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SHARES

WE MAKE INVESTING EASIER

HOW TO SPOT THE BEST SHARES

AN EASY-TO-FOLLOW GUIDE FOR BEGINNERS AND EXPERIENCED INVESTORS

ACTIVIST INVESTOR CALLS FOR MAJOR CHANGE AT BHP BILLITON

INVESTMENT IDEAS FOR OVER-70S

FOUR 'FAVOURITE' INCOME FUNDS

US RALLY HAS LEGS, SAYS BANK

NEW WAY TO INVEST IN PROPERTY

PORTFOLIO HOLDINGS: *TOO MANY VERSUS NOT ENOUGH*


£1 launch price offer ends 18 April
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.

Portfolio holdings: too many versus not enough

How many stocks, funds and bonds do you own?

How many stocks, funds and bonds should you hold in a portfolio? While there is no definitive answer, it is a question we're regularly asked by readers and so we will endeavour to explore this subject matter over the coming months in *Shares*.

Having a large amount of holdings in an investment portfolio is often considered ineffective. Buying an index fund would be a much cheaper way of tracking the performance of lots of stocks.

In contrast, having too few holdings can also be considered ineffective as you are spreading your risks too thinly.

IS 28 THE MAGIC NUMBER?

Syndicate Room chief executive Goncalo de Vasconcelos believes many venture capital-style funds have too few holdings.

'Some of them only have seven or eight holdings which aren't enough, in my view,' he told me last week, pointing towards the high level of failures among early-stage companies which populate VCT and EIS funds.

He cited research by NESTA and Intelligent Partnership which showed EIS (and theoretically VCT) funds should have at least 28 investments in order to have a 95% chance of having one or more winners that provide a 10-fold return on investment.

RULES FOR OTHER FUNDS

As for more mainstream funds, unit trust and OEICs aren't allowed to hold more than 10% of their assets in a single company. The aggregate of any holdings over 5% in the fund must not exceed 40% of the fund's total assets.

Those rules will stop a fund becoming too dependent on a few holdings; yet some would argue there are still some tightly-concentrated funds.

A quick scan of the market tells us that **Lindsell Train UK Equity (GB00B18B9X76)** falls into the latter camp with just 26 holdings. Last month fund manager Nick Train said he wanted to buy more **Unilever (ULVR)** shares (already at 10% of the fund) but was constrained by portfolio concentration rules.

In comparison, **Schroders QEP Global Core (GB00B5310487)** has an astonishing 639 holdings – far too many, in our view, given it is not a tracker fund. Email us at **yourviews@sharesmagazine.co.uk** if you have any thoughts on optimal portfolio size and we'll publish the best ones in a future edition of *Shares*. (DC)

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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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Still time to enjoy the rally in US stocks

Morgan Stanley argues American shares are not overvalued

Investment bank Morgan Stanley says there is still mileage in buying US shares despite headline indices such as the S&P 500 and Dow Jones Industrial Average trading close to record highs.

The bank's equity strategy team believe the cyclical upturn which began a year ago has less to do with the election of President Trump than it did with a bottoming out of the global business cycle.

In their view 'Trump simply "turbocharged" the cycle and stoked animal spirits on Wall Street *and* Main Street, with tangible effects on the real economy and markets'.

Citing Sir John Templeton's four stages of the investment cycle which argues bull markets are 'born in pessimism, grow in scepticism, mature in optimism and die in euphoria', they add that the end of the cycle is often the best opportunity for investors.

'Think 1999 or 2006-07. In a low-return world, investors cannot afford to miss it.'

2,700
Morgan Stanley 12-month forecast for S&P 500

NOT TOO PRICEY

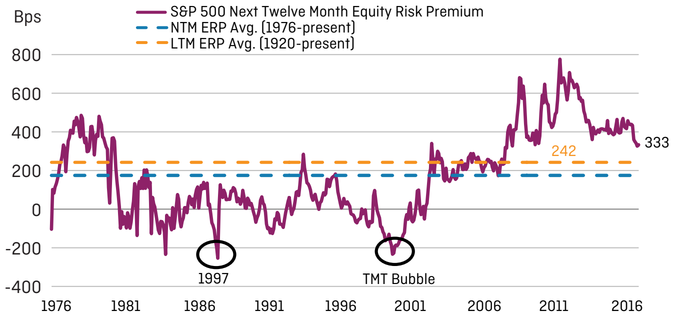
Instead of using a price to earnings ratio, the team believe the equity risk premium (ERP) – which essentially reveals the level of compensation an investor receives for buying stocks rather than keeping their money in safer assets like cash or bonds – is a better measure.

It notes ERPs have been exceptionally elevated but should now normalise. This implies further increases for US equities, underpinning its predicted advance in the S&P 500 from the current 2,357 to 2,700 over the next 12 months.

Traditionally different sectors perform well at different points in the cycle and Morgan Stanley is 'overweight' on financials, industrials, energy and IT and 'underweight' real estate, telecoms and consumer staples.

It also prefers small and mid-cap stocks. UK investors can gain exposure to US markets through exchange-traded funds such as **SPDR Russell 2000 US Small Cap (R2US)** and traditional funds with a US small cap focus like **Aberdeen Global – North American Smaller Companies (LU0566484027)** and **CF Miton US Opportunities (GB00B8278F56)**. (TS)

Equity Risk Premiums Plunged during the Valuation Bubbles of 1987 and the late 1990s



Source: FactSet, Bloomberg, Robert Shiller, Morgan Stanley Research as of April 7, 2017. Note: S&P 500 fundamental data used post March 1993; Top 500 by market cap data used before 1993. LTM equity risk premium average is since 1920. ERP based on forward earnings yield and 10-year Treasury Yield.

Robert Walters lifted by City jobs boost

Recruitment business also sees strong growth in Asia and Europe

RECRUITER **ROBERT WALTERS (RWA)** has posted a 33% jump in net fee income to £78.3m in the first quarter of 2017 off the back of an upturn in financial services recruitment activity in London.

The company says the impact of uncertainty around the Brexit vote is beginning to ease as UK gross profit increased by 27%.

Its operations in Asia Pacific and Europe saw growth of 29% and 40% respectively. (TS)

BHP is the latest target for activist investors

Buy the shares now as we think there are legs to this story

Can miner **BHP Billiton (BLT)** deliver more value for shareholders? The market certainly seems to think so, given the positive share price reaction to proposals by activist investor Elliott to shake up the FTSE 100 member. We think now is a good time to buy its shares at £13.25.

BHP's stock moved up nearly 3% on 10 April when Elliott suggested it adopt a three-step plan which could potentially boost shareholder value by about 50%. The plan includes spinning out its US petroleum assets and buying back shares.

The miner responded by saying the costs and risks would 'significantly outweigh any potential benefits'. We don't believe this is the last you'll hear on the matter.

Elliott successfully campaigned for change at investment trust **Alliance Trust (ATST)** after much persistence. There are many other activist investors flexing their muscles with good levels of success on the market, putting pressure on targeted companies to duly respond.

Takeover activity is even enforcing change. For example, Kraft Heinz's recently-spurned bid for **Unilever (ULVR)** has subsequently encouraged the target to create more value for shareholders through higher dividends, asset sales and share buybacks.

Palm oil producer **MP Evans (MPE:AIM)** recently fought off a takeover bid and now plans to boost dividends and sell assets, all benefiting shareholders. (DC)

Share price change over past 5 years (ie. since the peak of the previous commodity boom)

Anglo American	-46%
Vedanta Resources	-32%
BHP Billiton	**-30%**
Glencore	-22%
Rio Tinto	-4%

Source: Shares, Google Finance

Mothercare success likely to be shortlived

Risks remain at maternity products retailer

HAVING DELIVERED 4.5% growth in fourth quarter UK like-for-like sales, babywear purveyor **Mothercare (MTC)** has raised hopes of a viable turnaround. We still see forecast risk to the downside given the inflationary and competitive headwinds facing the UK business.

Further quarterly UK like-for-like progress was driven by online sales growth; the online channel now accounts for more than 40% of Mothercare's domestic revenues.

Bears would therefore argue Mothercare remains over-spaced with 152 UK stores, although revenue growth also reflected the refurbishment of 70% of the store estate to a new, modern format, improved customer service and a positive response to spring/summer ranges.

For the year to March 2017, Numis Securities, a buyer with a 150p price target, forecasts modest pre-tax profit improvement to £20m (2016: £19.6m) ahead of a £22m pre-tax haul this year. Based on estimated March 2018 earnings of 10.5p, a prospective PE ratio of 11.6 may appear optically attractive, yet given cut-throat domestic competition and a weakening UK consumer backdrop, further disappointments cannot be ruled out.

SHARES SAYS: ↘
We view Mothercare as a value trap at 122p. (JC)

BROKER SAYS 3 1 1

Why Motif Bio's share price could jump soon

Sales of its antibiotic drug 'could run into billions of dollars' if approved

Positive data from **Motif Bio's (MTFB:AIM)** Phase III trial in the second quarter of 2017 could result in US and European approval for its antibiotic drug iclaprim and boost the shares.

Motif Bio develops novel antibiotics to tackle life-threatening infections caused by multi-drug resistant bacteria.

Iclaprim is an antibiotic that is active against bacteria in bugs resistant to other antibiotics. The drug kills bacteria instead of preventing growth like other treatments.

Northland analyst Vadim Alexandre says: 'In the wake of a major antibiotic resistance crisis, the treatment's sales could run into billions of US dollars a year.'

In April 2015, Motif Bio acquired Nuprim, which owned exclusive worldwide rights to iclaprim. The antibiotic was developed by Arpida which provided data from two previous Phase III trials.

These trials failed because Arpida didn't use a consistent comparable to benchmark against its drug. The FDA also changed the required hurdle during the trials and the drug fell short of achieving the 'new' success criteria.

Motif's trials hope to address previous shortcomings and also take into account feedback from the FDA.

Motif Bio agreed to use a higher dose to gain regulatory approval as iclaprim can be used where there is an underlying condition such as diabetes.

SHARES SAYS: ↗

While there are always risks from investing in pharma stocks, Motif Bio's antibiotic drug could be a big step in tackling the growing issue of antibiotic resistance. Buy at 30.3p. (LMJ)

BROKER SAYS 2 0 0

FCA cracks down on market abuse

THE FINANCIAL Conduct Authority (FCA) is imposing bans and fines on former employees of spread betting business WorldSpreads. The company was quoted on AIM before its collapse in 2012.

Finance chief Niall O'Kelly was fined £11,900 after omitting 'key information' and adding 'misleading' details to a document ahead of its 2007 IPO and, alongside financial controller, Lukhvir Thind, falsifying annual accounts for the two years before it went bust. (TS)

Royal Dutch Shell faces bribery allegations

OIL MAJOR **ROYAL Dutch Shell (RDSB)** is under pressure as leaked emails appear to validate claims of corruption over an oil deal in Nigeria in 2011.

The $1.3bn deal to acquire the OPL 245 oil licence, in partnership with Italian firm Eni, allegedly delivered a financial windfall for Dan Etete, a former petroleum minister, and his associates through his company Malabu.

Shell and ENI are waiting to see if they will face trial in Italy over the affair. (TS)

Sepura deal under UK regulatory spotlight

THE £74M ACQUISITION of walkie-talkie manufacturer **Sepura (SEPU)** by Chinese firm Hytera Communications is being reviewed by the UK Department for Business, Energy & Industrial Strategy on public interest grounds.

The department is also asking the Competition and Markets Authority to look at the transaction, approved by shareholders in February, given Sepura's commercial arrangements with UK agencies. (TS)

JD Sports is a knock-out performer

Further upgrades follow stunning annual results from best-in-class retailer

Retail star turn **JD Sports Fashion (JD.)** is winning another round of earnings upgrades after forecast-busting full year results (11 Apr). Encouragingly, the core JD brands are set fair for the future given a continuing boom in athletic inspired footwear and clothing.

Inflationary pressures are arising from Brexit but this retailer is going from strength to strength. The core Sports Fashion business delivered a third consecutive year of double digit store like-for-like growth last year and the international store roll-out is gathering pace. Market share in mainland Europe remains but small, an entry into Malaysia has been successful and a first JD store in Australia opens shortly.

In a major milestone, JD Sports' Outdoors division is now in profit for the first time. However, November's Go Outdoors acquisition remains under review by the Competition and Markets Authority (CMA). Frustratingly, the integration of this complementary out of town retailer has yet to begin. JD is obliged to run the business separately until the review completes.

