STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

UK GENERAL ELECTION: WHAT IT MEANS FOR INVESTORS

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SPOT RED FLAGS

IDENTIFY ACCOUNTING TRICKS

INVESTOR

HOW TO MAKE BETTER INVESTMENT CHOICES

OUR TOP PICKS FOR 2017
11.1% AVERAGE GAIN SO FAR

WE UPDATE OUR VIEWS ON
TESCO, PRIMARK'S OWNER & MORE

A dose of realism no bad thing for stocks

Election news brings markets back to earth after reflation and Trump rally

The markets kicked off the week with a bang following the long Easter weekend. News of a surprise UK general election in June and heightened geopolitical tensions in Syria and North Korea all served to push and pull at equity valuations.

What's interesting is that stock markets didn't go into full-on panic mode, as one might have initially expected given the news backdrop. That's positive for equity markets longer term.

Michael Stanes, investment director at Heartwood Investment Management, earlier this week said investors' expectations had previously moved too quickly and were now being scaled back to more realistic levels.

Indeed, we note that certain sectors and stocks buoyed by expectations of rising inflation and Trump's grandiose promises are already starting to reverse.

This is particularly evident in our portfolio of Trump trades. These were identified before he defied the odds to capture the White House last November.

The first table shows how they performed from election in the run up to his inauguration in late January and the second shows their subsequent performance.

With some variation, the portfolio has performed around half as well since Trump assumed office as it did during his period as President-elect. (TS)

SHARES' TRUMP PORTFOLIO

Company	Performance from election to inauguration (%)[1]	Performance since inauguration (%)[2]
Ashtead	27.0	4.9
BAE Systems	9.6	7.1
BlackRock North American Equity Tracker Fund	7.6	1.8
CF Miton US Opportunities	8.9	-1.1
CRH	7.0	-4.8
G4S	-0.2	25.0
Gold	-5.2	6.5
Hill & Smith	-9.3	13.0
Hunting	36.0	-2.1
Meggitt	0.8	5.0
National Grid	-8.0	10.0
Ultra Electronics	4.3	8.6
Weir	26.0	-0.7
Wood Group	13.0	-5.3
Average	**9.7**	**4.9**

Source[1]: Shares, SharePad from close 8 Nov '16 to 20 Jan '17
Source[2]: Shares, SharePad from close 20 Jan '17 to 13 Apr '17

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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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CLICK ON PAGE NUMBERS TO JUMP TO THE RELEVANT STORY

What snap UK election means for investors

Sterling jumps and blue chip stocks with overseas earnings fall

The political shocks which have dominated the last 12 months just keep on coming. We now have Theresa May announcing plans for a snap General Election on 8 June, triggering a rally in sterling and weakness in the FTSE 100 index.

Based on a 21 point lead in the polls, some market commentators believe the Conservatives could increase their current working majority of 17 seats after the vote. Some projections suggest the majority could increase to more than 100.

'From a markets point of a view, a snap election is welcome news – at least in the longer term once the initial reaction has subsided,' says fund manager Paul Mumford from Cavendish Asset Management.

'Even without the proposed boundary changes, everything points to the Tories being elected with a substantially increased majority – which will give the Government a firm mandate and put it on steadier, more solid ground as it begins the difficult, complex work of negotiating Brexit.

'This can only reduce uncertainty and the potential for hiccups over the next couple of years, so it's a sensible move.'

The UK election further cements the importance of politics to the direction of stock markets across Europe near-term, given we also have looming elections in France and Germany.

The first round of the French presidential election is being held on 23 April with right-wing populist Marine Le Pen still in the running.

CURRENCY SWINGS

Although sterling was weak on speculation ahead of the UK general election announcement, it strengthened once news of an election was confirmed.

The stronger pound helped undermine the FTSE 100 where a large proportion of constituents earn money in foreign currencies.

As we've seen since the Brexit vote last summer, a weaker pound can benefit companies who sell their goods in foreign currencies but then translate them into sterling when reporting their accounts.

Therefore, strength in sterling makes these companies less attractive from a translational perspective.

MARKETS UNDER CONSERVATIVE LEADERSHIP

Analysis by AJ Bell investment director Russ Mould suggests the markets would welcome the expected procession for Theresa May as the FTSE All-Share index has performed better on average under Conservative Prime Ministers. (TS)

Prime Minister & term	Party	Change in FTSE All-Share
Margaret Thatcher, 1979-90	Conservative	270.6%
John Major, 1990-1997	Conservative	107.1%
James Callaghan, 1976-79	Labour	66.7%
David Cameron, 2010-16	Conservative	36.9%
Edward Heath, 1970-74	Conservative	21.9%
Tony Blair, 1997-2007	Labour	19.9%
Theresa May, 2016-	Conservative	10.0%
Harold Wilson, 1964-70	Labour	9.0%
Harold Wilson, 1974-76	Labour	8.6%
Gordon Brown, 2007-10	Labour	-19.2%

Source: AJ Bell, Thomson Reuters Datastream

Tenpin bowling group returns to UK stock market

Remember Essenden? It's back under a new name with growth avenues it previously struggled to find

The boss of newly-floated tenpin bowling group **Ten Entertainment (TEG)** insists the business is completely different than when it traded on AIM under the name of Essenden.

He says the £107m business now has a competitive advantage through the use of technology and a clear path to achieve the growth it has long desired.

Essenden was taken private in 2015 by its major shareholder Harwood Capital.

'It required a capital injection to accelerate growth. The shares were illiquid so they traded on a low rating,' claims Alan Hand who joined Essenden in 2010 and is now chief executive of the renamed business.

PREVIOUSLY SAID MARKET OVERSUPPLIED

Former Essenden CEO – and now Ten Entertainment chairman – Nick Basing told *Shares* three years ago that tenpin bowling was in over-supply. As such, he said Essenden would have to diversify to achieve growth.

He suggested making acquisitions to have a second business stream with multiple sites potentially including cinema, bingo and holiday parks. That failed to materialise.

WHAT'S CHANGED?

Since being taken private, the business has acquired 10 tenpin bowling sites from rivals and spent money on technology to facilitate operational efficiencies.

For example, it now has an electronic system that places reserved lanes next to each other, rather than spread apart.

Hand says this helps walk-in customers to immediately see if there is availability. He claims this system has already helped to improve utilisation rates from 70% to 85%-90%.

Customers no longer have to swap their footwear for bowling shoes. Employees even take food and drink orders from players at the bowling lane with a handheld terminal.

'We want to speed up getting people on the lanes and then not have to leave,' says Hand.

Additional facilities populate its bowling sites such as table tennis and games machines to drive extra revenue and keep customers on site.

BUYING UP WEAKER RIVALS

The Ten Entertainment boss says he's identified up to 170 under-invested and under-managed bowling sites in the UK.

'We're trying to get into dialogue with north of 60 of these sites,' he reveals. 'We view them as lower risk growth as we would be buying profitable market share.

'We believe we can buy sites generating between £150,000 and £400,000 EBITDA (earnings before interest, tax, depreciation and amortisation) and bring their standards up.'

Harwood Capital last week sold a chunk of its shares at the IPO (13 Apr) but still retains a very dominant 69.4% of the business; directors hold a further 5.6%. (DC)

Blue Prism is in a sweet spot with earnings growth

Software robotics group is racing ahead, although it remains a long way from making a profit

Analysts have upgraded earnings forecasts for software robotics specialist **Blue Prism (PRSM:AIM)** six times since it floated on the stock market just over a year ago. This pace of upgrades is extremely rare, in our opinion.

New orders are coming from both existing and new clients – and that's exciting investors. The initial public offering (IPO) was priced at 78p in March 2016 and the shares now trade at 606p. That represents more than seven-fold share price appreciation.

Blue Prism's software enables the automation of manual, rules-based administrative tasks.

Its system should help the customer to save money, but it isn't simply about replacing humans with robots. Blue Prism says its software effectively frees up individuals to undertake more strategic and creative roles within a business.

Investec now forecasts £20m revenue in the year to 31 October 2017, which is more than double the £9.6m achieved in 2016.

'To be relatively comfortable less than six months into a financial year that a rateable recognition business model is going to more than double revenues is exceptional,' says Investec analyst Roger Phillips.

'In our view, this reflects an attractive combination of a potentially massive total addressable market, combined with a supply bottleneck, with only three vendors capable of meeting the need – and Blue Prism the enterprise-grade vendor.'

It is worth noting that Blue Prism is not forecast to be profitable for the foreseeable future, despite the rapid sales growth. (DC)

Gfinity wins racing tournament rights

Deal with Microsoft, but growth and funding questions remain

AIM-QUOTED eSports minnow **Gfinity (GFIN:AIM)** will run the *Forza Racing Championship* Xbox competition for technology giant Microsoft under an exclusive partnership deal.

Shares in Gfinity, which promotes 'live' computer gaming tournaments around the world, jumped more than 10% on the news to 21.25p. The business is now valued by the market at £33.5m.

We believe investors should watch from the side lines given the company's unproven growth model and funding requirements.

Revenue for the first half to 31 December 2016 jumped 45% year-on-year yet it remained minuscule at barely more than £0.9m.

Analysts forecast £2.7m revenue in the full year to 30 June 2017.

Cash used in the first half topped £1.7m, eating a large whole in net cash balances which fell to £2.7m. That's despite raising £3.7m of new funding last July.

It implies further cash will be needed from investors if Gfinity is to hit analysts' £0.8m pre-tax profit breakthrough target in 2019.

Gfinity has already worked with Microsoft, organising an Xbox programme of events to coincide with the October 2016 launch of the *Gears of War 4* game.

The Forza Racing deal is the latest of several partnerships with global gaming and technology brands, including Hewlett Packard and Activision Blizzard, the developer behind the *Call of Duty* game.

Mediclinic upbeat about Middle East turnaround

Hospital group also dodges potential tax hit in Switzerland

Global private hospital group **Mediclinic (MDC)** is more optimistic about its struggling Middle East division. The firm has also dodged a proposed tax levy in Switzerland.

On 10 April the canton of Zurich, a federal state of Switzerland, rejected a proposed levy on the proportion of privately insured patients treated in listed hospitals, which included Mediclinic's Klinik Hirslanden.

The Switzerland division represents approximately 50% of earnings and the annual CHF34m levy would have hit 2017 earnings by 10% according to analysts.

It's welcome news for Mediclinic after its Middle East division suffered in 2016 thanks to regulatory changes. From 1 July 2016, United Arab Emirates citizens lost access to free healthcare in Abu Dhabi and had to make a 20% co-payment if they visited a private hospital. This saw full year March 2017 revenue from this part of the business fall by 8% year-on-year.

Investec analyst Cora McCallum also says a slower than expected ramp up in patients is taking its toll as new doctors are taking time to establish their reputation and build a practice.

Despite the challenging environment, management is upbeat about the division's fortunes improving throughout its 2018 financial year. Margins are also anticipated to be ahead of previous guidance at up to 11.5%. (LMJ)

25,500

NEW JOBLESS CLAIMS

HAVE UK EMPLOYMENT levels peaked? In March, the month the UK Government triggered Article 50, jobless claims saw their largest monthly increase since 2011.

The 25,500 surge in claims implies employment may have peaked in the UK and that labour market weakness could be a factor over the next two years of Brexit negotiations.

This would be bad news for consumer facing sectors such as retail, consumer goods, travel and leisure.

10 BAGGER

THOUSANDS OF investors put their money in the stock markets each day in hope of backing the next big winner – but one of the best investments would have actually been the stock market exchange operator.

Shares in **London Stock Exchange (LSE)** have increased 10-fold since 2003. The dividend is also up by the same amount.

'What an amazing increase in value for a business founded over two centuries ago!' says Nick Train, who holds shares in the exchange via his **CF Linsdell Train UK Equity Fund (GB00B18B9X76)**.

0 HUNTING CANNOT PROVIDE EARNINGS GUIDANCE

DESPITE ENJOYING a strong first quarter of the year thanks to higher activity levels in the US shale space, oil services firm **Hunting (HTG)** is still unable to give detailed guidance for 2017 as a whole.

In the wake of a wider industry downturn, Hunting prudently stopped guiding on anything but near-term financial performance back in 2015.

It promises to continue with the policy of regular trading statements and will also be expected to update on a replacement for the retiring CEO Dennis Proctor.

255

WH SMITH'S EVER-INCREASING OVERSEAS EXPOSURE

HIGH-FLYING retailer **WH Smith (SMWH)** has so far won the rights to run 255 outlets in overseas transport hubs; 213 are already operational.

Many people don't realise it is increasingly generating more money from outside the UK. WH Smith now has exposure to 25 countries and 42 non-UK airports.

Its travel division – which includes sites in UK train stations and airports – continues to be the profit growth engine in the business.

$197bn

RECORD ETF FLOWS IN THE FIRST QUARTER OF 2017

A RECORD $197bn of net new money has gone into exchange-traded funds (ETFs) globally in the first quarter of this year, says ETFGI, dwarfing the $29.6 billion that was poured into these products at the same time last year. If flows continue at this pace, the total for 2017 would reach about $788bn, easily beating last year's record of $287.5bn. A number of factors may be driving the surge into ETFs, including their low cost compared to higher priced mutual funds.

