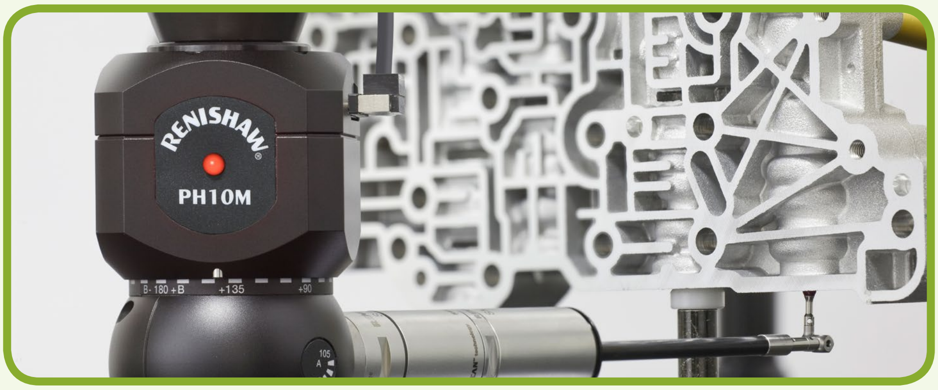
We think this is a fantastic business. It deserves a place in an investment portfolio for anyone seeking to own a high-quality company on a long-term basis.

It is a world leader in metrology equipment that monitors and analyses the work of sophisticated cutting tools in factories. Renishaw also has a healthcare division that provides specialist equipment for neurosurgery and dentistry.

It is easy to see why investors have warmed to the stock again after a patchy period clouded by the non-repeat of major contracts in the Far East, causing some concern about lumpy orders.

The company likes to invest heavily in new products, facilities and people when it spots a growth opportunity. Costs have sometimes risen much faster than sales. That too has been a turn-off for some investors. The problem now seems to have been fixed with revenue now rising faster than costs.

'Demand for encoding and calibration products is strong, 'Revo' 5-axis scanning probes are making inroads with US auto original equipment manufacturers, the new US HQ (with enhanced product demonstration facilities) has opened and healthcare has a strong order book for the second half of the financial year,' adds Investec. 'This growth has been achieved in the absence of any one-off large orders.' (DC)



RSA INSURANCE (RSA) 584P

THE MAN AT the top of non-life insurer **RSA (RSA)**, Stephen Hester, may have fallen short in his efforts to turn around troubled bank **Royal Bank of Scotland (RBS)** but he is enjoying much greater success in his current 'Mr Fixit' role.

Results for 2016 came in substantially ahead of expectations, illustrating how RSA is on a winning streak. Investors have been rewarded with 20%+ share price gains in the past 12 months and there could be much more to come, according to investment bank Morgan Stanley.

It believes RSA's share price could reach 650p over the next year, helped by an improved balance sheet feeding into 'a strong capital return'.

Group operating profit in 2016 was up by a quarter to £655m and ahead of the consensus forecast of £626m. The combined operating ratio, which measures the performance of its underwriting business, came in at 94.2%. Anything below 100% implies a profit.

A deal to dispose of £834m worth of legacy insurance liabilities in the UK is being well received and simplifies the investment case.

Hester and his team are bullish on the outlook, hiking the full year dividend by 52%, raising the return on assets target from 12%-15% to 13%-17% and pledging that in performance terms 'the future can be brighter still'. (TS)

RECOVERY STOCKS: THE COMEBACK KIDS

TELECOM PLUS (TEP)

£12.00

THE STOCK MARKET has been a fickle master for the past three years but **Telecom Plus (TEP)** remains a true quality company, in our view.

The multi-utility supplier remains a unique play on customer expansion thanks to a scalable platform, low capital cost requirements, high recurring revenues and improving earnings quality and visibility.