SHARES SAYS: ↗

We're positive on JD Sports Fashion at 440.64p given its cash generation, relentless market share gains and the upside risk to forecasts. (JC)

BROKER SAYS 6 0 0

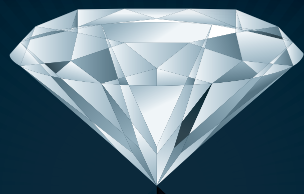
45% MISS: US JOBS FIGURES SHOCK

ONLY 98,000 JOBS WERE CREATED in the US in March. That's significantly lower than the 180,000 forecast, equivalent to a 45% miss.

The figures related to nonfarm payrolls which excludes farm workers, private household employees or people who work for non-for-profit organisations.

Many economists and market commentators didn't seem that fussed, saying the weakness related to weather-sensitive sectors. Weather conditions were poor in the month. They also point towards a continued rise in wages being a positive factor.

100+ CARATS



DIAMOND MINERS SHINE AMID 100+ CARAT DISCOVERIES

DIAMOND DISCOVERIES can be like buses; you wait ages for one to turn up and two come together. **Gem Diamonds (GEMD)** and **Firestone Diamonds (FDI:AIM)** have both found stones more than 100 carat in size this month.

Gem Diamonds' Letseng mine in Lesotho has historically been an excellent source of high quality stones and its latest discovery is a 114 carat diamond.

The number of discoveries at Letseng greater than 100 carats fell to five in 2016 versus 11 in the previous year.

Firestone's 110 carat yellow diamond found earlier in April is its largest ever discovery, claims chief executive Stuart Brown.

562,337

THIS IS THE NUMBER OF NEW CAR registrations in the UK in March 2017, a record says the Society of Motor Manufacturers and Traders.

It follows a bumper 2016, when 2.69m new cars hit the roads of Britain. That's about in line with European counterpart Germany when respective populations are taken into account.

Germany saw 3.35m new cars sold. That's a fraction of the 6.87m cars hitting US streets last year, and pales compared to industrialising China, which sold a staggering 24.4m, says global auto industry expert OICA. (SF)

$103m Royal Mail in second push on US market

ROYAL MAIL (RMG) HAS SPENT just over $103m in the past seven months on two US acquisitions as it tries to reduce reliance on Europe.

Having bought Golden State Overnight for $90m in October, Royal Mail is now paying $13.3m for Pacific Northwest-focused Postal Express.

The two US acquisitions both focus on overnight express business-to-business deliveries. They will sit inside Royal Mail's GLS division. GLS saw 9% revenue growth in the nine months to 25 December 2016 compared with 2% decline in revenue from UKPIL, the UK and overseas parcels and letters delivery operation.

€5bn

Unilever's bumper buyback

THIS IS THE SIZE OF THE SHARE buyback launched by consumer goods business **Unilever (ULVR)**, along with a 12% dividend increase following a wide-ranging review. Rattled by a bid from Kraft Heinz, under-fire Unilever is ramping-up returns to shareholders and taking on higher leverage. Chief executive Paul Polman's move is curious as the shares trade at all-time highs; buybacks typically occur when share prices are low. Unilever is also exiting the declining spreads business, combining Foods and Refreshment into one organisation, reviewing its dual listing and targeting a 20% underlying operating margin by 2020.

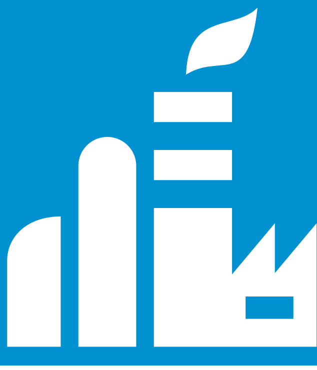
26%

WHY MORGAN STANLEY LIKES ENERGY STOCKS

THE EUROPEAN ENERGY SPACE IS forecast to enjoy 26% compound annual growth in earnings per share over the next three years, according to Morgan Stanley. That's the highest of any sector.

This bullish earnings estimate is based on a price of $58 per barrel of oil. Even on a bear case of $51, 'oil majors would grow faster than any other sector' says the investment bank.

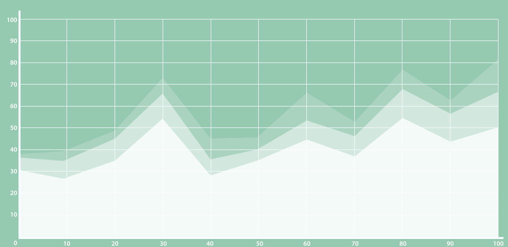
Reiterating its 'overweight' position on energy, Morgan Stanley notes relative valuations are close to three decade lows.



BEST PERFORMING STOCKS IN FTSE 250 INDEX SO FAR THIS YEAR

Softcat	41.9%
WS Atkins	35.6%
Vesuvius	34.6%
KAZ Minerals	33.2%
Savills	33.1%
G4S	31.5%
Grafton	31.1%
Ashmore	30.6%
Hochschild Mining	30.5%
FirstGroup	29.0%

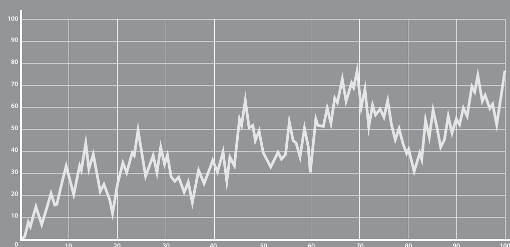
Source: SharePad. Data to 10 April 2017.



BEST PERFORMING STOCKS IN FTSE FLEDGLING INDEX SO FAR THIS YEAR

Management Consulting	110.0%
Microgen	61.8%
North Midland Construction	55.4%
Treatt	53.9%
Hardy Oil & Gas	46.1%
Lakehouse	41.4%
Global Resources IT	40.6%
Candover Investments	38.1%
T Clarke	38.0%
Jupiter Dividend & Growth Trust	35.7%

Source: SharePad. Data to 10 April 2017.



Superb metal grades put spotlight on Bluejay

Small cap hopes to have one of the lowest cost mineral sands operations globally

Buy into the positive share price momentum at **Bluejay Mining (JAY:AIM)** as we believe it could be on the cusp of something very big in Greenland. It is confident of becoming one of the world's lowest cost mineral sands producers.

Minerals sands contain minerals including ilmenite, rutile and zircon. These are generally used in paints, plastics and other applications that require bright colours.

Bluejay put out a resource statement on 10 April claiming it has the world highest grade mineral sand ilmenite project; and that's only based on analysis of 17% of the project area.

It has an average ilmenite grade of 8.8% across the 23.6m tonne resource; within that is a 7.9m tonne high grade zone at 14.2% average ilmenite grade.

LEANING ON PARTNERS

Managing director Rod McIllree says Bluejay won't need to build large infrastructure to get the project into production. He believes the company could ship a concentrate to North America to either be sold as seen or further refined.

It is working with Royal IHC, one of the world's top dredging firms, to look at different scenarios for running the project. 'We will contract out mining and processing to IHC. That will be an operational expense; not a huge upfront expense like you would find with many new mines,' says McIllree.

The MD tells *Shares* he is confident of being able to announce the participation of a large Canadian shipping company in the project in the coming months.

'We should eventually have two large groups implement the project off their balance sheet, not ours,' he explains.

In terms of the immediate future, he says the miner has enough cash to fund the company for the next 12 months so there are no near-term financial pressures.

BLUEJAY MINING
BUY
(JAY:AIM) 13.75p
Stop loss: 7.5p

Market value: £100m

NEXT STEPS

Bluejay hopes to complete a feasibility study over the next three to six months and apply for an exploitation permit.

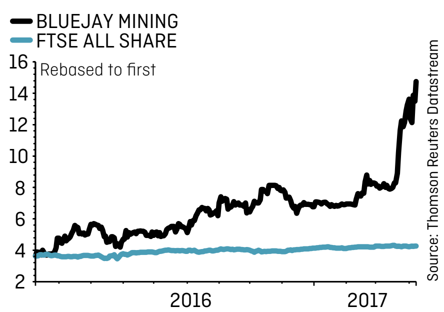
It plans to produce a bulk sample over the summer as a proof of concept and to give prospective customers material to test. Bluejay hopes to start commercial production next year once it has secured offtake agreements.

McIllree says there is a seven month window each year to run a mining operation in Greenland, due to the weather. Shipping can only be done five months a year.

'We don't have any environmental concerns,' he adds. 'The ore body contains no radioactive elements and there won't be any tailings dams holding waste material.

'Our biggest concern was migrating walruses coming during the winter. Local hunters now tell us they haven't been seen for 20 years because they ate them all.' (DC)

BROKER SAYS: 1 0 0



Shaking up business energy supply

Yu Group has ambitious plans to disrupt a potentially huge market

To call **Yu Group (YU.:AIM)** fast-growing may seem at odds with its utility remit, but this is a unique company with substantial share price upside potential, in our opinion.

Yu is shaking up a large UK business energy supply industry distinctly lacking in options.

Still virtually monopolised by the big six, the company, which trades under the Yu Energy brand, is trying to leverage its flexibility, value for money and high-quality service proposition to wrestle business customers away from the clutches of dominant rivals.

This is a multi-billion pound market and a huge growth opportunity for Yu if it can execute. According to Ofgem data, about 90% of small and medium-sized enterprises (SMEs) are big six customers and a staggering 40% have not considered changing supplier in five years.

YU GROUP ➚ BUY
(YU.:AIM) 287.5p
Stop loss: 230p

Market value: £40.4m

FIXED CONTRACTS

Part of the reason is that fixed term contracts are still enforced across the business energy supply industry. This contrasts with the consumer market, where customers can switch at the figurative drop of a hat.

With energy bills a big cost for SMEs, many are expected to diligently shop around when they come off contract. Yu is ahead of this curve, approaching potential clients through its own telesales arm or via third party brokers.

While the headline pre-tax profit in its first full year results (to 31 December 2016) since listing show pre-tax losses of a little more than £1.5m, strip out what should be one-off costs and the company made its first ever profit, worth £205,000.

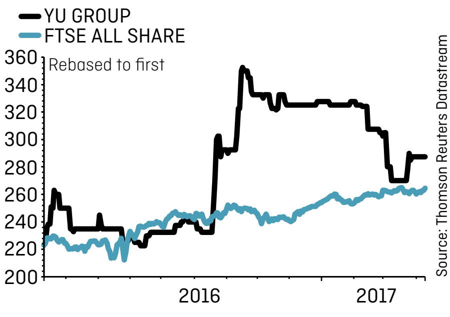
Tellingly, Yu's revenue performance of £16.3m comfortably beat Shore Capital's £15.1m expectation, according to analyst Robin Speakman. Gross margins at 21.2% help underpin emerging profitability and cash flow.

EXCITING POTENTIAL

Growth going forward could be eye-popping. Shore estimates revenue and pre-tax profit of £34m and £2.3m respectively in 2017, rising to £45m and £4.7m in 2018. This implies earnings per share (EPS) of 12.6p surging to 23.5p.

There's also a dividend growth story. It paid a maiden 2.25p full year dividend in 2016 and at least 3p is anticipated this year. The forecast is 5.6p in 2018 and 8.25p the following year. (SF)

BROKER SAYS: 2 0 0



THARISA
(THS) 142.5p

Gain to date: 83.9%

Original entry point:
Buy at 77.5p, 29 September 2016

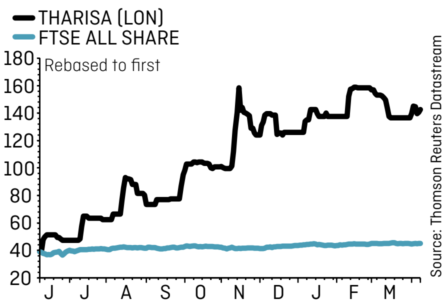
SOUTH AFRICAN miner **Tharisa (THS)** says chrome prices are holding up better than some people might have expected.

Low stockpiles in Chinese ports saw chrome soar to $390 per tonne late last year. One might have expected the price to drop significantly after customers restocked inventories, but that hasn't happened.

'We're encouraged to see prices settle at higher levels than in the past upon restocking, helped by positive stainless steel growth,' says Tharisa's chief finance officer Michael Jones.

Tharisa achieved $338 per tonne average selling price in the first three months of 2017, up 35.2% on the previous quarter. It also enjoyed a 5.8% increase in average selling price for its basket of platinum group metals.

Jones says metal recovery rates should improve in the three months to 30 June this year. He also says Tharisa should firm up a transaction in the same timeframe to buy equipment and hire staff from its mining contractor MCC.