76,230

TESLA LARGEST US CAR MAKER BY MARKET CAP

FORGET GENERAL Motors and Ford; Tesla became the largest car manufacturer in the US on 10 April, if you use market value as your yardstick. A share price spike to around $312 gave Elon Musk's Tesla a market value of $51bn, beating by a front bumper GM's $50.9bn mark. But Tesla's scale remains minuscule in terms of cars rolling off the production line and delivered to buyers, with just 76,230 in 2016. That compares to GM's rough 10m vehicle deliveries and Ford's 6.65m. Still a long road ahead, Elon.

MOST POPULAR FUNDS OVER THE PAST MONTH*

1	Fundsmith Equity I Acc
2	CF Woodford Income Focus C GBP Acc
3	CF Woodford Income Focus C GBP Inc
4	CF Woodford Equity Income C Sterling Acc
5	Jupiter India I Acc
6	Vanguard Lifestrategy 80% Equity A Acc
7	Vanguard Lifestrategy 100% Equity A Acc
8	Lindsell Train Global Equity B
9	Vanguard Lifestrategy 60% Equity A Acc
10	Stewart Investors Asia Pacific Leaders B Acc GBP

*Based on number of products bought via AJ Bell Youinvest platform
Source: AJ Bell

MOST POPULAR INVESTMENT TRUSTS OVER THE PAST MONTH*

1	HICL Infrastructure
2	Finsbury Growth & Income
3	Woodford Patient Capital
4	Temple Bar
5	Murray International
6	Tritax Big Box
7	Baillie Gifford Japan
8	Foreign & Colonial Investment Trust
9	Edinburgh Investment Trust
10	Fidelity China Special

*Based on number of products bought via AJ Bell Youinvest platform
Source: AJ Bell

Hilton Food is packed with potential

Retail meat specialist is a play on global expansion

Investors should rack up a position in retail meat packing outfit **Hilton Food (HFG)**. Hilton is growing its volumes with supermarkets around the world and has opportunities to export its proven, cash generative business model to additional territories with existing and new retail customers. This should offer powerful catalysts for further share price appreciation.

TASTY OPPORTUNITY

Hilton Food supplies the likes of **Tesco (TSCO)**, Ahold Delhaize and Coop Danmark from state-of-the-art plants that use automation and advanced robotics. Raw meat is processed, packed and delivered to retailers' distribution centres or stores.

Shares views Hilton as a relatively defensive investment. Supplying red meat staples such as beef, lamb and pork, Hilton's cash generation and ungeared balance sheet provide the firepower to fund overseas expansion.

Supplier consolidation in the industry favours scale operators such as Hilton, able to produce private label packed meats cost effectively while meeting high traceability standards.

OVERSEAS EARNER

Full year results (30 Mar) revealed 21% growth in pre-tax profits to £33.7m, with net cash increasing by £20m to £32m. Volumes in Western Europe grew by 3.8%, the UK and Republic of Ireland; the main drivers being Tesco's continuing turnaround. The supermarket giant's planned merger with **Booker (BOK)** would be a further positive, as it could increase exposure to the convenience and foodservice channels.

In Australia, the contribution from Hilton's joint venture (JV) with retailer Woolworths is ramping up. The JV already operates three facilities 'down under' and Hilton is investing £68m in a second facility in Queensland.

Due to open in 2020, this new plant will enable Hilton to service Woolworths' entire Australian store network, materially enhancing profit prospects. Meanwhile, Hilton has entered into a partnership with Portugal's leading grocer Sonae, taking Hilton into its fourteenth European country and boosting near-term earnings growth.

Peel Hunt forecasts 9.5% year-on-year growth in pre-tax profit to £36.7m for 2017, rising to £38.3m in 2018.

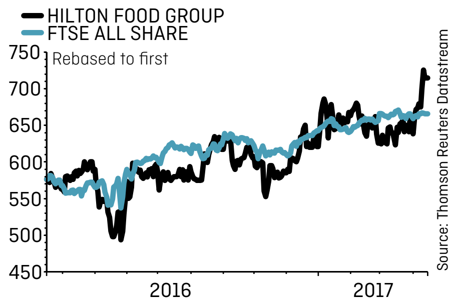
Based on Peel Hunt's 2017 earnings and dividend estimates of 35.9p and 17.5p respectively, Hilton trades on a rather meaty prospective price-to-earnings ratio of 19.9.

However, this is justified by the high quality of business, generating strong cash flows and with exciting overseas expansion potential. And, the dividend, which has grown every year since Hilton's 2007 flotation, offers a yield of 2.4% and is forecast to grow to 18.5p in 2018.

HILTON FOOD BUY
(HFG) 714.5p
Stop loss: 571.6p

Market value: £525.5m

BROKER SAYS: 5 0 0



Ashmore to make hay as 'Trump trade' fades

Asset manager riding high as emerging markets return to favour

Join in with emerging market specialist asset manager **Ashmore's (ASHM)** momentum as it could enjoy a further boost if Trump's economic plans are foiled.

If the US President doesn't get his 'border adjustment tax' through Congress, it could have far reaching implications for emerging market assets, particularly debt. This is the area where Ashmore specialises.

If the proposed tax doesn't get passed, then it would leave less scope for Trump's fiscal stimulus package.

The result could be less inflation in the US which would weaken the dollar against emerging market currencies and make emerging market local currency debt more attractive to investors.

POWER TO THE PEOPLE

Jahn Dehn, head of research at Ashmore, says there are very few local currency denominated assets in emerging markets left in foreign hands.

'As foreign investors come back to local markets they have to turn to local players for securities instead of buying them from investment banks in New York or London,' he adds.

'The result is that capital flows back into emerging market countries, which then begins to reverse the financial tightening of recent years which contributed so much to the slowdown in growth in emerging markets.'

ASHMORE GROUP
BUY
(ASHM) 360.7p
Stop loss: 288.6p

Market value: £2.6bn

ASHMORE ASSETS UNDER MANAGEMENT UP 7% IN FIRST THREE MONTHS OF 2017

Ashmore's recent trading statement showed a 7% increase in assets under management to $55.9bn in the first three months of 2017.

In recent years the company has been hit by heavy outflows as investors pulled billions from its funds but analysts expect the more positive recent trend to continue. Paul McGinnis at Shore Capital predicts Ashmore will get another $1bn inflow in the current quarter.

LOSING MY RELIGION

Dehn reckons investment in developing economies will ramp up 'if investors can get over the widely held quasi-religious view that emerging markets is somehow too risky'.

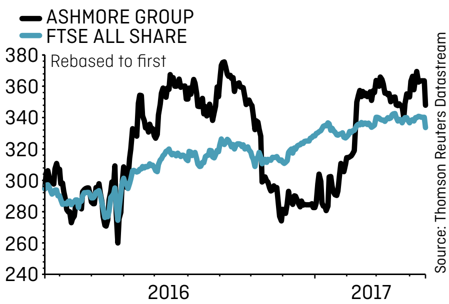
Ashmore's chief executive Mark Coombs says that improving emerging market performance should challenge

investors' predisposition to underweighting the asset class.

For investors to make money from Ashmore, the market needs to separate Trump's rhetoric from reality. Signs that the 'Trump trade' is already going south are apparent with his failings to reform healthcare and if the border tax has a similar fate, advantage Ashmore.

Even if Trump causes damage to specific emerging markets such as Mexico, as an active manager Ashmore can ascertain which markets are less susceptible to US policy and stay out of danger. (DS)

BROKER SAYS: 2 11 0



DISTIL

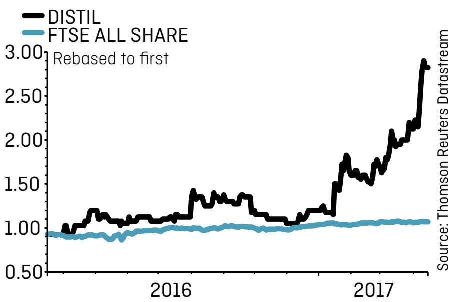
(DIS:AIM) 2.95p

Gain to date: 102%

Original entry point:

Buy at 1.46p, 23 February 2017

ALCOHOLIC DRINKS minnow **Distil's (DIS:AIM)** share price has doubled to 2.95p since our bullish February call. That's far exceeded our expectations, both in terms of speed and size of profit.



We suggest you sell now while the going is good and reinvest your money elsewhere.

We originally said to buy the high-end vodka, spiced rum and gin supplier ahead of its fourth quarter update on 18 April. That proved astute as Distil subsequently said full year results would be ahead of forecasts.

In the quarter to March, Distil enjoyed continued strong volume and revenue growth. Its Blackwoods gin is growing rapidly in the UK, Blavod Black Vodka's sales volumes have returned to growth and awareness of RedLeg Spiced Rum is building.

This all sounds positive, yet a 102% profit in two months is too good to ignore. You could hold out for more; or risk decent gains being eroded by other investors taking profit or earnings momentum running out of steam.

Don't forget that Distil has a weak balance sheet with low amount of tangible assets. It also operates in a highly competitive market.

SHARES SAYS: ↘

Bank those handsome profits now and sell at 2.95p. (JC)

TESCO

(TSCO) 178.5p

Gain to date: 8.5%

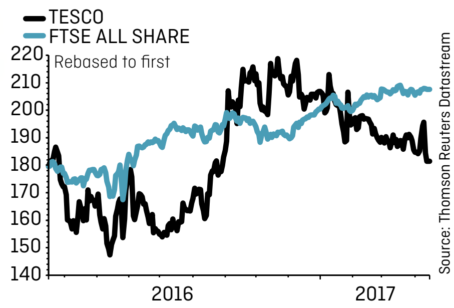
Original entry point:

Buy at 164.45p, 25 Aug 2016

OUR BULLISH call on **Tesco (TSCO)** remains in the money and full year results (12 Apr) revealed good progress with the grocery giant's recovery. Although pre-tax profit fell 39% to £145m after a £235m hit for overstating results in 2014, UK like-for-like sales grew 0.9%, the first reported full year growth for seven years.

Chief executive officer Dave Lewis says the recovery is ahead of expectations and Tesco is on track to achieve its 3.5%-to-4% operating margin target by 2019/20. Stronger cash generation and a drop in net debt from £5.1bn to £3.7bn means Tesco will also return to the dividend list in the 2017/18 financial year following a two year absence.

Same-store growth in the core UK business did decelerate in the fourth quarter and Lewis has yet to convince everyone of the merits of the £3.7bn takeover of **Booker (BOK)**, a deal that would turn the supermarket titan into the number one player in the domestic cash and carry market too.



While the integration could prove a distraction for management, Booker is an audacious acquisition that will help Tesco keep costs and prices down for longer than rivals and gain greater exposure to the growing 'out-of-home' food market.

SHARES SAYS: ↗

Competition from discounters remains fierce and the Booker deal brings complications, yet we're staying on board with the turnaround. (JC)

BROKER SAYS: 7 5 7

BLACKROCK®

GOOD THINGS
IN SMALL PACKAGES

Mike Prentis, portfolio manager for BlackRock Smaller Companies Trust plc explains the rationale for picking smaller companies and how current market conditions are affecting those choices.

We believe that UK smaller companies offer a great opportunity for long-term investors, having historically outperformed UK large companies by +4% per annum[1]. There are many reasons for this, smaller companies are often capable of driving faster organic growth, have higher operational leverage, entrepreneurial management teams and the ability to adapt to changing market environments more quickly than larger companies. Please remember that past performance is not a guide to future performance and the value of an investment and the income from it can fall as well as rise. Smaller company investments are often associated with greater investment risk than those of larger company shares. Please refer to the trust-specific risks below.

[1] DataStream & BlackRock as at 28 February 2017. Historical data based on since inception date of the Numis Smaller Companies Index in 31 December 1955

However within our universe there is a very high dispersion in returns, and this makes for an attractive hunting ground for active managers. Our approach is based around finding 'hidden gems' within the under-researched smaller companies universe.

...THERE IS A VERY HIGH DISPERSION IN RETURNS, AND THIS MAKES FOR AN ATTRACTIVE HUNTING GROUND FOR ACTIVE MANAGERS.

Our focus is dedicated towards finding high quality, cash generative companies, with strong management teams, that are able to grow regardless of the wider economic environment. While uncertainty is likely to continue, we remain confident in the management teams running our holdings and their ability to adjust and prosper in the face of uncertainty.

OUR APPROACH IS BASED AROUND FINDING 'HIDDEN GEMS' WITHIN THE UNDER-RESEARCHED SMALLER COMPANIES UNIVERSE.

STERLING WEAKNESS CAN BE A POSITIVE

2016 was characterised by the Brexit referendum and the subsequent depreciation of sterling. Since the Trust invests in international businesses with a global exposure, we are not wholly reliant on the UK economy. For example, our second-largest holding, is a UK-listed business but generates its revenues and profits in the US, therefore the Trust can benefit from exposure to the US economy. We also invest in high quality business which export globally but are UK based which have therefore benefited from sterling weakness.

Annual performance (%) to last quarter end (GBP)	31/03/16 - 31/03/17	31/03/15 - 31/03/16	31/03/14 - 31/03/15	31/03/13 - 31/03/14	31/03/12 - 31/03/13
BlackRock Smaller Companies Trust plc NAV	26.47	10.50	-0.86	34.06	19.27
Numis SC Plus AIM Ex Investment Companies TR GBP	18.21	0.71	-7.26	20.40	12.46
FTSE All-Share TR GBP	21.95	-3.92	6.57	8.81	16.77

BlackRock, March 2017. BlackRock performance figures are calculated on a total return basis with net income reinvested including management & operating charges and any performance fees.

