STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

THE STRONGEST COMPANIES ON THE UK STOCK MARKET

DO HIGH PROFIT MARGINS MAKE THEM INVINCIBLE?

CYBER SECURITY STOCKS IN HOT DEMAND AFTER RANSOMWARE ATTACK

WHY GLOBAL FUNDS DON'T ALWAYS LIVE UP TO THEIR NAME

EVE SLEEP IPO: IS THIS THE NEXT FEVERTREE?

FTSE 100 BREAKS 7,500 LEVEL FOR FIRST TIME EVER

Is this loss making firm really worth £140m?

Think of Fevertree and Purplebricks when you look at new IPO, Eve Sleep

Investors looking for the 'next big thing' may want to take a closer look at **Eve Sleep (EVE:AIM)**, which joins the stock market today (18 May).

You may think its £140m market valuation is completely unjustified for a loss making business. However, many investors were also quick to dismiss **Fevertree (FEVR:AIM)** and **Purplebricks (PURP:AIM)** when they joined the stock market for having unrealistic growth ambitions – and just look at them now.

Fevertree is up 1,139% since floating on the stock market in November 2014; and Purplebricks has risen by 253% since its IPO (initial public offering) in December 2015. I can see some similarities between these two stocks and Eve Sleep in terms of growth potential.

ALL ABOUT THE GROWTH

I thought Fevertree looked dull when it joined the stock market as a supplier of tonic water and ginger ale. Yet its sales have consistently grown since joining AIM and I've lost count for how many times it has said that trading is ahead of market expectations.

Purplebricks saw its share price struggle in its early days as a listed company as many people said its shares were overvalued. What sceptics failed to recognise was the rapid growth potential in the business – which has since become very clear.

Eve Sleep is an online retailer of mattresses, pillows, sheets and duvets, offering a 100 day free trial and 10 year guarantee for mattresses. It is one of several online players in its market disrupting an industry populated for decades by retailers with physical stores.

Fevertree has thrived thanks to customers regarding its products as being high quality, thereby differentiating itself from the more generic competition.

Purplebricks is not unique in offering an online platform to buy and sell a house. However, it certainly has a first mover advantage in terms of disrupting the marketplace and having invested a substantial amount of money in marketing to drive brand awareness.

Eve Sleep looks like a blend of both these situations. A glance at various online reviews would suggest that customers like the quality of its products. It has also made quite an impression on the market in terms of brand awareness, given the business is less than three years old.

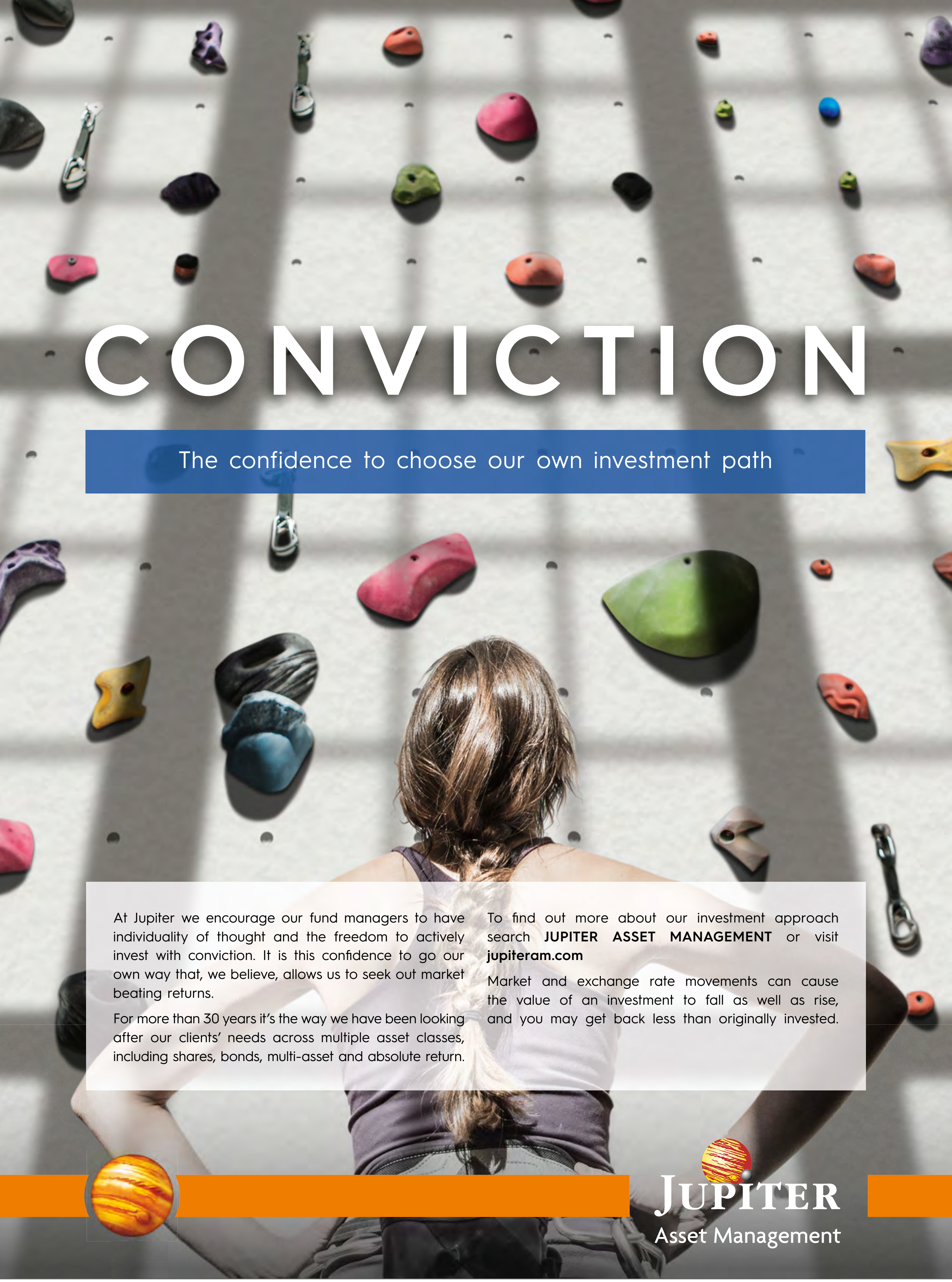
CASHED UP AND READY TO GO

The £35m raised alongside its IPO provides decent firepower to fund a greater level of marketing. The company claims the European market opportunity for mattresses is worth £5bn. I'd imagine it would need to raise even more money next year to throw at marketing in order to sustain momentum with growing brand awareness.

Venture capital investor Octopus invested three times in the business before it joined the stock market. 'We knew the team were unusually talented entrepreneurs who would dare to go big and create change, and that's exactly what they have done,' says Luke Hakes, investment director at Octopus Ventures.

Eve Sleep saw revenue jump from £2.6m in 2015 to £12m in 2016. Losses at the adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) level moved from £1.5m to £11.3m in the same time period.

Investors are being asked to pay nearly nine times the most recent year's sales, if you exclude the new cash. That may not be too excessive if 2017's sales are significantly higher than 2016's. Purplebricks was valued at approximately 12 times forecast sales for the financial year when it floated, excluding cash raised at IPO. (DC)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BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: 4 2 1 means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

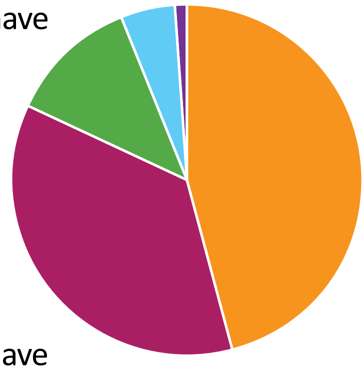
The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

Investors swarm over UK cyber stocks

Ransomware attack sparks surge in demand for specialist shares

Organisations across the world have been thrown into disarray by a ransomware hacking attack that has hobbled IT systems. That's prompted investors to take another look at firms which help defend against cyber security breaches.

Experts are calling it the biggest ransomware attack so far, with more than 200,000 computers believed to have been infected from Russia to Taiwan. The event shut down IT systems that manage parts of the NHS, German railways, Nissan and scores of other organisations across the globe.



The significant news resulted in investors flocking to cyber-related stocks at the start of the week. FTSE 250 networks and security services specialist **Sophos (SOPH)** rallied nearly 8% to 367.1p when stock market trading began on 15 May, adding nearly £120m to its market value.