Tharisa will become the mine operator now it has proved up enough resources to support a long mine life. It believes this change will result in both cost and operational benefits.

SHARES SAYS: ↗
Broker Peel Hunt has a 215p price target implying that shareholders could still enjoy 50% upside over the next 12 months, despite the shares having already rallied since last summer. We share its positive view; keep buying. (DC)

BROKER SAYS: 1 0 0

FREEAGENT
(FREE:AIM) 117.5p

Gain to date: 1.3%

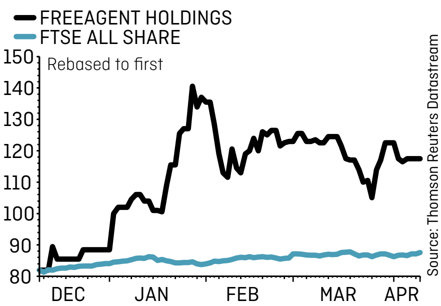
Original entry point:
Buy at 116p, 16 February 2017

CONSIDERING FIRST half results had been signed-off before **FreeAgent's (FREE:AIM)** November 2016 IPO, the second half is the company's first real test as a public company, and it has impressed. Both earnings before interest, tax, depreciation and amortisation (EBITDA) losses and cash will be 'comfortably better than current market expectations' that were down for a loss of £0.9m and a balance of £3.1m respectively.

Even revenue of £8m, said to be 'in line' with estimates, look better to us versus the sole £7.6m forecast of N+1 Singer.

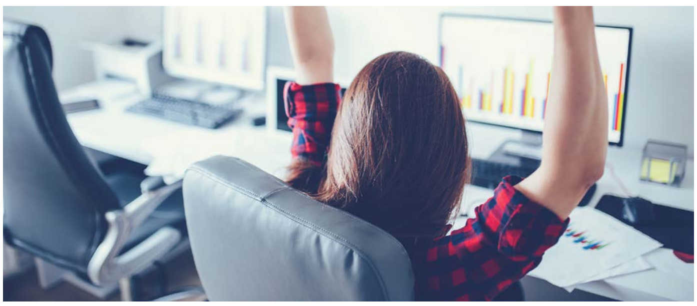
What stands out is that costs have been kept in check despite the temptation to ramp spending after raising £8m. That is different to many other AIM IPOs in recent years.

With £8.6m of contracted revenue in the bag for this year (to 31 March 2018), N+1 Singer's £10.3m estimate looks well within reach. The trajectory for both company and share price looks very positive.



SHARES SAYS: ↗
An encouraging start for this exciting growth company. Still a buy. (SF)

BROKER SAYS: 1 0 0



Coming soon: a new way to invest in property

Dedicated exchange being established to provide exposure to individual commercial properties

From summer 2017 onwards you could have a brand new option when it comes to investing in real estate. It will be a bit like the AIM or Main Market stock exchange, but only for property.

Private investors have traditionally relied on investment funds to invest in commercial property. A plan is now in the works to launch a new exchange whereby you can build your own self-selected portfolio of individual office blocks, retail parks or leisure facilities.

The International Property Securities Exchange or IPSX Prime, as it will be called, is currently in the process of securing regulatory approval and hopes to launch in mid-2017.

IPSX – A DEDICATED EXCHANGE FOR LISTING INDIVIDUAL COMMERCIAL PROPERTY ASSETS

A GLOBAL FIRST

IPSX Prime aims to be the first dedicated exchange anywhere in the world for the admission of single commercial property assets or 'single asset vehicles' through the issue of shares.

The venture recently recruited the chief executive of Aviva Investors' global real estate arm, Ian Womack, as a key advisor and he tells *Shares* IPSX will 'bring a new dimension to real estate investing'.

An Englishman's home is his castle so the saying goes and our obsession with property shows no signs of abating. Womack says with his tongue firmly wedged in his cheek that 'everyone is a real estate expert'.

Chief executive Cyril Theret, who helped develop PLUS Markets, a forerunner to the current NEX Exchange, says IPSX can democratise access to the property asset class.

THE LIQUIDITY PROBLEM

Theret claims the only current means of securing exposure is through blended funds whereas IPSX will offer 'guaranteed liquidity in the assets you choose'.

The liquidity question, i.e. how easy an asset is to buy and sell, is a key one when it comes to investing in property. It is an issue currently being examined by the City regulator, the Financial Conduct Authority (FCA).

Investors in open-ended property funds, in particular, face a fundamental problem. They want to be able to offload their holding in a fund whenever they want but fund managers cannot sell the underlying property assets fast enough to meet these redemptions. As a result, property funds keep a cash buffer on hand.

During periods of market stress, such as in the wake of the Brexit vote in June 2016, these buffers can come under pressure. Funds can be forced to suspend trading and prevent investors from taking their money out.

Interestingly, one of the solutions proposed by the FCA is to develop a secondary market in units of open-ended funds.

SECONDARY MARKET OPTION FOR PROPERTY

IPSX provides a secondary market option in property, if not in funds specifically.

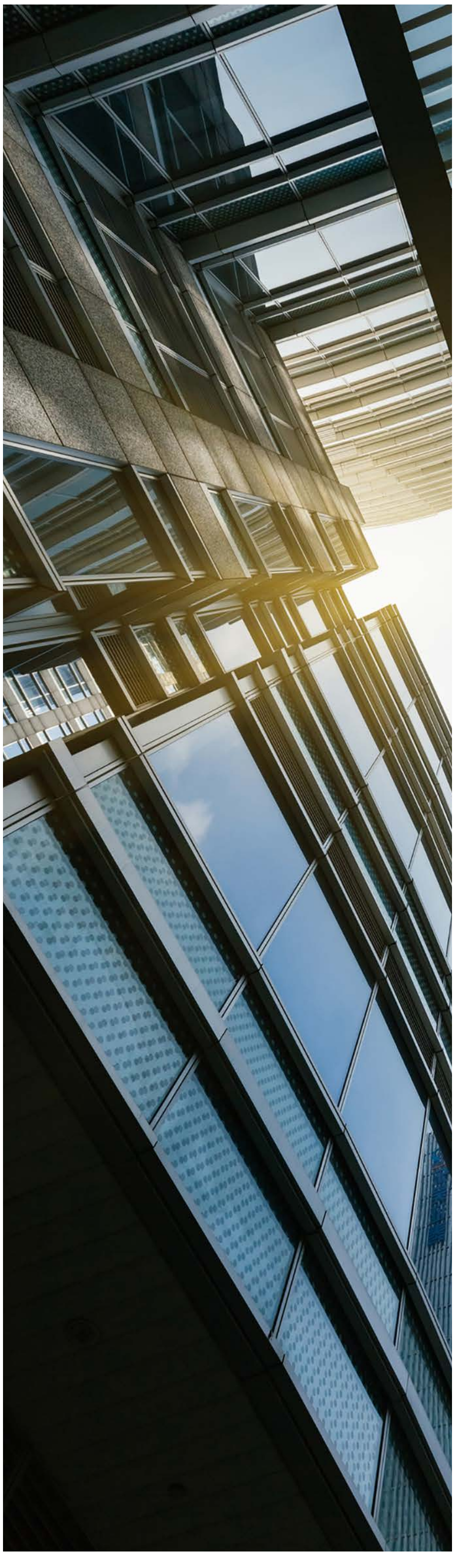
According to Theret the exchange is in talks with market makers and stockbrokers to provide access and liquidity while it secures 'Recognised Investment Exchange' (RIE) status from the FCA.

He expects to go live with two market makers and says IPSX will have 'typical UK equity market infrastructure' with an ecosystem of brokers, market makers, legal advisers and fund managers.

Theret says: 'There will be transparency around the asset you are buying into. You are essentially buying into the management team of the asset and their ability to manage it on your behalf as well as the income characterteristics it enjoys. And there will always be a price available if you want to sell.'

He notes property as an asset class 'is very well understood' by the investment community.

Crucially, assuming IPSX achieves RIE status; its securities



will be eligible for inclusion in a tax-efficient ISA or SIPP. Although it is not yet clear which, if any, individual providers will allow you to invest in IPSX through their platforms.

Womack adds: 'The timing for investing in property is great. In a low interest rate environment people want that yield and this will broaden the sphere of opportunity for investors.'

Theret explains the exchange is working with strategic backers such as real estate investment trust **British Land (BLND)** and hopes to draw on Womack's near 40-year experience in real estate to develop a pipeline of listings.

LOOKING TO LIST ICONIC ASSETS

Listings will have to meet a minimum 25% free float when they float on the exchange, meaning at least of quarter of the shares have to be owned by public investors.

Theret adds that listings are likely to include sizeable assets initially such as big shopping centres or retail parks, leisure centres or large office blocks in the City. Or in his words, 'iconic assets which make you think "I want to own a share of this".'

The idea of being your own property tycoon might be enticing but investors should be aware of the risks of investing in a single asset.

If the retail park in which you own shares is in a town which suddenly sees a significant number of job losses, for example, then footfall could suffer and the value of your investment could slump.

Equally if a business goes bust and can't pay its rent on its space in an office block, investors could again be left out of pocket.

Nonetheless, IPSX could represent an interesting alternative for investors assuming it receives the regulatory green light. (TS)

A world of opportunity with investment trusts

Pick and choose which countries you want in your portfolio

Investing in a single country fund typically involves a higher degree of risk than a more diversified alternative but it has the potential to deliver some spectacular returns.

Single country investment trusts are available for the main developed markets such as the US and Japan, as well as more specialist areas like Russia, India, Qatar, Vietnam, China, and Brazil.

THE US

Emma Bird, a research analyst at Winterflood Investment Trusts, says that single country funds exhibit a higher level of risk than global or regional funds, as investors are exposed to falls in the domestic stock market impacting the net asset value (NAV) and negative sentiment towards the country leading to widening discounts.

'However, we believe that for certain countries they can be justified if they represent a significant weight in world indices, such as the US, or exhibit relatively unique characteristics and therefore benefit from specialist management, such as Japan or China.'

Winterflood is currently recommending the **North American Income Trust (NAIT)**, which has been managed by Fran Radano and Ralph Bassett of Aberdeen Asset Management since June 2015.

'The fund has performed well since the appointment of the current co-managers, outperforming, in NAV terms, both of its benchmark indices, the S&P 500 and Russell 1000 Value. In our opinion the current discount of 9% offers reasonable value and we believe that the fund offers attractive exposure to US equities, combined with an above-market yield of 2.7%.'

JAPAN

Alan Brierley, director of the investment companies team at Canaccord Genuity, recommends **JPMorgan Japanese (JFJ)** which has a market value of £556m and trades on a 12.7% discount to NAV.

'Nicholas Weindling became lead portfolio manager in July 2010 and since then he has constructed an impressive performance record with JFJ ranked sixth out of 64 open and closed end funds in the sector. Over this period, the fund has returned an annualised NAV total return of 12.6% against the TOPIX return of 9.5%.'