Past performance is not indicative of future results. It is not possible to invest directly into an index. Net Asset Value (NAV) performance is not the same as share price performance, and shareholders may realise returns that are lower or higher than NAV performance.

All financial investments involve an element of risk. Therefore, the value of your investment and the income from it will vary and your initial investment amount cannot be guaranteed.

Trust specific risks: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall. The Trust's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Trust's may not be able to realise the investment at the latest market price or at a price considered fair.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or financial product or to adopt any investment strategy. The opinions expressed are as of March 2017 and may change as subsequent conditions vary.

WHAT CAN TECH COMPANIES OFFER?

The challenge with investing in the technology sector is that some of the companies can have unpredictable revenues. A holding that has done well for us over the past year is a company which helps the big software games developers with new technology and artwork. What attracted us was the preparedness of the big games companies to outsource more of their requirements to this company.

IPOS: BE SELECTIVE

London is an attractive market for companies looking to Initial Public Offer (IPO). We are selective when it comes to IPOs and always limit initial investments. While past performance is no guarantee of future results, one example of our IPO successes has been a beverage company, which produces high-end mixers, capitalising on the growing demand for premium niche spirit brands. The shares in this company have risen since our initial investment and we continue to find interesting and exciting opportunities within this area of the market.

To find out more about the BlackRock Smaller Companies Trust and to take advantage of the opportunities that smaller companies represent, please **visit here.**

OUR PICKS ARE BEATING THE MARKET

Its early days, but we're ahead of the field with our key selections for 2017

Shares' 'Top Ten for 2017' portfolio has made a positive start to 2017. Our average gain of 11.1% is comfortably ahead of the FTSE All-Share's 6.2% haul.

Our star turn is **Ideagen (IDEA:AIM)**, the compliance-based information management software supplier which has surged 40.1% higher to 90p. The shares have continued to progress with a boost from strong interim results (24 Jan) showing healthy organic growth and rising levels of recurring revenue.

Investors have also cheered new contract wins and the £12m acquisition of document review software supplier PleaseTech, a nice fit into Ideagen's core focus of compliance, risk and regulation markets.

Readers who responded to our stock ideas and bought **Ithaca Energy (IAE:AIM)** were rewarded with a swift 37.8% gain. We took profit on the North Sea oil producer in February following a recommended, C$841m all-cash takeover offer from Israeli firm Delek.

The modest 12% bid premium from the existing shareholder disappointed certain investors as Ithaca is on the cusp of substantial cash flows from its Stella field. However, we prudently booked our gains and moved on.

TASTY GAINS

Energy, healthcare and technology products distributor **DCC (DCC)**, whose firepower for earnings-enhancing acquisitions in the energy space was central to our buy case, has danced 21.2% higher to £70.90 on strong operational progress.

The Dublin-headquartered firm has been busy, buying (7 Feb) Esso's petrol station network in Norway for £235m and announcing (5 Apr) a £120m deal to acquire **Royal Dutch Shell's (RDSB)** liquefied petroleum gas business in Hong Kong and Macau.

The latter news was twinned with the sale (5 Apr) of DCC's environmental division, a transaction that will bring in £170m of cash.

After a rather inauspicious start, investors quickly regained an appetite for posh chocolates retailer **Hotel Chocolat (HOTC:AIM)**. The premium British chocolatier's shares were weak in January, reflecting fears that shoppers would pull in their horns and curtail spending on life's luxuries due to inflationary pressures.

Encouragingly, the shares subsequently rallied to trade 16.4% north of our entry price at 327.8p. News of a strong first half, brisk business seen over Christmas and awareness of Hotel Chocolat's differentiated product offering growing, restored confidence in the story. Combined with upbeat soundings ahead of the key Mother's Day and Easter selling events, analysts upgraded their numbers. We're staying bullish on this high-quality company; a compelling growth, earnings momentum and soon-to-be income story.

JUST A LITTLE PATIENCE

Among our other key selections, a select pair provides salutary lessons in the risks inherent in recovery investing, although we are doggedly sticking with both stocks.

Sausage skin maker **Devro (DVO)** is modestly in the money, although its turnaround is proving a drawn-out affair. The Scotland-headquartered edible collagen casings maker's full year results (6 Mar) revealed in-line underlying pre-tax profit of £31.2m and a flat 8.8p dividend. Broker Shore Capital forecasts improvement in pre-tax profit to £32.6m this year.

The disappointing news is that a programme to drive top and bottom line growth dubbed Devro 100 will come at the cost of further profit and loss account-charring exceptional items and additional capital expenditure. We still like the long-term

SHARES' 10 FOR 2017 PORTFOLIO

	Company	Entry price (p)	Price now (p)	Gain/loss (%)
1	Ideagen	64.25	90	40.1
2	Ithaca Energy	86	118.5*	37.8
3	DCC	5,850	7,089.7	21.2
4	Hotel Chocolat	281.5	327.8	16.4
5	ITV	194.6	217.8	11.9
6	Devro	165.5	176.51	6.7
7	Capital Drilling	49.9	53	6.2
8	RSA Insurance	565	594	5.1
9	Tracsis	520	432	-16.9
10	Serco	141	116.4	-17.4
	AVERAGE	-	-	**11.1**
	FTSE All-Share	**3,798.38**	**4,034.4**	**6.2**

Entry prices taken 16 Dec 2016
Latest prices taken 12 Apr 2017
*We took profit on 9 Feb following Delek's takeover bid

fundamentals of the global collagen casing market, which grew by 4% in a testing 2016. And we also like Peter Page-steered Devro's competitive positioning within it. Yet we'll need to see Devro regaining market share soon in order to keep the faith.

The second recovery play requiring a little patience is government services outsourcing specialist **Serco (SRP)**. Our bullish call was based on our confidence in CEO Rupert Soames and his five-year transformation plan.

We believed the market would focus on a pipeline of larger new bid opportunities rather than historic troubles, yet our trade currently languishes 17.4% in the red at 116.4p.

We were left scratching our heads at the overly negative reaction to in-line annual numbers (22 Feb).

Impatient investors might be better served elsewhere given the slow pace of the services stalwart's recovery; as Soames concedes, 'the road back to prosperity was always going to be long and winding, with many potholes and boulders, but we are making good progress'. We remain hopeful the shares will end 2017 higher than our 141p entry price.

MAKING A COMEBACK

Last but not least, our transport technology top pick for 2017 **Tracsis (TRCS:AIM)** is on track to recover from February's share price collapse.

Investors alighted as Tracsis flagged delayed Network Rail contracts as well as margin pressure. We still view Tracsis as a solid long-term investment.

The AIM-quoted company has the right technology tools to address the growing need to deliver smart transport infrastructure networks in the UK and elsewhere. (JC)

Exciting small cap with the recipe for success

Franco Manca's low price and superb reputation should help Fulham Shore survive restaurant sector shake-out

The casual dining sector is going through a period of turbulence with a much-needed shake-out of weaker players. Only the best will survive and we believe that includes **Fulham Shore (FUL:AIM)**, better known as the owner of the Franco Manca pizza chain.

Less successful restaurant companies have been left behind for various reasons. It could be their proposition wasn't unique enough, their prices were too high or they grew too fast.

Many of these firms also chose the wrong locations for their restaurants; they couldn't pass on rising input costs to customers; or they had an offering that was perhaps too unusual for the public to immediately embrace.

Fulham Shore doesn't believe it has any of those problems with its flagship brand, Franco Manca.

WHY IS IT DIFFERENT?

Chairman David Page says the pizza business has two unique selling points, namely the product and the price. Franco Manca uses sourdough which has a different flavour to the pizzas most people eat, and it only has a limited range of toppings – all seasonal.

Perhaps the real 'game-changer' for the business is its pizzas costing significantly less than every other major eat-in pizza chain.

'Our cheapest pizza is only £4.95 and our highest price pizza will always be 50p cheaper than a Pizza Express Margherita,' reveals Page. At the moment the top priced item on its menu is a pizza costing £7.55.

'We think other players in the market are ridiculously expensive. They have big debts to pay off; we started the business with no debt and kept the menu simple to avoid wastage and having money tied up in stock.'

Page knows all about Pizza Express as he used to be chief executive and then chairman of the business. He also ran former AIM-quoted Clapham House which owned Gourmet Burger Kitchen before its acquisition by Nando's parent company Capricon Ventures.

DOES IT MAKE ANY MONEY?

With Franco Manca's pizzas at bargain prices and customers given free chilled bottles of water as soon as they arrive, it's almost like Fulham Shore doesn't want to make any money.

Page disagrees, saying the business does very well. Stockbroker Allenby forecasts £0.9m pre-tax profit for the year to March 2017, rising to £2.8m next year.

'Our cheaper pizzas help to drive up sales volumes. Prezzo was doing about 1,300 covers (per restaurant) a week when it was taken over. We're doing more than 2,100 covers.' The term 'cover' refers to a customer who eats a meal that is served.

Fulham Shore presently has 32 Franco Manca sites and expects to open a further 13 sites over the next 12 months. It recently lifted its banking facility from £6.5m to £15m to accelerate its expansion and push for a nationwide presence in the UK.

'You should never increase your estate by more than 50% in a year. When my previous firm owned Gourmet Burger Kitchen, we doubled the sites to 48 in one year; it was a mistake.'

HIT THE GROUND RUNNING

Franco Manca may not be a national household name but it is well known in London and can get cheaper rent by going for more unconventional locations rather than only look for prime sites. 'We can get secondary or tertiary sites (i.e. in walking distance of a high street or on the outskirts of

towns) and people in London will come to us.'

The chairman says London sites tend to trade almost instantly at full capacity. 'You therefore won't see like-for-like sales growth in the future for those sites (unless prices go up).' Outside of London and Brighton, Page says he expects new sites to do less volume initially but still grow fast.

Franco Manca's first overseas site will open on the island of Salina, near Sicily under a franchise. That's a one-off which has been done for strategic regions. It doesn't signal overseas expansion.

Fulham Shore has very strong ties with Salina, as that's where it buys all the tiles, tables and chairs for its pizza restaurants. Franco Manco founder Giuseppe Mascoli lives on the island for part of the year and wanted to have a seasonal restaurant and increase the company's ties with the locals.

There will be no franchising for this brand in the UK as 'you lose a lot of control', remarks the chairman.

OTHER GROWTH DRIVERS

Elsewhere in Fulham Shore's portfolio is The Real Greek, a profitable chain of 12 restaurants which have been given a new lease of life over the past few years.

A recent opening in Southampton has seen The Real Greek become the second best performing restaurant in the whole leisure complex, taking more money than established chains Bill's and Wagamama, says Page. 'People like it because it offers something different; most of the other brands are too samey.'

Fulham Shore's shareholder register is a who's who of successful people in the restaurant industry. Page owns about 14%, similar to Sami Wasif who was one of the original backers of upscale Chinese restaurant chain Hakkasan.

Nabil Mankarious owns just under 20%; he used to oversee operations at Gourmet Burger Kitchen and ran 120 Pizza Express sites. Many Franco Manca employees are also shareholders. (DC)

SHARES SAYS: ↗
Buy Fulham Shore at 21.25p.

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CLICK ON THE BOXES TO JUMP TO A STORY

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INFLATION-BUSTING INVESTMENT TRUSTS PAGE 34

COMEBACK TIME FOR PRIMARK OWNER PAGE 38

IRONVELD FIRES UP NEW PLAN FOR METALS PRODUCTION PAGE 40

SPECIAL REPORT: THE DRUG DEVELOPMENT JOURNEY PAGE 44

How to claw back portfolio losses

A big downturn is stressful but panicking could damage your future returns

Most investors are comfortable with the fact their portfolio will go up and down, but a big slump in value is extremely stressful and can cause even the most experienced investors to panic.

The market has witnessed huge peaks and troughs over the last 20 years and it's likely the next 20 years will see more of the same.

Your natural instincts will probably be to sell your investments when things take a turn for the worse, but history shows this can be very damaging for your future returns.

As an example, in March 2009 the FTSE 100 plunged to approximately 3,500. That's less than half the current level.

Anyone selling their investments at that point would have missed out on the subsequent bounce to 5,000 six months later. They would also have got fewer shares for their money if they then bought back in to the market.

TRY NOT TO BUY HIGH, SELL LOW

Patrick Connolly, head of communications at financial advice firm Chase de Vere, says people are generally happy to invest when stock markets are buoyant, but are more likely to sell out when they're in the doldrums, effectively crystallising their short-term losses.

