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TIME TO
WORRY ABOUT
SHELL AND
BP'S
DIVIDENDS?

11 STOCKS PICKED BY ANALYSTS TO SOAR OVER THE NEXT YEAR

**NEW FUND TARGETS 6% YIELD
FROM HOME RENTALS**

**TWO IPOs LOOK TO
SMALL CAPS FOR SUCCESS**



ARE YOU DUE A PENSION FREEDOMS TAX REFUND?

The mining sector revival didn't last long

Investors' patience is tested once again as commodity prices go into reverse

Last year's 100%+ hike in the value of the FTSE 350 mining index seems a long distant memory. A recent pullback in commodity prices has resulted in a sea of red for anyone watching the share prices of miners on their screen. Is this cause for panic or just a natural pullback?

'Based on our meetings and calls with investors in the UK and Europe over the past two weeks, we conclude that sentiment regarding mining has shifted from euphoria earlier in the year to cautious optimism now,' said investment bank Jefferies on 3 May. Commodity prices have declined further since that comment was made.

The FTSE 350 mining index went through four straight years of decline between 2012 and 2015 before making an impressive comeback in 2016. The index is down 6.1% so far in 2017, according to data from SharePad.

WHAT'S THE BAD NEWS?

Metal and energy prices have taken a hit over the past few weeks. In a nutshell, key reasons are too much supply versus demand, plus new China data has caused many people to speculate about weakness in the world's second largest economy.

Copper stockpiles have shot up, iron ore has rapidly fallen in price and even oil's recovery since early 2016 has gone into reverse.

Credit tightening in China is particularly relevant to the negative performance of commodities and shares in natural resource companies.

Chinese authorities are reducing liquidity in the banking system which has pushed up short term lending rates. This harks back to 2013 when authorities deliberately squeezed liquidity as a warning to some domestic banks against taking on too much balance sheet risk via excessive lending.

This is relevant to investors in mining stocks,



in particular, as experts now fear that tighter lending in China could hit the property market and reduce demand for commodities used in construction such as copper for pipes and iron ore for making steel.

In March, investment bank Investec gave the view that the Chinese real estate market would remain stronger than many people anticipate as construction 'starts' over the past two years continue to lag housing sales.

WHAT SHOULD I DO NEXT?

Jefferies believes now is a good time to buy shares in miners amid price weakness as it believes underlying fundamentals in the industry 'remain strong'. Its top picks among UK-listed stocks are **Rio Tinto (RIO)** and **Glencore (GLEN)**. Coal miner **South32 (S32)** also gets the thumbs up from the investment bank.

Bill McQuaker, multi asset portfolio manager at fund provider Fidelity, says 'if you're going to be positive on a commodity market, make it oil'. He says there are interesting bits of information once you dig below headline data of rising US oil production and a vast increase in US oil rigs.

'There are signs that the market is beginning to come into balance, with US and OECD total petroleum inventories declining.

'Member states seem to have been complying with OPEC's recent production cuts, with signs that these could be extended further throughout 2017. In terms of global market share, OPEC still matters more than the US, let alone shale oil.'

In my opinion, you should never dump your holdings in resource stocks purely off a few bad weeks on the market.

If you believe the market fundamentals and are bullish on the global economy, keep a hold of the resource stocks for the long term.



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11 May 2017

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WHO WE ARE

EDITOR:

Daniel
Coatsworth
@SharesMagDan

DEPUTY EDITOR:

Tom Sieber
@SharesMagTom

NEWS EDITOR:

Steven Frazer
@SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR:

James Crux
@SharesMagJames

REPORTER:

David Stevenson
@SharesMagDavid

JUNIOR REPORTER:

Lisa-Marie Janes
@SharesMagLisaMJ

CONTRIBUTORS

Emily Perryman
Tom Selby

PRODUCTION

Head of Production
Michael Duncan

Designer
Rebecca Bodi

ADVERTISING

Sales Executive
Nick Frankland
020 7378 4592

nick.frankland@sharesmagazine.co.uk

MANAGING DIRECTOR

Mike Boydell

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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New fund targets 6% yield from home rentals

Retail investors have a chance to take part in the IPO offer



P private investors have the chance to participate in the IPO (initial public offering) offer for first real estate investment trust to target the private rented sector.

The PRS REIT plans to raise £250m to invest in newly-built family rental homes across England. It hopes to offer a 6% dividend yield and deliver 10% total shareholder returns each year, which is the dividend plus a small rise in the share price.

The dynamics behind the private rented sector look strong given many people are priced out of buying their own home and the rental market for family properties is particularly undersupplied.

The launch is supported by sector specialist **Sigma Capital (SGM:AIM)**, which will act as investment adviser to the REIT.

The IPO is being backed by a direct £25m investment from the Government's Home and Communities Agency.

The PRS REIT is targeting a 5% dividend yield for the period to 30 June 2018. The plan is to pay a quarterly dividend from 1 January 2018.

It hopes to achieve 6% dividend yield once all the IPO money is invested in properties.

According to The PRS REIT there is a pipeline of £17bn worth of rented stock against a forecast requirement of £300bn over the next five years.

From this pipeline, more than 2,500 new homes have been identified and contracted by the REIT with a total cost of £375m. This includes a seed portfolio of £72m worth of assets which are either complete or under construction.

The REIT will focus on newly constructed assets which benefit from 10-year National House Building Council or equivalent warranties. This could result in a low level of capital expenditure and modest and predictable maintenance costs.

Property locations are set to follow existing and planned rail and road infrastructure including the proposed HS2 and HS3 rail networks.

Chairman Stephen Smith says: 'We believe The PRS REIT will break new ground, being the first quoted real estate investment trust to address the shortage of high quality family homes in the private rented sector.'

The REIT has relationships with local authorities and housebuilding partners, including **Countryside Properties (CSP)**, which should help with land access and development expertise.

The IPO offer will run until 23 May. You can apply, if you so wish, via certain stockbrokers or investment platform providers. The shares will start to trade on London's Main Market on 31 May. (TS)

'Underappreciated' hotel plan could fuel Merlin

Morgan Stanley sees big potential – but not everyone agrees

Legoland owner **Merlin Entertainments (MERL)** is trading at all-time highs above 500p, driven by a recent bullish research note from investment bank Morgan Stanley which says a plan to add themed hotels to its parks are 'underappreciated' in both their profitability and scale.

Other analysts are more sceptical. We even note chief new opening officer John Jakobsen sold more than £750,000 worth of stock in late April; not exactly a vote of confidence in the business.

THE BULL CASE

Merlin operates well-known UK attractions including Alton Towers, Chessington and Thorpe Park.

With a target price of 580p, Morgan Stanley analyst Jamie Rollo helped sparked interest in the stock on 26 April as he asserted Merlin's earnings could jump by 26% over the next five years.

He says: 'Themed hotels provide an immersive experience for families and premium revenues to standard hotel offerings.'

According to his analysis, the company could generate £340 revenue per room per night – three to four times higher than the market average.

The firm has an ambitious rollout strategy as it aims to open 40 new Midway sites, four Legoland parks and 2,000 hotel rooms by 2020.

Rollo says this should drive mid to high single-

digit percentage growth in annual earnings before interest, tax, depreciation and amortisation.

He reckons that if Merlin exceeds these rollout targets, the share price could rally to £10 by 2022, but notes there are existing headwinds that threaten its performance. These include geopolitical risks and potential terrorist attacks.

The company's reputation was also damaged by the Smiler rollercoaster crash at Alton Towers in June 2015.

THE BEAR CASE

Berenberg analyst Owen Shirley has a 'sell' recommendation and a bearish price target of 375p. He recently cut like-for-like growth forecasts.

Shirley is cynical about the company blaming a weak tourism market for its underwhelming performance in 2016, noting overall holiday visits to the UK rose 11% year-on-year in the fourth quarter.

He also fears the Legoland parks, which he concedes have enjoyed an 'exceptional' historical performance, are running out of steam and notes free cash flow generated by the business remains negligible.

As around two-thirds of Merlin's business is overseas, another potential risk is a recovery in the strength of sterling which would act as a headwind to earnings when translated from other currencies for accounting purposes. (LMJ)



Port operator looks like a great investment

Global Ports is a great way to play growing demand for cruise travel

We're enthused by **Global Ports'** plan to acquire more cruise ports and generate additional revenue via retailing on top of standard port and service fees. The company joins the London stock market on 12 May and looks a decent investment, in our opinion.

The company currently owns 14 ports in eight countries. Two of these sites are commercial shipping ports and the rest are used by cruise ships. Global Ports has identified a large number of potential acquisitions, nearly all owned by governments or states seeking to privatise assets.

It wants to expand in Europe, the Caribbean and Asia. 'We want to buy existing ports where we can make money from day one,' says chief executive Emre Sayin.

'Our model is to run them more efficiently and add retail outlets to make more money from customers, just like the airport industry did in the past.'

SOLE CONSOLIDATOR

He says the group is the only consolidator in the market actively seeking to buy more cruise-focused ports. Its two commercial ports provide steady profit and generate cash to support expansion on the leisure side.

Global Ports made \$115m revenue in 2016 and \$81m earnings before interest, depreciation and amortisation (EBITDA). Net debt is presently 3.7 times EBITDA which is at the higher end of most investors' comfort range.

Head of corporate finance Jan Fomferra says the money raised at IPO should help the net debt to EBITDA ratio move closer to the company's targeted 2.0 to 2.5 range.

It is hoping to raise \$75m in new money, which excludes additional cash raised for existing shareholders who are selling part of their stake at the IPO. The exact amount raised will be confirmed on 12 May.

'We're comfortable with the leverage at the



moment as this is a profitable business generating lots of cash,' explains Fomferra.

'We have high visibility of earnings as cruise ships typically publish their itinerary one to two years in advance. Cruise operators make sure they always fill their ships and our fees are based on passenger numbers per ship.'

PLANS FOR BUMPER DIVIDENDS

Global Ports' IPO is expected to be priced in the range of 735p to 875p, implying a £462m to £539m market cap. It intends to pay at least \$25m (£19.3m) in dividends for the 2017 financial year. That implies a potential dividend yield between 3.6% and 4.2%.

The company will start off with a standard listing on the London Stock Exchange before moving 'in the not so distant future' to a premium listing, according to Sayin. That would make the company eligible for inclusion in FTSE indices – the implied market cap would certainly be big enough to put Global Ports in the FTSE 250 index.

SHARES SAYS: ↗

Get ready to buy on day one. (DC)

Bumper orders in building services

Worries over a slowdown post Brexit may have been overdone

A trio of building service suppliers, **T Clarke (CTO)**, **Morgan Sindall (MGNS)** and **Carillion (CLLN)**, have all reported a rush of new order wins since the beginning of May.

T Clarke upped 2017 revenue and profit guidance as it revealed that it was going to exceed the £400m mark in its order book for the first time. Morgan Sindall saw a 5% build in its order book in the first quarter while Carillion unveiled orders and 'probable orders' worth £1.3bn providing 85% visibility on 2017 revenue.

These run counter to concerns that the Brexit vote would put pressure on the building services market.

What is interesting about these firms is their

discounted valuations. All the firms are on relatively low price to earnings (PE) ratios but have relatively high dividend yields. Morgan Sindall is the only firm that trades at a PE ratio close to its market peers at about 12 times versus the sector average of 13.3 times. It offers a dividend yield of 3.3%.

T Clarke trades on a PE of 7.6 times and yields more than 4%. Carillion's PE ratio is 6.4 and it has a dividend yield of 8.6%.

Remember a strong order book does not guarantee earnings and revenue will come through as anticipated. Orders can be cancelled or delayed and operational failures can impact the profitability of awarded work. (DS)

GUINNESS

ASSET MANAGEMENT

Two Early Adopter share classes closing on 19th May

Guinness Asian Equity Income Fund

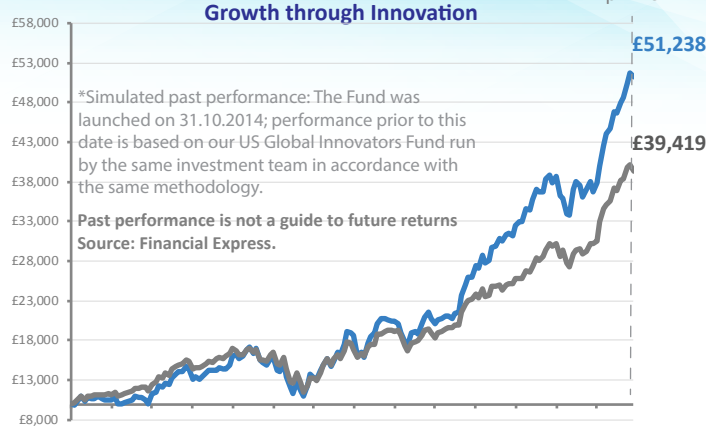
Equal weighted | Concentrated | Quality
Growing Dividends



Discrete years % gross total return (GBP)	Apr '13	Apr '14	Apr '15	Apr '16	Apr '17
Guinness Asian Equity Income	35.2	-10.2	37.0		
MSCI AC Pacific ex Japan Index	18.4	-6.8	22.5	-12.8	36.4

Guinness Global Innovators Fund

Equal weighted | Concentrated | Quality
Growth through Innovation



Discrete years % gross total return (GBP)	Apr '13	Apr '14	Apr '15	Apr '16	Apr '17
Guinness Global Innovators strategy*	25.1	20.7	21.3	-3.1	39.4
MSCI World Index	22.5	8.1	18.7	1.1	30.6

Since launch, our investors have benefited from Early Adopter Z share classes with an Ongoing Charges Figure (OCF) of 0.74%. These classes will close on the 19th of May and be replaced by our Y share class with an OCF of 0.99%. Our Z share classes are available from www.ajbell.co.uk

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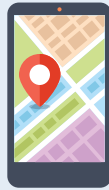
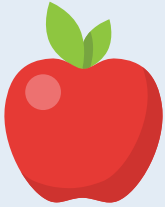
\$256.8BN APPLE IS CASHED UP

COMPANIES WILL OFTEN refer to a strong balance sheet if their cash simply outweighs their borrowings. However, it is difficult to find a superlative

to sum up US consumer electronics giant Apple's \$256.8bn of cash.