We've consistently backed the business for success since it joined the stock market in July 2015 at 225p per share, and it remains one of our top pick in the security sector.

Manchester-based IT security consultancy **NCC (NCC)** saw its share price rally by more than 3% to 142.25p on 15 May, while much larger gains were chalked-up by AIM cyber companies.

Shares in consultancy and managed services minnow **ECSC (ECSC:AIM)** soared almost 26% to 497.5p. That pushed the company's market capitalisation to nearly £45m, three-times its £15m valuation at its IPO (initial public offering) on 14 December 2016.

Distributed denial of service (DDoS) specialist **Corero Network Security (CNS:AIM)** increased by nearly 13% to 8.75p on the same day.

DDoS attacks are similar to ransomware infections in that they are both forms of shutting down targeted websites and IT systems, normally for cash, although not exclusively.

Corero has developed its own SmartWall platform which it sells to internet service providers among others.

RANSOMWARE EPIDEMIC

Ransom attacks can be highly lucrative business for online criminals. Financial gain is believed to be the primary motive behind the majority of attacks on enterprise systems. These accounted for 41% of cyber-attacks in 2016, claims data from security firm Radware, up from 25% in 2015.

Most attacks are instigated through spam and phishing emails, which encourage the unwary to click on links under false pretences, opening the cyber backdoor for criminals.

'According to IDC, global spending related to cybersecurity services, software and hardware reached $74bn in 2016,' says investment bank Societe Generale. 'IDC expects spending to reach $100bn by 2020. That would represent an average annual growth rate of 8.3%, twice the expected growth in overall IT spending.' (SF)

Cause for optimism on UK stocks

A third of advisers think London shares will provide 'best' medium-term return

A new report from pension, insurance and investment firm Aegon UK shows a third of financial advisers believe UK shares will generate the 'best return' for clients on a three to five-year view.

At the same time, data from investment bank Morgan Stanley shows 64% of UK companies posted first quarter earnings ahead of consensus expectations, providing some support for this confidence in the prospects for UK plc.

RECORD HIGHS

The UK stock market continues to perform strongly with the FTSE 100 trading at a new record above 7,500 at the time of writing. The mid cap FTSE 250 index also hit its best ever level earlier in May.

Financial adviser opinion is somewhat split with some eyeing these all-time highs nervously; 16% of respondents in the Aegon research think UK stocks are the most overvalued asset class.

Four months into Donald Trump's turbulent presidency, UK financial advisers have also signalled a move away from US equities, which have outperformed most other equity markets since 2009.

Nearly two in five (38%) of financial advisers think US equities are the most overvalued asset class.

The S&P 500 is a hair's breadth away from its highest point despite ongoing scandals relating to the Trump administration.

Interestingly Morgan Stanley's analysis of the reaction to better-than-expected first quarter results globally shows 'misses have generally been punished more than beats have outperformed' suggesting 'a reasonable degree of earnings optimism is already in the price'.

VICTIM OF THEIR OWN SUCCESS

Aegon's investment director Nick Dixon comments: 'Developed markets like the US have outpaced other equities in recent years and now appear to be a victim of their own success with financial advisers turning to alternatives that offer the potential for better returns.

'While advisers are pointing towards long-term value in UK equities, the split in their opinions is reflective of continued uncertainty about the longer-term impact of Brexit.

'A rise in inflation and stunted wage growth signal a warning for financial advisers and demand a higher margin of safety as the volatility of the pound and political strain continue to pose a risk.'

Dixon says Aegon itself favours the UK and Europe over the US but is taking a more cautious approach and has increased the weighting of cash in its portfolios. (TS)

Imagination facing fight for independence

Looming IP battle with Apple may spark sale of graphics technology company

The long-term independent future of UK graphics chip designer **Imagination Technologies (IMG)** looks increasingly in doubt.

The Hertfordshire-based company is facing a potentially long and expensive battle with Apple, which has announced plans to cut intellectual property (IP) ties with Imagination.

Imagination designs graphics processing units (GPU), called PowerVR, that run the slick visuals on iPhones and iPads, such as games and video.

Apple plans to develop its own GPU chips in-house once the current licensing agreement with Imagination comes to end, potentially within 15 months to two years. That puts 45% of Imagination's revenue and 60% of its profit at risk.

BIG CHALLENGE FOR APPLE

Imagination implies it will be nearly impossible for Apple to develop its own chips without infringing on the UK company's IP rights.

Dispute resolution procedures under its existing licence agreement have been triggered, but analysts remain sceptical.

'With Apple adopting strong arm tactics with all those it has disputes on IP resolution, we do not expect Imagination to arrive at an acceptable conclusion through such mechanisms,' says Liberum analyst Janardan Menon.

Apple has fought IP battles with several chip technology companies including Qualcomm, Nokia and InterDigital.

LOSS-MAKING FUTURE?

Imagination plans to sell its MIPS and Ensigma operations to bolster its balance sheet and slash costs. MIPS is Imagination's central processing unit (CPU) business which is essentially a brain that powers computers. Ensigma develops connectivity technology designs for Internet of Things (IoT) applications.

In the six months to 31 October 2016, MIPS and Ensigma suffered £7.8m of operating losses on combined revenue of approximately £21m. In contrast, PowerVR generated a £13.5m operating profit on £43.3m of licensing and royalty revenue.

Analysts think PowerVR will become loss making once Apple stops being a customer.

Liberum's Menon has cut his share price target for Imagination from 325p to 95p, which is just below the current 103.53p trading price. He offers a bleak outlook even if some operations are sold leaving just the PowerVR business.

'In the absence of significant cost cuts and assuming a high single digit revenue growth for the business, it will take another five to six years before the business turns profitable in our estimation,' says Menon.

TAKEOVER TARGET?

One leftfield possibility is that Imagination is bought out by another chip technology business also in dispute with Apple in an attempt to strengthen its own hand.

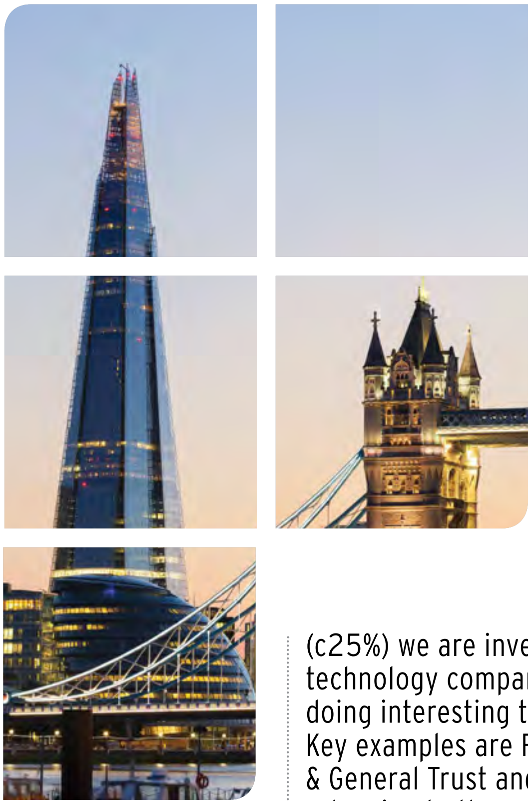
Imagination's graphics IP is world class and valuable but there are too many unknowns to guess at potential share price values, in our opinion. (SF)

FINSBURY GROWTH & INCOME TRUST PLC

Finsbury Growth & Income Trust

The outlook for the world's economy and consequently for global and UK equities is as promising as at any time since, say, the formal founding of the London Stock Exchange in 1801. The reasons to be cheerful arise from technology. Virtually every company we meet tells us that digital technology is changing their business and mostly for the better; either offering unprecedented cost savings, or, more important, new growth from enhanced products and services. It is equally significant that technology promises to bring about a marked reduction in the cost of energy, as fracking, solar and battery combine to undermine the old cartels. Look back through economic history - the big leaps forward for homo sapiens tend to be associated with new, cheaper energy sources.