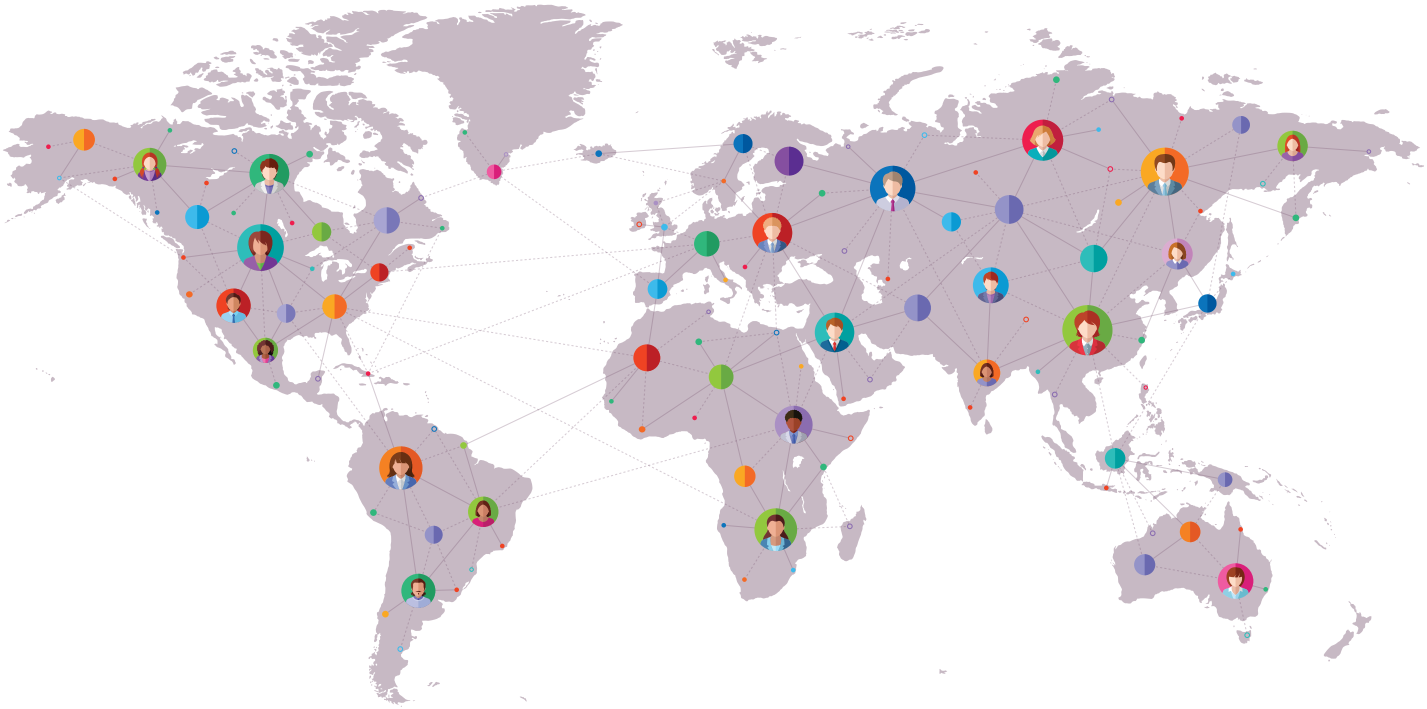
Weindling invests in undervalued, good quality growth companies and pays little heed to the benchmark. He thinks that Japan's continued progress on corporate governance in terms of improved capital management and shareholder returns is slowly gathering momentum and that it is the sustainability of these improvements that can drive valuations higher.

VIETNAM

The choice of country is obviously the main consideration when buying a single country fund, but it is also important to consider the experience of the fund manager and the investment strategy.

Ewan Lovett-Turner, director of investment companies research at Numis, says investors should be aware of any potential governance issues, such as voting rights and the independence of the board, as well as the nature of the shareholder base and whether discount control mechanisms are in place that could protect them if

THE EASY WAY TO ACCESS THE US, JAPAN, RUSSIA AND OTHER COUNTRIES.



sentiment towards the country deteriorates.

'I believe the multi-asset approach of **VinaCapital Vietnam Opportunity Fund (VOF)** is an attractive way to gain exposure to the domestic growth story in Vietnam. It benefits from a well-resourced, locally-based management team headed by Andy Ho, and I see scope for a significant narrowing of the fund's discount to NAV, currently 22%, which is supported by an active buyback policy.'

VOF's portfolio has significantly outperformed the Vietnam Index in recent years, with the managers seeking to increase exposure to private equity, having achieved several profitable exits. They are also looking to reduce the weighting in real estate, an area that has proved a headwind for performance.

INDIA

Ben Conway, senior fund manager at Hawksmoor Fund Managers, likes **India Capital Growth Fund (IGC)** and first bought into it in August 2016.

'We are not afraid of buying smaller investment trusts – this one has a market cap of less than £100m – if we think we will be long-term holders, if we like the manager and the asset class, and if there is the potential for the discount to narrow. The shares remain cheap at around a 21% discount.'

IGC is also the largest holding in **Miton Global Opportunities (MIGO)**, as its manager, Nick Greenwood, thinks that the benefits of Narendra Modi's market friendly government should feed through into improved earnings forecasts over the coming years.

RUSSIA

Matthew Read, a senior analyst at QuotedData, says a key differentiator between funds is where the investment team is based; either locally on the ground or at home in the UK.

'We think that constant access to company management is not crucial, but having sufficient access is, and so we like to see managers meeting investee companies around once a year and having regular dialogue generally.'

If you want exposure to Russia you might want to consider **JPMorgan Russian Securities (JRS)**, which is run by one of the most experienced investment managers in the sector, Oleg Biryulyov.

'Oleg has been managing Russian equity funds for 23 years and JRS since its launch in 2002. Alongside his own local expertise, he has the support of both JPMorgan Asset Management's global team, who produce a macro outlook for each country and region, and its research team, where over 40 individuals are involved in research on EMEA stocks,' explains Read.

The Russian market has had a difficult couple of years, but has been improving on the back of the strengthening oil price. (NS)

DIVERSIFYING YOUR INCOME AWAY FROM CONCENTRATED UK MARKET

HENDERSON RESEARCH SHOWS A LOT OF FUNDS GET THEIR INCOME FROM JUST 10 STOCKS

The UK remains one of the strongest equity income paying markets in the world. It hosts a suite of multi-national corporations with long records of paying steady and rising dividends. More and more these strategies are being rewarded by investors. In part this is because of the thirst for yield amid record low bond yields and interest rates but also because of its tendency to signal quality to investors: strong cash-flow, robust balance sheets and good corporate governance.

If management is not spending money on important projects they are returning cash to shareholders, signalling to the market their continuing confidence in the business' success that will in-turn bring fresh revenue for further projects. It can be true that companies awash with cash will eventually start to waste it.

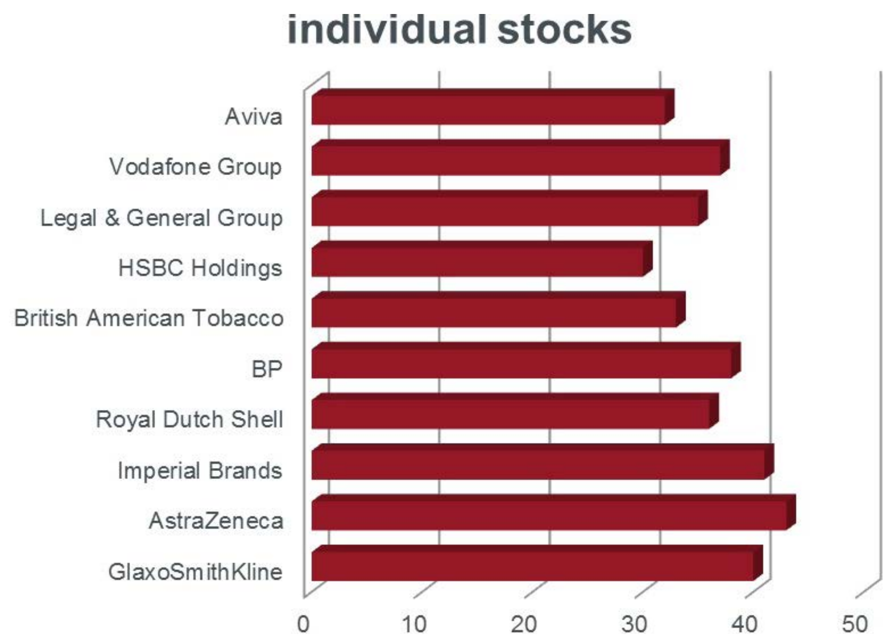
STRUCTURAL ISSUE

But there's a slight structural issue in the UK stock market: the top 20 companies pay 70% of all UK dividends; the top 10 pay 50%; the top five pay 35%.

Research by Henderson has analysed all of the UK equity income funds and investment trusts above £200m to see who holds what and in what concentration.

It was found that 26% of the money managed by the entire sector is invested in the following top ten stocks.

The chart shows how many of the portfolios of the 52 funds and investment trusts examined held this top 10.



Henderson Global Investors, Morningstar; as at Oct 2016.

All the top 10 stocks are held, on average, by 70% of the funds in the sector. This is actually unsurprising: As equity income portfolios get larger, fund managers are forced to hold these same largest companies in order to receive enough dividends to pay all of their shareholders. It is further evidenced by the fact that, of the largest equity portfolios in the UK, the average percentage of the total portfolio held in these top 10 stocks was 39%. When the liquidity pool is small, fund managers simply have little choice.

CONCENTRATION RISK

The percentages shift around over time but it does raise the idea of concentration risk. UK based investors are likely have the majority of their interests focused here, be it their job, houses, cars, investments, and so forth. Investors also often hold multiple funds to try to protect against a singular manager's poor performance, but they are likely duplicating across many of the same stocks.

What happens when something goes unexpectedly and spectacularly wrong – often referred to as a black swan event? The Macondo oil spill in 2010 is a good example, when BP was forced to cut its dividend amid the rising and uncertain cost of the disaster. As one of the top five dividend payers in the UK this led to substantial shortfalls for equity income fund managers.

Henderson International Income Trust (HINT), managed by Ben Lofthouse, was launched exactly for these reasons in 2011. It is mandated to invest globally in income yielding equities but importantly it excludes the UK entirely, offering investors the chance to diversify away from their UK based investments and sources of income.

What is more, the types of businesses that deliver strong levels of dividends tend to differ between markets, meaning sector-level diversification is also possible in addition to the geographic diversification.

FUND MANAGERS' FAVOURITES FOR INCOME

GLAXOSMITHKLINE (GSK)
ASTRAZENECA (AZN)
IMPERIAL BRANDS (IMB)
ROYAL DUTCH SHELL (RDSB)
BP (BP.)
BRITISH AMERICAN TOBACCO (BATS)
HSBC (HSBA)
LEGAL & GENERAL (LGEN)
VODAFONE (VOD)
AVIVA (AV.)

Source: Henderson Global Investors

BENEFITS OF BEING AN INVESTMENT TRUST

HINT is also an investment trust and we strongly believe this structure benefits investors seeking income – in any given year the fund manager can retain up to 15% of dividends in a reserve pot, so that during difficult times when stock markets are down and perhaps dividends are being cut, the fund manager can use the reserve to top up the income paid out to investors. The effect is to smooth the dividend stream paid-out over time, which may be useful to those who heavily rely on the income.

Four income products on 'favourite funds' list

We ask the experts why investors should consider funds from Woodford, JP Morgan, Jupiter and Newton

It can be a hard job picking funds given there are thousands of products available on the market. In a bid to help retail investors filter the funds universe, stockbrokers and investment platforms are increasingly publishing lists of their preferred funds, based on a range of criteria.

AJ Bell is the latest investment platform to publish a list of 'favourite funds'. It has called upon the services of Square Mile, an investment consultant and research group, to select the funds for its list. There are 72 active and passive products in total.

They have been separated into various categories on AJ Bell Youinvest's website such as style of the fund or geography, to make it easier for you to filter the selection.

HOW WERE THE FUNDS CHOSEN?

Square Mile scanned the market using a range of criteria including: value for money, a proven track record compared to their benchmark and peers as well as the all-important strength of the management team.

For actively-managed funds, Square Mile has assessed products on additional criteria such as if each underlying portfolio is suitably diversified.

TELL ME MORE ABOUT THE FUNDS

Shares will look at funds on the list in more detail over the coming months. We will talk to various experts to get their views on the products as well as explaining what Square Miles thinks of certain funds.

To kick-start our series, we now look at four income funds from across the globe which can provide diversification and, all things being well, decent returns.

CF Woodford Equity Income
(GB00BLRZQ620)

Dividend yield: 3.4%

Annual fee: 0.75%

Annualised return over past three years: n/a

Top holdings include: **AstraZeneca (AZN), GlaxoSmithKline (GSK) and Imperial Brands (IMB).**

Neil Woodford is one of the UK's most well-known fund managers. Morningstar senior analyst Peter Brunt says: 'The fund benefits from one of the most talented fund managers in the equity income space.'

Woodford UK Income has around 100 holdings, although the top 10 account for around 40-60% of the portfolio. It is in the IA UK Equity Income sector and has consistently beaten its peers over a long period of time.

Despite the bulk of the portfolio being invested in the larger and more liquid companies, Woodford's style is to also have an allocation of early stage companies.

That's because the fund also aims to provide capital growth as well as income, which is something smaller companies can help to achieve.

JP Morgan US Equity Income
(GB00B3FJQ599)

Dividend yield: 2.2%

Annual fee: 0.93%

Annualised return over past three years: 20.01%

Top holdings include: **Wells Fargo, Bank of America and Exxon Mobil.**

Square Mile describes this fund as taking 'a fairly simple approach to investing' and is designed so that investors don't get too many nasty surprises. It invests primarily in blue chip stocks.

Jake Moeller, head of research for the UK and Ireland at financial analysis group Lipper, suggests the fund has a lot of 'US dividend aristocrats' which are good for income but can be highly rated stocks.

'US dividend aristocrats' is a term to describe a group of S&P 500 stocks with a very long track record of increasing their dividend every year.