This enormous cash pile could pay for:

**601.4BN
EATING
APPLES**

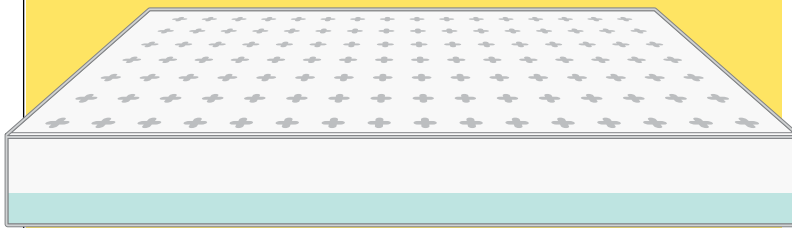


**287.9M
SAMSUNG
GALAXY S8
SMARTPHONES**

**ONE
ANNUAL
INTEREST
PAYMENT
ON THE US
NATIONAL DEBT**



70,000 PROTOTYPES



EVE SLEEP'S LENGTHY ROAD TO FINAL PRODUCT

ONLINE MATTRESS RETAILER **Eve Sleep**, which hopes to join the AIM stock market in mid-May, says its management team spent 12 years between them developing 70,000 prototypes before agreeing on the final end product. The company counts Channel 4 among its investors, as the broadcaster has a fund which takes equity stakes in exchange for advertising space on its platforms.



BEST QUARTER FOR 13 YEARS

THE FIRST QUARTER earnings season in the US was the best for 13 years, according to analysis by Bank of America Merrill Lynch. The investment bank notes that not only have earnings per share (EPS) come in ahead of expectations but revenue has also beaten forecasts. This is significant as it implies real organic growth rather than just higher EPS thanks to cost cutting or share buybacks.



2/3

GALLIFORD TRY SUFFERS BIG HIT ON LEGACY CONTRACTS

THE LEGACY CONTRACT write-offs revealed by construction firm **Galliford Try (GFRD)** at £98m effectively wipe out two-thirds of the £154m forecast pre-tax profit for 2017.

Galliford has overhauled its risk management and operating performance processes to ensure that 'new work contains sufficient allowances for risk, margin and inflation,' but heavy damage has already been done.

The company plans to take a one-off £98m hit to complete contracted work, 80% of which is down to just two Scottish projects. The troublesome work is set for completion in mid-2017 and mid-2018 respectively.



\$35,000

TESLA LAUNCHES 'AFFORDABLE' CAR

US ELECTRIC CAR manufacturer Tesla is poised to launch its Model 3 in the US. This is its most 'affordable' vehicle to date

at a pricing point of \$35,000.

The company hopes to hit production of 5,000 a week by the fourth quarter of 2017.

The car certainly looks more affordable than Tesla's shares, valued by the market at more than \$52.8bn despite the company still being loss-making.

FTSE 100: HIGHEST PROSPECTIVE DIVIDEND YIELDS

Rio Tinto	8.0%
Royal Dutch Shell	7.3%
Taylor Wimpey	7.0%
BP	7.0%
BHP Billiton	6.9%
Anglo American	6.8%
Barratt Developments	6.7%
SSE	6.5%
HSBC	6.1%
Lloyds Banking Group	6.1%

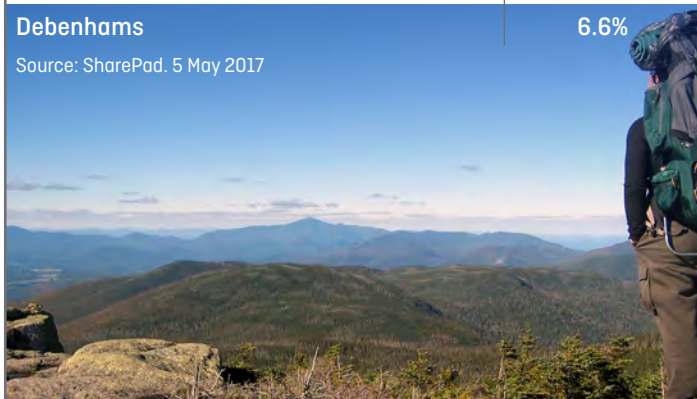
Source: SharePad. 5 May 2017



FTSE 250: HIGHEST PROSPECTIVE DIVIDEND YIELDS

Carillion	8.8%
TalkTalk Telecom	8.3%
Card Factory	7.6%
Lancashire	7.5%
Galliford Try	7.2%
Redefine International	7.0%
Aberdeen Asset Management	6.7%
Phoenix Group	6.7%
Petrofac	6.7%
Debenhams	6.6%

Source: SharePad. 5 May 2017



Ultra Electronics is a play on US defence spend

Mid cap looks well placed as Trump tries to get his military budget approved

UK-based defence and engineering company **Ultra Electronics (ULE)** generates at least half of its revenue from the US and on this basis should be feeling increasingly hopeful about its prospects.

A US budgetary process is underway and although it could prove lengthy, there is increasing confidence it will bring down the curtain on a continuing resolution which has capped military spending.

END TO THE STALEMATE?

Continuing resolutions are a thorn in the side of military contractors in the US as no new contracts can be initiated when the legislation is in place, although existing contracts can still be funded or renewed.

The legislation is introduced when Congress has reached a stalemate in negotiating a budget. Thanks to the resolution US defence spending was down overall by 0.5% in the first quarter of the year.

Analysts are keenly anticipating the fiscal 2018 defence budget request at some point this month. President Donald Trump has already signalled that he wants an additional \$53bn for military spending next year, taking expenditure to \$603bn.

In 2016 Ultra Electronics flagged concerns the Brexit vote could cause the UK Government

ULTRA ELECTRONICS **BUY**
(ULE) £21.57
Stop loss: £17.25
Market value: **£1.5bn**



to delay committing to major projects. Yet the company still increased its underlying operating profit for the year by 9.3%. This was ahead of the forecast from broker Liberum.

The company also surprised on the upside with its net debt position which was 5% better than expected, reflecting improved free cash flow.

Operationally the company looks well positioned thanks to its focus on, and expertise in, maritime and cyber warfare. These niches are neatly aligned with the spending priorities of the US and other major nations.

NAVAL POWER

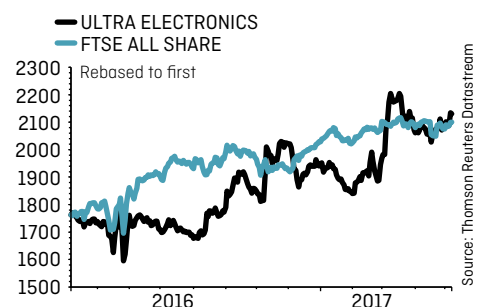
Trump plans to increase the US navy fleet size to 350 ships from 278, reflecting potential flash-points most notably with North Korea in the Pacific. Liberum analyst Ben Bourne adds that: 'Most NATO members recognise the importance of naval (specifically antisubmarine) and cyber capability, both strengths of Ultra's product portfolio.'

The US president is also trying to bring pressure on NATO members to meet their commitment of spending 2% of GDP on defence and if he is successful this could be a further boon for Ultra.

The stock trades on a reasonable-looking price to earnings ratio of 15.4 times using Liberum's estimated earnings per share (EPS) of 139.8p for 2017.

In light of Trump's initial problems of getting reforms through Congress, the increase in military spending is not a given. But this is a company that could see accelerated growth as the US bolsters its military might.

BROKER SAYS: 5 4 0



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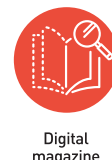
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Why we believe UBM is the main event

Recent underperformance creates buying opportunity in exhibitions firm

Don't be put off by shares in **UBM (UBM)** slightly underperforming the broader UK stock market so far this year. We think the FTSE 250 events company could be a handsome investment over time, so buy at 716.5p.

Central to our positive view is the belief that UBM will benefit from exposure to continuing growth in Southeast Asia and a resilient US economy. It is the leading business-to-business exhibitions player in the US and Asia.


The fact it generates around 40% of its revenue from North America is really interesting when you consider US companies have just reported their best first quarter earnings season in 13 years.

That backdrop could translate into positive business sentiment and hopefully greater confidence among corporates in spending money on activities such as trade events.

WHY WE LIKE EVENTS COMPANIES

Events businesses tend to deliver strong cash flow; enjoy robust revenue visibility with lots of repeat business; and, for leading events like the ones in UBM's portfolio, have material barriers to entry.

The company has sold off non-core assets to focus almost entirely on business-to-business

UBM  **BUY**
(UBM) 716.5p
Stop loss: 573.2p
Market value: **£2.8bn**



events as part of a strategy launched in 2014.

UBM has generated 14% annualised total return for shareholders over the past five years, according to data from SharePad.

The shares trade on an undemanding 14 times forecast earnings for the current financial year. A nice dividend yield of 3.2% offers another reason to hold the shares.

Although net debt has risen since the \$485m acquisition of Asian exhibitions portfolio

Allworld, which completed earlier this year, the company still has headroom for further acquisitions in a fragmented events sector.

Investment bank Liberum puts the company's net debt to earnings ratio at 1.7 times by the end of 2017.

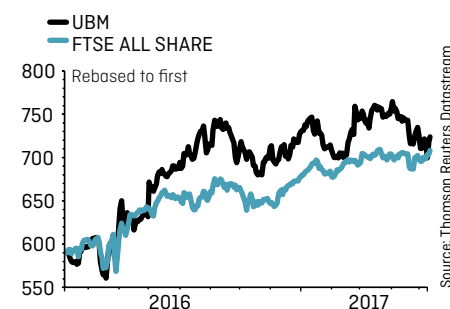
INTEGRATION OF ALLWORLD ON TRACK

At a Capital Markets Day on 4 May, the chief executive of UBM Asia, Jime Essink, noted the integration of Allworld was 'completely on track' and 'going smoother than we could ever have expected'.

By the end of 2017 Essink expects to have merged offices in six of the eight countries where both the existing UBM business and Allworld have a footprint.

Although the company would be vulnerable to a slowdown in global growth, it benefits from diversified exposure to several different sectors which should perform well at different points in the economic cycle. (TS)

BROKER SAYS: 5 13 3



TREATT

(TET) 417p

Gain to date: 61%**Original entry point:****Buy at 258.93p, 16 February 2017**

HALF YEAR RESULTS from flavour and fragrance specialist **Treatt (TET)** were very impressive and included a 63% rise in pre-tax profit to £5.5m.

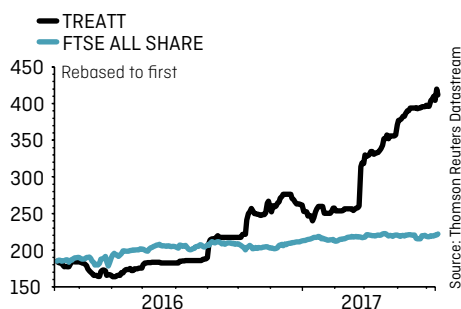
The company will now move into an investment phase, spending money in the US and the UK to provide capacity for future growth and improve technical capabilities.

The dividend was lifted by 7% to 1.45p. Treatt tends to split its dividend payments approximately one third for the first half period and two thirds at the year end. Investec forecasts the business will pay 5p for the financial year as a whole.

Treatt isn't really a stock for income investors as the yield only equates to about 1.2%. This is really a stock for capital appreciation, namely a rise in

the value of your shares.

The company has certainly delivered the goods. Its shares are up by 61% since we said to buy in February.