IF YOU HAVE MADE LOSSES IT IS OFTEN BEST TO SIT TIGHT AND NOT SELL

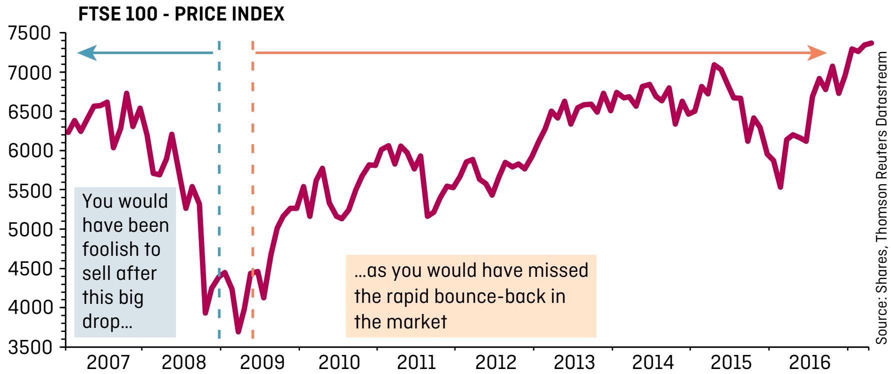
'When investing it is important that you don't panic. Very few people make good investment decisions as a result of panicking,' he warns.

Connolly says if you have made losses it is often best to sit tight and not sell. 'Stock markets go up and down and, unless you're in a particularly risky or specialist area, if you stay invested your holdings should bounce back over time,' he explains.

TAKE ADVANTAGE OF LOWER PRICES AND CONSIDER BUYING MORE

Instead of selling, you could even think about investing more money in the market because you'll be able to buy shares at a lower price.

Connolly says investors will be doing this anyway if they are regularly rebalancing their portfolio. This means selling some of your investments that have done well and reinvesting the money into those which have



performed poorly.

'Rebalancing ensures you don't take too much risk. Also, by selling investments that have done well in favour of those that have done badly, you are effectively selling at the top of the market and buying at the bottom,' Connolly adds.

Sally Merritt, head of product for Saga Investment Services, says investors need to realise that investing is for the long-term. She suggests investing for three to five years as a minimum to help even out the rises and falls in the market.

WHAT TO DO IF YOU ARE WORRIED

If you are concerned about short-term impacts on your portfolio it's a good idea to ensure your overall asset allocation matches your personal appetite for risk.

If it doesn't, you can adjust your portfolio accordingly. If you like investing in funds, Merritt says you should also research underlying fund manager track records to make sure their past performance meets your expectations.

'Investors might want to look at their other liquid assets in conjunction with their share portfolio and decide whether the spread suits their particular needs and goals,' she says.

ANALYSE UNDERPERFORMANCE

If your portfolio has done much worse than the broader market, or a particular stock, bond or fund has let you down, you should analyse the reasons for this.

Russ Mould, investment director at AJ Bell Youinvest, says it helps to keep a checklist of why you bought the stocks, bonds or funds in the first place.

KEEP A CHECKLIST OF WHY YOU BOUGHT STOCKS, BONDS OR FUNDS IN THE FIRST PLACE.

'If all of the reasons are still valid; it may be a chance to average down and then sit tight. Time is on your side if the company has a sound balance sheet, strong business model and competent management,' he says.

If events aren't developing as you thought they would – perhaps there has been a profit warning or an overpriced acquisition by the company or the star fund manager has left – you should not buy more at a cheaper price.

'It may be that you have to sell the position to limit further losses. Hope is not a strategy and sometimes admitting to a mistake is the best course of action, even if it is not a pleasant prospect,' says Mould.

BE REALISTIC

It's important to be realistic in your return expectations. Carl Lamb, managing director at financial advice firm Almary Green Investments, says the market today is very different than it used to be.

'Investors are much less willing to take proper long-term views. There is a pre-occupation with short-term results, and, crucially, the secular bull market in equities which ran virtually uninterrupted from 1982 for almost 30 years is over,' he says.

Lamb reckons the low growth and low interest rate world makes investment decisions more important than ever before. He suggests coming up with a realistic plan that you are comfortable with – and then sticking to it. (EP)

EAGLE-EYED INVESTOR

HOW TO MAKE BETTER INVESTMENT CHOICES

If an investment loses half of its value you need it to go back up by 100% just to get hit break-even. This bit of logic might seem simple but it is one of the most important ideas to keep in your head when you are investing.

Avoidance of loss is a critical element to making money out of shares. You can pick all the winners you like and still be tripped up by just a handful of losers.

> **IF YOU LOSE 50% ON AN INVESTMENT YOU NEED 100% GAIN TO BREAK EVEN**

Over the years, the likes of property services contractor Connaught, IT firm Quindell (now re-named **Watchstone (WTG:AIM)**) and more high profile names like **Royal Bank of Scotland (RBS)** have wiped out or almost wiped out many investors.

None of us can be right all the time. Using tools such as stop losses, which automatically place a sell order for an investment if they fall through a certain pricing threshold, is sensible. However, being an eagle-eyed investor can also help you avoid racking up the losses – either by avoiding bad investments or spotting red flag warning signs to get out quick.

In this article, we identify five red flags and look at some more recent real world examples to help illustrate how these can be applied to your day-to-day investing.

RED FLAG 1:
LACK OF TRANSPARENCY IN ACCOUNTS

IN OUR VIEW this is the biggest red flag of all. If you can't understand a company's accounts or how it makes money, then don't go near it as an investment.

Numerous companies on the stock market love to adjust their figures to make them look better. They claim it is to give a clearer representation of the underlying business, but most of the time they are trying to gloss over real items of the business that should be taken into account when assessing performance.

You'll probably come across the term 'aggressive accounting' as an investor. This refers to a company's deliberate and purposeful tampering with its financials to show its revenue or profit as being higher than they actually are.

Messy accounts are problematic for investors for a number of reasons:

- **They make valuation difficult to ascertain, if not impossible**

Deciding whether a stock is undervalued or overvalued is a key part of the investment process but if you can't decode the earnings data then any conclusions are meaningless.

- **They reflect poor corporate governance**

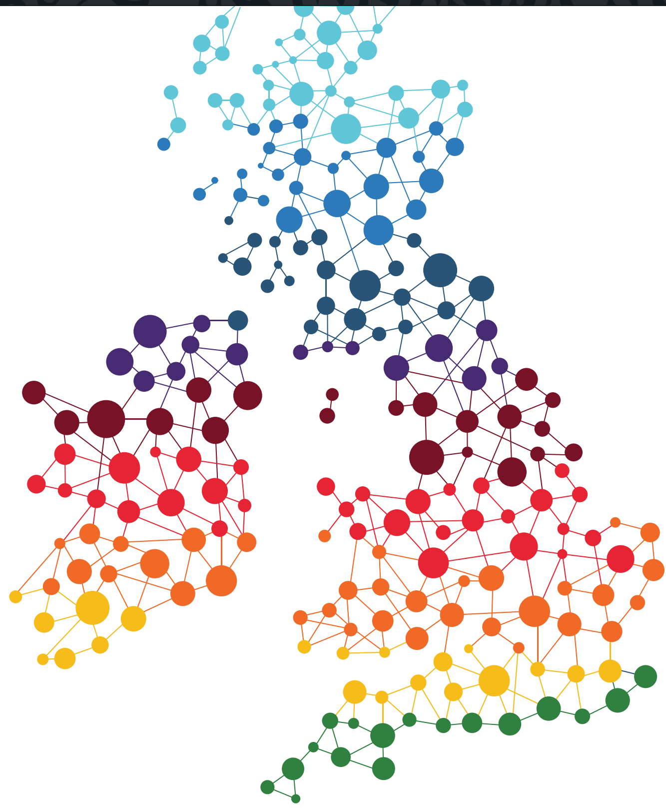
If a company is willing to flatter its earnings through aggressive accounting then what corners is it prepared to cut elsewhere and what problems could this lead to in the future?

- **It can demonstrate an over-emphasis on earnings growth**

It is particularly concerning if a company is focused purely on growth in earnings per share (EPS) as this metric can be easily manipulated.
The best approach is for a company to build a strong competitive position from which it can deliver sustainable growth over the long term.

- **Companies are nearly always found out in the end**

A company might get away with inflating its earnings figures for some time, particularly in a rising stock market. Eventually it will need to deliver the cash flow to back this up. Failure can be devastating for the share price.



HOW I CAN SPOT PROBLEMS?

A key way of identifying issues is to look at the difference between the headline or adjusted profit number and statutory profit. We have been cautious on researcher **YouGov (YOU:AIM)** for some time relating to this subject.

Results for the six months to 31 January 2017 showed an adjusted operating profit of £5.7m but a statutory operating profit of just £2.5m once exceptional items (£103,000) and amortisation of intangible assets (£3.1m) were factored in.

Amortisation is the routine decrease in value of an intangible asset such as intellectual property or a brand.

The company previously told us the amortised intangible assets are 'lumpy' so the adjusted figure presents a more accurate picture. As the table shows amortisation of intangibles have been in a

Results / amortisation of intangibles

2012 interims	£2.0m
2013 interims	£1.6m
2014 interims	£1.9m
2015 interims	£2.2m
2016 interims	£2.5m
2017 interims	£3.1m

Source: YouGov

fairly consistent range between £1.6m and £3m over the last five years.

The amortisation of acquired assets could obscure underlying performance but internally generated intangibles through organic investment should be seen as a cost of doing business. Looking back at the accounts, typically around half are internally generated.

Using the adjusted earnings per share of 8.8p from the full year results ending 31 July 2016 and 261p latest share price, the stock trades on 29.6 times earnings.

That looks expensive but not overly so when you consider this is an historic number and the market is expecting significant earnings growth. Applying the unadjusted EPS of 3.3p however implies a price to earnings ratio of 79 – which is sky-high.

The market does not seem overly concerned about the disparity at present. The shares are up 300% over the past five years, suggesting that investors like the impressive growth story as management roll-out the high margin Data Products and Services (DP&S) division.

However, any growing pains might see the market take a closer look at how the company is valued.

At least in YouGov's case the adjustments are transparent and the company is not doing anything underhand.

The same cannot be said of managed services IT and communications supplier **Redcentric (RCN:AIM)** which saw its share price drop 70% in November 2016 after it discovered misstated accounts and its chief financial officer Tim Coleman was booted out.

HUGE OVERSTATEMENT OF PROFIT

Full year results to 31 March 2016 included adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) of £25.8m. It turns out these were overstated to the tune of £12.8m, with revenue overstated by £6.2m and costs understated by £6.6m.

This largely resulted from the company omitting costs for invoices which had yet to be received and booking revenue from invoices which had yet to be sent.

Net debt was understated by £12.5m at £25.3m as an overdraft with Barclays was excluded and, extraordinarily, an £8.5m cash balance was found not to exist.

Serious accounting problems like this almost certainly reflect wider issues in the business as Canaccord Genuity analysts Daud Khan and Paul Morland explain.

'We note that in 2014, broadly the same management team claimed to have created a business capable of 23% EBITDA margins. Following the re-statements, we now have a business generating around half that promised level of profitability.

'We find it hard to understand how accounting systems and controls can be blamed for a failure to achieve strategic objectives.'

'WE FIND IT HARD TO UNDERSTAND HOW ACCOUNTING SYSTEMS AND CONTROLS CAN BE BLAMED FOR A FAILURE TO ACHIEVE STRATEGIC OBJECTIVES'

UTILITYWISE: RED FLAGS HERE, THERE AND EVERYWHERE

ENERGY SERVICES GROUP **Utilitywise (UTW:AIM)** should be part of every accounting or business studies course at university when it comes to practical examples of companies with a worrying number of red flags.

The two biggest problems for Utilitywise are messy accounting and a revolving door with staff both at the senior and junior level.

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

Some suppliers did provide cash advances; but Utilitywise has now decided to stop accepting this money in order to have greater independence from suppliers. It's like it doesn't want any cash!

This will result in a significant increase in net debt over the next few years, making its balance sheet look horrible. Shore Capital says the company is merely building foundations for the future. Sadly we've heard it all before when Utilitywise previously said it would sort out the revenue/cash delay issue and still hasn't properly done so.

Panmure Gordon analyst Michael Donnelly estimates the recent half year results were the third year in a row where Utilitywise had to restate its accounts – another red flag in our book. 'It's tough to keep track,' he says.

The same applies to management change. Last year the boss of Utilitywise's most profitable division quit after less than 18 months in charge. Over the last few years we've also seen the deputy CEO and finance director leave; plus the CEO has switched roles to chairman and the COO moved over to do something else in the business.

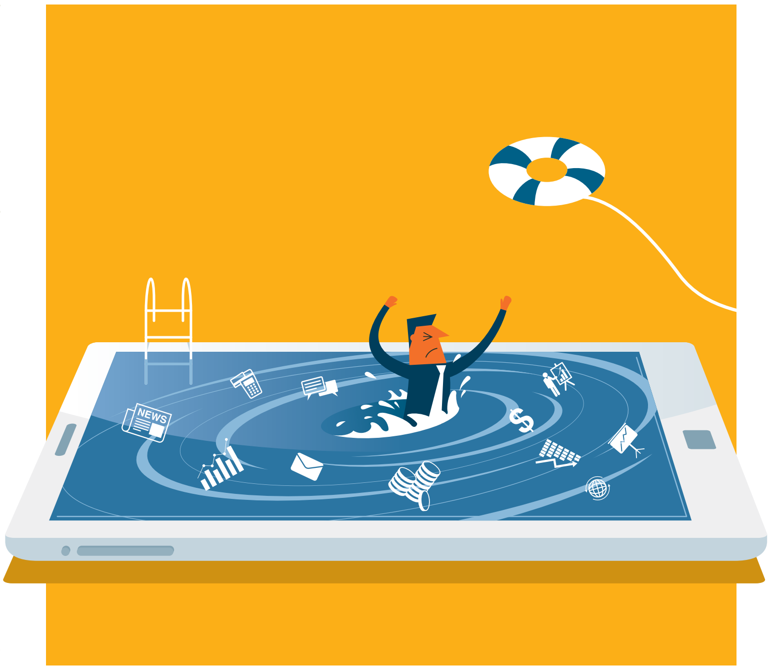
High churn levels among call centre staff is also a concern, given how much time it therefore has to spend constantly training new employees.