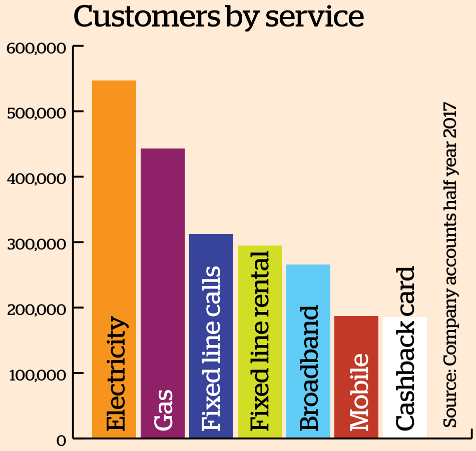
Trading as *Utility Warehouse*, the company typically starts supplying gas and electricity to customers. It then progresses to cross-selling home phone, broadband and mobile calls, texts and data, offering its 'members' access to cheaper third party goods and services via its discount card.

This year should see Telecom Plus add insurance (home, car, travel, etc) and water, with the latter being opened up to competition by its Ofwat regulator. This could help to make customers even more sticky and valuable.

Energy tariff price hikes make the big six suppliers increasingly unpopular while many smaller independents are being squeezed by unhedged rising wholesale costs, putting Telecom Plus in prime position to pinch customers.

To date it has only got a 1.5% share of an estimated £40bn UK energy market, leaving plenty of room to grow.

The cost of deepening its claws into UK households is capped surprisingly low thanks to its word-of-mouth distribution model. (SF)



SPECTRIS (SXS)

£24.88

EGHAM-BASED **SPECTRIS (SXS)** supplies the sort of labour saving, productivity aiding instrumentation and controls used by manufacturers around the world. Sales have been stagnant for many years, but analysts now predict a brighter future.

Investec believes there is good potential share price upside for anyone prepared to wait. In February it said: 'Prospects of sales growth are welcome, after several years of flat (or worse) momentum.' Shore Capital says the shares could keep rising if Spectris meets its cost saving goals and there is further improvement in its end markets.

The bulk of last year's £1.35bn of sales come from slower-burning developed economies, such as North America, Europe and Japan, where capital investment has been stuck in a rut for the past few years.

Expansion across emerging markets in Latin America, China and Asia Pacific is now becoming increasingly important.

New product lines should also support growth expectations, thanks to Spectris' ongoing commitment to research and development.

The £3bn company remains cautious on its near-term future but analysts seem reasonably confident of ongoing progress, with 'buy' ratings from eight of 15 analysts who cover the stock.

Spectris is a fine and innovative British company with years of experience and expertise. Management deserve credit for pulling the right levers during a challenging spell over which it has had little control, a point reflected in the 24% share rally over the past six months. (SF)

HIGHER-RISK STOCKS: FOR THE MORE ADVENTUROUS INVESTOR

AA (AA.) 264.7P

ALTHOUGH **AA (AA.)** is best known for its road side assistance business, the £1.6bn cap also generates revenue from insurance services and driving instruction.

We believe it could be a good stock over the long-term as its strong cash flow is dependable enough in our view to keep reducing borrowings. Net debt stood at £2.62bn as of 31 January 2017 which is about 1.6 times its market cap.

A new IT system is helping to deliver costs savings with more efficient processing, among many other areas. A new customer relationship management system should be ready to support more personalised and targeted marketing from Autumn 2017 when all the data is fully uploaded.

BULL CASE
- **Strong recurring revenues**
- **Should start to see improvement in operational efficiency**
- **Attractive dividend yield (3.7%)**

BEAR CASE
- **Large debt**
- **Insurance is highly competitive market**
- **Insurance industry subject to tougher taxes**

The company has finally halted its decline in membership due in part to the higher adoption of its phone app. It has also launched 'Car Genie' which spots issues with a car before they arise and allows them to be fixed before a breakdown occurs.

The AA wants to be seen as a business which helps drivers across the board – not necessarily just saves them after a breakdown.