**SHARES SAYS:** ↗

We'll hold on to the stock for now, despite the temptation to lock in that handsome profit. Fundamentally this is a great business, so file it under the category of 'run your winners'. (DC)

BROKER SAYS: 1 0 0**CASPIAN SUNRISE**

(CASP:AIM) 9.2p

Loss to date: -4.7%**Original entry point:****Buy at 9.5p, 31 March 2017**

MIXED DRILLING RESULTS and a continuing wait for the Kazakh authorities to sign off on a key transaction with private company Baverstock are putting **Caspian Sunrise (CASP:AIM)** on the back foot.

The latest work on its BNG asset showed two of the six horizons targeted by the well are not considered worth pursuing with the remainder planned for testing.

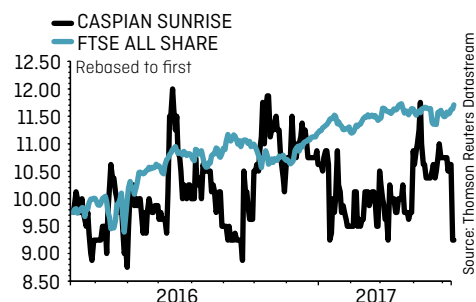
If this testing shows up a significant quantity of oil a further two wells will be drilled later in 2017.

On its deep A6 well the company noted limited recoveries of oil had been possible and a chemical wash will be used to stimulate the flow of crude from the well.

The company expects approval on the Baverstock deal, which would see Caspian lift its interest in its flagship BNG licence from 58% to 99%, by the end

of the second quarter of this year.

House broker WH Ireland keeps the faith with analyst Brendan



Long reiterating a 23.3p price target and 'buy' recommendation and commenting the company is 'poised for extraordinary value creation'.

SHARES SAYS: ↗

Keep the faith for now. (TS)

BROKER SAYS: 1 0 0

GB GROUP

(GBG:AIM) 347p

Gain to date: 37.2%

Original entry point:

Buy at 253p, 27 October 2016

IDENTITY SECURITY MANAGEMENT specialist **GB Group (GBG:AIM)** is making a substantial acquisition, buying postcode validation firm PCA Predict in a £73.8m deal.

The deal is being funded by existing cash of £15.8m and an additional £58m which has been raised through a placing of 17.06m new shares at 340p, representing 12.7% of GB's existing share capital.

The combination creates a group with turnover of more than £100m based on PCA's unaudited revenue of £13.7m in the 12 months to the end of February.

It comes off the back of a strong year-end trading update on 27 April by GB Group which revealed

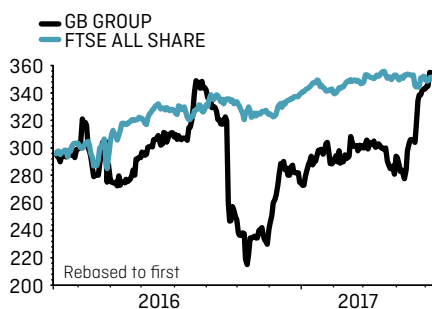
adjusted operating profit of £17m ahead of £16.4m consensus for the year to 31 March 2017.

This beat was driven by an impressive 19.5% operating profit margin which is already closing in on the 20% targeted by 2019.

The stock continues to reward the faith we displayed last October after the company reported a disappointing first half. We correctly surmised this was a blip rather than part of a wider negative trend.

We retain our faith in the stock, as Peel Hunt's

technology analyst Paraag Amin has noted 'no-one else does what GB does and it is backed by macro trends'.



SHARES SAYS: ↗

Keep buying. (TS)

BROKER SAYS: 7 0 0

Introducing the Downing Strategic Micro-Cap Investment Trust

[Find out more >](#)

Please note, capital is at risk and returns are not guaranteed.

Seeking the best value in smaller companies

- ▶ **Long-term growth:** targets 15% p.a. compound growth over a 3 - 7 year investment period (please note this is a target only and is not guaranteed).
- ▶ **Focused portfolio:** aims to invest in 12 - 18 UK micro-cap companies.
- ▶ **Strategic investments:** aims to take influential positions of 3% - 25% in each underlying business to help drive shareholder value.
- ▶ **Experience:** drawing on Downing's 30 years of experience, we employ a private equity style investment approach and an extensive due diligence process.

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RISE OF ROBOTS

Understand the opportunities as automation heads for mass adoption

The world is clearly entering one of the most transformational periods in robotics & automation. Robotics is no longer a niche theme but rather a foundational technology that will soon be applied to virtually all industries and markets.

We are at a massive inflection point in adoption across all industries, driven by increasingly lower production costs and higher performance capabilities. Cloud computing, big data, deep learning and artificial intelligence (AI) are all accelerating automation into mass market products and services that we only dreamed about a few years ago.

For investors, true robotics and automation companies are difficult to find through commonly used classification systems and their traditional investment sectors. It takes deep bottom-up analysis of companies and dedicated expertise in that field to understand from the top-down the technology and applications that are driving the robotics megatrend. Simple analysis of publicly-listed “tech” companies does not capture the robotics ecosystem.



Richard Lightbound, CEO of ROBO Global®

That's why ETF Securities has partnered with ROBO Global®, the world-leading experts behind the world's first robotics industry classification system and index. The ROBO Global® Robotics and Automation UCITS Index focuses on the interaction between technology (e.g. processing, computing, sensing) and its applications (e.g. consumer products, healthcare, 3D printing) to bring investors a transparent approach to investing. The ROBO Global® Index has generated a 96.73% return over the last 5 years, with 31.29% in 1 year.*

The index is underpinned by the expertise of ROBO Global®'s advisory board, made up of experts, academics, entrepreneurs and investment professionals. This board constantly analyses the robotics and automation universe, identifies trends and future growth opportunities.

For more information, visit etfsecurities.com/robo



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*Data as per 10 April 2017. The index criteria were modified with effect from 1 October 2014 as per the published index guidelines. For the period prior to 1 October 2014, the data is derived from the published index values which, prior to 16 June 2014, are based on simulated back-tested data. Simulated past performance data does not represent actual performance and should not be interpreted as an indication of actual or future performance. Historical performance is not an indication of or a guide to future performance.

Time to worry about BP and Shell's dividends?

Prospective yields above 7% and falling oil price could be seen as warning signs

Another bout of volatility in the oil price is helping to overshadow strong first quarter results for UK oil majors **BP (BP)** and **Royal Dutch Shell (RDSB)**. Both of these stocks are investor favourites thanks to their generous dividends.

Investors taking a view on both these stocks need to decide if their dividends are sustainable. If the answer is yes then prospective yields upwards of 7% imply a significant value opportunity.

The current oil price below \$50 per barrel makes it look more difficult for both BP and Shell to cover their dividend from cash flow, even if they continue to make efficiencies, so this is the key threshold for investors to watch.

Assuming no change to the dividend per share figure, a dividend yield will rise as the share price falls. The latter happens when the market is worried about something, so you mustn't assume the generous 7% prospective yield is representative of a healthy business.

The share price should rise as the market becomes more comfortable about earnings and the sustainability of the dividend – so



in that case the dividend yield would fall.

OIL PRICE REMAINS VOLATILE

In early May oil prices slipped to a five-month low as investors reacted to a continuing build in US inventories. The price action has effectively put an end to the impressive oil price recovery seen since last year.

The successful exploitation of large new deposits of oil contained within shale rock in the US has created a significant new source of supply. That's a key reason why oil prices collapsed in 2014,

having previously traded above \$100 per barrel.

Producers' cartel OPEC, led by Saudi Arabia, failed to react to the over-supply problem until late 2016 when its members cut output. That action merely looked to protect market share.

LOW POINT IN 2016

It is worth taking a step back to consider the direction of the oil price over the past year or so.

Oil hit multi-year lows in the first part of 2016 amid jitters over the health of the Chinese economy.

Brent crude, the European benchmark, averaged \$35.30 per barrel in the first three months of 2016. The first quarter of 2017 saw a much improved average price of \$54.70 per barrel.

**\$50 PER
BARREL IS
THE KEY
THRESHOLD FOR
PROSPECTIVE
INVESTORS
IN BP AND
SHELL TO
MONITOR**



As a result, both BP and Shell's latest set of quarterly numbers looked strong on a year-on-year basis.

A notable feature of both sets of results was the good cash flow performance as both companies have stripped out costs. On 2 May, BP revealed a 47% advance in operating cash flow to \$4.4bn and two days later Shell reported free cash flow of \$5.2bn (against an outflow of \$16.3bn in the first quarter of 2016).

WHY CASH FLOW IS SO IMPORTANT

The market wants to see both companies move closer to the point where they can fund their dividends and capital expenditure from internal cash flows rather than relying on

**BP
FORECAST
YIELD:
7.1%**

Source:
Consensus

debt, disposals and scrip dividends. The latter is a way of issuing dividends in new shares rather than cash.

Analysis by broker Canaccord Genuity suggests that based on an oil price of \$52.30, BP could cover its dividend from free cash flow in 2017.

UBS says Shell could decide to move back to a full cash dividend, and abandon its scrip dividend programme, in the first quarter of 2018.

'At this point we believe there will be enough evidence that operating cash flow can fund both the dividend and the capex. In addition, a sufficient amount of the divestment programme

will have been completed to see gearing at or around the 20% mark, identified by the company.'

RUNNING TO STAND STILL

Is there a risk both Shell and BP will simply be running to stand still if the oil price remains weak? Goldman Sachs is reporting oil may be at a capitulation

point, putting its \$50 per barrel forecast for 2017 at risk.

Goldman is influential on commodity prices and predicted \$100 per barrel oil prices

in March 2005 before that threshold was reached in February 2008.

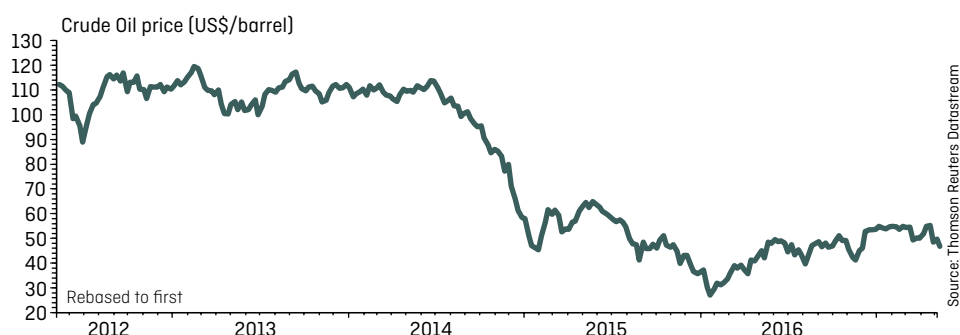
However, its forecasting credentials were tarnished when it subsequently predicted oil would hit \$200 which did not happen.

If oil prices stay below \$50 for a significant period then Shell and BP's shares could fall and their yields could rise as the market prices in the risk of a dividend cut.

BP temporarily cancelled its dividend in 2010 after the Gulf of Mexico oil spill but Shell, famously, has not cut its dividend since the Second World War. (TS)

**SHELL
FORECAST
YIELD:
7.2%**

Source:
Consensus



KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE
BOXES TO JUMP
TO A STORY

**TWO NEW IPOs LOOK TO SMALL
CAPS FOR SUCCESS**

PAGE 22



**THE EVENTS
WHICH COULD
LIFT INDIVIOR
BY 95% PAGE 38**



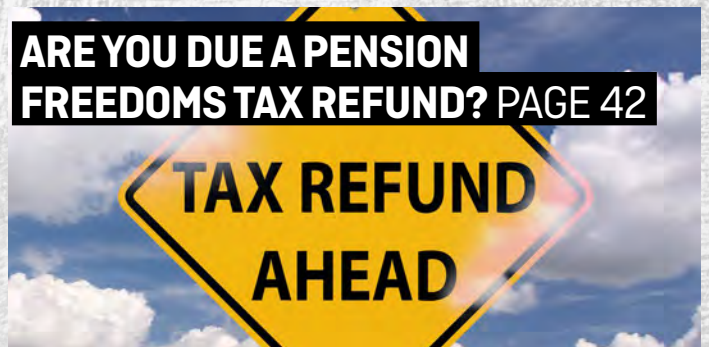
**THE NEXT BIG
EXCITING SMALL
CAP GROWTH
STORY PAGE 39**



**DOUBLE YOUR MONEY: 11 STOCKS
PICKED BY ANALYSTS TO SOAR OVER
THE NEXT YEAR PAGE 28**



**ARE YOU DUE A PENSION
FREEDOMS TAX REFUND? PAGE 42**



**DON'T BE FOOLED
BY LOW ETF FEES
PAGE 44**



BLACKROCK®

EMERGING OPPORTUNITIES



Are emerging European countries set for a return to growth? BlackRock portfolio manager **Chris Colunga** reveals the countries and sectors he's watching this year.

When one thinks of emerging markets it's often countries in Asia and Latin America that come to mind. However, that overlooks important areas such as Eastern Europe, central Asia, Turkey and Russia.

The past few years have been difficult for emerging European countries with uncertainty on the geopolitical and economic fronts, including an attempted coup in Turkey in 2016 and unrest in Ukraine since 2013.