For Finsbury Growth & Income Trust we look to benefit from these benign trends by investing across three broad themes. Our heaviest exposure (c50% of the total portfolio) is to the owners of great global consumer brands - everything from Johnnie Walker and Remy Martin through Magnum Ice Cream and Oreos to Burberry. We expect people around the world to get richer and these brands to benefit - as they have done already over decade after decade. Next,



NICK TRAIN

(c25%) we are invested in a number of UK technology companies or UK companies doing interesting things with technology. Key examples are RELX, Sage, Daily Mail & General Trust and Fidessa. Finally, returning to the opening proposition that Equity as an asset class is cheap, we are long term investors in several stock market proxies (c25%), that should do well if we are correct to be optimistic Examples are Hargreaves Lansdown, Schroders and that 200 year–old growth company, the London Stock Exchange itself.

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PADDY POWER'S FANTASY BET

PADDY POWER BETFAIR (PPB) has paid $19m initial consideration for a daily fantasy sports business that isn't forecast to break even for another two years.

The acquisition is a business called DRAFT which offers something similar to fantasy football leagues, albeit focused on the major US sporting leagues across baseball, hockey, American football and golf.

DRAFT claims a broader segment of its customers are winners compared with some of its rivals where a large percentage of winnings go to just 1% of the players.

Paddy Power will boost marketing spend on DRAFT to help it maximise revenue growth opportunities.

HIGH STREET BANK RETURNS TO FULL PRIVATE OWNERSHIP

UK TAXPAYERS CAN enjoy a £900m windfall from the Government's bailout of **Lloyds Banking (LLOY)**. Chief executive Antonio Horta Osorio says taxpayers got back this sum above the amount put in to save the bank in 2009, once dividends are included.

Chancellor Philip Hammond has warned the 72% stake in fellow recipient of state funds **Royal Bank of Scotland (RBS)** could be sold at a loss.

$502m IMPROBABLE UK 'UNICORN'

THIS IS THE amount of fresh growth funding secured by Cambridge-based virtual reality start-up, Improbable. The firm's technology is typically used in gaming design but founders Herman Narula and Rob Whitehead have much wider applications in mind in future. The new cash comes from Japan's Softbank, which is not taking a controlling interest (more than 50%). This implies the rest of the business is worth more than $502m, qualifying Improbable as a UK 'Unicorn' – a start-up innovation business worth in excess of $1bn. Softbank was behind the £24.3bn takeover of former FTSE 100 UK chip design champion ARM in 2016.

3 YEARS

BACK INTO THE BLACK

MICROWAVE AND RADIO frequency kit designer **Filtronic (FTC:AIM)** will report its first pre-tax profit after three years of red ink. The company, whose technology is used in mobile phone masts and base stations, has enjoyed a spell of strong trading that means it is likely to beat market expectations for £1m pre-tax profit. Analysts at Panmure Gordon have now upped their estimate to £1.4m for the year to 31 May 2017. The company ran up nearly £15.5m of pre-tax losses during 2014 to 2016, when the share price collapsed from more than 60p to about 5p. It now trades at 13.41p.

11%

FOSUN TO PROMOTE GREECE AS AN HOT SPOT FOR CHINESE TOURISTS

SHANGHAI-BASED INVESTMENT company Fosun has increased its stake in travel agent **Thomas Cook (TCG)** to 11%.

Two years ago, the group backed by billionaire Guo Guangchang took a 5% stake in the company for £91.8m.

According to media reports, Fosun wants to use its stake in Thomas Cook to start building vacation packages to boost the number of Chinese tourists jetting off to Greece 10-fold.

HIGHEST PROSPECTIVE DIVIDEND YIELDS: FTSE 350 STOCKS

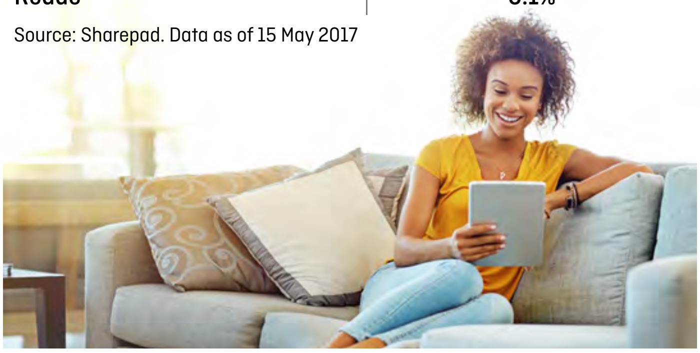
Carillion	9.1%
Rio Tinto	7.8%
Lancashire	7.7%
Card Factory	7.7%
Petrofac	7.5%
Galliford Try	7.2%
Taylor Wimpey	7.0%
Debenhams	6.8%
Redefine	6.8%
BP	6.7%

Source: Sharepad. Data as of 15 May 2017

HIGHEST PROSPECTIVE DIVIDEND YIELDS: AIM STOCKS

NAHL	11.3%
Cenkos Securities	10.4%
Elegant Hotels	8.2%
Central Asia Metals	7.6%
Gattaca	7.6%
Belvoir Lettings	6.9%
Personal Group	6.7%
M Winkworth	6.4%
Polar Capital	6.1%
Redde	6.1%

Source: Sharepad. Data as of 15 May 2017



Fishing Republic is a real catch

The specialist retailer has first mover advantage in a fragmented industry

The potential to enjoy profitable growth from a fragmented industry means fishing tackle retailer **Fishing Republic (FISH:AIM)** is a tiddler worth netting at 42p.

New store openings, healthy like-for-like growth metrics and rising online sales are reasons to hook the £14.8m cap, whose main fishing season is off to a good start.

Steered by founder and chief executive Steve Gross, Fishing Republic is one of the UK's largest fishing retailers by floor space. Selling leading brands as well as own-brand clothing and tackle, typically from out-of-town outlets, Fishing Republic's extensive product range is a key competitive advantage. Its 'destination' stores are able to draw customers from a wide radius.

HOOK A WINNER

Angling is the UK's sixth largest monthly participation sport and

FISHING REPUBLIC
BUY
(FISH:AIM) 39p
Stop loss: 23p

Market value: £14.8m

the fishing tackle marketplace is both large and highly fragmented with over 2,000 mainly owner-operated specialists operating in the space.

Smaller retailers lack the bank financing and stock range of larger, ambitious players such as Fishing Republic.

A £3.75m placing last summer is helping to fund the expansion of the store network and the development of Fishing Republic's digital strategy.

GOING SWIMMINGLY

Results (24 Apr) for the year to December 2016 revealed 32% growth in profit before tax and exceptional items to £403,000 on sales up 41% to £5.8m, reflecting organic growth and continued store expansion.

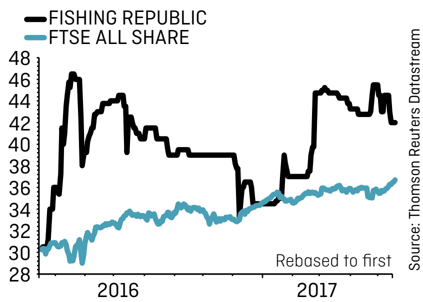
Encouragingly, like-for-like store sales were up 16%. Increased marketing and an improved range boosted performance and the full benefits of new stores added in 2016 will come through this year.

Fishing Republic's online strategy is also going swimmingly; it is successfully transitioning from sales via third-party platforms to higher margin own website sales. These grew 132% to £662,000 to account for 40% of total online sales, up from just 16% in the previous year.

Finishing 2016 with £2.1m net cash in the coffers, Fishing Republic doesn't pay a dividend currently, as surplus cash is being reinvested to increase the scale of the business.

House broker Northland Capital forecasts adjusted pre-tax profit of £500,000 on £8.6m sales for the current financial year. (JC)

BROKER SAYS: 1 0 0



Now is the ideal time to invest in Wilmington

We argue that professional training and information specialist is undervalued

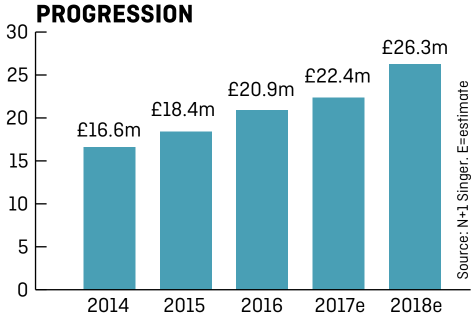
We see an attractive value opportunity at professional information specialist **Wilmington (WIL)**. Admittedly investors may have to be patient; although a 3.3% prospective dividend is a sweetener while you wait.

Based on forecasts from N+1 Singer, Wilmington trades on a June 2017 price-to-earnings ratio of 12.9 times but this falls to 10.9 times for the year to June 2018 as the benefits of its recent £19m acquisition of the Health Service Journal start to be realised.