Liberum says longer term concerns about the outlook for the roadside market have been overstated. Many people suggest electric vehicles – which are becoming more popular – are more reliable, so there is less need to use the AA's services. 'The biggest cause of breakdowns for the AA is batteries and wheels; electric and self-drive vehicles have both,' says the investment bank. (DC/DS)

SUPERGROUP (SGP) £14.59

RISK-TOLERANT INVESTORS wanting exposure to an international growth story may find multi-channel fashion retailer **SuperGroup (SGP)** appealing, according to bullish comments from Panmure Gordon analyst Michael Stewart.

He claims SuperGroup is one of the most undervalued global brand roll-out stories within the UK retail sector. He believes the market is not fully appreciating SuperGroup's best-in-class revenue growth and profit margins.

The analyst is confident the shares could hit just shy of £19 over the next year.

Admittedly we have a very cautious view towards the UK retail industry at present, in light of rising inflation and our forecast for a drop in consumer confidence levels. SuperGroup is a bit different as the growth story is focused overseas, accounting for more than half its sales. That said, we would class this stock as one for a more adventurous investor because of the near-term risk to the UK proportion of sales due to tough market conditions.

Growing its store portfolio at a steady clip in Europe, SuperGroup is progressing in North America and has a promising joint venture in China.

For the year to April 2017, Stewart forecasts a pre-tax profit jump to £83.5m (2016: £72.4m) and a 27.3p dividend, rising to £96m and 31.4p respectively by April 2018. (JC)

TOP QUALITY FIRMS: ESSENTIAL STOCKS TO OWN

HALMA (HLMA) £10.25

FTSE 250 MEMBER **Halma (HLMA)** is an excellent example of a high quality business that would sit well in an ISA portfolio.

It is a global manufacturer and supplier of health, safety and environmental equipment typically designed to meet the ever-widening regulations net. Halma should, theoretically, see revenue and profit growth whatever the economic weather.

For that reason, we believe it is the sort of share that can be tucked away and largely forgotten about. That's ideal for medium to longer-term investors.

Organic growth is bolstered by carefully selected, bolt-on acquisitions.

Halma typically looks for strong returns from resilient growth drivers based on advances in safety regulations, ageing and urbanising populations, and other demographic trends.

The impressive formula works. It creates a virtuous circle of reliable growth and cash generation that pays for the next stage of investment. Operating margins have been reliably maintained in the low-20% range for many years.

There is incrementally more surplus cash to pass on to shareholders. We note that Halma has increased the dividend by more than 5% every year since 1979; a staggering achievement that feeds superior returns of compounding growth stories.

Don't be put off by its premium equity valuation of 23 times forecast earnings for 2018. It has consistently been an expensive share – yet it consistently rewards shareholders with tasty dividends and has an excellent track record of capital appreciation. The share price has increased by 355% over the past 10 years. (SF)

MICRO FOCUS (MCRO) £23.50

MICRO FOCUS' (MCRO) key attractions are cash generation and its total shareholder return track record, says Stifel analyst George O'Connor. Its applications help companies bring together existing IT and emerging technologies, as well as bridging the gap between old and new IT innovation trends.

Its latest deal, the $8.8bn merger with software assets of US IT group Hewlett Packard Enterprise, will make Micro Focus one of the world's largest software providers. The deal is expected to complete in September this year.

'This slick, efficient operating company represents a rare opportunity to invest in a private equity dynamic around restructuring gains, cash generation and cash returns,' says O'Connor. 'Merging with HPE Software helps Micro Focus to super-size its model – making it more appealing to a broader investor audience.'

We calculate that £5,000 invested in Micro Focus shares 10 years ago would now be worth £66,217, if you had reinvested all your dividends.

Micro Focus is the market leader for COBOL development and deployment tools. COBOL is a computer programming language designed for business use. It is also involved with software testing, data centre solutions and security management among many other business lines.

Highly cash generative, Micro Focus also has a long history of recycling surplus cash back to investors, via ordinary dividends and special payments. A 91.5c forecast dividend for the year to April 2018 equates to a prospective 3.1% yield.

Shares has written about Micro Focus on many occasions, first flagging the stock back in 2011 at 313p. Stifel has a 'buy' rating on the stock and believes the company's involvement in the mergers and acquisitions space has further to run. (SF)

Profit from private equity

Sector is attractive for its wide discounts, deal flow and dividends

Investors seeking exposure to innovative growth businesses should look at private equity funds. They can be a terrific source of opportunity despite the high leverage and fees associated with the industry.