But long-term investors who endured these periods were rewarded in 2016. The MSCI EM Europe 10/40 index returned 49.9% in the year to end December 2016ⁱ and we continue to be optimistic as we think that shares can offer good value and we see potential investment opportunities continuing to arise.

RECOVERY POSITION

We think that the emerging European region is in recovery, which is why we are looking at cyclical industries. These are companies and sectors that respond to improving conditions and a return to economic growth. So the consumer sector looks interesting as people start to spend money again. Banks also present an investment opportunity, as we believe interest rates will rise in some central European markets, driving potential for them to earn more money from loans.

In terms of countries, as of January 2017, Poland was the Trust's best performing country, followed by Hungary and the Czech Republicⁱⁱ. Russia – which accounts for 50% of the portfolio as at end February 2017 – has also benefited from an improvement in the oil price this

yearⁱⁱⁱ. There has been a lot of speculation regarding the relationship between Russia and US president Donald Trump and we have seen a relaxation in the sanctions allowing the US to import certain IT products into Russia^{iv}.

However, the signs of structural recovery and improvements in the Russian market guide our investments, rather than external noise.

INFLATIONARY PRESSURES

While inflation is coming down in Russia, the story is quite the reverse in Poland, the Czech Republic and Hungary.

During 2016 we saw inflation rates of around zero per cent and in some cases rates were in negative territory^v.

Inflation is now climbing in these countries and this is giving rise to accelerated wage growth, lower levels of unemployment^{vi} and increased investment spending in the region^{vii}. As this return to growth continues, it creates opportunities for the financial sector, which benefits from the higher rates at which banks can lend money.

To find out more about BlackRock Emerging Europe plc and to benefit from BlackRock's specialist knowledge, **visit here**.

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 Emerging Europe plc Net Asset Value	38.08	4.15	-8.26	-9.93	1.90
MSCI EM Europe 10/40 NR GBP	28.41	-1.13	-13.97	-16.43	9.24

ⁱ MSCI, in Sterling as at 31 December 2016

ⁱⁱ BlackRock, January 2017

ⁱⁱⁱ Oil Prices, as at 31 January 2017

^{iv} Department of the Treasury, Office of Foreign Assets Control, April 2015

^v Trading Economics, March 2017

^{vi} Trading Economics, February 2017

^{vii} Trading Economics, as at 31 October 2016

BlackRock, April 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.

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Two new IPOs look to small caps for success

Downing Strategic Micro-Cap and ScotGems offer new avenues for investors



Fans of small cap stocks are being treated to two new investment trusts targeting the lower end of the market cap spectrum.

The Stewart Investors-managed **ScotGems** investment trust will launch in June, targeting smaller companies in the emerging markets space. Keep reading this article to get the full details on that product.

Before we discuss ScotGems, it is also worth noting the fresh launch (9 May) of **Downing Strategic Micro-Cap Investment Trust (DSM)** which has raised £54.4m to invest in very small companies.

It is run by the same people behind the **MI Downing UK Micro-Cap Growth Fund (GB00B2403R79)** which has

achieved 18.5% annualised return over the past five years, according to Morningstar.

The new investment trust will be very concentrated, targeting a mere 12 to 18 holdings and investing in companies worth less than £150m at the time of the first investment.

Fund manager Judith MacKenzie believes Downing Strategic Micro-Cap Investment Trust would be particularly suited to someone investing in a SIPP (self-invested personal pension).

'This is a five to 10 year investment; don't invest in the micro-cap investment trust if you only have a two to three year view,' she says.

WHAT'S THE PLAN?

The investment trust plans to take between 3% and 25% equity stakes; the upper end implies that Downing could potentially become the biggest single shareholder in a company.

MacKenzie says she expects to work very closely with the investee companies, meeting them every month and

helping them such as finding appropriate directors, accessing capital and identifying ways in which to achieve operational efficiencies.

A few holdings in the existing growth fund have been earmarked by MacKenzie and her team being as suitable companies to also have in the

DOWNING STRATEGIC MICRO-CAP PLANS TO TAKE BETWEEN 3% AND 25% EQUITY STAKES

investment trust portfolio.

She wouldn't disclose their identities, merely saying investments will be made only when these companies need to issue new shares such as for an acquisition or to boost working capital.

**DOWNING'S
DUE DILIGENCE
CAN TAKE UP TO
18 MONTHS**

WHAT'S ON THE TRUST'S SHOPPING LIST?

One preferred route for Downing is to buy a stock very cheaply which has clear turnaround potential. Another is investing in a business that is trading significantly below its intrinsic value and where Downing has spotted a means by which to drive a share price re-rating.

The micro-cap segment arguably has the greatest opportunity to invest in a company trading too cheaply. There is very little analyst research at the bottom end of the market, so most investors either aren't aware of the opportunities or they have no benchmark by which to work out if something is cheap, fair value or expensive.

Very small companies may also be in much greater need for third party assistance on financing and strategy versus larger businesses, so a hands-on fund manager like Downing can find stocks where the management are receptive to suggestions for strategic change or improvement.

Mackenzie says she and her colleagues spend a considerable amount of time undertaking due diligence on stocks, potentially as long as 18 months. That's a key reason why she won't touch IPOs (initial public offerings), saying



the stock market listing process is 'too abbreviated'. Mining and early-stage tech companies are also ignored.

HOW WILL IT PICK STOCKS?

Before deciding on an investment, the fund manager looks at areas such as quality of management, cash flow, sustainable margins, balance sheet strength and the potential catalysts to drive up the value of a business.

Favoured businesses include those with positive free cash flow, asset-backed companies like housebuilders and manufacturers.

Previous examples of Downing's investments include business supplies group Office2Office. It was a mess of

a business with very low profit margins.

'We picked up shares when Hugh Cawley joined as finance director. He had a good reputation at sorting out complex operational structures. The market cap was £7m and Hugh managed to generate £7m of free cash as well,' says MacKenzie.

'I looked at the business and saw it had a nice document management division with long term contracts and good return on capital. I thought that bit alone was worth two to three times the market cap. I thought we could sell some of the other bits to Staples as they were looking to build scale in the UK.

'Eight to nine months into our due diligence we went out and

'WE WEREN'T THE ONLY ONES TO REALISE THE VALUE POTENTIAL IN THE BUSINESS. PRIVATE EQUITY FIRM ENDLESS ENDED UP MAKING A TAKEOVER OFFER AND PAID A 98% PREMIUM TO WHAT WE HAD PAID FOR OUR SHARES.'



bought as much as we could. We got 5%, but I would have had 25% if I could have got it. 'We weren't the only ones to realise the value potential in the business. Private equity firm Endless ended up making a takeover offer and paid a 98% premium to what we had paid for our shares.'

TOPICAL EXAMPLE OF A TURNAROUND STORY

A more topical example of something in the Downing growth fund is **Hornby (HRN)**. Just to clarify, this isn't something guaranteed to also appear in the new investment trust; we're merely discussing the company as an illustration of how the Downing team spot opportunities.

Hornby's shares have fallen by 64% in the past five years. In particular, the *Scalextric* owner's share price took a nasty blow in early 2016 when it issued its fourth profit warning in three years.

'The company's problem is that it cannot supply enough products to meet demand, and they also

weren't paying attention to margins. We're helping them sort it out. However, it could take another three to five years for its turnaround to be realised,' says MacKenzie.

SAY HELLO TO SCOTGEMS

The forthcoming ScotGems investment trust launch will also be a high conviction portfolio, albeit slightly higher up the market cap spectrum than the Downing product. It will have the ability to invest globally, although it is expected that the portfolio will initially be tilted towards emerging markets and Asia Pacific.

Retail investors will be able to take part in ScotGems' IPO offer from 5 June through their stockbroker or investment platform provider. The investment trust is expected to hit the stock market on 26 June.

ScotGems' lead manager Ashish Swarup says the trust will invest in companies with a market cap below \$2.5bn. He hopes the average market cap of

new investments will be under \$1bn and says 'the sweet spot' is \$500m to \$1bn.

LOOKING FOR IDEAS

Co-manager Tom Allen says he and his colleagues meet over 1,000 companies a year, seeking ideas for some of their other funds including **Stewart Investors Asia Pacific (GB0033874214)** and **Stewart Investors Global Emerging Markets (GB0033873919)**.

They often come across interesting companies which are too small to be included at meaningful levels in these

funds. ScotGems could therefore become a natural home for such investments.

It will take meaningful positions in 20 to 30 stocks where it has high conviction. 'A

\$500m market cap company might only represent a 1% position in a normal all-cap fund. We want it to represent a 5% to 6% position in a small cap fund, which is more meaningful conviction,' says Allen.

The initial portfolio is likely to include a handful of stocks which already feature in other Stewart Investors funds.

FAMILY FAVOURITES

Stewart Investors has already built up relationships with various family-run businesses in Asia, particularly in India. This is likely to be a key source of investments in the future. For example, Allen says the asset manager has invested in a number of companies owned by a particular family which has led to a new opportunity.

SCOTGEMS' SWEET SPOT IS \$500M TO \$1BN MARKET CAP

‘We look at the boards certain family members sit on,’ explains the fund manager. ‘For example, one person has appeared on the board of a small company founded by someone with whom they went to university. We’ve taken a closer at the company and found its board is full of very good people.’

Another example of a potential investment is an engineering outsourcing business where a second generation family CEO has woken up a sleepy company.

‘They are willing to forego short-term profitability for long-term benefits. We met lots of people in the company, including junior staff, to see if they were buying into the vision of the CEO.’

‘This is one of the opportunities with small caps. Most investors would screen data to find ideas; qualities such as stewardship which is central to our strategy don’t show up in the numbers for a long time,’ adds Allen.

As an asset manager, Stewart

‘OUR STYLE IS VERY CONSERVATIVE AND ONE OF OUR KEY CHARACTERISTICS IS PRESERVATION OF CAPITAL. WE’D EXPECT NOT TO KEEP UP WITH A RISING MARKET.’

Investors play close attention to quality of management. It likes long-term owners including family-controlled companies who are investing today so the next generation owners take over a solid business. It also prefers companies resisting the pressure to take on lots of debt or do share buybacks.

WHO MIGHT LIKE SCOTGEMS?

Allen believes ScotGems is best suited to someone with at least a five to seven year investment time horizon. ‘Our style is very conservative and one of our key characteristics is preservation of capital. We’d expect not to keep up with a rising market.’

Don’t let that cautious remark put you off. Stewart Investors

has a very good track record in not only beating relevant indices but, more importantly, also delivering positive returns for investors.

For example, its Global Emerging Markets fund has achieved 11.2% annualised returns, net of fees, over the past 10 years versus 7.4% from the MSCI Emerging Markets index.

Stewart Investors’ Asia Pacific Fund has achieved 13% annualised return over the same time period, compared to 9.3% from the MSCI AC Asia Pacific ex-Japan index.

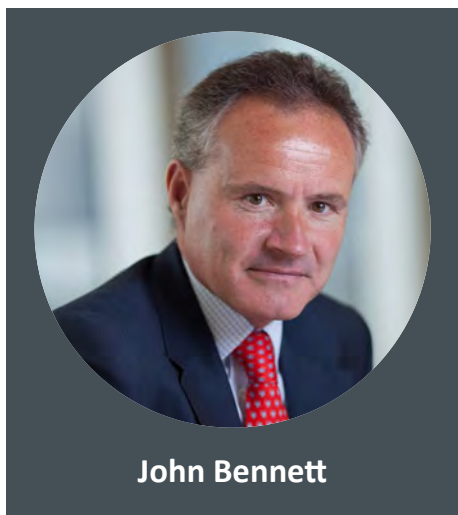
It is worth noting that the asset manager runs its portfolios without reference to a benchmark index and the aforementioned Global Emerging Markets and Asia Pacific funds have different structures and policies to ScotGems. (DC)

RETAIL INVESTORS WILL BE ABLE TO TAKE PART IN SCOTGEMS’ IPO OFFER FROM 5 JUNE



THE EUROPEAN VALUE OPPORTUNITY

INTERVIEW WITH JOHN BENNETT,
MANAGER OF THE HENDERSON EUROPEAN FOCUS TRUST



John Bennett

CAN YOU DESCRIBE THE TRUST?

Henderson European Focus Trust (HEFT) invests across a range of different size companies, mainly in continental Europe. It looks for capital growth rather than income paying assets, and is a focus portfolio,

so will invest in between 50 to 60 stocks. I've been managing the Trust since 2010.

WHY SHOULD EUROPE BE CONSIDERED BY INVESTORS CURRENTLY?

I think if investors do consider allocating to Europe they should do so in the belief that the world, before Brexit, before Trump, was moving globally from a growth to a value market. Growth stocks are those that have the potential for strong growth of earnings in the future, and will tend to be favoured by investors in markets where economic growth is perceived to be low or slowing. Value stocks are those that appear to be under-priced relative to their fundamentals, so sales or revenue and so forth, and will tend to be favoured

when growth is perceived to be stronger or growing.