The rating looks too cheap for a company with consistent profit growth. Indeed, N+1 Singer analyst Johnathan Barrett implies now is the ideal time to buy the shares for the first time or top up an existing holding.

Furthermore, we also note the stock has proved to be very resilient in the face of many market headwinds. For example, its shares didn't collapse last year like many others amid Chinese debt concerns, Brexit or the election of Donald Trump.

WILMINGTON'S PRE-TAX PROFIT PROGRESSION



WILMINGTON
BUY
(WIL) 252.02p
Stop loss: 200p

Market value: £220m

REGULATORY DRIVEN BUSINESS

The company provides training and information services to highly regulated professions like law, finance, insurance and pharmaceuticals.

In the first half of its June 2017 financial year, 78% of its revenue came from subscription and repeatable information sales which helps support earnings visibility.

Under chief executive Pedro Ros, appointed in late 2014, the company has been pursuing a more integrated strategy with growing digital and international exposure (43% of sales are now derived overseas).

RESTRUCTURING STRATEGY

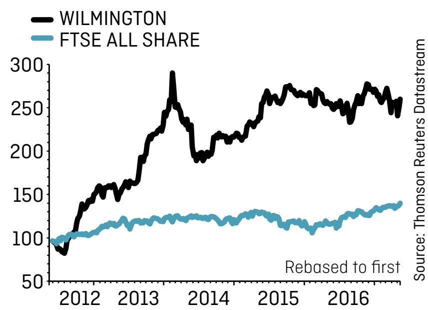
We think its beefed-up 'Sixth Gear' programme of focusing on three key markets – risk and compliance, professional and healthcare – and abandoning its underperforming legal business makes sense and could help get the share price moving.

The company plans to dispose of its Ark division, which provides legal support services, and a formal sale process has commenced.

The aforementioned purchase of Health Service Journal, the UK's leading health information, insight and networking business, from **Ascential (ASCL)** at the start of 2017 is expected to be earnings enhancing in its first full year.

A rise in net debt as a result of this acquisition will be partly mitigated by the £7m disposal of the leasehold on its previous head office in London (announced 4 May) and a move into a new site to be used by all of Wilmington's businesses in the capital. (TS)

BROKER SAYS: 5 0 0



SDX ENERGY

(SDX:AIM) 60p

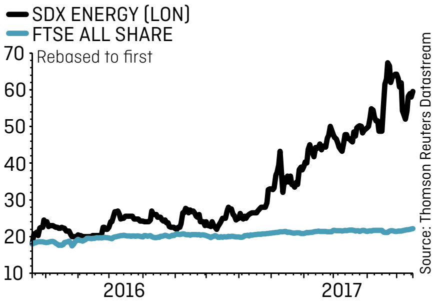
Gain to date: 56.9%

Original entry point:

38.23p, 2 February 2017

A NEGATIVE REACTION to the latest results from drilling on **SDX Energy's (SDX:AIM)** South Disouq concession in Egypt's Nile Delta is eating into the gains on our trade but we remain bullish.

Chief executive Paul Welch told an audience at a *Shares* investor evening in Edinburgh on 15 May that testing of the gas discovery at South Disouq will now be completed before Ramadan begins on 26 May, having previously anticipated the work would have to wait until after the conclusion of the religious festival.



The outcome from this testing could act as a catalyst for the shares after they fell on news (5 May) that the SD-1X well, while uncovering a shallower gas find, did not uncover oil in commercial quantities in deeper intervals.

Welch says the existence of a working petroleum system in these same intervals means oil could be produced from elsewhere in the concession. A working petroleum system means all the geological elements required to produce hydrocarbons are present.

The company plans further drilling to prove up the oil potential in the field and has already scheduled a seven-well programme in Morocco in the remainder of 2017.

SHARES SAYS: ↗
Recent weakness is an opportunity to top up. (TS)

BROKER SAYS: 1 0 0

SEEING MACHINES
(SEE:AIM) 4.38p

Gain to date: 21%
Original entry point:
Buy at 3.62p, 21 July 2016

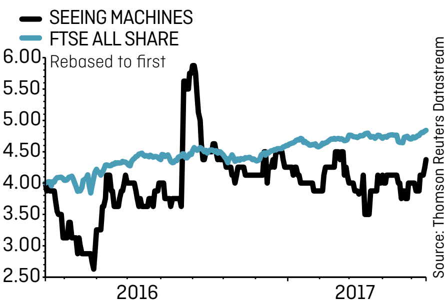
BOARD ROOM changes at **Seeing Machines (SEE:AIM)** hint at the increasing opportunities for the company.

Mike McAuliffe has been appointed the new chief executive officer of the driver monitoring system technology specialist.

He had been running the company's automotive business Fovio since September 2016 and was instrumental in developing Seeing Machines' strategy in this area.

A major car manufacturer has already signed up to install Seeing Machines' platform in some luxury cars due for launch this year.

Former boss Ken Kroeger moves to an executive chairman role. That suggests he will remain hands-on with driving the development of new market opportunities, perhaps where his industry insight and expertise is best put to work. These include fleet trucks, rail, planes and more.



This is a company potentially on the cusp of transformation in terms of mass market adoption of its technology.

SHARES SAYS:
FinnCap believes the shares could go as high as 12p, implying more than 170% upside from the current level. We remain positive on the investment case. (SF)

THARISA
(THS) 110p

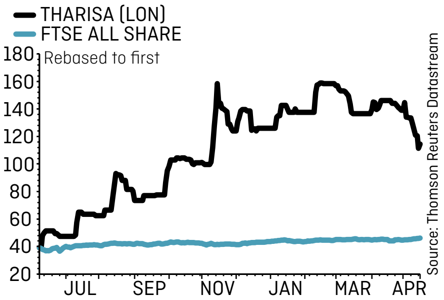
Gain to date: 42%
Original entry point:
Buy at 77.5p, 29 September 2016

MINER **THARISA (THS)** tells *Shares* its full year earnings and cash flow expectations may have to be downgraded if the chrome price doesn't recover from its recent sell-off. We view the commodity market correction as a short-term issue and not a reason to dump shares in Tharisa.

The chrome price has been affected by a credit squeeze in China where authorities are trying to stop banks from lending too much money. That's hurt commodities demand – hopefully only temporarily.

Tharisa remains positive and says it will focus on improving operational efficiency, feed grades and metal recovery rates. 'Chrome has gone from highs of $390 per tonne late last year to the mid $100s level at the moment,' says chief executive Phoevos Pouroulis. 'Those levels aren't sustainable.'

He adds: 'The chrome market is always very volatile. We can withstand the cyclicality in prices thanks to being a very low cost operator.'



Broker Peel Hunt assumed chrome prices would fall this year to $170 per tonne. Its forecasts for Tharisa's financial year ending September 2018 only use a $188 per tonne chrome price – not the $300+ level at which the metal recently traded.

SHARES SAYS:
Take advantage of recent share price weakness (down 23% since early May) and buy more at 110p. Peel Hunt has a 205p price target. (DC)

BROKER SAYS: 2 0 0

Why Miton Global Opportunities Trust is unique

Seeking to exploit opportunities in the investment trust sector

In order to generate returns, we believe investors will increasingly need to look for alternative investments, away from funds, which invest in company shares and bonds[1]. One such area is the investment trust sector, where there are an increasing number of investment opportunities following a series of significant structural changes.

The massive infrastructure expenditure mooted during Trump's election campaign has the potential to place the government bond market under severe stress. We believe the high valuations on which global company shares, otherwise known as equity markets, currently trade is a direct result of the very low alternative returns available from bond securities. Should bond yields[2] continue to rise, stockmarkets could be undermined. Moving on from a period of unconventional monetary policy would be healthy in the long term, however, stockmarkets are likely to undergo a period of turmoil whilst investors adapt to the new reality. Under such a scenario investors would be able to obtain measurable income from conventional sources. They would be less inclined to own "Income manufacturing" trusts which invest in aircraft leasing or infrastructure funds. The damage to the share prices would come from a change in demand patterns rather than from significant damage at a portfolio level.

Since 2000, those investment companies that traditionally bought investment trusts have undergone a process of consolidation. Consequently, many companies have merged to form vast wealth management chains. The impact of this consolidation has meant that a large proportion of the investment trust sector has become effectively off limits to such firms as they are unable to cope with the huge capacity and liquidity levels required by these new mega-chains whose assets under management number in the billions.