Clare Hart manages the fund and has been lead manager since its launch in 2008 in the UK. Morningstar analyst Fatima Khizou says investors in this fund benefit from an experienced and long-tenured manager with a thoughtful approach.

The fund offers good value for money according to Square Mile.

Jupiter Asian Income
(GB00B559X853)

Dividend yield: 3.8%

Annual fee: 0.98%

Annualised return over past three years: n/a

Top holdings include: **Samsung, Taiwan Semiconductors and Sands China.**

This fund only launched last year but has plenty of appeal according to Square Mile. 'We consider this fund to be a strong offering for investors looking to access the region's long term income and growth potential,' it comments.

Moeller at Lipper says Jupiter is a good home for fund manager Jason Pidcock who has more than 20 years' experience with Asian stocks. He says 'the asset manager encourages individual franchises, allowing them flexibility'.

This philosophy is especially helpful in the Asian markets, which has a history of being particularly volatile.

According to Square Mile, Pidcock favours growing companies where he can understand their business models and which he thinks are sustainable and scalable.

While the fund has 'Asian' in the title, it actually covers the Asia-Pacific region, including Australasia. One of its top holdings includes Australia-based Macquarie, the global investment bank and asset manager.

Newton Global Income
(GB00B8BQG486)

Dividend yield: 3%

Annual fee: 0.79%

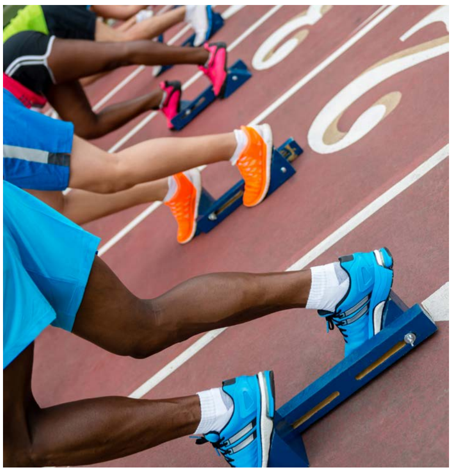
Annualised return over past three years: 17.29%

Top holdings include: **Microsoft, Western Union and Reynolds American.**

Although having a global remit, in recent years the fund has focused more on the US market and no longer has exposure to emerging markets.

Moeller at Lipper says Newton is probably one of the first fund groups to 'get its head round a global income suite', although always has a defensive bias.

Square Mile says despite the changes to the fund management team over the past year, it does 'not believe there will be a significant departure from the longstanding philosophy and process this fund adheres to'. (DS)



HOW TO SPOT THE BEST SHARES

AN EASY-TO-FOLLOW GUIDE FOR BEGINNERS AND EXPERIENCED INVESTORS

Failing to pick the right stocks is one of the biggest reasons why individual investors struggle to make money on the stock market. Don't despair; we are help to help.

We believe an investment journey can be greatly enhanced by following a few simple steps in order to filter out the bad stocks and leave you with a universe of more interesting – and hopefully profitable – shares.

In this article we discuss five ways to check if a company could be a good or bad investment. You will arguably need to apply all five to your research process in order to get the best results. Please note there are many other ways to pick shares. We've merely picked five of the most important ones.

Furthermore, we haven't touched on valuation in this article as that warrants a whole discussion on its own. We'll write about how to spot if a stock is cheap or expensive in *Shares* very soon.

Our stock picking guide is not guaranteed to always produce positive results. However, it will certainly help to strengthen your stock picking skills and get you thinking about companies in a more analytical way.

THIS ARTICLE IS AIMED AT BEGINNERS AND EXPERIENCED INVESTORS

HELPING BOTH NEWBIES AND EXPERTS

Don't be scared if some of our guide is new territory with regards to how you select investments. We've written the article in a way that even an absolute beginner will be able to understand the procedures and thought process.

If you've already got plenty of experience under your belt, think of it as brushing up on your skills. After all, a good investor is one who is continuously learning new skills and keeping their mind sharp.

1. QUALITY OF EARNINGS AND BALANCE SHEET

One description of a perfect investment is a stock that enjoys growth in revenue, profit, cash generation and dividends year in, year out. You would assume their share price keeps rising and the dividends become more generous as the business gets bigger.

It is rare to find companies with an unblemished track record. Inevitably most companies will go through a difficult period. This could be down to unfavourable macroeconomics conditions, changing consumer tastes, technological advancements by rivals or a multitude of other factors.

A strong company should be able to bounce back. For that reason, it is important to look at the long-term earnings track record of a business. Analysing 10 years' worth of earnings should help you spot whether a company just suffered a short-term blip or whether earnings can be lumpy, moving up and down on many occasions through the course of a decade.

BEING PAID AGAIN AND AGAIN

We like companies with long-term contracts as these could help them generate recurring levels of revenue every year.

A good example is small cap services business **Restore (RST:AIM)**. It looks after important documents for the likes of banks, lawyers and the police – the customers pay a storage fee and further money if they need to consult the documents.

Ultimately most of the documents just need to be kept safe long-term, so Restore collects regular fees to look after them. It also boasts a very sticky customer base as most clients can't be bothered to move to a different supplier as it is a hassle shifting thousands of boxes for the sake of few pennies.

RECURRING REVENUE IS AN ATTRACTIVE QUALITY FOR A BUSINESS

You can often find companies with recurring revenue in the technology sector. For example, **Sage (SGE)** – Britain's biggest software group – has fast-growing subscription revenues which are helping to offset a decline in traditional software sales.

Cloud services group **Iomart (IOM:AIM)** enjoys ongoing payments from the likes of **SuperGroup (SGP)**, Universal Music Group and Virgin Media as its job is to manage companies' desktops, email systems, servers and phone systems among many other functions.

THE CLIENTS HAVE TO SPEND MONEY

We like companies that benefit from non-discretionary spend – namely customers who have

to spend money on certain activities to comply with, or help others meet, laws and regulations.

One example is engineering services group **Renew (RNWH:AIM)** which works in areas such as the water, gas and rail markets which have committed funding from regulated entities like utility firms.

LOOK FOR PRICING POWER

Companies with pricing power can be very good investments. By this, we mean firms in a strong enough position to raise prices without losing business.

You're already seeing this trait in action as weaker sterling is pushing up input costs for many companies, thus they need to pass on extra costs through higher prices in order to protect profit margins.

Whitbread's (WTB) Costa coffee chain recently pushed up its prices because of higher costs. Kitchens seller **Howden Joinery (HWDN)** also did the same.

Both these companies are considered by analysts to have very strong market positions and command pricing power. They've also got very strong brands, another plus-point when we seek good investments.

It is too early to see if demand for Costa's coffee has been hit by higher prices. However, Howden has already reported 'encouraging' early signs from raising prices.

MAKE SURE YOU STUDY THE CASH FLOW STATEMENT

We love to see plenty of free cash flow and a growing stream of dividends from a business. Free cash flow is the amount of cash generated from operations minus any money that is needed to be reinvested in the business to keep it competitive.

The remaining cash is the pot of money to fund dividends, pay down debt and also provide firepower for any strategic opportunities such as value-enhancing acquisitions.

Free cash flow is a really good gauge of corporate health. A steady improvement in free cash flow is great sign; it can be followed by higher earnings and ultimately a higher share price.

'FREE CASH FLOW IS A REALLY GOOD GAUGE OF CORPORATE HEALTH'

DEBT CAN BE PROBLEMATIC

A gradual reduction in free cash flow can be a warning signal that a company cannot sustain earnings growth and/or potentially could be forced become more reliant on debt.

Highly indebted businesses can be trouble for investors if there is a downturn in their end market(s), as a drop in earnings can make it harder – or in a worst-case scenario, impossible – to service debt repayments.

A really good company can convert a large proportion of its profit into free cash flow. **Imperial Brands (IMB)**, **InterContinental Hotels (IHG)**, **Bunzl (BNZL)** and **Rightmove (RMV)** are good examples.

2. HIGH RETURNS

Another way to find a good investment opportunity is to look for companies that make a good profit on the money they invest in their business. The technical term is making a high 'return on capital employed' or ROCE if you like acronyms.

Imagine a firm which makes great returns on money invested in its business. That money has made the business stronger and larger – so it can then use the enlarged profit generated as a result of the earlier investment to plough even more money back in the business. Those benefits can work magic over time, thanks to the effects of compounding.

One of our favourite examples of a business with superior ROCE is FTSE 100 energy and healthcare products distributor **DCC (DCC)**. It has an average 17.8% return on capital employed over the past 10 years, according to our calculations.

As a rule of thumb, companies with ROCE consistently above 15% are very good businesses. DCC only once dipped below 15% in the past decade (14.2% in 2012). Its most recent ROCE figure was 21% in 2016.

HOW TO FIND OTHER EXAMPLES

You can easily find companies with a good track record of ROCE by using stock screening systems. Phil Oakley, an investment analyst at software provider SharePad, recommends you strip out any banking or property companies as they don't suit ROCE analysis.

We've followed his advice and stripped out those sectors. We've also adjusted for rented or leased assets so companies which rent rather than own assets don't look better than they really are.

The results from this screen appear in the accompanying table; the list has been restricted to stocks currently in the FTSE 350 index. You will see it has thrown up some well-known names such as **PayPoint (PAY)** and retailer **Next (NXT)**.

Next

FTSE 350: SUPERIOR RETURN ON CAPITAL EMPLOYED (ROCE) STOCKS

Company	Sector	10-year average
Rightmove	Media	395.3%
PayPoint	Support Services	49.0%
Rotork	Engineering	37.8%
Micro Focus	Software & Computer Services	36.6%
Telecom Plus	Fixed Line Telecoms	35.9%
Petrofac	Oil Services	30.9%
Paddy Power Betfair	Travel & Leisure	30.7%
Hays	Support Services	30.5%
Sky	Media	29.7%
Next	Retail	29.2%
Victrex	Chemicals	29.1%
Aveva	Software & Computer Services	27.8%
Ferrexpo	Mining	26.9%
PageGroup	Support Services	26.2%
Domino's Pizza	Travel & Leisure	26.1%

Lease-adjusted. Source: SharePad. Data as of 10 April 2017

3. DIFFERENTIATED PROPOSITION

'Does another company offer something similar to what you do?' That is a very important question to ask when considering a company as an investment. We want to see a unique selling point, not a 'me-too' proposition.

You could argue that **William Hill (WMH)** and **Ladbrokes Coral (LCL)** do exactly the same thing, for example, namely internet gambling sites and high street betting shops.

Paddy Power Betfair (PPB) is the same as Hill and Ladbrokes, up to a point. While it has websites and shops, its real edge lies in the person-to-person betting exchange element of its business. Furthermore, it excels at engaging marketing which ultimately makes the business far superior to its peers, in our view.

FAILING TO KEEP UP WITH MARKET INNOVATION

Another example is restaurant business **Tasty (TAST:AIM)**. Its flagship brand is Wildwood which

sells such unoriginal items as spaghetti Bolognese and 'homemade lasagne'. Yes, these are classic dishes – but you can get them down the local café. Eating out in a restaurant should be a treat, so the menu should be exciting.

We've expressed a bullish view on the stock in the past because it was able to self-fund expansion and its main owners come from a highly successful family of restaurateurs. That positive view now deserves reappraisal due to significant changes to the market.

The food industry is now over-saturated thanks to a surge in new brands and investment by existing players to modernise their estate. The weaker brands don't stand a chance and we fear Tasty could get left behind.

Ask yourself if you think Wildwood is going to be a classic restaurant brand that will prosper for decades to come? We think not.

4. EASY TO UNDERSTAND BUSINESS

Many investors are happy to buy shares in a company without any understanding of the business and how it makes (or hopes to make) money. This can be a foolish move, in our opinion, particularly if the company operates in a very complex area such as mining exploration, financial markets or biotechnology.

You need to be able to identify the risks to the business which requires thorough understanding of what it does. If you are determined to access a certain sector but don't understand the relevant businesses, an alternative would be to invest in a specialist investment fund run by someone who does know the subject matter well.

5. EASY TO UNDERSTAND ACCOUNTS

We want to see a company present a clear set of accounts every six months and not have them riddled with asterisks and footnotes. The latter items tend to point towards financial adjustments and exceptional items which the company wants you to quietly ignore.

ACCOUNTS ALWAYS RIDDLED WITH ASTERISKS AND FOOTNOTES = A BAD SIGN

Many companies are serial offenders when it comes to exceptional or one-off items. **Rentokil Initial (RTO)** used to be one of the worst companies in this regard, but has finally got its act together.

As a more recent example, take a look at **Utilitywise (UTW:AIM)** whose half-year results in early April 2017 contained 44 mentions of the term 'restatements or restated'. That's not a good sign.