QuotedData senior analyst Matthew Read explains: 'Private equity is an asset class that is less correlated with traditional equity markets and thus, another means of diversifying returns.

'Private equity investments tend to be managed with a more absolute mindset and so, at a time where listed global equity markets are trading at or close to all-time highs, this could prove to be particularly useful and offer some resilience on the downside.'

Read says managers in the sector will argue that although their investments are less liquid they have more information and can exert greater influence.

The QuotedData man claims private equity managers took advantage of a capital raising window in 2016. Encouragingly, with a generally improving economic outlook, 'managers are gradually putting their cash piles to work. That said cash levels still appear to be quite high and so funds such as **Standard Life Private Equity (SLPE)** should be well positioned in the event of a market dislocation.'

Standard Life Private Equity, a European-focused private equity fund of funds, saw net asset value move up 4.3% to 361.2p in the quarter to December. Strategy changes, including more than doubling the dividend to 12p for 2017, the removal of size and geographic restrictions, and simplifying its management fee structure, should help narrow its discount to net asset value.

WAYS TO PLAY

The private equity sector, one requiring patience given its long-term nature, also includes the likes of buyouts-to-infrastructure focused **3i (III)**, **Northern Investors (NRI)** and **NB Private Equity Partners (NBPE)**.

Continuing to deliver a strong NAV performance is **HgCapital Trust (HGT)**, offering exposure to a portfolio of high-growth unquoted companies in Europe.

A SELECTION OF WAYS TO ACCESS PRIVATE EQUITY

Investment company	Share price	NAV	Discount/Premium
Electra Private Equity	£49.30	£54.38	-9.3%
HarbourVest	£12.15	£14.56	-16.6%
Standard life Private Equity	305.5p	357.15p	14.5%
Pantheon International	£17.32	£20.88	-17.1%
HgCapital Trust	£15.60	£16.78	-7.0%
F&C Private Equity	314p	351.13p	-10.6%
*Princess Private Equity	9.55	10.45	-8.6%

*Euros

'While there are better value opportunities in the listed private equity sector at present,' writes Winterflood Investment Trusts, 'we continue to regard HgCapital Trust as "best-in-class" and worthy of trading on a premium to its peers.'

PANTHEON APPEALS

Pantheon International (PIN) is the longest established private equity fund-of-funds on the London Stock Exchange and trades with ordinary and redeemable share lines.

The trust is managed by Pantheon, one of the world's leading private equity specialists. It has outperformed the FTSE All-Share and MSCI World since inception in 1987. It seeks to maximise capital growth for shareholders by investing in a diversified portfolio of private equity funds and occasionally directly in private companies.

With the ordinary shares trading at a 17.1% discount to NAV, the trust may tempt value investors.

'We're trying to invest in the best managers globally,' says seasoned private equity investor Andrew Lebus, a senior member of Pantheon's investment team. Lebus insists 'long-term investors that don't need liquidity should absolutely be trying to get access to private equity. We are constantly getting cash in from our portfolio distributions and we can redeploy those distributions over a four to five-year period.'

Pantheon's half year results (14 Mar) show NAV increased by 12% to £20.90, while net assets increased to £1.32bn with a helping hand from currency. Cash-generative Pantheon, whose 10 largest managers include well-known buyout funds Texas Pacific and Warburg Pincus, 'offers investors well-managed, highly diversified exposure to the private equity asset class and it remains one of our recommendations in this sector,' according to Winterflood Investment Trusts.

DIVIDENDS FROM PRIVATE EQUITY INVESTMENT TRUSTS

Investment Trust	Dividend yield*
Dunedin Enterprise	5.0%
F&C Private Equity	4.0%
Northern Investors	3.3%
Electra Private Equity	3.1%
HgCapital Trust	2.9%
Standard Life Private Equity Trust	1.7%
ICG Enterprise Trust	1.6%
Mithras Investment Trust	0.5%

Source: SharePad
*Based on dividend payments in most recent financial year

PRINCELY PROGRESS

Also making positive progress is **F&C Private Equity Trust (FPEO)**, whose 2016 results revealed a 23% net asset value total return (including dividends), comfortably ahead of the FTSE All-Share's 16.8% total return.