This dynamic has in effect served to 'orphan' hundreds of investment trusts, many of whom are now under-researched and increasingly illiquid as demand has naturally slowed, despite there being no critical issue with the trusts, assets or their overall strategies. Without demand, the share prices of these investment trusts have slowly drifted lower than the value of their underlying assets creating a significant opportunity for the diligent and specialist investor to buy.

Miton Global Opportunities Trust plc (MIGO) is, we believe, a unique investment proposition that specifically seeks to exploit opportunities in this part of the investment trust sector. MIGO's patient investment approach allows it to extract the embedded value in those investment trusts that are trading at a lower price to the value of the underlying assets in order to realise gains over the medium to long term. The key driver is the fact that in the current climate, investors are being paid royally for accepting liquidity risk[3]. The fact that we enjoy closed ended protection (investment trusts have a fixed number of shares) is crucial in allowing us to fish away from the crowds. It allows us to take patient decisions knowing that there is no risk of having to meet short term redemption requests.

To provide an idea of the scale of MIGO's investment universe, there are currently over 400 investment trusts listed on the London Stock Exchange with an aggregate value of over £100 billion. Over 280 of these investment trusts are currently less than £250 million in size, and offer exposure to a broad range of alternative asset classes from the likes of property to natural resources. MIGO is therefore able to offer significant diversification across this pool of potential opportunities.

We expect the continued consolidation of the wider investment community to precipitate further structural change for investment trusts under £250 million in size. Furthermore, there appears to be no let–up in the growth of alternative asset classes creating future opportunities, many with an income bias. This development should lead to an increasing supply of future opportunities going forward.

DEFINITIONS

[1]**Bond** – A loan in the form of a security, either issued by a UK or overseas government (government bonds) or company (corporate bonds), which pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

[2]**Bond yield** –The interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

[3]**Liquidity risk** – The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss.

In summary, we are focused on extracting embedded value, which already exists, not trying to generate returns from trying to second guess unpredictable future share price or market movements. As MIGO is on a discount to its underlying assets combined with the discounts that exist within the Trust we believe there is good scope for this latent value to be realised. We are excited by the opportunities and believe MIGO's research–led approach has the ability to make gains over the long–term, in a significant but under exploited segment of the UK market.

In addition to the natural defensive buffer created by owning deeply discounted assets, owning shares in MIGO offers useful diversification given some of the current themes. Specific opportunities in the Indian stockmarket, residential property in Berlin and Forestry all feature prominently in the portfolio.

The value of investments may fluctuate which will cause fund prices to fall as well as rise and investors may not get back the original amount invested. Miton does not give investment advice, if you are unsure of the suitability of this investment you should speak to a financial adviser. Investment Trust Companies such as MIGO and those in which it invests may borrow money, which can then be used to make further investments (gearing). In a rising market, this 'gearing' can enhance returns to shareholders. However, if the market falls, losses will be multiplied.

IMPORTANT INFORMATION

The views expressed are those of the fund manager at the time of writing and are subject to change without notice. They are not necessarily the views of Miton and do not constitute investment advice.

Miton has used all reasonable efforts to ensure the accuracy of the information contained in the communication, however some information and statistical data has been obtained from external sources. Whilst Miton believes these sources to be reliable, Miton cannot guarantee the reliability, completeness or accuracy of the content or provide a warrantee.

Investors should read the Trust's product documentation before investing including, the latest Annual Report and Accounts and the Alternative Investment Fund Managers Directive (AIFMD) Disclosure Document as they contain important information regarding the trust, including charges, tax and specific risk warnings and will form the basis of any investment.

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MFP 17/182.

WEEK AHEAD

FRIDAY 19 MAY

INTERIMS	
FUTURE	FUTR
GRAINGER	GRI
TRADING STATEMENTS	
HIKMA	HIK

MONDAY 22 MAY

FINALS	
VOLVERE	VLE
TRADING STATEMENTS	
INTERTEK	ITRK
THE RESTAURANT GROUP	RTN
SPECTRIS	SXS

TUESDAY 23 MAY

FINALS	
ASSURA	AGR
AVEVA	AVV
BIG YELLOW	BYG
CRANSWICK	CWK
ELECTROCOMPONENTS	ECM
HIBERNIA REIT	HBRN
HOMESERVE	HSV
SHAFTESBURY	SHB
SEVERN TRENT	SVT
INTERIMS	
GREENCORE GROUP	GNC
THE PARAGON GROUP OF COMPANIES	PAG
RENEW	RNWH
TOPPS TILES	TPT
UDG HEALTHCARE	UDG

WEDNESDAY 24 MAY

FINALS	
BABCOCK INTERNATIONAL	BAB
GREAT PORTLAND ESTATES	GPOR
HOGG ROBINSON	HRG
LOMBARD RISK MANAGEMENT	LRM
MEDICLINIC INTERNATIONAL	MDC
MARKS & SPENCER	MKS
PENNON	PNN
SCHRODER REAL ESTATE IT	SREI
VEDANTA RESOURCES	VED
INTERIMS	
BRITVIC	BVIC
TRADING STATEMENTS	
DIXONS CARPHONE	DC.
KINGFISHER	KGF

THURSDAY 25 MAY

FINALS		
CALEDONIA INVESTMENTS	CLDN	
HALFORDS	HFD	
HELICAL BAR	HLCL	
INTERMEDIATE CAPITAL	ICP	
MITIE	MTO	
PAYPOINT	PAY	
PETS AT HOME	PETS	
TATE & LYLE	TATE	
UNITED UTILITIES	UU.	
WIZZ AIR	WIZZ	
INTERIMS		
DAILY MAIL AND GENERAL TRUST	DMGT	
URBAN & CIVIC	UANC	
TRADING STATEMENTS		
CARD FACTORY	CARD	
INCHCAPE	INCH	
EX-DIVIDEND		
ACTION HOTELS	AHCG	1.5P
ADVANCED MEDICAL SOLUTIONS	AMS	0.62P
AVINGTRANS	AVG	1.2P
BRITISH & AMERICAN INVESTMENT TRUST	BAF	5.7P
BUNZL	BNZL	29P
BURFORD CAPITAL	BUR	$0.06
CARNIVAL	CCL	$0.4
CINEWORLD	CINE	13.8P
CAPITA	CPI	20.6P
DOWNING THREE VCT	DP3H	2.5P
EXOVA	EXO	2.35P
FDM	FDM	10.3P
GATTACA	GATC	6P
GYM GROUP	GYM	0.75P
HILL & SMITH	HILS	17.9P
HUNTSWORTH	HNT	1.25P
IRISH CONTINENTAL GROUP	ICGC	€0.08
IFG	IFP	3.35P
INGENTA	ING	1P
MANX TELECOM	MANX	7.2P
MINCON	MCON	€0.01
MIDWICH	MIDW	7.09P
JOHN MENZIES	MNZS	13.1P
WM MORRISON SUPERMARKETS	MRW	3.85P
SOCO INTERNATIONAL	SIA	5P
SPECTRIS	SXS	34P
TOWN CENTRE SECURITIES	TOWN	3.25P
TARSUS	TRS	6.4P
VENTURE LIFE GROUP	VLG	0.04P
WORLDPAY	WPG	1.35P
WHITBREAD	WTB	65.9P
XAAR	XAR	6.7P

Click here for complete diary

AVEVA
It's been a volatile past three years for computer-aided design and manufacturing software specialist **AVEVA (AVV)**. End markets (oil, marine, nuclear, for example) have been stretched which has clamped down on big capital investment projects that pay-off for the company. That worm might be turning although we'd anticipate most of any top line growth will be currency stimulated. Look out for better cash generation than expected and positive rhetoric from CEO James Kidd, in his first official results (23 May) since taking the top job from highly-rated Richard Longdon.

DAILY MAIL & GENERAL TRUST
Look for an update on the spring launch of a new of its RMS (one) risk management platform when **Daily Mail & General Trust (DMGT)** reports its first half results on 25 May. Other areas of focus are likely to include the direction of advertising revenue.

BABCOCK INTERNATIONAL
The firm took a hit in March after having its Magnox nuclear power station decommissioning contract cancelled. But the drop in revenue won't come until 2020/21 as the contact ends in August 2019.

Babcock's share price has been under pressure since the final quarter of last year and investors will be hoping for some good news from this support services behemoth. When it reports full year results on 24 May.