The model citizen when it comes to crystal clear accounts is retailer Next, in our view. Its accounts are always easy to understand. It lays out the objectives for the year ahead and goes into a lot of detail including commentary for each part of its business.

DISCOVER HOW FUND MANAGERS PICK STOCKS

Some of the best fund managers follow strict criteria when seeking stocks and you can often piggyback on this information to help spot interesting companies. For example, a fund manager might discuss their investment process in an article or on the fund's website.

MANY FUND MANAGERS EXPLAIN ON A FUND'S WEBSITE HOW THEY PICK STOCKS. USE THIS INFORMATION AS INSPIRATION FOR YOUR OWN RESEARCH

If you like the sound of how they pick stocks, why not take a look at the holdings in their portfolio for investment ideas – or just invest in the fund itself.

Asset manager **Liontrust (LIO)** explains various investment processes on its website and says which of its funds follow certain investment criteria.

For example, one of its investment processes is to look for stocks that possess 'durable economic advantage'. It wants to find companies with at least one of the following advantages: intellectual property, strong distribution and recurring business that represents a minimum 70% of annual turnover.

Relevant funds using this investment process in its product range include **Liontrust Special Situations Fund (GB00B57H4F11)** and **Liontrust UK Growth Fund (GB00B56BDS09)**.

TAKING A MORE ROUNDED VIEW

Evenlode, another asset manager, says there is nothing 'fancy, radical or exciting' about its investment philosophy – but says it does involve being 'steadfast and single minded'.

It says: 'We look for a particular type of company. They may or may not be household names, but they need to have a certain reputation for quality, and sell products or services that people come back to buy time and time again. They also travel light — by which we mean they don't have a lot of capital assets.

'There is more risk attached to companies that own lots of real estate or planes or oil rigs, as with so much money invested in physical stuff, an attractive return on capital is much harder to achieve.

'We also make it our business to get to know the boards and management teams of our companies. Finding out how they operate and understanding their long-term plans is imperative. We don't flit and dabble with fads and fashions. We keep the faith.'

'WE DON'T FLIT AND DABBLE WITH FADS AND FASHIONS. WE KEEP THE FAITH.'

THE GOOD, THE INTERESTING AND THE UGLY

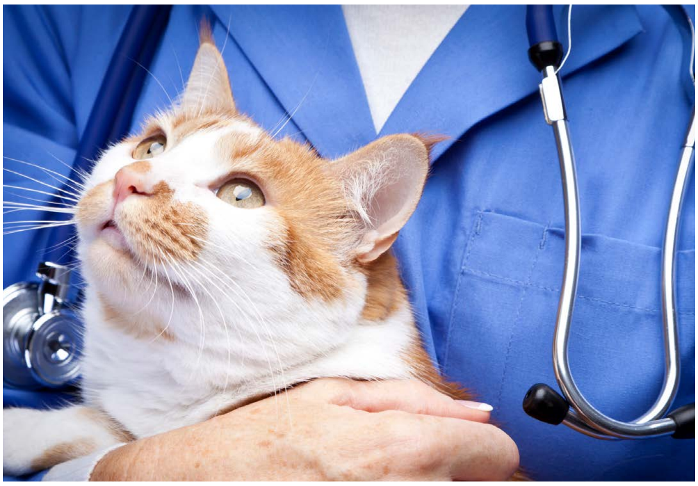
Andy Brough-managed **Schroder UK Mid Cap (SCP)** investment trust has a very interesting process where it separates the market into three silos. It looks to invest in A-category stocks, trade B-category stocks and avoid C-category stocks. Let's now take a closer look at how it defines these three categories.

Characteristics of 'A' stocks:

- Pricing power
- Very strong business franchise
- Scarcity value
- Operating in areas of secular growth
- Quality of management
- Ability to finance growth internally
- Balance sheet strength

Speaking at a recent conference in London, Brough said a good example of an 'A' stock is **Dechra Pharmaceuticals (DPH)** which makes products for veterinarians. The Schroders fund manager notes there are two pets for every person in the UK, illustrating the large scale of the pet drug and products markets.

Dechra's share price has approximately doubled in the past two years and the business is now worth £1.5bn and it is a member of the FTSE 250 index.



Characteristics of 'B' stocks:

- Change of management strategy
- Withdrawal of industry or stock market over-capacity
- Cyclical upturn of re-rating in prospect

Brough categorised housebuilder **Redrow (RDW)** as a 'B' stock at the time of his presentation in early March (before it announced plans to try and merge with **Bovis Homes (BVS)**).

Characteristics of 'C' stocks:

- Industry over-capacity
- Experiencing long-term decline
- Not providing investors with successful growth opportunities

TalkTalk Telecom (TALK) was cited as a 'C' stock by Brough, noting that its dividend is funded out of debt which is never a good sign. 'It also has creative accounting with liberal use of exceptional items'. (DC)

Investment ideas for the over-70s

Two experts offer fund suggestions for older investors with a lower risk tolerance

Choosing the right investments is important at any age. It is critical to make the right choice if you are over 70 years old as you will have a shorter investment time horizon.

If you invest in high risk assets and they perform badly, you might not have time to claw back your losses.

WHY DOES AGE MATTER?

Your age should play a big role in deciding how much risk you want to take in your portfolio. In general, the higher your age the less risk you should take. This is because there is less time to ride out short-term market volatility.

Peter Chadborn, director at financial advice firm Plan Money, says even if someone over age 70 wants to take a moderate or high level of risk, they might not actually need to do so.

'Opt for a mixture of corporate bond funds, multi-asset funds and, if your risk appetite is appropriate, diversified equity funds.'

'By that time of life, investors typically require income as opposed to growth. Or if capital growth is required, the target is usually just ahead of deposit-based returns plus inflation,' he says.

HOW MUCH OF MY PORTFOLIO SHOULD I HAVE IN STOCKS AND SHARES?

A typical equity (another name for stocks and shares) to bond ratio for someone over age 70 would be 20:80 or 40:60.

Chadborn says a simple way of obtaining this balance is by investing in a Vanguard LifeStrategy fund. You can pick one with your desired equity and bond allocation.

Vanguard LifeStrategy 20% Equity Fund (GB00B4620290) has a 20:80 target allocation equities to bonds.

Vanguard LifeStrategy 40% Equity (GB00B41F6L43) has a 40:60 target allocation. Both funds have a low ongoing charge of 0.22%.

Ryan Hughes, head of fund selection at AJ Bell Youinvest, recommends opting for a mixture of corporate bond funds, multi-asset funds and, if your risk appetite is appropriate, diversified equity funds.

Examples of fixed interest funds include **Kames Investment Grade Bond (GB00B142F707)**, **Henderson Fixed Interest Monthly Income (GB00B7GSYN71)** and **iShares Core Corporate Bond UCITS ETF (SLXX)**.

'These holdings would make good core positions for investors looking for corporate bond exposure and also provide the option for income should that be a requirement,' explains Hughes.

Funds offering multi-asset exposure include **JP Morgan Multi Asset Income (GB00B4N20S86)** and **Threadneedle Dynamic Real Return (GB00B93MKD82)**.

'For equity exposure, assuming the risk profile and time horizon warrant this, I'd be looking at high quality equity income holdings such as **Woodford Equity Income (GB00BLRZQ620)** and **Newton Global Income (GB00B8BQG486)**. Alongside this, exposure to core global equities through **Fidelity Index World (GB00BP8RYC79)** may also be appropriate,' says Hughes.

CAPITAL VERSUS INCOME

An important balance to get right is capital preservation versus income. If you have an extremely large portfolio you might be able to live off the 'natural income' – the amount you receive in interest and dividend payments. This would avoid your capital being eroded.

Many (if not most) people aged over 70 will need to draw some of their capital each year to provide them with sufficient income. 'This is where it is important to have a portfolio that balances different investments that generate income, offer an element of capital protection and can appreciate in capital value,' states Hughes.

Chadborn says he usually focuses on the total return of a fund or portfolio and structures withdrawals according to the investor's requirements. He says this should be regularly reviewed within a cash flow planning exercise to ensure the strategy is sustainable.

'Sufficient capital reserves should be set aside for the first few years' income provision as a hedge against "sequence risk" and periods of time when market conditions are unfavourable and income levels may have to reduce or cease temporarily,' adds Chadborn.

Sequence risk is a term used to describe a time when you might receive lower or negative returns early in retirement just when you start to withdraw money from your savings pot(s), weakening your investment portfolio for later life.

Being over age 70 shouldn't necessarily preclude you from dabbling in individual shares. Experts recommend investing in shares for a minimum of five years and preferably 10 years or more.

Mike Gordon, technical director at financial advice firm Rutherford Wilkinson, says buying stocks would be ok provided you are aware of the risks and potential rewards of investing in single companies.

'It is important to remember that companies sometimes go bust, and it is possible to lose all one's money,' he warns. (EP)

A CLOSER LOOK AT THREE FUNDS

FIXED INTEREST

iShares Core Corporate Bond UCITS ETF (SLXX)

This ETF tracks an index giving exposure to the 40 largest and most liquid sterling-denominated corporate bonds with investment grade rating.

Only bonds with a minimum remaining time to maturity of 1.5 years and a minimum amount outstanding of £250 million are included in the index. The ETF has a five-year annualised return of 7.6% and 0.2% ongoing charge.

MULTI-ASSET

JP Morgan Multi Asset Income (GB00B4N20S86)

This fund invests in a global portfolio of income-generating securities. It has a 40% allocation to stocks and 60% allocation to bonds.

Stocks in the portfolio include **GlaxoSmithKline (GSK)** and Johnson & Johnson. It has a three-year annualised return of 4.3% and an ongoing charge of 0.83%.

EQUITY INCOME

Woodford Equity Income (GB00BLRZQ620)

This fund aims to provide a reasonable level of income with capital growth by investing primarily in UK-listed companies.

Top holdings include **AstraZeneca (AZN)**, **Imperial Brands (IMB)**, and **Legal & General (LGEN)**. The fund, launched in June 2014, has returned 12.1% over the past year. Its ongoing charge is 0.75%.

Data and fund holding info: Morningstar, as of 5 April 2017

Four key trends in the pensions space

A look at how the market has changed since of pension freedoms launch

Two years ago the Government tore up the retirement rule book, introducing rules which allow anyone aged 55 and over to spend and invest their pension pot as they see fit.

Let's take a look at some of the key trends as the retirement market continues to evolve.

1 Drawdown replaces annuities as default retirement option.

Prior to the introduction of the pension freedoms in April 2015, most savers were shoehorned into annuity contracts which were often ill-fitting. The reforms have shaken the retirement income market to its core, and now we see drawdown sales outstripping annuity sales by roughly 2:1.

I expect the debate to now shift to this part of the market as policymakers look at ways to protect savers from withdrawing their money at unsustainable rates.

2 Number of policies accessed for the first time beginning to stabilise.

There was an inevitable bulge in flexi-access withdrawals in the initial phase of the pension freedoms as those who had delayed their retirement income decision following the 2014 Budget announcement moved to access their pot.

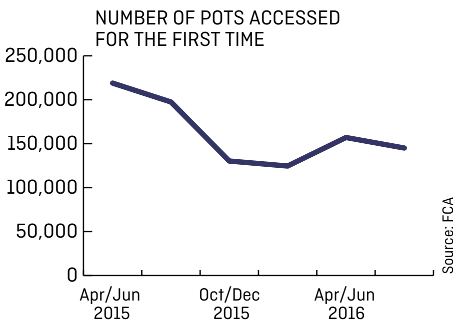
While over 218,000 pots were accessed for the first time in April-June 2015, the figure has subsequently been in the range of 130,000 to 160,000.

3 Vast majority of pots accessed are fully withdrawn...but that's not necessarily a bad thing.

Since the freedoms were launched most savers who have accessed their pension for the first time have withdrawn the entire pot. This might explain why the Government's coffers have swelled far more than initially anticipated.

Pension withdrawals are taxed as income, so bigger withdrawals generally means more tax for the Treasury.

The vast majority of full withdrawals are from very small pots (below £10,000), which in many cases will be a perfectly sensible decision – particularly if those people have other savings elsewhere.



4 Around two-thirds who enter drawdown take regulated advice.

Retirement income decisions are complicated, with savers having to build an investment and withdrawal strategy based on a number of uncertainties – not least how long they might live.

Advice can be extremely valuable, so it is good that many people entering drawdown are speaking to an adviser.

Take-up of advice in the annuity market – where the buying decision is irreversible – sat below 50% in the third quarter of 2016.