The Hamish Mair-managed trust generated almost £70m of realisations in 2016, nearly matching 2015's record breaking year, as well as earnings progress in the underlying portfolio. Exposure to around 400 companies, through over 80 funds and 20 co-investments, means the trust is reassuringly diversified.

This fund has a refreshing attitude to making money

Saracen Global Income & Growth manager explains why benchmarks do not factor in his strategy

Many fund managers believe their job is to beat a benchmark. That doesn't necessarily mean they will make money for shareholders.

Think about a benchmark like the FTSE 250 index. If it falls 5% and a fund manager's product only falls 2%, the latter would argue they have outperformed and therefore have done what they are paid to do.

Strictly speaking they would be correct; but most investors would argue they aren't paying a fund manager to lose money.

With this situation in mind, it can be refreshing to find a fund which doesn't pin its fortunes on beating a particular index. The managers' goal is to deliver positive total shareholder returns every year, which is growth in the value of the investment portfolio and cash payments in the form of dividends.

The fund in question is **TB Saracen Global Income & Growth (GB00B3XPLG55)** which looks around the world for its investment opportunities.

Admittedly it reports against two benchmarks: FTSE All-World (Sterling) and the Global Equity Income Sector. But deep down it doesn't manage the fund with benchmarks in mind; it's all about making money for investors.

SARACEN GLOBAL INCOME & GROWTH PERFORMANCE

13.8%

Annualised returns over the past 5 years

Source: Morningstar

DISTANCING ITSELF FROM RIVALS

Some global funds aren't as broad in coverage as you might think. For example, we've heard of some products that have more than half of their holdings tied to the US alone.

As for the Saracen fund, the latest data implies it has about a third in the US, a quarter in the Eurozone, 19% in the UK and a small bit in Japan, among others.

'We don't view the world by domicile; we care about companies' sales and valuations,' says Graham Campbell, co-manager of the fund.

Campbell says he 'searches everywhere' for companies, claiming to look at 110,000 firms a week. The current portfolio contains 45 stocks. The fund charges 0.97% a year and has a dividend yield circa 2.5%.

Rather than stressing the need to meet companies in person and look at their plants or factories when making an investment decision, Campbell is happy enough with the company accounts. His sweet spot is firms with a five year price to earnings ratio (PE) of less than 10-times.

THE FUND'S SWEET SPOT IS IDENTIFYING FIRMS WITH A FIVE YEAR PRICE TO EARNINGS RATIO OF LESS THAN 10-TIMES

The portfolio contains little known gems such as Anta Sports, a Chinese sportswear company that supplies the Chinese national basketball team among many others. This stock has a dividend yield of 3.2% and its share price has been in an upwards trend since 2012, apart from a short-lived blip in 2016.

CONFIDENT ON HEALTHCARE

Pharmaceutical stocks are favoured by many income-style funds and predictably feature in Saracen's fund.

Campbell likes pharma companies with access to emerging markets due to their growing middle class and subsequent increase in spending power. The fund has both **AstraZeneca (AZN)** and Pfizer in its portfolio partly due to their access to the Chinese market.

He's also a pharma fan due to ageing demographics in many developed nations such as England, Germany and Japan, with the latter predicted to have over 120m people aged over 60 by 2020, according to Campbell.

Novo Nordisk caught Campbell's eye when its share price retreated by 40% during the course of 2016. It is the biggest provider of insulin products for diabetics in the world.

Campbell bought Novo shares in the final quarter of last year, seeing an opportunity to buy cheaply at a time when the market appeared to have given up on the firm's growth capability.

CLOSE EYE ON CASH

The fund manager pays close attention to a company's cash position and cash generation capabilities in order to make a view whether it can comfortably pay dividends.