How to collect dividends in shares rather than cash

We explain the difference between Scrip and Drip dividend schemes

Scrip dividend schemes offer shareholders the option to increase their investment in a company by receiving dividends in new shares rather than cash. They are different to Drip schemes and dividend reinvestment services offered by your stockbroker, as we now explain.

Scrip distributions are generally acknowledged in the form of fractions paid per existing share. For example, a company might issue a scrip dividend of 0.05 shares for each single share held by existing investors.

'Scrip schemes provide shareholders with an opportunity to increase their shareholding over time at no cost,' explains Kevin Firth, managing director at Computershare Investor Services.

'There is no stamp duty for the shareholder to pay, and no commission cost to the shareholder for acquiring the shares, making such schemes very popular with shareholders with particularly small holdings.'

Many stockbrokers or investment platform providers do not support this method of dividend payment for their customers. It is worth understanding how a Scrip scheme works, even if you cannot participate in one. That's because the dividend payment method dilutes all shareholders in a particular stock.

An increased number of shares in issue will reduce an existing investor's proportional ownership in that company.

THREE WAYS TO REINVEST DIVIDENDS

- USE A SCRIP SCHEME
- USE A DRIP SCHEME
- USE A STOCKBROKER'S REINVESTMENT SCHEME

WHICH COMPANIES OFFER SCRIP SCHEMES?

BP (BP.) is one of the biggest companies currently offering a Scrip dividend programme.

Other FTSE 350 companies running scrip dividend schemes include banks **Barclays (BARC)** and **HSBC (HSBA)**, construction group **Costain (COST)** and retailer **Debenhams (DEB)**.

Scrip schemes are often offered by companies to avoid paying out too much of their cash as they might have other needs for that money.

'Companies using Scrip schemes can retain cash, as there is no need for them to pay money to shareholders who decide to take their dividend in shares,' says Firth.

IS THERE A TAX ADVANTAGE WITH SCRIP DIVIDENDS?

Although Scrip dividend

schemes offer a cost saving when it comes to acquiring new shares, there are no particular tax advantages to signing up to a scrip dividend scheme.

Scrip dividends are treated as taxable income in exactly the same way as if the dividend was paid as cash.

Dividend income received by individual shareholders is taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers, and 38.1% for those who fall into the additional rate band.

A £5,000 tax free dividend allowance was introduced in April 2016. This allowance was meant to reduce to £2,000 at the start of the 2018/19 tax year but the Government has put that amendment on hold as part of wider delays to its Finance Bill.

HOW ARE SCRIP SHARES ADDED TO MY INVESTMENT ACCOUNT?

Investors can either hold shares directly with a company which offers a Scrip dividend scheme or they have the option to put their Scrip dividends into ISAs or pensions.

'How this is done will depend on how the shares are held – directly, or through a broker or custodian or wealth manager,' says Michael Kempe, chief operating officer, shareholder solutions at Capita Asset Services. 'If you hold the share directly you'll need to put them in your ISA yourself.'

While many shareholders own shares directly, others will do so via their broker's nominee account. It depends on the broker, but investors who hold shares in a nominee account should be able to participate in a company's Scrip scheme.

Cruise ship operator Carnival offers a Drip dividend scheme

WHAT IS A DRIP SCHEME?

Many companies on the stock market have withdrawn their Scrip dividend schemes and instead set up dividend reinvestment plans (Drip schemes) to facilitate shareholders wanting to reinvest their dividends.

The operator of the Drip (typically the company's registrar) pools the cash dividends payable to shareholders who have chosen to use the plan, purchases shares in the market and allocates them to the shareholders.

There is typically a charge of 0.5% to 1% of the value of the shares bought. To participate in the scheme your name must appear on the company's share register.

'The difference between a Scrip dividend scheme and Drip is that a Scrip dividend reinvests the dividend at a fixed rate, determined in advance of the dividend pay-date,' says Neil Evans, head of middle office at financial services firm Killik & Co.

'A Drip uses the cash dividend received on the pay-date and purchases the new shares at the prevailing share price on that day.'

There is a broader range of companies on the stock market offering Drip versus Scrip dividends. For example, cruise ship operator **Carnival (CCL)** and media giant **Sky (SKY)** offer Drip dividends, according to share registrar Equiniti.

WHAT ABOUT STOCKBROKER REINVESTMENT SCHEMES?

In some cases, investors will want to reinvest dividends for stocks where the company doesn't run a Scrip or Drip Scheme.

This can be done by using a stockbroker which runs a dividend reinvestment scheme, such as AJ Bell Youinvest. It offers customers the ability to use dividend cash to automatically buy more shares from only £1.50 per transaction. (EL)

Navigating the pensions 'lifetime allowance'

A simple and easy-to-understand guide to tax rules for people in retirement

Investors attempting to pick their way through the mire of pension tax rules could be forgiven for losing the will to live.

However, if you've saved diligently and have a retirement pot approaching £1 million, it's vital you know how the system works so you can shelter as much of your hard-earned pension as possible from the taxman.

WHAT IS THE LIFETIME ALLOWANCE?

The lifetime allowance dictates how much you can withdraw from your pension in a tax-incentivised environment. Currently, the lifetime allowance is set at £1m – although as I'll explain later there are 'protections' which may allow you to lock in to a higher allowance.

If you breach your lifetime allowance, the charge you pay depends on how you withdraw the excess above £1m. If you take it as a lump sum before age 75, a 55% charge will be applied to the excess. If you leave it in the scheme to take it as an income later, an immediate 25% charge will be levied.

If you choose the latter option, don't forget that when you take money out of the scheme later you'll also pay tax at your marginal rate of income tax meaning the two options are likely to lead to broadly the same tax being paid.

HOW DOES IT WORK?

It's important to note that a pension which becomes worth more than £1m won't instantly be subject to a lifetime allowance charge. It is only when a benefit crystallisation event (horrible jargon, sorry) occurs that your pension scheme 'tests' whether or not you need to pay a charge.

Benefit crystallisation events include buying an annuity (a guaranteed income for life), taking a tax-free lump sum or keeping your money invested and choosing drawdown.

For example, if someone buys an annuity worth £300,000, they have used up 30% of their £1m lifetime allowance.

WHAT IF I HAVE A DEFINED BENEFIT PENSION?

The lifetime allowance still applies if you have a defined benefit or 'final salary' pension, although this involves a different calculation.

When the pension is put into payment, you multiply your annual entitlement by 20 and add that figure to any tax-free cash you get in order to calculate what you've used up.

CAN I HAVE A HIGHER LIFETIME ALLOWANCE?

You may already be lucky enough

to have one of the various protections that have been available from HMRC since 2006.

If not, it is possible to lock in a higher lifetime allowance of up to £1.25m by applying for one or both of the forms of protection introduced in 2016 – 'fixed' protection and 'individual' protection.

If your total pension savings are worth more than £1m, or you think they might grow to more than £1m, you should consider checking if you're eligible to apply.

HOW DO THEY WORK?

Fixed protection allows you to keep a £1.25m allowance provided you have no other protections, other than the 2014 version of individual protection.

You don't need to have pensions already worth more than £1m but the catch is you can't make any more contributions into your pension – if you do, you lose the protection.

The 2016 version of individual protection is available to you if the value of your pensions at 5 April 2016 was more than £1m. Your allowance is protected at that respective amount. You can continue contributing to your pension without worrying about losing this protection.

CONSIDER TAKING FINANCIAL ADVICE

As you've probably worked out now, the lifetime allowance regime is hideously complicated.

Unfortunately I can't cover all the vagaries in this article, but if you think you might be affected it could be worth speaking to a financial adviser to help you navigate the quagmire.

TOM SELBY
Senior analyst, AJ Bell

CASE STUDY: JOHN'S PENSION IS VALUED AT MORE THAN THE CURRENT LIFETIME ALLOWANCE

AT 5 APRIL 2016 John had £550,000 in his SIPP and £650,000 in his employer's pension scheme, £1.2m in total. He decided to apply for fixed and individual protection 2016.

In 2020, when John is 60, he decides to go into drawdown, take all of his tax free cash and leave the rest in his fund. At this point the lifetime allowance is £1,050,625 (assuming CPI inflation increases of 2.5%).

SCENARIO 1: John's fund has grown and is now valued at £1.3m. John uses his fixed protection of £1.25m and has an excess of £50,000.