TOM SELBY,
senior analyst, AJ Bell

FRIDAY 14 APRIL (GOOD FRIDAY)

UK STOCK MARKET CLOSED	
ECONOMICS	
US	
CPI	
PRELIMINARY UOM INFLATION EXPECTATIONS	

MONDAY 17 APRIL (BANK HOLIDAY)

UK STOCK MARKET CLOSED	

TUESDAY 18 APRIL

TRADING STATEMENTS	
ASHMORE	ASHM
AGMS	
APAX GLOBAL ALPHA	APAX

WEDNESDAY 19 APRIL

FINALS	
E-THERAPEUTICS	ETX
INTERIMS	
ASSOCIATED BRITISH FOODS	ABF
FENNER	FENR
TRADING STATEMENTS	
BUNZL	BNZL
BURBERRY	BRBY
HENDERSON	HGG
RELX	REL
RIO TINTO	RIO
RENTOKIL	RTO
SEGRO	SGRO
AGMS	
BUNZL	BNZL
GREGGS	GRG

THURSDAY 20 APRIL

FINALS	
ELECTRICAL GEODESICS	EGI
RANDALL & QUILTER INVESTMENT HOLDINGS	RQIH
XEROS TECHNOLOGY	XSG
INTERIMS	
DEBENHAMS	DEB
UNILEVER	ULVR
TRADING STATEMENTS	
MAN GROUP	EMG
EVRAZ	EVR
GO-AHEAD GROUP	GOG
MONEYSUPERMARKET.COM	MONY
AGMS	
ACACIA MINING	ACA
ESSENTRA	ESNT

EX-DIVIDEND		
AGGREKO	AGK	17.74P
BAE SYSTEMS	BA.	12.7P
BALFOUR BEATTY	BBY	1.8P
BARRATT DEVELOPMENTS	BDEV	7.3P
THE BANKERS' INVESTMENT TRUST	BNKR	4.4P
BODYCOTE	BOY	10.8P
CAPITAL & COUNTIES PROPERTIES	CAPC	1P
DRAX	DRX	0.4P
MAN GROUP	EMG	3.62P
EQUINITI	EQN	3.11P
FEVERTREE DRINKS	FEVR	4.71P
HENDERSON DIVERSIFIED INCOME	HDIV	1.25P
HOCHSCHILD MINING	HOC	$0.01
HANSTEEN	HSTN	1.6P
HANSTEEN	HSTN	2.1P
INDIGOVISION	IND	3P
INTERNATIONAL PUBLIC PARTNERSHIP	INPP	3.3P
JOHN LAING	JLG	6.3P
MARSHALL MOTOR	MMH	3.7P
MONDI	MNDI	€0.38
THE MERCHANTS TRUST	MRCH	6.1P
NOVAE	NVA	7.5P
PENDRAGON	PDG	0.75P
PETROFAC	PFC	$0.44
RATHBONE BROTHERS	RAT	36P
RPS	RPS	5.08P
SCS	SCS	4.9P
SMURFIT KAPPA	SKG	€0.58
STILO INTERNATIONAL	STL	0.05P
TAPTICA INTERNATIONAL	TAP	$0.04
TYMAN	TYMN	7.5P
UNITE GROUP	UTG	12P
VITEC	VTC	17.3P
ZOTEFOAMS	ZTF	3.9P

DEBENHAMS (DEB)

Department store **Debenhams (DEB)** is set to announce its half year results on 20 April. The company faces several challenges including margin pressure from weak sterling and falling like-for-like sales.

New chief executive Sergio Bucher will be hoping to get the market on side with this release.

FTSE 250 retailer **Sports Direct (SPD)** has been steadily buying more shares in Debenhams over the past few months and now owns 16.09% of the business.

MONEYSUPERMARKET (MONY)

Price comparison website **MoneySupermarket (MONY)** is poised to update on first quarter trading on 20 April.

Margin performance will be one of the key focus areas for investors. The price comparison space is extremely competitive and requires hefty marketing spend to protect market share.

Moneysupermarket's 2016 gross margins fell from 80% to 75% partially as a result of higher marketing spend.

A recently launched advertising campaign from Moneysupermarket includes 1980s kids TV favourites *He-Man* and *Skeletor*.

DIALIGHT (DIA)

Investors will want to start seeing firm evidence that real growth is back on the cards for industrial lighting systems designer **Dialight (DIA)**.

A pre-AGM trading update on 20 April is a chance to access the launch of its growth story now the operational streamlining is largely concluded. There's plenty of opportunity in industrial LEDs; Dialight must start delivering to match the hopes reflected in an improved share price. (SF)

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

Homeserve has a place in your portfolio

Trading momentum can be matched by share price upside despite rule changes

80%
HOMESERVE'S CUSTOMER RETENTION RATE IN UK

Dubbed the 'fifth emergency service', home emergency cover and repair services outfit **Homeserve (HSV)** is riding high after a strong trading update (6 Apr).

We back the company's assertion that concerns over new regulations and a rise in the insurance premium tax are overdone. The cash generative business has a proven model and we continue to see significant potential in its international expansion effort.

The company says profit for the year to 31 March 2017 will be at the 'upper end of expectations' with forecasts between £105m and £112m. Crucially chief executive Richard Harpin points to 'further strong growth' in the current financial year. Results will be announced on 23 May.

TAX AND REGULATION RISK DOWNPLAYED

Management played down risks of new Financial Conduct Authority (FCA) rules on transparency at the point of sale and do not see any fallout from the rise in insurance premium tax either.

Andrew Brooks, an analyst at RBC Capital Markets, says Homeserve should not be worried over the enhanced disclosure rules from the FCA as the firm already provides these measures. Investment bank Liberum goes as far to say that most customers realise that they are receiving 'teaser rates'.

But the changes, shown on the Association of British Insurers' website, include another new rule which may concern Homeserve. It stipulates that companies must 'identify those customers who have renewed with them on four consecutive occasions, and provide them with additional messaging on shopping around'. This may impact the firm's retention rate of 80% if its customers follow up on this messaging.

GROWTH AMBITIONS

Homeserve has been growing both at home and overseas. In February it took a 40% stake in website Checkatrade and announced a partnership with **Aviva (AV.)** providing home assistance cover to customers. In March it launched a venture with **RSA (RSA)** to push its Leakbot water leak detection service.

On the overseas front it may have exited markets such as Australia, Belgium and Germany over the years and a hit rate of four from seven markets entered doesn't look fantastic but the cumulative cost of these failures is only £12m so worth keeping in perspective.

SHARES SAYS: ↗
We remain fans of Homeserve at 647p. (DS)

BROKER SAYS: 6 2 1

Liontrust roars into action

Alliance Trust deal provides substantial boost to assets under management

Asset management firms can be a nerve jangling investment as some of the big names in the industry hit the headlines with multi-billion pound outflows.

In contrast **Liontrust (LIO)** is one of the top performers in the sector and there's scope for this firm to keep its momentum going.

The firm's acquisition of Alliance Trust Investments (ATI) completed at the beginning of April, adding £2.5bn to its assets under management (AUM) to a total of £9.1bn.

When this deal was announced in December ATI had £2.3bn in AUM, so investors clearly trust Liontrust's portfolio managers as they haven't withdrawn their cash.

Risks do persist in asset management. Investor sentiment can change quickly and the ever-looming presence of greater regulation in the industry means companies face increasing compliance costs.

However, Liontrust's diverse range of products, including special situation and European growth funds, should mean it is well placed even if the macro-economic backdrop is choppy.

SHARES SAYS: ↗
Liontrust trades at a discount to asset value despite a strong AUM figure and consistent earnings growth. Buy at 422.62p. (DS)

BROKER SAYS: 3 1 0

Abzena raises £25m for growth

ABZENA (ABZA:AIM) HAS raised £25m to fund several growth initiatives, which include upgrading its US biomanufacturing facilities so it can supply more products. Approximately £11m will be spent on its San Diego facility while £6m will be earmarked to enhance its biology and chemistry offering in the UK and US. The remaining £8m will be used for working capital. (LMJ)

Last minute new business dash

ACCESS CONTROL systems supplier **Intercede (IGP:AIM)** has sealed a trio of new contracts just days before its 31 March 2017 year end. Worth around £0.4m, the news helps offset the warning on 3 March that about £2m worth of business, about 20% of the full year's forecast £10m revenue, would be late. Cash of £6.9m is also better than the £6m anticipated. (SF)

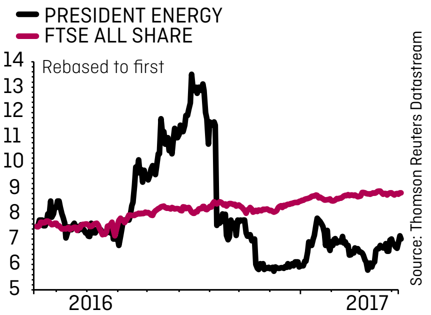
Empyrean looks East for growth

SMALL CAP oil and gas play **Empyrean Energy (EME:AIM)** continues its pivot to Asia having sold its US assets in 2016. It has now added to its existing Chinese acreage with a new project in Indonesia. The Duyung PSC is being acquired for $4m and contains the Mako shallow natural gas discovery. Thought to contain between 0.4 and 1.3 trillion cubic feet of gas, a well to test this potential is expected this summer. (TS)

Is President Energy finally on recovery path?

Oil and gas firm is ramping up output in Argentina

Latin American oil producer **President Energy (PPC:AIM)** could potentially exceed production guidance if a work programme proves successful. This could be the catalyst to revive a share price depressed in the wake of operational issues last year.



The current target from President's Argentinian Puesto Guardian concession is to hit 1,200 barrels of oil per day (bopd) by the end of September this year.

It has already managed to go from 500 to 800 barrels of oil per day thanks to taking remedial action to fix two wells. There's another project on the cards which boost the output level.

President will soon undertake fracking to increase pressure on several wells which are currently closed off.

The action is expected to boost the flow of oil to the surface from these wells which could then be brought back into production.

Production from Argentina 800 bopd – target 1,200 bopd

PREVIOUS SUCCESS

President's chairman Peter Levine is well known in the oil sector having made a lot of money for himself and shareholders in his previous venture, Russia-based Imperial Energy.

Imperial floated on AIM in 2004 with an initial market cap of just £2m. In August 2008 the company was bought by Indian state energy company ONGC for £1.4bn.

This success explains the presence of heavyweight institutions such as Schroders (11.2%) and JPMorgan (8.2%) on President's shareholder register. Levine himself has a 31.9% stake.

So far President hasn't been anywhere near as successful as Imperial. Its shares have lost nearly 90% of their value since Levine took control of the company, then called Meridian Petroleum.

The company has encountered several difficulties including the Argentine government's decision in April 2012 to seize the assets of Spanish firm Repsol.

It has suffered inconclusive results from drilling in Paraguay and more recently had difficulties on its DP1002 horizontal well which was aimed at doubling output from Puesto Guardian. Investors should therefore treat this stock as extremely high-risk.

ALLEGED GROSS NEGLIGENCE

Despite using leading contractors such as Schlumberger and Baker Hughes, multiple issues were encountered on the well last autumn and Levine says the company has instructed lawyers over the debacle which he claims was caused by 'gross negligence'.

Having raised $20m to help get the company back on track in November 2016 the company has the funds to complete the current work improvement programme.

It is also looking at the acquisition of producing assets in Argentina with development upside. Levine believes the political environment is friendlier in Argentina than a few years ago.

President's portfolio also encompasses producing natural gas assets in Louisiana which help cover general and administrative costs and exploration acreage in Paraguay.

SHARES SAYS:

We think there is a merit in buying President at 7p, but only if you have money you can afford to lose. (TS)

BROKER SAYS: 2 1 0

Why Lupus treatment is a potential game-changer

Drug in development could have blockbuster potential for ImmuPharma

Lupus was recently thrust into the spotlight after singer Selena Gomez cancelled her world tour to deal with the autoimmune chronic inflammatory disease, which currently has no cure.

Drug developer **ImmuPharma (IMM:AIM)** has a pivotal year ahead as it undergoes its Phase III trial for its lead treatment Lupuzor to help treat lupus. The drug has been tipped to have blockbuster status.

Management expects to provide incremental updates on the trial ahead of reporting top line results in the first quarter of 2018 as the final step before filing for marketing approval with the US Food and Drug Administration (FDA).

WHAT IS LUPUS?

The disease causes the body to make antibodies that attack healthy tissue. Typical symptoms include rashes, fatigue, joint pain and swelling, but it can be fatal as kidney failure can occur.