He sold Coca Cola mid-2015 after becoming concerned about cash generation. He says the famous brand's dividend yield doubled and it was paying out 80% of earnings as dividends.

'Earnings have gone nowhere and its debt has gone up.'

Campbell also sold **Unilever (ULVR)** at the end of 2015 as it had reached a level of valuation that could not be justified by the anticipated future level of earnings, in his view.

The fund has clearly reduced its exposure to consumer staples and is now increasing its position in areas such as technology and financials including positions in JP Morgan and Japanese firm Mizuho Financial.

AVOIDING BIG LOSSES

A strict sell discipline should be viewed as a positive factor. Many investors hold on to their investment too long when things go wrong, in the hope that problems will be fixed.

Saracen pays particular attention to potential losses it could incur on investments. It has 'early warning signals' when it reconsiders the investment case.

For example, it bought education group **Pearson (PSON)** in June 2011. At that time it had a strong balance sheet, decent dividend, market leading position and a fairly cheap valuation.

The fund sold in April 2015 just above £13 a share following US contract losses and increasing online headwinds. It was the right call as Pearson now trades at half this price.

This active approach leads to a fairly high turnover rate, namely the amount of stocks changed in the portfolio. Campbell says the figure is about 25% per year.

With a portfolio of 45 stocks, that's over 11 firms lifted out a year – all of which will incur transaction costs. (DS)

FRIDAY 7 APRIL	
FINALS	
AFI DEVELOPMENT	AFRB
ECONOMICS	
UK	
CONSTRUCTION OUTPUT	
MANUFACTURING PRODUCTION	
INDUSTRIAL PRODUCTION	
US	
UNEMPLOYMENT RATE	
MONDAY 10 APRIL	
INTERIMS	
EMPIRIC STUDENT PROPERTY	ESP
ECONOMICS	
BRC RETAIL SALES MONITOR	
TUESDAY 11 APRIL	
FINALS	
JD SPORTS FASHION	JD.
INTERIMS	
EGDON RESOURCES	EDR
TRADING STATEMENTS	
RAMSDENS	RFX
ECONOMICS	
UK	
CPI	
HPI	
PPI	
RPI	
WEDNESDAY 12 APRIL	
FINALS	
TESCO	TSCO
INTERIMS	
CARRS	CARR
WH SMITH	SMWH
TRADING STATEMENTS	
DUNELM	DNLM
PAGEGROUP	PAGE
AGMS	
TMT INVESTMENTS	TMT
THURSDAY 13 APRIL	
FINALS	
AVOCET MINING	AVM
TRADING STATEMENTS	
HAYS	HAS
PZ CUSSONS	PZC

EX-DIVIDEND		
AFH FINANCIAL GROUP	AFHP	3P
ARBUTHNOT BANKING	ARBB	18P
T CLARKE	CTO	2.7P
GLOBALDATA	DATA	4P
ESURE	ESUR	10.5P
GULF MARINE SERVICES	GMS	1.2P
INTERNATIONAL PERSONAL FINANCE	IPF	7.8P
JPMORGAN AMERICAN IT	JAM	2.75P
JOHNSON SERVICE	JSG	1.7P
NORTHAMBER	NAR	0.1P
PRIVATE & COMMERCIAL FINANCE	PCF	0.1P
RECKITT BENCKISER	RB.	95P
STANDARD LIFE	SL.	13.3P
SECURE TRUST BANK	STB	58P
STV	STVG	11P
SAVILLS	SVS	10.1P
SAVILLS	SVS	14.5P
TRAVIS PERKINS	TPK	29.75P
TAYLOR WIMPEY	TW.	2.29P

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

CPIH INFLATION

UK inflation recently hit a two-and-half-year high. Are we in a firm upwards trend, or has inflation peaked? We'll find out on 11 April when the next official data is published. Most market commentators expect inflation will keep rising.

The Office for National Statistics recently moved to a new headline rate of inflation CPIH. Unlike its predecessor CPI, this new measure takes into account owner-occupiers' housing costs and council tax.