The latest results show an improvement in 'energy consultant' attrition to 25% from 39% a year earlier – but still too high, in our opinion.

Most analysts are positive on the stock; however the market seems to have a different view. The shares are down by nearly a third in value since March this year. They are down 65% in the past three years. (DC)

THE LATEST RESULTS SHOW AN IMPROVEMENT IN 'ENERGY CONSULTANT' ATTRITION TO 25% FROM 39% A YEAR EARLIER

RED FLAG 2:
CONCENTRATED CLIENT BASE



ON 3 APRIL 2017 shares in chip designer **Imagination Technologies (IMG)** lost 60% of their value as Apple opted to stop using the group's graphics intellectual property within the next 15 months to two years.

This news demonstrated the risk of relying on just a single client for such a large chunk of revenue. Apple accounted for around half of Imagination's sales, based on most analysts' forecasts.

First, it leaves a business at risk of a massive revenue shortfall if the major customer walks away or orders fewer goods or services. Second, it puts the business in an extremely weak negotiating position should it need to pass on input cost increases, for example.

AJ Bell investment director Russ Mould notes another key risk associated with Imagination which also afflicts all technology businesses – namely that its technology is made redundant by innovation elsewhere.

'Obsolescence risk remains a key challenge for any tech firm, no matter how cutting-edge their products seem to be today,' he says.

'The smartphone and tablet computer are just the latest developments in a never-ending cycle of technological evolution.

'Each turn of the wheel has brought feast for a select few winners, who "got it" and had first-mover advantage – and also famine for those whose offerings were overtaken and left looking old hat...'

'OBSOLESCENCE RISK REMAINS A KEY CHALLENGE FOR ANY TECH FIRM'

RED FLAG 3: FREQUENT AND/OR LARGE ACQUISITIONS

PLASTIC PACKAGING FIRM **RPC (RPC)** has seen billions of pounds wiped off its market cap since it announced the £511m acquisition of North American rival Letica in February 2017.

The deal, funded by a £552m rights issue, was the company's sixth acquisition in less than five months and saw investors turn on the company and the spotlight fall on declining returns on capital.

Most academic analysis of mergers and acquisitions (M&A) activity concludes that it is more likely to destroy shareholder value than create it.

The acquirer typically underestimates the costs of integration, overestimates the potential benefits or fails to acknowledge how cultural differences can be an obstacle to a successful outcome.

Bolt-on acquisitions used to supplement organic growth are less of a concern but large 'transformational' deals can imply a company

Tesco

has ignored valuation to bag its target for some strategic reason.

Schroders and Artisan Partners, who together own 9% of supermarket **Tesco (TSCO)**, are opposing its £3.7bn takeover of wholesaler **Booker (BOK)** for just this reason.

In a letter sent to Tesco chairman John Allan, fund manager Schroders argues 'there is compelling academic and empirical evidence that, on average, acquisitions destroy value for acquiring shareholders'.

Schroders argues the high price paid for Booker, 23 times peak operating profit by its reckoning, makes the destruction of value 'even more likely'. The 'strategic' rationale for the deal is to tie up the end-to-end wholesale and retail business to create cost savings of around £200m a year.

RPC'S RED FLAGS

SHARES IN RPC have begun to slide following its latest quick-fire trio of acquisitions, writes AJ Bell investment director Russ Mould.

This wheeler-dealing, coupled with restated accounts, an increasingly indebted balance sheet and less-than-ideal triggers for management bonuses and options are all potential red flags.

Rapid acquisitions can work well but these so-called industry roll-ups can come unstuck if deals come too quickly and target selection goes astray, so execution risk is high.

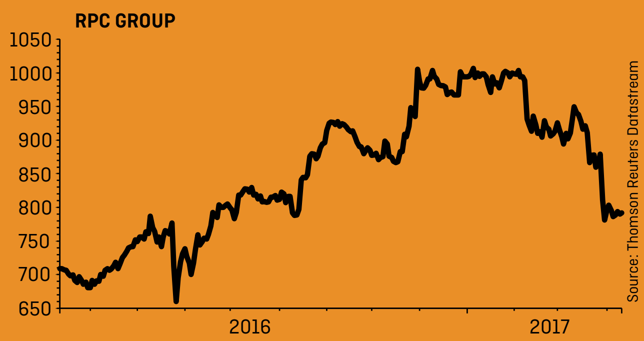
In addition, the accounts for 2013, 2014 and 2015 were restated the following year, while the profit and loss is littered with items which are deemed 'exceptional' – only for them to keep recurring.

Meanwhile, management bonuses are heavily tied to 'adjusted' operating profit, a figure which has come in between 38% and 83% above stated operating profit in the last three years.

Stripping out all those so-called 'one-offs' boosts executive pay, which is also linked to return on capital employed. This ratio could be flattered by regular impairment charges and write-downs which will lower the capital employed base.

Two-thirds of management stock options are linked to 'adjusted EPS (earnings per share)' – a figure which can be flattered by regular acquisitions and the exclusion of one-off items.

It is possible to grow EPS while still destroying shareholder value. The recent share price action suggests caution is warranted even if the stock no longer trades on a big premium earnings multiple to the wider UK market.



RED FLAG 4:
WEAK BALANCE SHEET

IF A COMPANY is carrying a lot of net debt then a significant proportion of profit and cash flow is likely to be going towards interest payments. As a shareholder, you are part owner of a business, so that's YOUR profit and cash flow being used to service borrowings.

High debt will reduce the likelihood of dividends and mean that a company has limited scope to invest for future growth.

In more extreme cases a company might default on its debts or breach covenants (based on a ratio of earnings to net debt agreed with a lender).

Even if a company does not go bust, it could be forced to offer its creditors equity in the business in return for forgiving its debts, leading to big dilution for existing shareholders.

CREDITORS ARE AHEAD OF SHAREHOLDERS IN THE QUEUE IF A COMPANY FACES FINANCIAL DIFFICULTIES

DECLINING REVENUE AND HIGH DEBTS = BAD

A downturn in a company's end market could be devastating if they are loaded with debt and have a fixed cost base.

Let's take a hypothetical manufacturing business as an example. It generates £90m in revenue and costs are £80m, so it makes £10m operating profit.

Market conditions deteriorate and it only makes £60m revenue in the following year. The costs are still £80m, which means it has suddenly gone from a nice profit to making a £20m loss.

It therefore needs to use debt to repay debt! This is obviously unsustainable.

OIL SECTOR CAUGHT OUT

The dramatic collapse in oil prices since June 2014 caught out several oil companies, some of which have been forced into heavily dilutive refinancings.

Existing shareholders' ownership of Kurdistan oil producer **Gulf Keystone Petroleum (GKP)** was diluted to 5% after a debt-for-equity swap in September 2016.

You can now see why it is important to consider all a company's liabilities when assessing its balance sheet.

Newspaper group **Trinity Mirror (TNI)** saw net debt fall by £62.4m to £30.5m in 2016. But a £160.8m increase in its pension deficit to £466m helps explain why the stock trades on a heavily-discounted rating of just 3.3 times forecast earnings. That's greater than the current £325m market value of its shares.

RED FLAG 5:
DOMINANT MANAGEMENT

THERE ARE SEVERAL hazards associated with investing in a company run by an overly dominant or particularly influential chief executive.

First, they could leave at any moment; this is also known as 'key person risk'. Having written positively on **Allied Minds (ALM)** in September 2016 we immediately changed our view after the surprise and unexplained departure of CEO and co-founder Chris Silva (13 Mar). We minimised our losses by taking decisive action.

Allied Minds helps people with new technologies to commercialise their ideas and we were concerned Silva's departure would affect relationships with these innovators.

The shares are now down 56% in the wake of his exit and trade below the issue price from the June 2014 IPO, as the company subsequently suspended funding for seven of its subsidiaries.

POWER PLAY

Another risk is an all-powerful chief executive who runs roughshod over the rest of his board and shareholders.

Although it is some time ago, Fred Goodwin's tenure at Royal Bank of Scotland is perhaps the best example. The (disastrous) €71bn acquisition of

56% FALL IN ALLIED MINDS' SHARE PRICE SINCE SHOCK DEPARTURE OF FOUNDER AND CEO CHRIS SILVA IN MARCH 2017

Rowan Gormley, chief executive Majestic Wine

ABN Amro in 2007 was the culmination of his hubris.

A situation where a chief executive wears more than one hat is also problematic. Wine retailer **Majestic Wine (WINE:AIM)** has just announced that chief executive Rowan Gormley would take over as managing director of subsidiary Majestic Retail following the departure of John Colley, as well as doing his existing duties as CEO.

'A key concern is that Rowan may be taking on too much responsibility,' says investment bank Liberum. 'However as part of the transformation project at Majestic Retail, John set-up a "retail operational board" that meets once a week.

'This team contains numerous roles that were not in existence previously and hence Rowan takes the lead of a business that is not only back in growth but has far greater depth and breadth.'

We take a sceptical view towards Gormley's broadened role; so too regarding individuals who think they can do both the CEO and chairman role. For example, Stephen Marks does both these roles at retailer **French Connection (FCCN)** – whose shares are down 12% over the past 12 months.

The CEO should be the leader of the business; the chairman provides leadership to the board of directors. We cannot see any good reason why someone should do both jobs. (TS)

Inflation-busting investment trusts

Funds to buy as consumers' spending power comes under pressure

UK inflation is at its highest level since October 2013, putting a squeeze on consumers' wallets. The latest rate of 2.3% is above the Bank of England's 2% target; and experts believe it will only get worse at the year goes on.

With this in mind, you need to ensure your investment returns exceed this rate of inflation to sustain the same standard of living to which you are accustomed.

We've written several articles over the past year about funds and stocks that can help your portfolio beat inflation. You can read those articles here and here.

We believe the topic of rising inflation won't go anywhere, so we've pulled together another selection of fund suggestions, as picked by various experts.

LOOK FOR SOLID TRACK RECORD

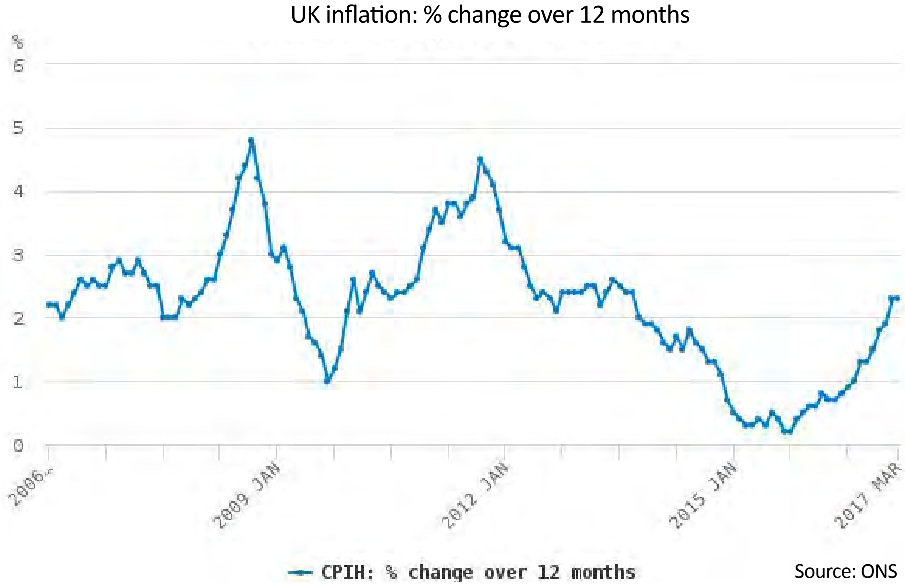
Sam Murphy, associate director of investment companies research at Numis Securities, expects corporate bonds to struggle in an inflationary environment, as the value of the fixed future cash flows are eroded in real terms.

'Equities are likely to fare better as economic growth picks up, although given that input costs are also increasing, we favour companies with pricing power that enables them to maintain margins,' he says.

One fund that he thinks could do well in this sort of environment is **Ruffer Investment Company (RICA)**, which has a good long-term track record from investing in debt and equities with a focus on capital preservation.

'The managers have been wary of inflation in the light of significant monetary stimulus from central banks around the world and hold about 40% of the portfolio in inflation-linked debt securities. Such stimulus may also be a boon to economic growth, benefitting their 40% allocation to equities, which is focused on

UK inflation: % change over 12 months



Source: ONS

cyclical and financial names.'

Ruffer Investment Company is yielding 1.1% and is trading on a 2.2% premium to net asset value. Its shares are up nearly 25% in the past five years.

EQUITY INCOME APPEAL

Research by the Association of Investment Companies (AIC) shows that an investment in the average UK Equity Income investment trust over the last 20 years would have more than doubled its capital value, with the annual income rising by 2% a year ahead of inflation.