Currently lupus is treated through low-dose steroids, immunosuppressants, anti-malarials and high-dose steroids.

HOW DOES IMMUPHARMA PLAN TO TREAT THE CONDITION?

Lupuzor is a drug that works on the immune system of lupus patients by modifying the behaviour of certain key cells involved in the development of the disease. It is 100% owned by ImmuPharma.

The drug suppresses the symptoms without any side effects recorded so far as the Phase IIb trial demonstrated significant efficiency and safety.

The symptom-free nature of Lupuzor is achieved by not activating t-cells that can trigger auto antibody production. This is a typical response when new drugs are introduced into the body.

It has also shown potential in treating other conditions such as rheumatoid arthritis, Crohn's disease and asthma.

WHAT IS THE COMPETITIVE LANDSCAPE?

Over the past 50 years, there

has only been one approved drug: Benlysta owned by **GlaxoSmithKline (GSK)**. However, this is only marginally effective and carries significant side-effects.

If ImmuPharma can get its treatment approved, it would not have much competition in what is essentially an area of unmet medical need. An estimated 5m people worldwide suffer from lupus.

The FDA recognises the potential of Lupuzor as it has received fast-track designation, which means the review of the drug will be expedited. It has also been granted the gold standard special protocol assessment by the FDA.

This means if ImmuPharma adheres to the same protocol as its Phase IIb study and delivers positive results, the federal agency will not request a further trial with different endpoints. It also means different outcomes will not have to be pursued in further trials, which should reduce costs.

'BLOCKBUSTER POTENTIAL'

Northland Capital Partners analyst Vadim Alexandre believes the shares are grossly undervalued. He has a target price of 171p, which is more than three times ImmuPharma's current share price of 50.7p.

Vadim says: 'The drug has been looked upon favourably by US regulators, which have deemed it a priority treatment.

'Should the drug be approved, we estimate it could achieve multi-billion dollar annual sales.'

It is important to highlight that despite its side-effects, GSK's Benlysta reached sales of over $400m in 2015 with annual sales predicted to hit $1bn by 2020.

AN ESTIMATED FIVE MILLION PEOPLE WORLDWIDE ARE AFFECTED BY LUPUS

Lupuzor has demonstrated it is safer and more effective than Benlysta in its Phase IIb trial, and may benefit from higher uptake by lupus sufferers if it is approved.

Management anticipates that Lupuzor will also be cheaper than its competitor, which is currently priced at around $30,000 annually per person.

WHAT ARE THE COMMERCIALISATION PLANS?

ImmuPharma plans to commercialise the drug through licensing deals with big pharmaceutical companies that need new drugs in their pipeline to keep delivering profit growth.

The company will receive royalties on sales from its global licensees.

Currently, management estimates a 95% gross margin.

Either a partner or the company will work with the manufacturer to make Lupuzor on a large scale.

Marketing costs are expected to be low as management will target rheumatologist clinics that specialise in treating lupus sufferers. ImmuPharma's market for Lupuzor is initially the US and wider North American continent with potential to expand to Europe and Japan.

These are important markets for ImmuPharma as approximately 1.5m people suffer from the most severe form of lupus known as Systemic Lupus Erythematosus in Europe, the US and Japan.

The condition can involve various parts of the body and is more likely to affect certain ethnic groups and women. (LMJ)

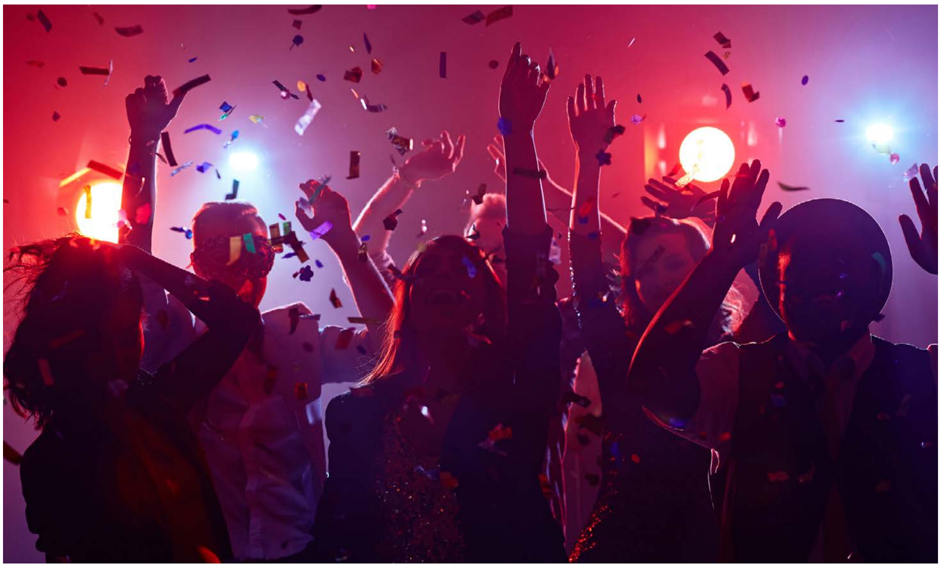
SHARES SAYS: ↗

Although there are always risks in drug development, ImmuPharma looks attractive as Lupuzor has strong potential to treat a disease that currently has few effective treatment options.

BROKER SAYS: 2 0 0

Are UK banks set to join the equity party?

Invesco fund manager thinks the sector can leave legacy issues behind



UK banking stocks have been out of favour with investors for much of the past decade and the recent period is no exception.

Last year brought a fresh wave of challenges for the sector which sold off sharply in the aftermath of Brexit on concerns that the UK economy would experience a severe downturn and banks would suffer an associated spike in impairments (bad debt write offs).

Despite a recovery in share prices in response to the surprisingly strong economic out-turn to date, the sector still offers some interesting opportunities.

When assessing a bank's valuation, I believe the key metric is price to book – or the relative value of the assets of the bank to its stock market value.

Accounting rules adopted by the banks to measure their assets are generally different from the rest of the market or industries principally because the assets of financial service firms tend to be financial instruments, which can be easily valued at the open market.

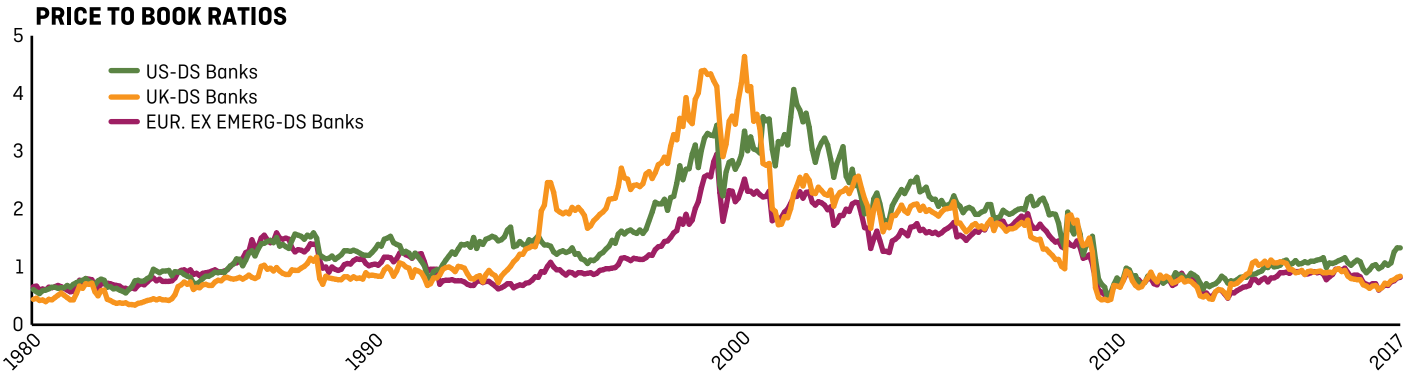
As a result, banks account for their assets at mark-to-market value, unlike other industries which use historical accounting measures.

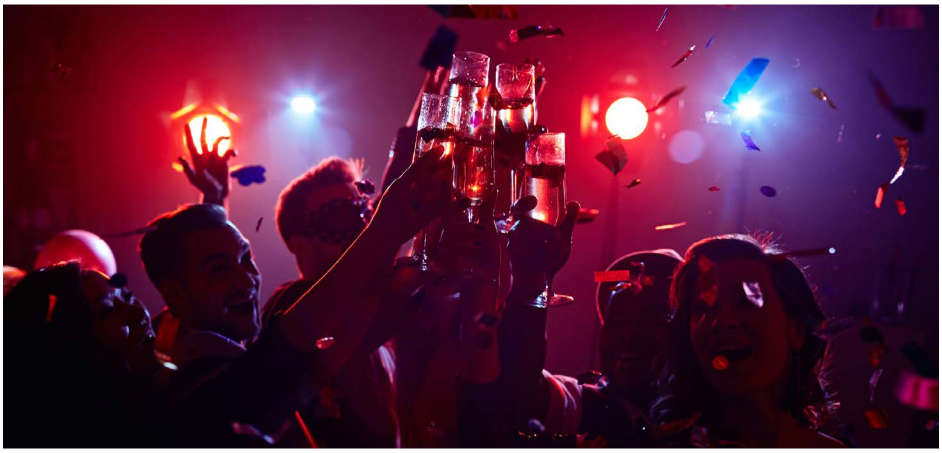
WATERSHED MOMENT

Moving goal posts around regulatory capital requirements and a slew of fines for historic misdemeanours have been a persistent drag on banks' valuation.

The positive or negative deviation of market value from book value will be dependent on how much investors trust the accounts of the banks and how much confidence they have in their future earnings streams.

I regard December 2015's Financial Stability Report, produced by The Bank of England's (BoE) Financial Policy Committee (FPC), as a watershed moment for the confidence of both the banks and the wider market.





Mark Carney, governor of the BoE, sought to deliver certainty on future capital requirements and confirmed that there would be no further increase in aggregate capital requirements for the sector.

The stock market was initially dismissive but the Prudential Regulation Authority (PRA), the banking regulator, backed its rhetoric with a series of actions, allowing those banks with the strongest capital positions to return the surplus in the form of special dividends and share buybacks.

From a valuation perspective, clarity on the future capital base knocked out a key unknown and provided a much clearer roadmap for each franchise.

The major banks in the portfolio I manage are at different stages towards reaching their capital endpoint, or the level at which the regulator is comfortable with the bank's capital position.

Last year **Lloyds Banking (LLOY)** was allowed to pay a special dividend and complete the £1.9bn acquisition of credit card business MBNA – signaling to the market that it is in a position to return a reliable stream of earnings to shareholders.

LITIGATION NO LONGER A DRAG

Litigation has also been a significant drag on the sector but I believe we are closer to the end than the beginning on the major impairments, PPI and Department of Justice fines which have consistently depressed existing and yet-to-be earned capital.

The majority of the fines relating to the misdemeanours occurring pre- and immediately post-crisis have largely been agreed or at least provisioned for.

I suspect that for a generation there will be a degree of litigation risk in the sector as banks are now seen as legitimate targets. The sector has implemented meaningful changes to the way they market and sell products, which ought to limit future liabilities of this nature.

In short, some limited uncertainty around capital persists, but the 'black hole' in core equity capital (the measure of a bank's financial strength from the regulator's point of view) which has dominated the narrative in recent years no longer stands.

With a more stable outlook on capital, I can now focus on earnings (and therefore the return on that better defined capital base) that each franchise can generate and ultimately, the appropriate multiple of book value at which I believe the shares ought to be valued.

In the context of both the macro backdrop and my discussions with management, I believe analysts' current earnings forecasts are conservative.

My conclusion does not rely on a view around interest rates: clearly, if rates rise more quickly than the markets are currently anticipating, that would be very helpful for bank earnings. You do not need to rely on that, in my opinion, to think that the valuations are attractive here.

Looking ahead, I believe that UK banks simply need to continue to deliver on cost, continue their work to rationalise the non-core parts of their businesses and drive volume, in order to achieve modest growth.

In a normalised environment, even a modest level of growth generates an earnings stream which, to my mind, makes the sector look very attractive.

Invesco Perpetual Select Trust UK Equity Share Portfolio (IVPU) has significant exposure to the UK banks sector.

JAMES GOLDSTONE, investment manager Invesco Perpetual

INVESTMENT RISKS

Where securities are mentioned in this article they do not necessarily represent a specific portfolio holding and do not constitute a recommendation to purchase, hold or sell.

Where James Goldstone has expressed opinions, they are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco Perpetual investment professionals.

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KEY

- Main Market
- AIM
- Fund
- Investment Trust
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