So, value favours possibly Japan, but I think that it also favours Europe versus what has been the long-term lead market – in performance terms – which is the US. Europe is much more of a value construct. That is why investors should look at Europe right now. Value is back. And I do find it instructive that the Stoxx 600 as a proxy for Europe has outperformed the Standard & Poor's 500 index since Trump. So I think if you are of a mind to buy value, you'll find it in Europe.

IS YOUR INVESTMENT APPROACH SUITABLE FOR CURRENT CONDITIONS?

We certainly hope our approach is suited to current conditions. I think the key aspect of our

approach is that we are not style-specific. I don't like getting stuck in a style cul-de-sac, where investors say I'm only a growth manager or I'm only a value manager. So, we tilted quite early towards value, over the last 12 to 15 months actually. And so, if we're right that value is back, and Europe is back, and Europe is actually going to outperform this year, then I think we are correctly positioned. Because we are the most tilted to value we have been in some considerable time.

WHERE DO YOU SEE THE MOST COMPELLING OPPORTUNITIES?

The most compelling opportunity for me in Europe right now is value. The most difficult to own is banks. They are probably the poster child companies of European value investing. They have been an optical illusion of value for about a decade. We think that is changing. So, if you can stomach volatility (and I do condition it that way, because I see so many investors running away from volatility over the last ten years, which really intrigues me – I think it is the wrong thing to do); if you can embrace volatility, then I think European banks are going to surprise on the upside.



HOW IMPORTANT IS POLITICS FOR EUROPEAN EQUITY MARKETS?

I think the French election is another classic example of a Brexit situation, a Trump situation, the Dutch man with the bouffant hair (Geert Wilders) – who failed to win the Dutch election, situation; the Austrian election, the German election. I think they are all one and the same – a just another brick in the 'wall of worry'. They are reasons for

investors to worry - I don't think we should be complacent about these events - but I think every manager should be asked 'what value do you have to add in guessing the outcome to an election'. And even if you knew the result of that election, by goodness look at Brexit and Trump, if you knew the result you very probably would have set up the wrong portfolio. So, I would say to investors, ignore it, because you can't add any value.

Before investing in an investment trust referred to in this document, you should satisfy yourself as to its suitability and the risks involved, you may wish to consult a financial adviser.

The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

Nothing in this document is intended to or should be construed as advice. This document is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment.

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DOUBLE YOUR MONEY

11 STOCKS PICKED BY ANALYSTS TO SOAR OVER THE NEXT YEAR



Fancy doubling your money in a year by investing in an exciting stock? Sounds great, doesn't it? It's harder than you think, but certainly not impossible.

Over the past 12 months, robotic process automation specialist **Blue Prism (PRSM:AIM)** is up by 439%; online musical equipment retailer **Gear4Music (GFM:AIM)** has increased

by 341%; and computer games service group **Keywords Studios (KWS:AIM)** is trading 214% higher, for example.

Approximately 130 stocks have increased by 100% or more in value over the past year, according to Sharepad. That's roughly 6.5% of the 2,000 companies that make up the entire UK stock market, as represented by AIM and London's Main Market. A very impressive figure.

Over the course of this article we'll look at stocks which analysts are confident could deliver spectacular returns over the next 12 months. We'll explain how they came to this conclusion and look at some names in more detail.

Before we go any further, it is important to stress that this approach and the companies we will discuss are incredibly high risk.

SHARE PRICE RISE OVER PAST YEAR FOR A SELECTION OF OIL, GAS AND MINING STOCKS

Jersey Oil & Gas	1740%
SolGold	1140%
Monchhichi	913%
Ironridge Resources	906%
Kodal Minerals	653%
Strategic Minerals	650%
Petro Matad	645%

SHARE PRICE RISE OVER PAST YEAR FOR A SELECTION OF OTHER SECTORS

EVR	886%
Altitude	612%
Blue Prism	439%
Gear4Music	341%
Sopheon	322%
BooHoo	288%
ProPhotonix	280%

Source: SharePad. Data to 5 May 2017

Most of the stocks require either a major event to push up the share price, or they are currently depressed due to various issues and hard work is needed to get back on track.

IS THIS GAMBLING OR INVESTING?

The line drawn between gambling and investing is typically based on someone's perception of risk.

Many might associate investing with sober decisions involving relatively large sums of money. It's for serious people.

Gambling, on the other hand, that's just for laugh and perhaps a bit of excitement involving relative pocket change. It's for people to stick a tenner on black (or red) at the casino, or backing that 100-to-one outsider at the track. It's for fun.

What we're really talking about is an attitude to risk.

Putting money in the stock market for your retirement or for your children's school fees is a long game. It typically means quite a bit of hard work, often involving meticulous research before coming to a decision.

This is sensible investing of the type that could mean incremental capital gains and a steady stream of decent dividends. Lower risk, some might say, although investing in equities (which is another word for stocks and shares) is never risk-free.

Most people do not want to gamble with such 'serious' money that is vital for their financial future. But once in a while, and only if there is surplus cash in the kitty, many active investors want a bit more excitement. This article is firmly positioned in that camp.

SHALL WE ROLL THE DICE?

Sometimes rolling the dice on a high-risk stock with

SYNAIRGEN: WHEN HIGH RISK/HIGH REWARD SITUATIONS GO WRONG

Shareholders can really feel the pain when something goes wrong with a high risk/high reward stock. Just look at biotech firm **Synairgen (SNG:AIM)** whose shares fell 50% in a single day in April 2017 when FTSE 100 partner **AstraZeneca (AZN)** pulled the plug on an experimental drug designed to help patients fight common cold viruses.



the potential to make a substantial profit is worth the 'gamble'.

Most investors would love the idea of being in early on a new technological development, backing an exploration firm just before it strikes oil, or being a shareholder in a biotech that makes a vital cancer breakthrough, to give three examples.

We see this type of profit potential right now on the UK stock market, although we also see a large amount of stocks that could lose you money fairly quickly. You need to weigh up the risks and rewards for every investment – whether it is a long-term or short-term buy. Do not pick stocks blindly.

Read on to discover 11 stocks deemed by investment banking or stockbroking analysts to be 'cracking buys' with considerable share price upside. We've provided some commentary on each company.

BUY ONE OR SPREAD THE RISK?

Given the extreme potential for volatility and failure of such high-risk shares, investors might take a diversified approach and spread the risk of disaster over several promising shares in the hope that one or two prove themselves and rocket.

These types of stocks should only form a very small part of an investment portfolio due their high risks. Don't invest any money that you cannot afford to lose.



'THE LINE DRAWN BETWEEN GAMBLING AND INVESTING IS TYPICALLY BASED ON SOMEONE'S PERCEPTION OF RISK.'

HOW DO ANALYSTS CALCULATE PRICE TARGETS?

Investment analysts put share price targets into the market, typically as a useful guide to the potential upside or downside to a current share price.

They tend to be subjective instruments designed to help investors distinguish between stocks which an expert thinks 'will move up a bit and those you think will treble,' as one analyst has explained to *Shares*.

Most price targets are based on goals or valuations that analysts believe to be achievable within the next 12 months.

Price targets can be based on a simple extrapolation of a higher price to earnings (PE) ratio, for example. ABC plc trades on a current PE of 12 but the rating should be 15, based on various factors.

Apply 15-times earnings per share (EPS) rather than 12 and bingo, there's your price target.

More often than not you'll find calculations are much more detailed. Enterprise value to earnings before interest, tax, depreciation and amortisation (EV/EBITDA) is sometimes used; so too sum-of-the-parts (SOTP) models.

The latter strip down the various operating segments of a business and apply appropriate valuations to each based on growth rates and operating profits and margins, then piece together the sums.

There is also the discounted cash flow (DCF) model, which uses some fairly complicated mathematics based on future cash generation, then subtracts back to the present.

PARKMEAD (PMG:AIM) 46.1P

TARGET PRICE: 116.3P (CONSENSUS)

DIFFERENCE BETWEEN CURRENT SHARE PRICE AND TARGET PRICE: 152%

EXECUTIVE CHAIRMAN Tom Cross established Dana Petroleum as a buy-and-build oil and gas play in the North Sea in the mid-1990s and it was acquired for £1.5bn by the Korean state vehicle KNOC in 2010. He's trying his luck again with Parkmead.

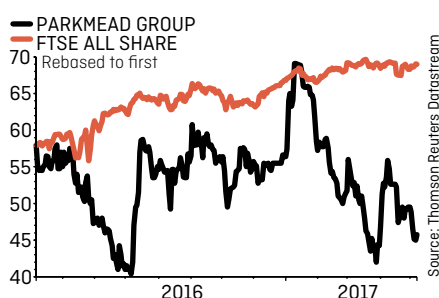
Results for the six months to 31 December 2016 showed a gross profit of £0.7m, reversing a loss of £4.1m for the same period a year earlier. That was thanks to the end of loss making production from the Athena field and growth in Dutch natural gas production.

Hitting the ambitious price target for the stock is likely to be dependent on the company putting its £26.7m net cash

to work in mergers and acquisitions.

Broker Panmure Gordon, which has a 105p price target and 'buy' recommendation on Parkmead, says: 'The pace of deal activity is picking up and Parkmead's strong balance sheet puts Tom Cross in a good position to reprise his old magic.' (TS)

**CAN
PROVEN DEAL
MAKER REPRIS
HIS OLD
MAGIC?**



NANOCO (NANO:AIM) 31.75P

TARGET PRICE: 75P (PEEL HUNT)

DIFFERENCE BETWEEN CURRENT SHARE PRICE AND TARGET PRICE: 136%

CADMIUM-FREE QUANTUM dots technology developer Nanoco could be 'on the cusp of commercialisation', according to one analyst.

Its technology, which brings industry-leading sharpness, colour and clarity to digital displays, is in being evaluated by nine original equipment manufacturers (OEMs), and that's just through its relationship with

Taiwanese industrials group Wah Hong.

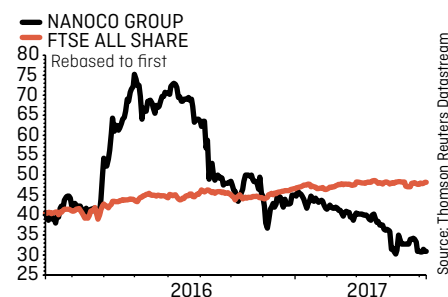
While smartphones, tablet computers, digital advertising boards are all potential markets for the company, for now it is all about TVs. Hisense, TCL and TPV Philips all demonstrated TVs featuring Nanoco technology at January's Consumer Electronics Show in Las Vegas.

A possible share price catalyst could be a long awaited contract for mass production TVs using its technology, first designed at the University of Manchester before Nanoco was spun out as an independent company.

Beset with delays, Nanoco has been something of a poster child for breakthroughs shifting further out, and the share price has acted accordingly, slumping from highs of nearly 200p four years ago.

Yet it has commercial partnerships with global industrial giants, such as the Taiwan firm, the US's Dow Chemical and Merck of Germany. That's heavyweight assistance and CEO Michael Edelman remains confident that a breakthrough deal is close. (SF)

**CEO
CONFIDENT OF
BREAKTHROUGH
DEAL VERY
SOON**



VENTURE LIFE (VLG:AIM) 58.5P

TARGET PRICE: 128P (PANMURE GORDON)
DIFFERENCE BETWEEN CURRENT SHARE PRICE AND
TARGET PRICE: 119%

VENTURE LIFE IS a consumer healthcare company focused on self-care products targeted at the global ageing population. It develops, makes and commercialises a range spanning oral care products, food supplements for lowering cholesterol and maintaining brain function, not to mention medical devices, cosmetics as well as eye and skin care products.

**HEADING
TOWARDS
SUSTAINABLE
PROFITABILITY**

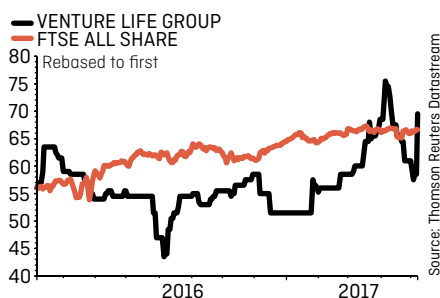
'We consider Venture Life to be a well-positioned growth business taking advantage of a well-developed product platform, with high-quality execution,' says Panmure Gordon analyst Mike Mitchell. 'Lower risk compared with biopharma sector stocks; this is a clinically-backed vertically integrated business with good potential to combine both acquisitive and organic growth.'

'The strategy developed and executed over the last three years across products, team, structure and resource is now delivering significant operational leverage with a platform towards sustainable profitability.'

The company achieved in 2016 maiden EBITDA (earnings before interest, tax, depreciation and amortisation) profitability of £800,000 (2015: £600,000 loss) on sales up 57% to £14.3m.

Highlights included the integration of the UltraDEX oral care brand, as well as a flurry of new product launches from partners and the inking of numerous international distribution deals.