Ryan Hughes, head of fund selection at AJ Bell Investments, suggests investors should look at **Schroder Income Growth Investment Trust (SCF)**.

'It concentrates on delivering a growing income in excess of inflation and is therefore very focused on the inflation expectations and outlook.

'With 21 consecutive years of dividend increases, I expect it will look to protect this track record which should give confidence that inflation will be at the forefront of the manager's thinking.'

The investment trust has a concentrated portfolio of 42 mainly blue chip companies and is yielding 3.9% with quarterly distributions.

The shares are up 47% over the last five years and are currently trading at an 8% discount to net asset value.

'Sue Noffke, the manager, uses a bottom-up approach focusing on companies that offer real dividend growth, and sustainably high dividends or those increasing their pay-outs, but

that are out of favour and trading at a discount,' explains Hughes.

INFRASTRUCTURE APPEAL

Many infrastructure funds have cash flows that are directly linked to inflation. A good example is **International Public Partnerships (INPP)**.

The bulk of its portfolio is invested in energy transmission, education and transport assets, which offer long-term government-backed cash flows that are uncorrelated to equity markets.

Alan Brierley, director of the investment companies team at Canaccord Genuity, says that in a risk-off environment, he expects a marked polarisation in returns between the different alternative sectors.

'When this happens, those "genuine alternative assets" that can deliver uncorrelated absolute returns will have significant value and we believe that companies such as International Public Partnerships, **HICL Infrastructure (HICL)** and their peers will be stand-out performers.'

International Public Partnerships targets a net asset value total return of 8-9% per year. It has a prospective dividend yield of 4.3% with two distributions a year and is trading on a 12.1% premium to net asset. The shares are up by a third in value over the past five years.

WHAT ABOUT THE PROPERTY SECTOR?

Another area that offers inflation protection is the specialist property sector. This has experienced significant growth over recent years as investors have sought out alternative sources of income to counter the low interest rates. The most recent addition to this area is **Impact Healthcare REIT (IHR)**.

Innes Urquhart, investment trust analyst at Winterflood Securities, says that Impact Health raised £160m at the time of its launch last month.

'The IPO proceeds will be used to acquire a diversified seed portfolio of up to 58 UK care homes let on 20 year leases, with rent payable under these leases subject to annual increases in line with RPI subject to a 4% upper limit and a 2% lower limit. As such this mitigates some of the risk associated with an increase in inflation.'

The fund will target quarterly dividends for the first 12 months following its launch equal to a yield of 6% per year on the issue price of 100p.

The shares currently trade at 103.5p, so you would theoretically qualify for a dividend yield in the region of 5.8%. (NS)

The key questions on ETFs

We address some concerns over investing through these vehicles

Exchange-traded funds (ETFs) are the most successful passive financial products of recent years but there are some concerns about how these instruments perform and their implications for the rest of the market.

One of the recent charges brought against ETFs is that, due to their low cost, investors are piling into markets en masse and becoming a material factor in their performance.

COULD THEY CREATE A BUBBLE?

As a case in point, a record breaking 2017 for ETFs has sparked fears they may be creating an unsustainable bubble in the US stock market. In the first two months of this year, $131bn was pumped into ETFs according to consultancy ETFGI. This follows a record breaking 2016 when ETFs gained $390bn in net new money.

Some think retail investors are falling prey to herd mentality instincts. In a scenario where investors lose confidence they could quickly move out of their ETF positions and send the market into freefall.

ETF providers aren't convinced by this argument. Source ETF's head of multi-asset research Paul Jackson says the idea that ETFs have made people pile in to markets is 'nonsense'. He adds: 'People make the decision they are going to invest and then decide how they are going to do it.'

£131bn pumped into ETFs in first two months of 2017

Lyxor's Adam Laird, head of ETF strategy for Northern Europe, says that there's no evidence of mass withdrawals by ETF investors that have led to events such as suspensions. He contrasts this to many open-ended property funds that prevented investors making redemptions after the Brexit result was announced.

'From what I've seen, most investors use ETFs for a long term buy and hold strategy,' says Laird.

CAN YOU SELL WHEN YOU NEED TO?

One of the proclaimed dangers of ETFs is that market turmoil can expose them as less liquid than their providers assume.

ETFs are easily traded on an exchange but extra liquidity is provided through a process known as creation and redemption. This occurs on an exchange once a day in the so-called primary market.

It allows authorised participants, such as institutional trading desks and other approved market makers, to exchange baskets of securities or cash for ETF shares (and back again) without having a meaningful impact on the underlying market.

This process can in theory provide unlimited liquidity to the fund, which in turn becomes a function of the trading volumes in its underlying index constituents, as opposed to the secondary market volumes in the ETF.

This ability to create and redeem shares at any time should keep an ETF's price in line with its underlying net asset value (NAV) and ensures that its liquidity derives from the underlying market the fund is tracking.

This is important to understand; an ETF is only as liquid as its underlying assets. If one or more constituents of its benchmark index rarely trade, the ETF could have liquidity issues.

There are fairly simple ways of calculating how liquid an ETF is; one is the 'bid-offer spread'. If an asset such as an ETF has a large bid-offer spread, it means that there is a big difference between what the owner of the asset is willing to sell it for and the price the purchaser is willing to pay.

The bid/offer spread can be used to judge how easy an ETF is to buy and sell

However, most ETFs track highly liquid indices or baskets of bonds so it's unlikely an ETF investor would be stuck in their position.

Lyxor's Laird concedes that with any investment, if you need to trade during a crash or when markets are under stress you get a worse price 'so you need to go into it with your eyes open'. This is true of any investment during stressed conditions and not limited to ETFs.

25% of UK ETFs could see any gains liable for income tax

WHAT IS THE TAX SITUATION?

While US investors can take advantage of tax benefits when using ETFs the same is not true for UK-based investors. It is important to remember where your ETF is issued.

ETFs from the US and France face a particularly punishing tax regime because they enforce withholding tax. This taxes the dividends from ETFs at a high rate.

The tax status of UK ETFs is also crucial. Those given 'reporting' status are subject to capital gains tax and make up for around 75% of UK ETFs, according to Morningstar. Capital gains tax varies but is either 18% or 28% depending on your circumstances.

The remaining 25% of UK ETFs do not enjoy 'reporting' status and gains generated through these products can be liable for income tax, which can be as high as 45%.

If you hold your ETF in an ISA or SIPP you should be shielded from tax except the withholding taxes applied for ETFs domiciled in the US or France. (DS)

Comeback time for Primark owner

Foods-to-fashion conglomerate offers growth, income and resilience

Trading well south of their £35.99 five-year peaks, this is an opportune moment to buy shares in **Associated British Foods (ABF)** at £26.97. This year should see profits rebound strongly as the conglomerate's sugar earnings recover and Primark's phenomenal store roll-out progresses.

Liberum Capital argues Associated British Foods 'offers investors compelling exposure to secular growth trends in retail over the next 10 years' via value-for-money fast fashion chain Primark. The investment bank estimates Primark can double sales and profits over the next five years.

While the UK consumer backdrop is uncertain, Primark would flourish should shoppers trade down. The on-trend clothing chain is primed for market share gains as it expands in continental Europe and builds a presence in the United States.

Primark's sales grew 21% in the first half at actual exchange rates, buoyed by an 11% rise in new selling space. Though same-store sales were down in the Netherlands, affected by rapid selling space expansion, Primark delivered 2% like-for-like growth in the UK, bagging market share in tough conditions.

Admittedly, the clothing retailer does face a dollar sourcing headwind from sterling weakness which will crimp near-term operating margins.

SWEETENING PROSPECTS

Associated British Foods' sugar profitability is improving thanks to lower beet costs for its British Sugar subsidiary and rising EU sugar prices. The group's Illovo business in Southern Africa is also benefiting from strong sugar production.

Dividend-paying Associated British Foods offers defensively-minded investors exposure to British brands with global potential. These include *Kingsmill*, *Ryvita*, *Dorset Cereals*, *Blue Dragon* and *Twinings Ovaltine*, the latter taking market share everywhere from the US, Australia and France to Brazil and Vietnam.

Supported by a £200m net cash pile, acquisitions are augmenting growth; the FTSE 100 firm recently acquired the High 5 and Reflex Nutrition sports brands for £60m.

For the year to September 2017, Shore Capital forecasts continuing profit before tax of £1.22bn (2016: £1.07bn), ahead of further meaty rises to £1.36bn and £1.5bn in 2018 and 2019.

You'll have to pay up to access Associated British Foods' high-quality cash flow and earnings however. The shares trade on almost 23 times this year's estimated earnings of 118.7p.

SHARES SAYS: ↗

Growth and income investors should bag Associated British Foods at £26.97. (JC)

BROKER SAYS: 12 9 1

Ironveld fires up new plan for metals production

Miner strikes deal to buy smelter, but still needs to solve cash conundrum

South Africa-based **Ironveld (IRON:AIM)** believes it has made a breakthrough in its quest to become a metals producer after striking a deal to buy a 7.5 megawatt smelter.

The company hopes to start production early next year of high purity iron, vanadium and titanium. It just needs to clear one more hurdle which is to raise cash to help fund the acquisition, do refurbishment work and provide a buffer for working capital.

The decision to buy a smelter means Ironveld no longer has to raise a chunk of debt finance in the immediate future. That money was earmarked to buy a 15 megawatt smelter.

The aforementioned acquisition is for something half that size and will be funded by shares and phased cash payments.

The eventual plan is for Ironveld to use cash flow from the first stage operation to help fund an upgrade to 15 megawatt capacity. This is the amount of energy it is confident that state utility Eskom can provide to the operation.

Longer term it wants to build a 300 megawatt smelter, but that may not happen for at least five years as it is dependent on Eskom building new power capacity.

DESPERATE NEED FOR CASH

Although the debt financing pressures have eased, Ironveld now has another financial worry – can it raise more funds? It hasn't explicitly stated that cash is required, but it doesn't take too long to work out it needs a top-up.

Half-year results published on 29 March warned it only had enough money to last until mid-2017.

Ironveld has already secured offtake agreements for its three metal streams. However, the new smelter will also give it optionality to market its high purity iron direct to customers.

Potential buyers would want certain specifications, which Ironveld would be able to certify as a result of doing the mining and smelting itself. The company therefore believes it could get extra money for the product.

The small cap also plans to produce water atomised iron powder which sells for a significant premium, according to chief executive Peter Cox.

This is used mainly in the automotive industry to make gear components and complex metal parts. Demand is also growing from the 3D printing market.

As for its other products, vanadium and titanium are used in the battery, pigment and alloying industries.

LINKING TO MINING ASSETS

The smelter is located 300 kilometres along a main road from its mine. It is not operational at present due to strategic problems with its two previous owners, rather than technical issues.

Cox says the acquisition opportunity presented itself when initially enquiring whether the smelter was free to process Ironveld's material.

He believes the operation will be immediately cash generative and will be cash flow positive within the first year. (DC)

Epwin should be attractive to income seekers

Company is generating lots of cash to fund dividends, organic investment and M&A

We're generally cautious about companies with high dividend yields, as it tends to represent disbelief by the market that the money will be paid. One exception, in our view, is building products business **Epwin (EPWN:AIM)** which has a handsome 6.5% prospective dividend yield.

We view Epwin as having a resilient business and note it has limited debt and excellent cash generation.

Panmure Gordon analyst Adrian Kearsey says investors have overlooked positive progression in free cash flow. As a reminder, dividends are paid out of free cash flow, so strength in the latter is good for the former.

Operational efficiencies and smart acquisitions have helped boost free cash flow from £6m in 2013 to £20.5m in 2016. The company now has plenty of cash to fund organic investment, dividends and further deals in a fragmented market.

50.6% COMPOUND ANNUAL GROWTH RATE IN FREE CASH FLOW SINCE 2013

UK-focused Epwin specialises in extrusions, mouldings and fabricated low maintenance building products. In the last 18 months it has acquired three businesses for a combined initial consideration of £42.2m.

The business derives around 70% of its business from the renovation, maintenance and improvement (RMI) market and the rest from new build and social housing.

Chief executive Jon Bednall notes the company has grown the bottom line every year since he joined in 2008. More recently Epwin has been able to manage an increase in cost inputs due to the devaluation of sterling.

SHARES SAYS: ↗

Panmure has a price target of 185p which implies 63% upside from the 113.25p price at the time of writing. (TS)

BROKER SAYS: 1 0 0

New smart metering road to India

SMART METERING software minnow **CyanConnode (CYAN:AIM)** may have found a new route to markets in India. The company has struck a $150,000 deal with Indian integrator Innologix, which supplies electronic kit and software that helps connect electricity grid to users. Integrators could be a new channel beyond existing utility company agreements. (SF)

RhythmOne may look for deals

SOME ANALYSTS believe that adtech supplier **RhythmOne (RTHM:AIM)** may need to return to the acquisition trail to complete its long-winded transformation. Any targets would likely be designed to bolster the capability of the company's *RhythmMax* programmatic platform. The company used to be called Blinkx. (SF)

Real Good Food's Brighter future

CAKE DECORATION-TO-PREMIUM bakery play **Real Good Food's (RGD:AIM)** acquisition (5 Apr) of a majority stake in Wales-based Brighter Foods could be a winner. A maker of healthy snack bars sold through Slimming World and **Tesco (TSCO)**, Brighter Foods gives earnings forecasts an immediate boost. FinnCap upgrades its target price to 75p; more than double the current 35.5p market price. (JC)

WEEK AHEAD

FRIDAY 21 APRIL

TRADING STATEMENTS	
RECKITT BENCKISER	RB.