He decides to leave this in the fund and pays an excess charge of 25% or £12,500.

If John had not had the protection then the excess would have been £300,000 and the tax charge £75,000.

SCENARIO 2: John's fund has fallen to a value of £1m which is below the £1.2m allowance for his individual protection.

John decides to maximise his pension contributions and pays in £160,000 gross using his £40,000 annual allowance and each of the previous three years' unused annual allowances – previously he could not make contributions and keep his fixed protection. His fixed protection is now revoked.

John now uses his individual protection of £1.2m to access his full fund of £1.16m with no excess tax charge.

If John had not had individual protection he would only have been able to contribute £50,625 to bring his fund value up to the standard lifetime allowance.

Watch out for managers changing their process

Numerous investment trusts and funds are amending their strategy and the types of assets they can hold

An increasing number of funds and investment trusts are making amendments to how they invest or operate. Investors should therefore keep a close eye on products in their ISA or SIPP (self-invested personal pension) as there is a chance your funds may not stay exactly the same in structure or focus as when you originally made the investment.

Topical examples include Neil Woodford-run **Woodford Patient Capital Trust (WPCT)** which in late April said it would seek shareholder approval to amend current investment restrictions. Its shares are down 13% since launching in 2015 when it raised £800m.

Woodford Patient Capital wants to lift the maximum investment in unquoted companies to 80% of the fund from 60%; remove a 30% maximum limit on non-UK investments; and enable the fund to own as much as 20% of a single company (was 15%).

It believes this will enable the investment trust to have 'greater flexibility to capture growth and follow-on investment opportunities'. Shareholders will vote at its AGM on 12 June.

SHAREHOLDERS ARE ALWAYS ASKED TO VOTE ON PROPOSED MAJOR CHANGES TO HOW A FUND IS RUN

TAKING A BROADER APPROACH

Investors in **Polar Capital Global Healthcare Growth & Income Trust (PCGH)** will also be asked in June to vote on a fairly significant change to how its fund is run.

This investment collective was launched in 2000 with the intention of being wound up in January 2018. At the time of the launch Polar felt the pharmaceutical sector was being valued as if it was going out of business due to widespread patent expiries, says fund manager Dan Mahony.

'We said pharma was cheap and investors should look at it. People asked us to make the fund a low risk product, so we didn't have much (higher risk) biotech in the fund,' he explains. 'It was run for widows and orphans.'

The fund did well on the income front, picking up good dividends from large cap pharma stocks. However, Polar says its 'minimal' exposure to low yielding biotech stocks has cost the fund 'considerably' in terms of capital return.

WHERE NEXT FOR POLAR?

The fund manager says Polar has now talked to various investors with regards to the future of the fund. They want the same lower risk approach again, yet Mahony says it has now become difficult to run a pure play pharma fund, due to the price pressures faced by the underlying companies.

'The sector is not valued in the same way it was seven to eight years ago. We believe it is now time to broaden the mandate and invest across more parts of the healthcare sector.'

Mahony says healthcare is going through a period of 'major structural change' and he believes that some of the most interesting players in the sector will be technology companies and insurers, rather than simply drug makers.

The proposed switch in investment strategy is likely to see a reduction in the yield from the fund, as it will now have a large cap growth mandate, albeit with a similar risk profile to the current fund.

'The current portfolio is structured 80% income, 20% growth. The new approach, if approved by shareholders, will be 90% growth and 10% innovation. I define growth as being companies valued at more than $5bn and innovation at less than $5bn,' says Mahony.

The fund will be renamed Polar Capital Global Healthcare Trust, if everything goes to plan.

THUMBS UP TO INFRASTRUCTURE OPPORTUNITY

Changes aren't restricted to the investment trust space. In the open-ended funds world, shareholders in Premier Global Utilities Income Fund have just voted in favour of expanding its investment remit and changing the name to **Premier Global Infrastructure Income Fund (GB0031637282)**.

Historically the fund focused on areas like energy and water. Now it plans to add investments in assets which may include airports, toll roads, sea ports and hospitals.

Fund manager James Smith is well versed in these markets thanks to his background in utilities and infrastructure when he worked for asset manager Utilico.

'At Premier, we occasionally see non-utility infrastructure opportunities, but weren't allowed to take advantage of them in the fund,' says Smith. 'Up to now we've offered long term, relatively low risk and visible streams of income through utility assets. Something like toll roads give you a similar profile.'

TWEAKING THE PROCESS

Changes to how investment trusts or funds are run can often be more subtle. For example, **Martin Currie Asia (MCP)** recently said it would enhance its dividend by paying out of capital. That means selling small chunks of its investment portfolio to fund dividends, alongside natural income from its assets.

Another example is **JPMorgan American (JAM)** which will tweak its portfolio in the future in response to a review of fund manager Garrett Fish's investment decisions over the past 14 years. The review showed he did well over the longer term, but some gains were eroded by holding onto shares for too long or selling shares disadvantageously.

JP Morgan says the portfolio is likely to be more concentrated in the future and Fish will have a more ruthless approach to underperforming holdings.

Finally, keep an eye on how **Alliance Trust (ATST)** performs in the near term. It is only a few weeks into its new multi-manager investment strategy which involves eight fund managers each selecting approximately 20 stocks for the portfolio. (DC)


THE STRONGEST
COMPANIES
ON THE UK
STOCK MARKET

One way of discovering the strongest companies on the UK stock market is to look at profit margins.

Companies which are left with lots of money after deducting costs from sales have a stronger position from which to fight competition than someone with very low profit margins, for example. They also have strength in terms of being able to consider reinvesting money into their business.

Some investors might think high profit margin businesses are invincible. We'd certainly argue they are better placed to cope with challenges, but none of them are guaranteed to be the last man standing in difficult times.

Let's now take a closer look at the topic of profit margins and discuss some of the higher margin stocks on the market.

HIGH MARGINS GIVE A COMPANY A DEGREE OF PROTECTION

A QUICK LESSON ON PROFIT

It is important to understand the difference between profit and profitability. Supermarket **Tesco (TSCO)** posted an operating profit of £1.28bn in its February 2017 financial year which towers over the £170m generated by online second hand car marketplace **Auto Trader (AUTO)** in the 12 months to 27 March 2016.

However, Auto Trader achieved this profit on revenue of £281.6m while Tesco's was derived from sales of nearly £50bn. In other words, Auto Trader has a much better operating profit margin than the much larger supermarket.

ASSET LIGHT MODEL

The big difference between the margin achieved by Auto Trader and Tesco is easy to explain.

While Tesco incurs myriad of costs relating to energy, transportation, staffing and other expenses associated with its large store estate, Auto Trader is effectively just a website and its costs are mainly limited to investment in technology. It has what is sometimes described as an asset light model.

A similar example is online property site **Rightmove (RMV)** which posted an operating profit of £161.6m on revenue of £220m for 2016, making it one of the highest margin companies on the UK stock market.

Rightmove is rewarded by the market for its high margins with a premium valuation, trading on forward price-to-earnings ratio of 26.5 times.

DIFFERENT TYPES OF MARGIN

There are different ways of measuring profit and equally there are different types of margin which can be more appropriate when looking at different sectors.

Gross margin: Gross profit (revenue minus cost of sales) divided by revenue multiplied by 100.

This is probably the most intuitive measure of profitability. If it costs you £5 to make a handbag which you sell for £20, your gross margin is calculated as follows: ((20 -5) ÷ 20) x 100 = 75%.

Operating margin: Operating profit (revenue minus cost of sales *and* operating costs) divided by revenue multiplied by 100.

Businesses of any scale have expenses beyond manufacturing and paying staff. These could include marketing, research and development and administration and are likely to expand in line with the growth of the business.

The operating margin therefore gives a fuller picture of profitability, and is almost always lower, than the gross margin. Returning to the handbag example if you spend a further £5 marketing each

HIGH MARGIN UK STOCKS

Company	EPIC	Operating margin 5-year average (%)
Rightmove	RMV	71.4
Ashmore	ASHM	64.7
Hargreaves Lansdown	HL.	58.7
Mail.ru	MAIL	52.2
Burford Capital	BUR	48.8
Playtech	PTEC	47.8
Auto Trader	AUTO	47.6
InterContinental Hotels	IHG	45.5
Indivior	INDV	44.4
IG	IGG	44.3
Victrex	VCT	41.1
Admiral	ADM	36.6
United Utilities	UU.	36.5
Paragon of Companies	PAG	35.4
British American Tobacco	BATS	34.1
AA	AA.	33.4
Abcam	ABC	32.5
Lancashire Holdings	LRE	31.4
Micro Focus International	MCRO	30.3
Randgold Resources	RRS	30.1

Source: Stockopedia, 10 May '17

individual handbag then this cuts your 75% gross margin down to a 50% operating margin.