The New Year appears to have started strongly, although investors should be mindful of increased net debt and the fact liquidity in the shares could be better. (JC)



ARIANA RESOURCES (AAU:AIM) 1.66P

TARGET PRICE: 3.31P (PANMURE GORDON)
DIFFERENCE BETWEEN CURRENT SHARE PRICE AND
TARGET PRICE: 99%

YOU COULD double your money over the next year by investing in Ariana Resources, claims broker Panmure Gordon. Its 3.31p price target is approximately twice the miner's current 1.66p share price.

Ariana has just started production on the Kiziltepe gold and silver mine in Turkey. Theoretically miners should see an upwards re-rating when they move from developer to producer, reflecting their shift from consuming cash to generating cash. That hasn't happened (yet) at Ariana.

**MINER
SHOULD
COMMAND HIGHER
RATING NOW IT IS
A PRODUCER**

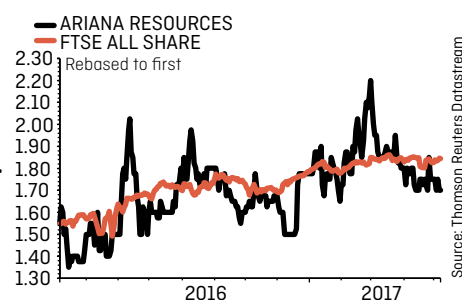
The market seems worried that Ariana won't generate enough cash in the short term and will need to raise more money for working capital, potentially at a discount to the share price.

The company is also too small at the moment to attract interest from institutional investors so the share price is at the mercy of retail investors, many of whom only want to trade mining stocks for quick wins and not hold the shares for very long.

We believe Ariana's share price might stand a better chance of moving up once it can show its mine is operating smoothly.

Another catalyst could be new exploration work this summer on a gold project in Turkey called Salinbas. This is located close to Hot Maden, a very high quality gold prospect which has caused a lot of excitement in the market and saw its 30% owner **Mariana Resources (MARL:AIM)** receive a takeover offer in April.

It is common to experience teething problems with new mines, so don't assume Kiziltepe will run without any hitches. It remains to be seen how exploration at Salinbas will be funded. (DC)



HORIZONTE MINERALS (HZM:AIM) 2.4P

TARGET PRICE: 8P (FINNCAP)

DIFFERENCE BETWEEN CURRENT SHARE PRICE AND TARGET PRICE: 233%

THE MINER HAS a substantial nickel exploration project in Brazil and plenty of cash to complete a feasibility study. FinnCap says Horizonte is trying to position itself as one of the lowest cost nickel producers globally.

The market isn't overly interested at the moment due to weak nickel prices and question marks over how a £29m business will raise an estimated £354m to build the mine. Raising that amount of money won't be impossible as long as the nickel price is in a rising trend and there is positive sentiment towards the mining sector at the time. (DC)

IMMUPHARMA (IMM:AIM) 54P

TARGET PRICE: 171P (NORTHLAND CAPITAL)

DIFFERENCE BETWEEN CURRENT SHARE PRICE AND TARGET PRICE: 217%

THE BIOTECH is undergoing its Phase III trial for its core treatment Lupuzor to help treat lupus, an autoimmune chronic inflammatory disease with no cure.

Lupuzor modifies the behaviour of certain key cells involved in the development of the disease. Northland Capital analyst Vadim Alexandre believes Lupuzor has blockbuster potential.

Investors should recognise the potential risks such as a negative outcome of its Phase III trial or more expensive drug development costs than originally anticipated. (LMJ)



SEEING MACHINES (SEE:AIM) 3.88P

TARGET PRICE 12P (FINNCAP)

DIFFERENCE BETWEEN CURRENT SHARE PRICE AND TARGET PRICE: 209%

THE COMPANY'S driver monitoring systems are already being resold into the mining industry by Caterpillar; the next leg up will likely be in cars.

A deal with one massive car maker could see some luxury models roll off production lines later this year, but getting a second or third original equipment manufacturing (OEM) motor deal is perhaps what is needed to really ignite the share price.

Fleet trucks, trains and planes are target market opportunities at an earlier stage, and don't rule out EU regulations enforcing implementation of monitoring equipment to avoid major crash catastrophes. (SF)



TRINITY EXPLORATION & PRODUCTION (TRIN:AIM) 13.25P

TARGET PRICE: 37P (CANTOR FITZGERALD)

DIFFERENCE BETWEEN CURRENT SHARE PRICE AND TARGET PRICE: 179%

THE OIL producer completed a restructuring process around the turn of the year. It now has sufficient capital to fund a work programme onshore Trinidad which could lift production to 3,000 barrels of oil per day in the coming 12 months.

Trinity needs to achieve this output level if it has any chance of hitting Cantor's price target. (TS)

ST IVES (SIV) 51.25P

TARGET PRICE: 125P (NUMIS)

**DIFFERENCE BETWEEN CURRENT SHARE PRICE AND
TARGET PRICE: 144%**

THE MARKETING services group has suffered a squeeze on profit margins due to intense competition in several parts of its business. Investors have had to stomach several profit warnings over the last few years and a big dividend cut.

Broker Numis reckons St Ives 'is showing signs of being through the worst'. Contrarian investors might find some interest in the stock at present, although ongoing weak share price implies the market remains sceptical until the small cap shows an improvement in trading. (DC)

DEKELOIL (DKL:AIM) 13.75P

TARGET PRICE: 29P (CANTOR FITZGERALD)

**DIFFERENCE BETWEEN CURRENT SHARE PRICE AND
TARGET PRICE: 111%**

SHARES IN West African palm oil producer DekelOil could more than double to 29p according to Cantor Fitzgerald. The company owns and operates the low cost Ayenouan palm oil project in Cote d'Ivoire. It is enjoying stronger production and improving selling prices for crude palm oil and palm kernel oil.

Given the strategic attractions of its assets, some experts believe DekelOil could emerge as a takeover target in time, although commodity price volatility and macro and political events are ongoing risks to consider. (JC)



VELOCYS (VLS:AIM) 52P

TARGET PRICE: 103.5P (CONSENSUS)

**DIFFERENCE BETWEEN CURRENT SHARE PRICE AND
TARGET PRICE: 99%**

A GOOD FIRST step to small-scale gas-to-liquids play Velocys delivering the upside identified by analysts is demonstrating that its technology is commercial.

Its most advanced project is the ENVIA Energy GTL plant in Oklahoma City. Broker Canaccord Genuity reckons a run period of as little as six months 'will be enough to demonstrate the viability of the process' and the ENVIA plant came on stream in February.

If the development fails to deliver, we see a high potential for the share price to collapse. (TS)



MONDAY 15 MAY

TRADING STATEMENTS

DIGNITY	DTY
NATIONAL EXPRESS	NEX

INTERIMS

DIPLOMA	DPLM
LONMIN	LMI
VICTREX	VCT

TUESDAY 16 MAY

FINALS

BTG	BTG
NEWRIVER RETAIL	NRR
VODAFONE	VOD

INTERIMS

JACKPOTJOY	JPJ
ZYTRONIC	ZYT

TRADING STATEMENTS

CYBG	CYBG
EI GROUP	EIG
EASYJET	EZJ
ITE	ITE

WEDNESDAY 17 MAY

FINALS

BRITISH LAND	BLND
C&C	CCR
JZ CAPITAL PARTNERS	JZCP
SSE	SSE

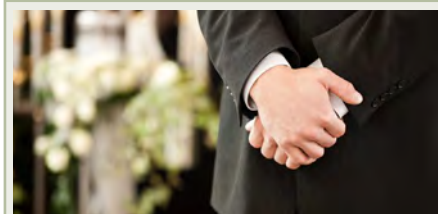
INTERIMS

BREWIN DOLPHIN	BRW
PATISSERIE	CAKE
COUNTRYSIDE PROPERTIES	CSP
MITCHELL & BUTLERS	MAB
REDX PHARMA	REDX

TRADING STATEMENTS

COATS	COA
PREMIER OIL	PMO

THURSDAY 18 MAY



DIGNITY

Shares in funeral services firm **Dignity (DTY)** have stalled in the past year as investors become increasingly concerned the abnormally high death rates in 2015 and 2016 will not be repeated. Look for an update on market share in a first quarter trading statement on 15 May. Its share of the UK market fell from 12.3% to 11.8% in 2016.



BREWIN DOLPHIN

Wealth manager **Brewin Dolphin (BRW)** will release its interim results on 17 May, giving the market the opportunity to see if this £950m cap company can match the pace of its more nimble rivals.

Investors should look at assets under management and profit to assess the health of the business. Brewin's £28m acquisition of fellow wealth manager **Duncan Lawrie** was approved in April by the City regulator and is expected to complete in May.

FINALS

BLOOMSBURY PUBLISHING	BMJ
BOOKER	BOK
BURBERRY	BRBY
DAIRY CREST	DCG
ELEKTRON	EKT
INVESTEC	INVP
LAND SECURITIES	LAND
NATIONAL GRID	NG.
ROYAL MAIL	RMG

INTERIMS

EUROMONEY	ERM
INSTITUTIONAL INVESTOR	
MARSTON'S	MARS
SSP	SSPG
THOMAS COOK	TCG

TRADING STATEMENTS

BALFOUR BEATTY	BBY
HARGREAVES LANSDOWN	HL.
RANK GROUP	RNK

EX-DIVIDEND

ASCENTIAL	ASCL	3.2P
BALFOUR BEATTY	BBYB	5.38P
BLACKROCK	BEEP	\$0.08
EMERGING EUROPE		
BLACKROCK	BRNA	1.25P
NORTH AMERICA		
BLACKROCK SMALLER	BRSC	13P
COMPANIES TRUST		
BELLWAY	BWY	37.5P
CAPE	CIU	2.5P
CLARKSON	CKN	43P
DIGNITY	DTY	15.74P
ELDERSTREET	EDV	1.5P
FIDELITY SPECIAL	FSV	1.8P
VALUES		



EASYJET

Budget airline **EasyJet (EZJ)** announced annual passenger growth of 7.8% on 5 May and half year results on 16 May should reveal how the company is performing in terms of revenue and profit. Year-to-date the share price is up nearly 30% but on a one-year view the shares are still down nearly 10%.

GREAT PORTLAND ESTATES	GPOR	11.65P
GREAT PORTLAND ESTATES	GPOR	20.5P
HSBC	HSBA	\$0.1
HOWDEN JOINERY	HWDN	7.4P
IMPERIAL BRANDS	IMB	28.85P
INCHCAPE	INCH	16.8P
INTERQUEST	ITQ	1P
INTERTEK	ITRK	43P
KELLER	KLR	19.25P
MEDICX FUND	MXF	1.5P
NORTH AMERICAN INCOME TRUST	NAIT	14.5P
NON-STANDARD FINANCE	NSF	0.9P
PAGEGROUP	PAGE	8.23P
POLAR CAPITAL GLOBAL HEALTHCARE	PCGH	1.65P
PROVIDENT FINANCIAL	PFG	91.4P
ROBINSON	RBN	3P
RAVEN RUSSIA	RUSP	3P
ROBERT WALTERS	RWA	6.2P
SCIENCE GROUP	SAG	4.2P
TED BAKER	TED	38.8P
TANDEM	TND	2.6P
THE RENEWABLES INFRASTRUCTURE GROUP	TRIG	1.6P
TT ELECTRONICS	TTG	3.9P
UK COMMERCIAL PROPERTY TRUST	UKCM	0.92P
UTILITYWISE	UTW	2.3P
WITAN PACIFIC INVESTMENT TRUST	WPC	2.55P
WITAN INVESTMENT TRUST	WTAN	4.75P

Source: Shares

Click here for complete diary
www.sharesmagazine.co.uk/market-diary

Get to grips with world's largest advertising agency

What does WPP do and how does it deliver for shareholders?

Advertising giant **WPP (WPP)** is one of a handful of genuine global market leaders on the London Stock Exchange.

The £21.5bn cap is the world's largest advertising agency. Investment bank Credit Suisse reckons it has a 30% market share among the top six in its industry and a 14% share in the industry as a whole. Although that is very impressive, investors have experienced a fairly rocky ride of late.

Shares in WPP are down more than 10% since announcing lukewarm full year results on 3 March. A relatively downbeat first quarter update did little to help sentiment and reflected the loss of major accounts with telecoms group AT&T and car manufacturer Volkswagen.

At £16.84 the shares offer a prospective yield of 3.8% and trade on a 2017 price-to-earnings (PE) ratio of 13.2 times based on consensus forecasts. The yield and stock rating both look attractive, so should investors look past short-term issues and buy as a long-term holding?

WHAT DOES WPP DO?

Starting in the mid-1980s, chief executive and founder Martin Sorrell used a defunct wire shopping basket manufacturer Wire and Plastic Products (hence WPP) as a vehicle for acquisitions.



The first big move was the \$566m hostile takeover of New York based agency J. Walter Thompson in 1987. Sorrell now runs a portfolio of more than 160 communications companies.