MONDAY 24 APRIL

TRADING STATEMENTS	
ANGLO AMERICAN	AAL

TUESDAY 25 APRIL

FINALS	
HAVELOCK EUROPA	HVE
MINDS + MACHINES	MMX
OPTIBIOTIX HEALTH	OPTI
REDSTONECONNECT	REDS
WHITBREAD	WTB
TRADING STATEMENTS	
BHP BILLITON	BLT
ELEMENTIS	ELM
ST JAMES'S PLACE	STJ
AGMS	
AGGREKO	AGK
ELEMENTIS	ELM
ENTU UK	ENTU
HAMMERSON	HMSO
METRO BANK	MTRO
PREMIER ENERGY & WATER TRUST	PEW

WEDNESDAY 26 APRIL

FINALS	
GAN	GAN
HUNTERS PROPERTY	HUNT
PHOENIX SPREE DEUTSCHLAND	PSDL
U AND I	UAI
WALKER GREENBACK	WGB
INTERIMS	
GLAXOSMITHKLINE	GSK
PROACTIS	PHD
REDEFINE INTERNATIONAL	RDI
TRADING STATEMENTS	
ANTOFAGASTA	ANTO
CRODA INTERNATIONAL	CRDA
FRESNILLO	FRES
JUPITER FUND MANAGEMENT	JUP
LONDON STOCK EXCHANGE	LSE
STANDARD CHARTERED	STAN
TULLOW OIL	TLW

THURSDAY 27 APRIL

FINALS	
AIR PARTNER	AIR
GAMING REALMS	GMR
HARVEY NASH	HVN
INTERIMS	
ASTRAZENECA	AZN
TRADING STATEMENTS	
AGGREKO	AGK
ASTRAZENECA	AZN
BERENDSEN	BRSN
COBHAM	COB

ASTRAZENECA (AZN)
Investors are already forewarned of a tough 2017 for pharmaceutical business AstraZeneca (AZN) after guidance in February for a low to mid-single digit sales decline.

We believe investors will want an update on cholesterol treatment Crestor in its trading update on 27 April after a 13% drop in sales following patent expiry.

The market will also be looking for clarity on which new drugs it will bring to market to replenish its portfolio.

GREKA DRILLING	GDL
HOWDEN JOINERY	HWDN
KAZ MINERALS	KAZ
LLOYDS	LLOY
MEGGITT	MGGT
PERSIMMON	PSN
SCHRODERS	SDR
TRAVIS PERKINS	TPK
TAYLOR WIMPEY	TW.
WEIR	WEIR

EX-DIVIDEND		
ANTOFAGASTA	ANTO	\$0.15
HENRY BOOT	BHY	4.5P
CAPITAL & REGIONAL	CAL	1.77P
CAPITAL DRILLING	CAPD	\$0.01
CURTIS BANKS	CBP	3P
CHEMRING	CHG	1.3P
CHURCHILL CHINA	CHH	14.8P
COMMUNISIS	CMS	1.61P
CENKOS SECURITIES	CNKS	5P
CHARLES TAYLOR	CTR	7.3P
CITY OF LONDON INVESTMENT TRUST	CTY	4.3P
DUNEDIN ENTERPRISE INVESTMENT TRUST	DNE	17.5P
ELEMENTIS	ELM	11.28P
FOXTONS	FOXT	0.33P
FRESNILLO	FRES	\$0.22
GAMES WORKSHOP	GAW	25P
G4S	GFS	5.82P
GREGGS	GRG	21.5P
HENDERSON INTERNATIONAL INCOME TRUST	HINT	1.2P
HOSTELWORLD	HSW	€0.1
HOSTELWORLD	HSW	€0.11
HUNTERS PROPERTY	HUNT	1.3P
HARWOOD WEALTH MANAGEMENT	HW	2P
IMPAX ENVIRONMENTAL MARKETS	IEM	1.95P
INFORMA	INF	13.04P
ITV	ITV	4.8P
ITV	ITV	5P
IWG	IWG	3.55P
JD WETHERSPOON	JDW	4P
LEGAL & GENERAL	LGEN	10.35P
MAVEN INCOME AND GROWTH VCT	MAV4	3.05P
MCCARTHY & STONE	MCS	1.8P
MORGAN SINDALL	MGNS	22P
NAHL	NAH	12.7P
NATIONAL EXPRESS	NEX	8.41P
POLYPIPE	PLP	7P
PORTMEIRION	PMP	25.25P
PORVAIR	PRV	2.4P
RELX	REL	25.7P
SMART METERING SYSTEMS	SMS	2.73P
SENIOR	SNR	4.62P
STATPRO	SOG	2.05P
SPIRAX-SARCO ENGINEERING	SPX	53.5P
UBM	UBM	16.6P
WEIR	WEIR	29P
WILLIAM HILL	WMH	8.4P

TULLOW OIL (TLW)
Oil producer Tullow Oil (TLW) is set to update on trading on 26 April, representing for the first time since completing a heavily discounted \$750m right issue.

The statement may reveal what shape the balance sheet is in following the fundraising and the €20m sale of natural gas assets in the Dutch North Sea (10 Apr).

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

KEY

- Main Market
- AIM
- Fund
- Investment Trust

SHARES SPOTLIGHT

VALIRX AND THE DRUG DEVELOPMENT JOURNEY

Introduction

Welcome to this special one-off Spotlight dedicated to explaining the development of new drug treatments and brought to you in partnership with life sciences cancer specialist ValiRx (VAL:AIM).

Disclaimer

This special Shares Spotlight is an article produced by life sciences cancer specialist ValiRx. It is a commercial presentation and, as such, is written by the company in question and reproduced in good faith.

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Nearly all of our lives are touched by cancer. According to Cancer Research UK one in two people born after 1960 in the UK will be diagnosed with some form of cancer during their lifetime.

There are various companies listed on the UK stock market working on innovative and groundbreaking new treatments aimed at reducing mortality rates for the disease.

Getting a new medicine from the development stage to final sign off by the relevant authorities can be a long process, fraught with risk, but this can also be an interesting and in some cases rewarding sector in which to invest.

All the content in this report is written by ValiRx and not the *Shares* team. It should therefore not be considered as unbiased or independent comment. ValiRx has paid a fee for this platform to provide education on the drug discovery process but also to promote its own story.

On the plus side you are getting the inside track from experts who are very familiar with how new medicines make it to market and who are best positioned to explain the inner workings of the company and its strategy.

Understanding the ValiRx story

ValiRx (VAL:AIM) is a biotechnology oncology focused company specialising in developing novel treatments for cancer and associated biomarkers. It aims to make a significant contribution in 'precision' medicine and science, namely to engineer a breakthrough into human health and well-being with diagnostic technologies for the early detection of cancer and novel therapeutic intervention.

ValiRx formed in 2006

ValiRx's formation and flotation was the result of a reverse transaction in 2006 with Cronos Therapeutics Limited. Cronos, which had been founded a couple of years earlier in 2004 by Dr Satu Vainikka, Dr George Morris and two others, reversed into an AIM-listed shell in 2006 to become ValiRx plc.

In common with scores of UK biotech companies, ValiRx's intention was to secure equity finance initially to progress the pre-clinical development of its anti-cancer therapeutic compounds. The Company would then take them through the Clinical Trial process to the point of demonstrating their potential for significantly improving the treatment of cancer. At that stage, they would then be out-licensed or a partner would be sought to complete the final and more expensive phases of the clinical development process.

Ten years later, ValiRx finds itself today closely approaching the commercialisation phase of its drug development pathway.

It has two drugs in clinical development and two in pre-clinical, each of which have the potential for meeting hitherto unmet medical needs with existing therapies, have worldwide patent filings and have agreed commercial rights. They originate or derive from world-class institutions, such as Cancer Research UK, Imperial College, and the Universities of Warwick and Leeds.

VAL201 & VAL401

The Company's lead drugs, VAL201 & VAL401, are in clinical trials.

VAL201 is a first-in-class therapeutic with a novel mechanism of action, and is in a Phase I/II clinical trial for patients with prostate cancer. Results to date show that the molecule is well tolerated by patients and, importantly, shows signs of activity in advanced prostate cancer. Clinical trials are due to run until the end of 2017. VAL201 received additional IP protection with the grant of a European patent at the end of last year.

VAL401, also in Phase II trials, is the re-formulation of a generic anti-psychotic drug Risperidone into an orally administered gelatine capsule. The compound has shown pronounced anti-cancer properties in pre-clinical testing and has moved straight into an efficacy trial involving patients who have late-stage lung cancer. The trial, which is expected to complete by the end of this year, is seeking clinical evidence of a therapeutic effect, improvements in quality of life, as well as pharmacokinetic data in non-small cell lung cancer patients.

VAL301 & VAL101

VAL301 is a reformulation of VAL201. It is currently in mid-stage pre-clinical development as a non-invasive, effective treatment for the non-cancerous, but hugely debilitating gynaecological condition, Endometriosis. Earlier pre-clinical work on VAL201 has highlighted the compound's potential to protect uterine tissue from the oestrogenic effects that give rise to Endometriosis, with minimal impact on bone density or fertility – these are major drawbacks frequently encountered with the current commonly used drugs for this condition. The focus now is to complete the pre-clinical work so the Company obtains the necessary regulatory approvals to enter VAL301 in a Phase I/II clinical trial.

VAL101 is a novel therapeutic based on the company's proprietary GeneICE (Gene Inactivation by chromatin engineering) platform. It acts to target and switch 'off' the gene that expresses Bcl-2, a protein that is implicated in about half of all carcinomas. Pre-clinical studies have established VAL101's efficacy in prostate, ovarian and pancreatic cancers and it may also have anti-tumour activity against orphan oncologic indications.

"New drugs in this group—such as those in ValiRx's pipeline — promise to greatly improve outcomes for cancer patients."

GeneICE

ValiRx's GeneICE technology enables the selective silencing or the shutting down of particular rebellious genes, thereby halting and reversing tumour growth. Until recently, cancer treatments relied on non-specific agents, such as chemotherapy. With the development of target-based agents, primed to attack cancer cells only, less toxic and more effective treatments are now possible.

Clinical Trials

Clinical trials are pivotal to the development of safe and effective novel treatments. Clinical trials in the UK are tightly regulated, and must receive favourable opinion from the Research Ethics committee (REC) and authorisation from the Medicines and Healthcare Products Regulatory Agency (MHRA). Additional regulatory approvals may be required depending on the Investigational Medicinal Product (IMP).

There are three main phases in clinical trials (Phase I-III), and based on these clinical outcomes, the drug may then be granted marketing authorisation for a given indication.

A further post marketing surveillance trial (Phase IV) may be conducted to assess the long-term safety and effectiveness of the drug in a larger population.

Dr Satu Vainikka, CEO, Dr George Morris, COO, Dr Suzy Dilly, chief scientific officer and Dr Victoria D'Aquino drug research and development officer, look at the various elements involved in the drug development process.

> **"Clinical trials are pivotal to the development of safe and effective novel treatments."**

What are the steps involved?

To date, ValiRx has spent a modest amount of money in comparison with many of its peers in the development of its two lead compounds to reach the Phase II stage. Phase III requires an exponential lift in both data generated and in the availability of funding and drug development work to the Phase III stage is usually conducted through partnering deals.

In brief, the Clinical Trial journey proceeds as follows:

New medicines originate in the laboratory where researchers identify, isolate and study thousands of molecules for their potential as future anti-cancer therapies. Once a candidate molecule (compound) has been identified in the laboratory, it is subjected to rigorous pre-clinical testing (in the laboratory and/or in animals) to assess its chemical, biological and toxicological properties or how harmful the compound might be.

These pre-clinical tests offer researchers a snapshot on whether a compound may have anti-cancer activity. If the results of pre-clinical studies are positive, the compound may be entered into a clinical trial programme.

This programme involves several 'phases' of study, starting with small studies usually in healthy volunteers and progressing in steps through to evaluation of the drug in people with the disease. At each phase, only those compounds that meet strict criteria for safety and effectiveness (efficacy) will advance to the next phase.

When the results of the clinical trials indicate the compound being studied is safe and effective, the drug development company applies to the regulatory authorities for marketing authorisation, which is effectively permission to sell, and use the drug in daily medical practice. This authorisation usually occurs following a successful Phase III study, but it may occur earlier in diseases where there are very few treatment options, sometimes described as a 'high medical need'.

Finally, when marketing authorization is granted, the new treatment will be made available as administered and authorised by doctors. There are strict rules regarding the license given to the treatment – the pharmaceutical company promotes the product for the treatment of patients with the diseases (indications) described in the license or label and the medicine's use will continue to be carefully monitored in accordance with approved current medical practices.

"These pre-clinical tests offer researchers a snapshot on whether a compound may have anti-cancer activity.