XP POWER (XPP:AIM)

Power switching technology designer **XP Power (XPP:AIM)** got off to a roaring start this time last year and we wouldn't rule out a repeat of this scenario.

We anticipate the first quarter trading update on 11 April to show robust order intake as end markets continue to firm, especially with the company's more extensive product lines to tempt clients.

RAMSDENS (RFX:AIM)

Jewellery retailer, pawnbroker and currency exchange specialist **Ramsdens (RFX:AIM)** issues a pre-close trading update on 11 April, its first missive since joining the stock market on 15 February 2017.

The Middlesbrough-headquartered company is growing organically and is on the lookout for acquisitions.

Updates on current trading, branch estate improvements and expansion are keenly awaited by investors.

How Lifetime ISA can work with automatic enrolment

Weighing up the new savings vehicle versus pensions

The new Lifetime ISA could be a boon for basic-rate taxpayers saving for retirement, providing a flexible top-up to automatic enrolment savings.

You can save into a Lifetime ISA either for a first home or retirement. The key features include:

- Available to those aged between 18 and 40
- Contribute up to £4,000 a year and receive a 25% Government top-up (same as pension tax relief for a basic rate taxpayer)
- Continue paying in and receiving Government top-up until age 50
- Withdraw tax-free for first home purchase (below £450,000), at age 60 or if in terminal ill health
- Exit penalty of 25% of funds withdrawn in all other circumstances
- That's up to £32,000 in free money on offer from the Government if you pay in the maximum contribution every year from age 18 to age 50.

ADDRESSING NEGATIVE COMMENTS

You may have read some negative remarks around the Lifetime ISA. Some commentators have pitted the product against workplace pensions and warning it could undermine auto-enrolment. That's the flagship Government

reform that will eventually require all companies to match your first 3% of pension contributions.

If you're thinking of quitting your auto-enrolment pension in favour of a Lifetime ISA for your retirement saving, you might want to think again.

You effectively get a 100% boost to your money through matched contributions as well as tax relief.

HOW MUCH ARE YOU SAVING?

Only paying in the minimum total contribution of 8% through auto-enrolment (4% from you, 3% from your employer, 1% through tax relief) may not be enough to fund a decent retirement.

Basic-rate taxpayers under 40 years old, earning less than £43,000, should consider the Lifetime ISA for any savings over and above their workplace pension.

The bonus is the same as the tax relief available through pensions, and it's more flexible if you need to get at the money in an emergency.

However, watch out for that exit penalty – because it's on the total funds withdrawn, it typically works out as more than the Government bonus you'll have received.

For example, someone investing £4,000 in a Lifetime ISA 2017/18 will get £1,000 Government bonus. They then decide to withdraw the entire fund (£5,000) in May 2018 to pay for a new kitchen.

Because the 25% applies to the whole £5,000, the charge is £1,250 – the bonus plus an additional £250 penalty.

LONGER TERM BENEFIT

Holding the funds in the Lifetime ISA until age 60 will give you an extra tax-free element to draw on alongside the 25% tax-free cash available from your pension.

That means you can leave your pension invested for longer – potentially benefiting from extra growth – while you use your tax-free income to fund the early stages of your retirement.

For many – and particularly higher and additional rate taxpayers who get tax relief at 40% and 45%, respectfully – a pension will remain the best home for their retirement savings.

TOM SELBY,
senior analyst, AJ Bell

Use AIM stocks to avoid 40% inheritance tax

Many companies on the junior market can be reward you in more than one way

If you want to invest in companies with significant growth potential and cut your estate's inheritance tax (IHT) bill on your death, investing in AIM-listed stocks could be the answer.

Certain AIM companies benefit from business property relief (BPR), which makes the shares exempt from IHT as long as you hold them for at least two years and at death.

AIM-quoted stocks are eligible for inclusion in ISAs, meaning you can also shelter them from income tax and capital gains tax.