The parent group, effectively a holding company, fulfils three key roles:

- It relieves media agencies from administrative work, accounting, investor relations, budgeting, etc...
- It enables separate companies (owned by WPP) to work together for individual clients.
- For certain clients it can offer an effective advertising,

marketing, public relations (and more) one-stop shop, providing a single point of contact and accountability.

The company has healthy exposure to emerging markets which should prove beneficial in the long term. It has invested heavily in data and technology and is a leading the way in programmatic buying (the automated purchase of unsold space on websites) and digital marketing.

Historically WPP has derived a significant chunk of its profit by purchasing advertising space for its clients online, in print and on the airwaves. More recently there have been fears advertisers

would look to cut out the middle man and deal directly with the likes of Facebook and Google.

The recent YouTube scandal, when advertisers saw their valuable brands displayed alongside extremist content, shows the risk of this approach.

HOW DOES IT MAKE MONEY?

There are several elements to WPP's financial model. Depending on economic conditions the business will look to deliver organic growth of between zero and 5% per year. In 2017, the company is guiding for sales growth of 2%.

The company also aims for margin improvement of 0.3% per year out to a long-term target of 19.7%. In 2016, its margin stood at 17.4%.

Organic growth and efficiencies are supplemented

by £300m to £400m worth of acquisitions per year, funded from healthy free cash flow. Most of these are bite-sized bolt-on acquisitions rather than the big strategic deals (which often end up going wrong).

The company aims each year to buy back between 2% to 3% of its shares and pay out 50% of its earnings in dividends.

In stable economic conditions investment bank Credit Suisse believes this model can deliver a total return of 13% to 14% per year.

Data from Sharepad shows WPP has delivered an 11% annualised total return to shareholders over the last 20 years, not including special dividends and share buybacks. Notably this is a period which encompasses the global financial crisis.

KEY RISKS

In the wake of that economic meltdown, WPP slipped to a PE of 7 and in 2009 saw its business contract by 8%. History suggests the shares would be vulnerable if we saw a major economic shock, although given the long-term record any share price weakness could represent a chance to add to a position at a discounted rate.

A more pertinent risk is the age of CEO and key man Martin Sorrell. At 72 he is unlikely to remain in the top post beyond the medium term and the company will need to secure a smooth succession.

SHARES SAYS:

We think WPP would represent a good long-term holding for any portfolio. Buy at £16.84 (TS)

BROKER SAYS:

WPP's DNA

ADVERTISING

Global, national and specialist advertising services from a range of international and specialist agencies, among them Bates CHI & Partners, Grey, JWT, Ogilvy & Mather and Y&R.

MEDIA INVESTMENT MANAGEMENT

Media planning and buying, specialist sponsorship and branded entertainment services from GroupM companies MediaCom, MEC, Mindshare, Maxus, plus Tenthavenue and others.

DATA INVESTMENT MANAGEMENT

WPP's Kantar companies include TNS, Millward Brown, Kantar Futures. They undertake brand, consumer, media and marketplace insight.

PUBLIC RELATIONS AND PUBLIC AFFAIRS

Corporate, consumer, financial and brand-building services from PR and lobbying firms Burson-Marsteller, Cohn & Wolfe, H+K Strategies, Ogilvy Public Relations, Finsbury and others.

BRANDING AND IDENTITY

Consumer, corporate and employee branding

and design services from Addison Group, Brand Union, FITCH, Lambie-Nairn, Landor Associates, The Partners and others.

DIRECT, DIGITAL, PROMOTION AND RELATIONSHIP MARKETING

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This is made up of digital experts including Blue State Digital and Possible.

Source: WPP

The events which could lift Indivior by 95%

There are big potential drivers for the share price

Stockbroker Numis believes that shares in specialty pharmaceutical business **Indivior (INDV)** could surge by up to 95% over the next year thanks to three potential catalysts.

Since its spin-off from **Reckitt Benckiser (RB.)** in late 2014, Indivior's strategy has been built on its prescription medicine Suboxone Film. The drug aims to help people tackle addiction to opioids and painkillers.

Indivior has experienced share price volatility over the last 12 months thanks to legal issues and lower profit. In its full year results, pre-tax profit in 2016 dropped to \$98m, down from \$285m in 2015.

There are several imminent events which could renew interest in the stock. Over the next few weeks, Indivior is expecting a decision from the US District Court of Delaware concerning its patent challenge trials against Dr Reddy's, Actavis and Par for Suboxone. The companies are trying to get rid of Indivior's license for the medicine so they can launch similar products.

BINARY OUTCOMES

Numis analyst Paul Cuddon speculates the patent will remain as the company won the first case and evidence was uncovered that Dr Reddy's is struggling to manufacture a uniform film.

If Indivior loses the case, it would allow others to release a generic version of Suboxone, although they would still require approval from the US Food and Drug Administration (FDA).

Another potential source of upside is a settlement with the US Department of Justice over marketing and promotion practices, paediatric safety concerns and overprescribing of medication by specific physicians.

Cuddon assumes that Indivior, which has \$220m set aside for this litigation, will pay at least \$300m if a settlement is agreed, although notes this could rise to \$500m.

However, he believes it is 'less material to a longer term cash flow valuation analysis' thanks to

substantial existing cash resources and imminent future cash flow from its injectable treatment RBP-6000.

RBP-6000 aims to treat opioid addiction through a monthly injection and is currently in Phase III trials, with management hoping for approval from the FDA by the end of 2017.

NEW DRUG LAUNCH

Indivior has upgraded its projected peak net revenue forecast for this new product from a range of \$400m to \$700m to a higher figure of \$1bn.

With a planned launch for the first quarter of 2018, Cuddon attributes most of the share price potential upside to the approval of RBP-6000, if it happens.

Numis has a bull case target price of 640p and the shares currently trade at 328.7p. Its base case target is 490p. (LMJ)



The next big exciting small cap growth story

Organic growth and R&D make Focusrite a sweet-sounding investment

Tune into the increasingly sweet-sounding growth story offered by **Focusrite (TUNE:AIM)** at 263p.

Forecast-busting half year figures (3 May) and a confident outlook suggest scope for additional earnings upgrades from this high margin, strong cash generator at the forefront of technology developments.

Focusrite is a market leading music and audio technology company supplying hardware and software to professional and amateur musicians.

It trades under two established brands; audio recording equipment brand Focusrite and Novation, a specialist in hardware and software for creating and playing electronic music.

DIFFERENTIATION, NOT PRICE

'We don't compete on price, we compete on differentiation,' says enthusiastic new CEO and former professional musician Tim Carroll.

Focusrite's products and solutions are gaining traction with consumers around the globe and levels of repeat business with customers are building.

Half year results revealed sales up 23.7% to £32m, growth delivered in all major geographic

regions with the US a stand-out performer and China growing strongly. Pre-tax profit powered 89.1% higher to £4.6m.

Focusrite is expanding its Focusrite and Novation brand ranges with innovative products.

These exciting wares include the second-generation Scarlett USB audio interface range, which has rapidly become the world's best-selling interface. RedNet products are penetrating the live sound and broadcast business-to-business market; and the Launchpad grid instrument, which is aimed at younger musicians and whose growth potential has been amplified by distribution via Amazon.

A BIG NOISE

We see Focusrite sustaining this heady growth momentum given its unwavering investment in product innovation and scope to enter new markets.

The £153.9m cap continues to invest 6% to 7% of revenue on product development.

At the half year, Focusrite reported a £9.4m net cash pile. This solid balance sheet gives Focusrite the firepower to grow organically, with Carroll also scouting for acquisitions. Dividends were increased by 15% to 0.75p.

For the year to August 2017, Panmure Gordon forecasts pre-tax profit of £10.8m (2016: £9.2m), rising to £11.9m by 2018.

Based on this year's 12.6p (2016: 11.4p) earnings estimate, Focusrite's prospective price to earnings PE ratio of 21 times is punchy. But given the global market share gains Focusrite is making, we're staying positive, particularly as forecasts are conservatively pitched.

SHARES SAYS: ↗

A compelling growth story stock with a healthy private investor following, Focusrite has a record of under-promising and over-delivering. Buy at 263p. (JC)

BROKER SAYS: 1 0 0



First Property is greedy when others are fearful

Company goes against the tide of big institutions and snaps up UK commercial property

Commercial real estate investor **First Property (FPO:AIM)** is becoming more serious about the UK for the first time in 10 years.

The company exited most of its UK property in 2007 as its chief executive Ben Habib says the market had 'topped out'. The company subsequently moved into Polish properties, Habib noting they had lower valuations with higher yields.

Habib is now interested in UK property because 'of the nervousness of the institutions, they're not buying [since Brexit]'. The company recently invested in two UK properties costing in excess of £23m.

For First Property, the business model is all about the yield gap, which is the yield on the property compared to the cost of borrowing against it. This had disappeared in 2007 hence the company's retreat from the UK but due to low interest rates and attractive valuations has now returned.

The firm trades on a price-to-earnings ratio of nine times and yields 3%. First Property has its



assets split equally between the UK and Poland at the moment, but Poland brings in 85% of the revenue. Habib says this gap will narrow once the UK funds are fully invested.

SHARES SAYS: ↗

At 51p the shares look an interesting prospect with a return to the UK property market.

BROKER SAYS: 1 0 0

Porta shares rally as founder quits

THE MARKET SEEMS to believe a board reshuffle can revive the fortunes of media firm **Porta Communications (PTCM:AIM)**. At 3.5p the shares are up nearly 30% since executive chairman David Wright announced his retirement. He is replaced by John Foley who also does a similar role at safety testing and training group **Premier Technical Services (PTSG:AIM)** and recruitment agency **Servoca (SVCA:AIM)**. (TS)

Transport problems take shine off miner

GOLD DIGGER **Caledonia Mining (CMCL:AIM)** has downgraded its 2017 production guidance by up to 13% due to transportation issues. It now expects to produce between 52,000 and 57,000 ounces versus the previous 60,000 ounce target. Earnings guidance is slashed by up to 29%; moving from 34c to a range of 24c to 31c per share, based on a \$1,275 per ounce gold price. (DC)

Waterman in £43m takeover approach

SMALL CAP engineering consultancy **Waterman (WTM)** has received a 140p per share takeover offer, representing an 83% premium to the market price on the night before the news. The offer has come from Japanese consultant CTI which will fund the deal out of its existing cash pile. The deal, which values Waterman at £43m, is CTI's first acquisition outside of Japan. (DC)



SHARES

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Companies presenting

Caledonia Mining Corporation (CMCL) Maurice Mason, Vice President

Caledonia is an exploration, development and mining company focused on Southern Africa. Caledonia's primary asset is a 49% interest in the Blanket Mine in Zimbabwe which produced over 45,500 ounces of gold in 2013 at a cash cost of US\$613/oz. Caledonia has a strong, experienced management team and Board of Directors with diverse expertise in gold production, exploration, mine development, finance and marketing.

The Merchants Trust PLC Simon Gergel, CIO UK Equities - Allianz Global Investors & Manager - The Merchants Trust PLC

Established in 1889, the Merchants Trust PLC aims to provide its shareholders with an above-average level of income which increases over time. The trust is managed by Simon Gergel, Chief Investment Officer, UK Equities at Allianz Global Investors.

Healthperm (HPR) David Sumner, Chief Executive Officer

Healthperm was founded with the objective of addressing the acknowledged shortage of permanent nurses in the healthcare systems in the UK and the UAE, through the recruitment of experienced professionals from the Philippines. The Board believes that Healthperm has the potential to provide both capital growth and income through dividends for shareholders.

Saffron Energy (SRON) Michael Masterman, Chief Executive Officer

Michael Masterman the well-known natural resources entrepreneur and CEO of Saffron Energy will update attendees on Saffron Energy Northern Italy natural gas projects at Sillaro, Bezzacca and at Sant'Alberto.

More to follow...

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Are you due a pension freedoms tax refund?

Many retirees have incurred thousands of pounds in unnecessary tax costs

You may have paid thousands of pounds too much in tax if you made a single ad-hoc withdrawal from your retirement pot from age 55 following the introduction of the pension freedoms just over two years ago.

The tax quirk is most likely to have affected those who take a single Uncrystallised Funds Pension Lump Sum (UFPLS) payment in a given tax year.

Tens of thousands of savers are likely to have accessed their fund in this way, while anyone planning on making a withdrawal could also be affected.

Those who are taking a regular monthly income from their fund, either through flexi-access drawdown or an annuity, should be taxed at the correct rate.

HOW DOES IT WORK?

When you access your pension pot through UFPLS, you'll get 25% tax-free and the remaining 75% should be taxed at your marginal rate of income tax.

For example, if you make a £13,333 UFPLS withdrawal, £3,333 (25%) should be tax-free and £10,000 taxed at your marginal rate.

Given the personal allowance for 2017/18 is £11,500, if you had no other income the entire withdrawal should be tax-free.