Drilling down into drug development

Having outlined the clinical trial process, *Shares* and the ValiRx team explore the process and their own experience in greater detail, illustrating the many often substantial challenges needing to be overcome.

Idea generation

In terms of idea generation, new potential medicines are identified through a process known as 'drug discovery'.

New drugs typically develop as a result of new research into disease processes, and this research can extend into existing drugs and their re-profiling or it can follow the development of new technologies. Although, thousands of drugs may be identified at the 'discovery' stage, only a few potential drug candidates will continue to be developed after preliminary testing. Drugs showing early promise may enter more extensive preclinical testing.

In fact, the idea and science lying behind ValiRx's VAL301 compound to combat Endometriosis come from the same active pharmaceutical ingredient as the company's prostate cancer molecule, VAL201.

Its potential for development as a treatment for Endometriosis was recognised during a review of the VAL201 pre-clinical studies, which spotted that the mechanism by which VAL201 inhibits the hormonal cascade and the development of prostate cancer in males maybe similarly applied in females and with the hormonally-driven condition, Endometriosis.

This germ of an idea led to subsequent early studies to investigate VAL201's impact on the female oestrogen dependent condition, Endometriosis and in 2015, ValiRx appointed their R&D officer, with a clinical background and a strong interest in gynaecology, to continue and to complete the pre-clinical work necessary in demonstrating the effect of VAL301 in Endometriosis models. It is anticipated that this final work will take approximately one year to complete, before the compound can then enter formal clinical trials.

Working on existing drugs and turning them into drugs, which have new composition of matter to address different conditions can be highly productive in the drug development process and such an approach can accelerate the science and substantially reduce cost. The technique of reformulating a drug, such as ValiRx's subsidiary, ValiSeek, has done with the VAL401 project can allow some short-cuts through the traditional processes.

This is because the drug being studied will already be able to show a track record and can demonstrate important characteristics in its development, such as the compound's typical absorption and metabolic capabilities.

The drug design optimization process as a result can be condensed – but it does need to be said that for significant 'Discovery', exhaustive work must still be performed on a potential drug to develop a new understanding of that drug. Scientists need to be able to harness and exploit novel biological activity in the drug particularly if that activity has not previously been reported.

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Pre-clinical testing and the clinical trial process

A promising new compound now moves into pre-clinical testing and the safe evaluation of it – normally on mice. The potential drug needs to be tested and improved and it is at this point that thousands of potential molecules are whittled down to the most promising 10-20 drugs, or leads.

Pre-clinical testing is an essential part of the process, which takes the drug from the laboratory bench to the clinic. But before a drug can be administered to humans, its pharmacological profile and safety must be thoroughly examined.

Pre-clinical testing is usually performed in vitro as well as in vivo animal models and studies must adhere to the regulations of Good Laboratory Practices (GLP). Regulators usually require testing of a new drug's acute toxicity in at least two species of animal, including one animal that is not a rodent.

The drug's pharmacology, pharmacokinetics, metabolic stability, genotoxicity are among some of the pre-clinical parameters that must be defined, and following on from a review of the findings, the drug is then considered for trials in humans, otherwise known as Clinical Trials.

If we turn to VAL401, the non-small cell lung cancer project, the ValiSeek scientists were already well aware of the drug's toxicology profile before it even entered the clinic. Despite that knowledge though, extensive pre-clinical experimentation was still required to optimise the formulation and in so doing, to enable the active molecule to enact the same anti-cancer activity that the ValiSeek team had predicted from the earlier discovery science.

This allowed ValiSeek to confirm that VAL401's proposed mechanism of action for anti-cancer activity was feasible and that the drug could be taken orally. It was also important to confirm that the pharmacokinetics and toxicology of the VAL401 molecule were comparable to the conventional formulations of the original compound.

Clinical trial process

With pre-clinical testing complete, a new drug will move into the Clinical Trials process, which is designed to explore how a new drug or treatment reacts in the human body and trials are devised to ensure that a drug is tolerated and effective before it is licensed by regulatory authorities and made available for use by doctors.

Studies vary in their primary goal or endpoint (i.e. the most important outcome of the trial), the number of patients involved, and the specifics of the study design. However, all clinical studies conform to a strict set of criteria to protect the patients involved and to ensure rigorous evaluation of the drug.

The trials will be designed with several parameters to generate meaningful results. These parameters would include the patient population to be studied, treatments to be investigated, endpoints and methods by which the trial will be conducted (e.g. randomised versus non-randomised).

Patients must meet specific criteria if they are to be included in a trial. Common entry criteria include whether the patient has a certain type of cancer, whether a patient has a particular treatment history and whether they are in a certain age group. This entry criteria will help to ensure that the people in the trial are as similar as possible to each other, in terms of their basic profile, type and stage of disease, so that the results of any treatment effect can be associated as much as possible with the drug treatment being studied and not with other factors.

In controlled trials – most Phase III and some Phase II trials fall into this category – the drug being investigated is compared with a control. The control may be either a medically ineffectual treatment, such as a placebo, if there are no effective therapies available for the disease being studied or a standard treatment and one that is in wide use and considered effective at the time the trial is designed.

Although a placebo is sometimes used as a control in clinical trials, it is rarely used in cancer trials, as there are likely to be ethical issues wrapped up with such an approach. It is also worth remembering or considering that because some clinical trials take years to complete, what had been a standard treatment at the start of a trial, may no longer be widely used by the time results from the trial at hand, are reported.

The aim of a clinical trial is to measure key outcomes or endpoints and to test the clinical efficacy and tolerability of a new drug with a particular disease. The trial will usually specify a primary endpoint. This is the most important endpoint of the trial and, if it is met, it means that there is a positive result to the trial and for the drug being studied.

The clinical trial protocol will provide the design for the conduct of the study or clinical trial and it sets out at the start, which endpoints of the study are sought. The protocol will offer clear guidance on how and when to measure and evaluate the study endpoints and the primary endpoint usually assesses the drug's efficacy or its ability to reproduce a desired effect. Trials can also define one or more secondary endpoints.

These typically take the form of secondary efficacy measures and safety endpoints, which are designed to measure the tolerability and safety of the drug over the period of the study.

Phase I

The first step in the Clinical Trial process is termed 'Phase I and it can take one-and-a-half years to complete with testing in humans for the first time and with 10 to 30 participants.

Phase 1 trials can have 10 to 30 participants

The dosing of VAL201 escalates from 0.5 mg/kg to 5.0mg/kg over five dose levels, utilising a 3 + 3 design

Phase I clinical trials focus primarily on the safety of the drug in humans, its side effects and how the body processes the drug.. This is usually a 'first in human' (FIH) study with a small number of healthy volunteers.

However, when dealing with oncology or anti-cancer drugs, only patients affected by the specific cancer may be recruited. The number of sites at which the study is conducted can be expanded as the study progresses.

In a Phase I dose-escalation study, such as the one with VAL201, patients are recruited in small groups or 'cohorts', with the first cohort administered with the lowest dose of the drug. Several safety parameters must be monitored and reviewed before the next cohort can be recruited and administered with the next dose of the drug.

The dose of the drug escalates with each cohort of patients until the maximum tolerated or maximum dose projected from pre-clinical work, is reached. For these reasons, despite the number of patients involved in this phase being small (10-30 patients), recruitment can be relatively slow. Funding required for this stage of an oncology trial has been estimated to be in the region of $4.5m by the US Department of Health.

Lead drug candidate

ValiRx's lead drug candidate, VAL201, is in a Phase I/II Clinical Trial for patients with prostate cancer. The trial is currently being conducted at University College London Hospital, with further centres being added to expand the numbers of patients treated with VAL201. The study is in medical parlance an accelerated titration, open label, dose-escalation, dose-expansion designed trial to identify a maximum tolerated/administered dose ('MTD/MAD').

The compound VAL201 is administered via a syringe or subcutaneously each week over a three-week cycle and for up to six cycles.

The dosing escalates from 0.5 mg/kg to 5.0mg/kg over five dose levels, utilising a 3 + 3 design. Safety, tolerability, pharmacokinetic and preliminary efficacy data are being collated throughout the study, so that the ValiRx team can determine the optimal or best dosing regime of VAL201 into patients with advanced prostate cancer.

To date, VAL201 has been very well tolerated by all patients dosed, and there have been no VAL201-related serious adverse events. In the most recent cohort dosed, all patients showed an improvement in PSA doubling time, or a reduction in prostate-specific antigen (PSA) levels - PSA levels being a key marker for the prevalence of prostate cancer.

These mentioned patients showed no evidence of disease progression on imaging. Analysis of the pharmacokinetic and pharmacodynamic data is currently in progress.

The process can be very different with a re-profiling project, such as the study comprising ValiSeek's compound VAL401. The ValiSeek team have been able to leapfrog Phase I clinical trials by providing evidence to the regulators of 'bridging pre-clinical studies'. This evidence presented was sufficient to demonstrate that ValiSeek's new formulation of the known drug, Risperidone would present no greater risk to patients than the original drug in its approved format.

Phase II

The next step in the clinical trial process is termed Phase II; only drugs that have satisfactorily demonstrated safety and tolerability in Phase I can be taken forward to this stage.

Phase II trials tend to have between 20 and 120 patients taking part

The Phase II studies are governed by the same regulatory bodies as in Phase I trials, but they tend to involve a larger number of patients affected by the condition that the drug is intended to treat.

The aim of the trial is to find out more about side effects, if the treatment works well enough to test in a larger group of patients with the same condition, and the optimal dose/dosing regime to use. Patients may receive different doses or dosing schedules, to find the optimal dose and regime, and this is sometimes known as a Phase IIa trial. Phase IIb trials then look at the efficacy of the drug at the specified dose. Phase II trials may also compare the drug being tested with current therapies or a placebo. Patients are often randomised to a treatment group to avoid bias. In cancer trials, endpoints such as tumour size and relevant biomarkers can be used.

According to the US Department of Health Phase II studies can take approximately two years to complete and costs are in the region of $11.2m.

To move into Phase III clinical trials, there must be sufficient evidence of the safety and efficacy of the drug, particularly in comparison to current therapies.

ValiRx's other lead candidate, VAL401, is currently in a Phase II clinical trial for the treatment of Non-Small Cell Lung Cancer ("NSCLC"). VAL401 is a novel cancer therapeutic that combines Risperidone with Rumenic Acid. The objectives of this trial are to test the efficacy, safety, tolerability and pharmacokinetics of the drug in patients with NSCLC.

In line with typical Phase II clinical trials, the current VAL401 trial is looking at a relatively small group of patients – in this case just up to 20 – and assessing the effect of VAL401 on the status of disease progression during treatment.

This procedure, if successful, will provide clinical proof of concept that the drug provides a viable treatment paradigm. It will also identify if there are any specific patient population groups that might benefit to a greater or lesser extent from treatment with VAL401. Unusually, with VAL401, this is also formally the first-in-man trial.

Although the active ingredient of the drug has been in popular clinical use for decades, this is the first time the specific Rumenic acid formulation of Risperidone has been provided to human patients. Therefore, measurements of safety, tolerability and pharmacokinetic activity are particularly important outcomes to this trial.

Pivotal study or Phase III and drug approval

Drugs that have demonstrated safety and a level of efficacy in patients with the condition that the drug is intended to treat, may progress to Phase III clinical trials.

Phase III trials can involve up to 3,000 patients

Average cost of Phase III trial = $22.1m

These trials are sometimes referred to as pivotal studies, involve the drug being tested in approximately 300 to 3,000 patients with the condition, to assess safety and efficacy over a longer period, usually one to four years according to the US Department of Health. The profile of the new drug is compared with the current standard of care.

Costs of Phase III oncology trials have been estimated at $22.1m. On completion of Phase III and depending on the results obtained, an application for drug approval by the relevant regulatory authority may be made.

The design of the Phase III trial for VAL401 will depend largely on results from the Phase II trial. In particular, the response rate and magnitude of patients in the Phase II trial will dictate the number of patients required to produce evidence of a statistically relevant effect.

It is likely that the Phase III trial will comprise a combination study, with VAL401 being added to a gold standard treatment and the gold standard treatment be studied in isolation, thereby providing the comparator group from which statistically improved patient outcomes can be calculated.

Drug approval

Drug approval is reached if a drug is proven to work better than current treatment available. Drug licensing or marketing authorisation must be granted before a drug can be widely used to treat people and in the UK, all applications must be submitted to the Medicines and Healthcare products Regulatory Agency (MHRA). The European Medicines Agency (EMEA) are the responsible authority for drug licensing in the European Union.

Once the regulatory agency is satisfied with the evidence from all clinical trial work on the safety and efficacy of the drug and provided that manufacture and distribution of the drug also meets the required standards, the drug may be granted a product license for the indication intended. Any use of the drug for an alternative indication must be prescribed 'off license' with the prescriber taking full responsibility.

The team at ValiRx believes it is likely that VAL401 will be initially approved as a second line treatment of Non-Small Cell Lung Adenocarcinoma potentially in combination with another therapy. This means that VAL401 will be provided as a treatment to patients that have already had a failure on a prior drug therapy.

After clinical use as a second line treatment for several years, promotion to first line treatment in a subset of patients for whom other drugs of choice are not available (for example mutation negative patients) is likely as the drug will gain a reputation during clinical use, as having an acceptable side effect profile and a positive impact on the disease state of patients.