It's possible to benefit from BPR by buying AIM shares through your stockbroker/ investment platform. The executor of your estate will claim the tax exemption when you die, so as long as you've met the two-year holding rule and the companies qualify for BPR, your descendants will be spared a 40% IHT bill on your ISA.

PICKING QUALIFYING COMPANIES

Trying to identify which stocks will qualify for BPR is when problems can arise. Unfortunately there isn't a definitive list because the qualification status of a company can change over time.

For example, BPR will no longer be available if the company is sold or wound up, unless either event results in the business carrying on.

BPR is not available for companies that mainly deal with land or buildings. This isn't always easy to determine and it can be quite subjective.

To ensure you give your descendants the best chances of benefitting from BPR, it's worth looking at the stocks that specialist AIM portfolio managers invest in. There are several organisations which run ISA portfolios that are specifically designed to be IHT-exempt.

The Octopus AIM Inheritance Tax ISA invests in around 30 stocks including pub company **Young & Co's Brewery (YNGA:AIM)**, café and cake shop **Patisserie (CAKE:AIM)**, pharmaceutical company **Clinigen (CLIN:AIM)**, document storage company **Restore (RST:AIM)** and engineering services provider **Renew (RNWH:AIM)**.

USING A PORTFOLIO MANAGER

Although these companies currently qualify for BPR, there is no guarantee they will do in the future.

Alex Davies, chief executive of Wealth Club, claims this uncertainty means a lot of investors shun the DIY investment route and go via a manager instead. These providers tend to use third party accountants to verify qualification.

We believe it is possible to pick the investments yourself and not have to resort to the services of a wealth manager, unless you are short of time and/or prefer someone else to do the hard work.

One obvious way is to contact an AIM company directly as they may well know if they qualify. Some companies even publish this information on their website. Investor's Champion has an online search tool to identify qualifying AIM companies, although there is a fee for this service.

SCREENING FOR STOCKS

Chris Hutchinson, manager of the Unicorn AIM IHT Service, says his team has a stringent set of investment criteria in order to screen the index.

The team typically looks for three characteristics: the company must produce consistent earnings and dividend growth, without masses of debt; it must sell a product or service that delivers a tangible benefit to its customers; and, ideally, the founder and/or management team should retain a meaningful equity stake in the business.

'It's not so much about picking the winners, but avoiding the howlers and this approach has been effectively employed by the team for almost two decades now,' says Hutchinson.

The downside of using a manager is it will be a lot more expensive than investing via your platform. If you invest directly with Octopus (i.e. not through a financial adviser) you'll have to pay an initial charge of 1% as well as an annual management charge of 2% plus VAT.

Richard Power, head of quoted smaller companies at Octopus Investments, claims these fees are justified because there is a team of eight people running the portfolio who conduct site visits to each company and check the stocks still qualify for BPR. Investors also get updates sent to them so they can follow their investments.

Since its launch in 2005, the Octopus AIM Inheritance Tax Service, which is managed in the same way as the ISA, has grown by 186% in value. This compares with a 7% decline in the FTSE AIM All-Share and 119% rise in the FTSE All-Share.

BEWARE THE RISKS

Whichever route you go down, it's important to realise that investing in AIM stocks is risky. Most of the businesses are younger and smaller than Main Market listed companies and the share prices can swing significantly. Having said that, the average market cap of the stocks in the Octopus portfolio is £470 million, which is by no means tiny.

Power reckons AIM portfolios are only suitable for people who understand the risks of investing in small companies.

'It is possible to do IHT planning in other, less risky ways although you wouldn't be exposed to as much growth potential. Academic studies show that over five to six years, small caps will outperform large caps,' he says.

Most experts advise looking at the investment merits of stocks first and then viewing the tax benefits as an added bonus.

If you would like more information, click here to read a longer article we published last year on AIM/IHT. (EP)

AIM STOCKS – HOW TO BE IHT EXEMPT

- You must hold the shares for at least two years
- You must continue to hold the shares at death
- The company must qualify for business property relief – this excludes companies that are not for profit, subject to a contract for sale or being wound up, or only generate investment income (for example, a property letting business)

INDEX

KEY

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