However, many savers will have already been left confused or angry – or both – after finding



a large chunk of their withdrawal has disappeared to the taxman. This is because HMRC rules mean that in most cases your pension provider will tax a single UFPLS withdrawal on a 'Month 1' basis.

Under 'Month 1', your total tax allowances for the year are divided by 12, and the tax

is then taken off your pension withdrawal.

What's the result? Rather than paying zero tax, the saver in the previous example would be hit with a charge of over £3,000.

Similarly, a £15,000 withdrawal would be overtaxed by more than £5,000, while a £40,000

HOW MUCH TAX SHOULD YOU PAY?

UFPLS withdrawal amount	Tax due if withdrawal was saver's only source of taxable income
£2,667 (£2,000 taxable)	£0
£6,667 (£5,000 taxable)	£0
£13,333 (£10,000 taxable)	£0
£20,000 (£15,000 taxable)	£698
£53,333 (£40,000 taxable)	£5,698



UFPLS payment would be hit with a £16,000 charge – over £10,000 more than should have been paid (see accompanying table).

The actual tax paid will depend on whether you have any other sources of income. It's also worth noting the figures might alter if you live in Scotland as tax bands are different north of the border.

Clearly failing to do the right paperwork – and it is onerous for anyone who doesn't have a regulated financial adviser – can be extremely costly.

HOW TO RECLAIM YOUR MONEY

As with many things tax-related the solution isn't straightforward. How to make a claim for any

overpaid tax depends on the nature of the withdrawals and your personal circumstances.

IN BRIEF:

1 If the payment used up the entire pension pot and you had no other income in the tax year, HMRC form P50Z needs to be filled out.

2 If the payment used up the pension pot and you have other taxable income, HMRC form P53Z needs to be completed.

3 If the payment didn't use up the pension pot and you are not taking regular payments, fill in HMRC form P55. This form can only be used

if the pension provider cannot process the refund.

HMRC says that, once it has received the relevant paperwork, you will receive any tax due to you within 30 days. It's up to the individual to notify them using the relevant form.

Anyone who doesn't will be relying on the taxman fixing the problem and there is no guarantee you will get the money when you need it.

A POSSIBLE SOLUTION

I understand why HMRC has taken this stance on single UFPLS withdrawals. By placing the responsibility for sorting out tax on the individual, it reduces its own administration burden and in the process boosts short-term tax revenues.

However, it seems grossly unfair to place all the responsibility on people who think they are doing the right thing by keeping withdrawals below the relevant income tax band.

This is particularly the case for basic rate taxpayers who are less likely to either have an adviser or any experience in filling out tax returns.

There is a simple solution to all of this. For over two decades HMRC, under capped drawdown, allowed withdrawals to be taxed on a 'Month 12' basis without any problems or complaints.

Reverting back to this system for single UFPLS withdrawals would be fairer and simpler for those the system is supposed to work for, namely savers.

TOM SELBY,
senior analyst, AJ Bell

Don't be fooled by low ETF fees

Tracking difference is a far better indicator of a product's performance

Deciding which exchange-traded fund (ETF) to buy can be difficult when you're presented with a handful of products tracking the same index. You might lean towards the one with the cheapest headline fee, but this won't necessarily be the best way forward.

THE IMPACT OF HIGH CHARGES

In many instances fees can make a big difference to performance. If you invested £1,000 into an ETF with a total expense ratio (TER) of 0.07% your money would be worth £1,618 after 10 years, assuming an annual return of 5%.

All else being equal, if you chose an ETF with a 1% TER your money would be worth £1,480 – that's £138 less.

Because ETFs track an index you would assume an ETF with a 0.2% TER would underperform its index by 0.2% and an ETF with a 0.25% TER would underperform by 0.25%. This isn't always the case.

'The main factor influencing the returns of ETFs are fees, but there are other factors too which mean that an ETF charging a higher fee may produce better returns than an ETF with a lower fee,' says Jose Garcia Zarate, associate director of passive strategies research at Morningstar.



WHY TRACKING DIFFERENCE IS A BETTER MEASURE

Although the headline fee can be a useful initial differentiator, the more important figure to look at is 'tracking difference'. This figure shows how much less (or more) an ETF has returned relative to its index, usually over a one year period. If the FTSE 100 has grown 10% in a year and your investment returns 9.8%, your tracking difference is -0.2%.

An analysis of nine FTSE 100 ETFs by Source shows that in most cases the higher the TER the worse the tracking difference, but there are exceptions. **Lyxor FTSE 100 UCITS ETF (L100)** has a TER of 0.15% and a tracking difference of -0.02%. **HSBC FTSE 100 UCITS ETF (HUKX)** is cheaper with a

TER of 0.07% but its tracking difference is -0.15%.

CAUSES OF TRACKING DIFFERENCE

Aside from the TER, a common reason for tracking difference is the cost of buying and selling equities. This will be greater if the index rebalances frequently because the ETF will need to change its holdings accordingly. ETFs that track an index with lots of securities or which rebalance frequently due to their design will incur greater costs.

Tracking difference tends to be greater in emerging markets ETFs than in developed markets ETFs.

'An emerging markets index is harder to replicate because the ETF is investing across a wide range of time zones with different

tax and market regimes. There can also be complications around currency rates,' says Chris Mellor, executive director at Source.

THE SAMPLING TECHNIQUE

In some instances the tracking difference could be down to human error. This is particularly the case when an ETF doesn't fully replicate the underlying index but engages in 'sampling'. This is where the ETF buys a sample of the index's securities because it isn't possible nor cost-effective to buy all the securities. If an ETF uses sampling it is more likely to have a greater tracking difference because the constituents don't exactly match the benchmark.

'Although the management process of ETFs is highly automated, there is a human making decisions about what securities to hold in the sampling technique,' says Garcia Zarate.

SYNTHETIC VS PHYSICAL REPLICATION

ETFs which use synthetic replication rather than physical replication show little or no tracking difference. A synthetically replicating ETF tracks an index without buying the underlying assets of the index. The ETF issuer enters into a swap agreement with a counterparty (usually an investment bank) who agrees to pay the issuer the performance of the index.

Tracking accuracy is one of the main benefits of synthetic replication, but this method exposes you to counterparty risk. There is a chance the investment bank issuing the product could go bust and fail to deliver on

CAUSES OF TRACKING DIFFERENCE

Total expense ratio (headline fee)

Rebalancing costs

Swap spread

Tax

Dividends

Sampling

Securities lending

Source: ETF Securities



its obligations. It is also a more complex process to understand. As a result, some issuers only offer physically replicating ETFs.

WHY SOME ETFs OUTPERFORM

In some instances an ETF could perform better than its benchmark. This could happen where the ETF manager doesn't have to pay as much tax as has been assumed by the index. Mellor says the S&P 500 net return index assumes the ETF will pay a 30% withholding tax on dividends. If the ETF is domiciled

in Ireland the tax will be 15% because of a tax treaty between Ireland and the US.

Another reason for outperformance is dividends.

The FTSE 100 is normally quoted without dividends whereas an ETF or tracker fund always receives the dividend payments, boosting its performance.

Some ETFs engage in securities lending, the revenue of which can reduce the cost of the ETF and, in some cases, completely offset the product's internal costs. Securities lending involves the ETF making short-term loans of the underlying stocks or bonds in the portfolio. The institution borrowing the stock must compensate the ETF and provide collateral.

Securities lending can generate extra returns for investors but it introduces more risk – the borrower could default and the collateral might not be sufficient to cover the cost of reacquiring the security.

MAKE SURE THE ETF IS RIGHT FOR YOU

Fees and tracking difference aren't the only factors to consider when choosing an investment. Adam Laird, head of ETF strategy, Northern Europe at Lyxor says you shouldn't be tempted to buy an inappropriate investment simply because it's cheap.

'Think about the investments a fund holds and how the fund fits your portfolio and objectives. Make sure it's easy to trade, to monitor and that the manager is reputable. In the end, no fee is low enough if the investment isn't right for your circumstances,' he adds. (EP)

When an ETF becomes too popular

What happens when a product gets too big for the index it is replicating?

There are some incredibly niche exchange-traded funds (ETFs) available to investors. For example there is an ETF that tracks drone manufacturers. The US-listed PureFunds Drone Economy Strategy ETF tracks the Reality Shares Drone Index which comprises 47 companies 'actively involved in drone-related technologies'.

But what would happen if everyone suddenly decided drones are the future and piled en masse into the ETF? It would have capacity issues, meaning the ETF would simply get too big for the small underlying index it tracks.

ALL THAT GLITTERS

This has happened with **VanEck Vectors Junior Gold Miners (GDXJ)**. The ETF has had to widen the index it tracks as its assets under management (AUM) ballooned to around \$4bn. One issue is that under Canadian rules, if a shareholder has a 20% stake in a company it has 'to automatically extend a takeover offer to all remaining shareholders at the same terms,' according to a Scotiabank report. GDXJ has 18% stakes in 10 Canadian companies so has to move fast.

From June, the MVIS Global Junior Gold Miners Index methodology will change to include mining companies with




market caps between \$75m and \$2.9bn. This is a substantial increase from its prior range of \$75m to \$1.6bn.

In the interim the ETF is adding holdings from outside its index. These include shares in its big brother, the **VanEck Vectors Gold Miners (GDX)** ETF which has an average market cap of

\$9.3bn, hardly the territory of junior miners.

This is not the first time GDXJ has run into problems. Market Vector Index Solutions expanded the universe for the Junior Gold Miners Index after the ETF provider ran into similar problems in 2014. According to Scotiabank's analysis, the 2014



‘IF YOU CHANGE THE INDEX YOU HAVE A CLEAR RULE WHERE YOU WILL INVEST. THEN THE INVESTOR CAN DECIDE IF THEY WANT TO STAY WITH THAT NEW INDEX OR NOT’

change effectively doubled the market cap range.

WHY INDEX CHANGES MAKE SENSE

The amendments do not seem fair for investors who have picked a product purely for exposure to the junior gold mining universe. For Detlaf Glow, head of EMEA research at funds rating firm Lipper, this is preferable to the alternative. ‘Van Eck going really off benchmark with big bets is worse for investors than changing the index.

‘If you change the index you have a clear rule where you will invest. Then the investor can decide if they want to stay with that new index or not,’ he says.

A US-based manager for a large ETF provider who preferred not to be named, says: ‘We have conversations with index providers to make sure they’re building indices in the best interest of the investors’. However they say using holdings not contained within the index is fine as long as they produce a similar

risk/return profile.

For US investors, there are plenty of ETFs that track small gold mining firms, for instance Sprott’s Junior Gold Miner ETF which has around \$55m in AUM. UK investors do not have the same level of choice.

THE RISK OF CONTAGION

Van Eck’s problem may not be an isolated issue as there are other providers issuing ETFs that track niche but potentially popular indices. For example, something like iShares MSCI Frontier 100 ETF could have issues if the ratings agency, MSCI, reclassifies some of the countries the ETF tracks from a frontier rating to an emerging markets rating.

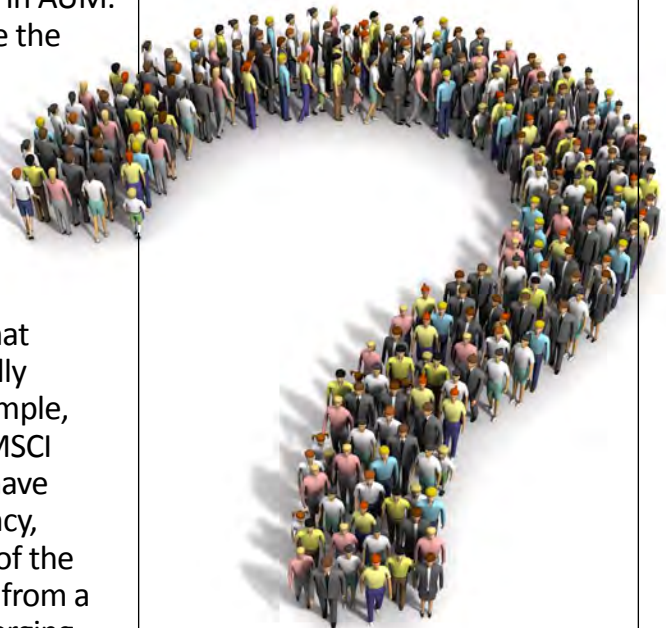
Glow says this would be more of an issue for the index provider than the ETF firm but adds it’s the investor most at risk.

One ETF provider who did not want to be named chooses index provider FTSE over MSCI as they view the countries in

its emerging markets category as being more fitting. They say that South Korea, an emerging market under MSCI, is a developed market according to FTSE.

If an investor picks an emerging market ETF using MSCI indices that includes South Korea, and it is subsequently reclassified as a developed market, losing the sheer market capitalisation of the country will negatively impact the fund.

Ultimately, ETF providers face the dilemma of closing funds which have become too popular or as in Van Eck’s case change the respective benchmark. However, this might not go down well with investors who could choose to sell the fund. (DS)





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