Net margin

Most businesses incur other costs not related to their day-to-day operations but which still need to be taken into account. These could include interest payments and tax.

Subtracting these from operating profit helps you arrive at net profit which, in turn, can be used to calculate the net margin.

There are plenty of other measures of margin including the EBITDA (earnings before interest, tax, depreciation and amortisation) margin which is heavily used in the software sector and the cash flow margin which shows how efficient a company is at converting sales into cash.

However, the operating margin is the measure which can probably be best applied across industries and our table shows the London-listed stocks with the highest five-year average operating profit margins.

WHEN MARGINS ARE AT RISK

Identifying a company with a high operating margin is just the start; it is important to also look at the sustainability of margins.

In the short-term a company could drive up profitability by stripping out costs. This would eventually impact sales as the quality of its product or service could suffer.

A high margin would quickly be eroded if sales start falling faster than costs.

HIGH MARGINS AREN'T ALWAYS SUSTAINABLE

There are several factors which can put pressure on margins. We now discuss four of them:

1. Competition

A company operating in an area with high margins will inevitably attract a competitor who also wants to enjoy the financial benefits of doing that line of business.

Unless there are significant barriers to entering the market in the form of technology, scale or regulation then the incumbent firm may have to cut prices in order to compete.

Moneysupermarket (MONY) was a trailblazer in the price comparison space for some time. Sadly competition has now intensified which has necessitated Moneysupermarket spending more money on marketing to remain at the forefront of consumer's minds.

Liberum analyst Ian Whittaker comments: 'This has manifested itself in declining gross margins at MoneySupermarket which fell by 520 basis points in 2016 and we estimate that gross margins will decline a further 150 basis points in 2017 to 73.4%.'

2. Increase in input costs

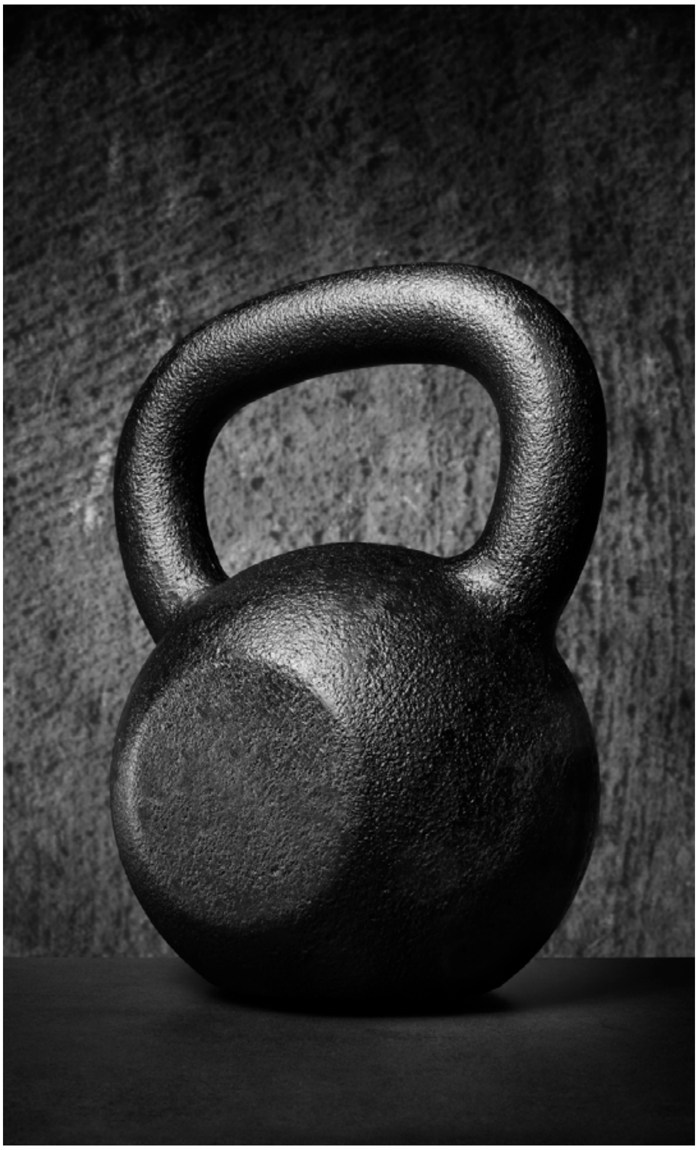
Another space which has seen the established players threatened by emerging competition is supermarkets, where discounters Aldi and Lidl have disrupted the market.

The pressure on margins in this sector has been exacerbated by rising input costs thanks to the collapse in sterling which followed the Brexit vote.

On 10 May 2017, **Sainsbury's (SBRY)** shares were marked down as it reported a decline in its already skinny full year operating margin from 2.74% to 2.42% as it had been unable to fully pass on higher costs to its customers.

3. Regulation

This is a particular risk for consumer-facing businesses. On 9 May 2017, shares in energy companies **Centrica (CNA)** – which owns British Gas – and **SSE (SSE)** fell sharply after prime minister Theresa May pledged an end to 'rip-off' energy prices with a cap on bills, something which would clearly hit profitability.



4. Operational problems

Sausage skin manufacturer **Devro (DVO)** issued a terrible profit warning in November 2016 which caused the shares to lose nearly a fifth of their value.

Among the problems it faced were technical issues around the supply of product from its facility in the Czech Republic and difficulties in getting new plants in China and the US up to full capacity.

This translated into a drop in its operating margin from 8.3% in 2015 to 6.3% in 2016. The company has launched a strategic development programme to improve margins focused on enhancing sales capabilities, increasing the efficiency of manufacturing and launching differentiated products.

MARGIN IMPROVEMENT MACHINE

LEGACY SOFTWARE infrastructure company Micro Focus (MCRO) is a useful case study in margin improvement for investors.

The FTSE 100 firm has a great track record in extracting value. It is currently in the middle of its biggest challenge: integrating the $8.8bn reverse takeover of the software bit of Hewlett Packard Enterprise, also known as HPES.

Micro Focus supplies a range of application and infrastructure management tools used to build, manage, test and modernise applications built on a wide range of platforms, such as COBOL, Novell and SUSE Linux.

Many mature companies' IT systems run on these platforms, including many of the world's financial institutions.

Micro Focus has typically generated adjusted operating margins in the mid-40% range (43% in its last reported year to 30 April 2016).

HPES' equivalent margins were about 21%, a level at which they've been stuck for several years. Micro Focus is confident of improving HPES' margins within three years of the acquisition closing. Cross-selling products, stripping out overheads and streamlining internal processes are some of the ways it could achieve this goal.

David Toms, analyst at broker Numis Securities, anticipates HPES will have operating margins of circa 40% over the next few years. On HPES' last reported revenue of $3.13bn, margins of that magnitude would double operating profit from the business to more than $1.25bn. (SF)

THREE STOCKS TO BUY

We have identified a trio of companies whose profitability arguably does not face any of the aforementioned threats in the near-term. They all have a consistent track record of delivering high margins.

We believe these are genuinely high quality names with a strong competitive position which gives them pricing power.

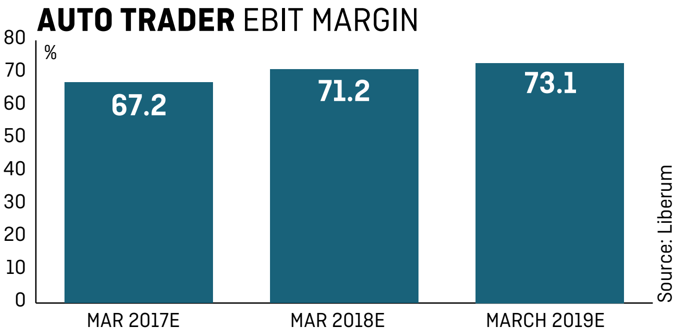
They offer products or services which are either of such superior quality, are so reliable, better than competitors or scarce. Or they enjoy such a dominant market share, that they can increase their prices without losing market share or impacting overall demand for what they do or what they produce.

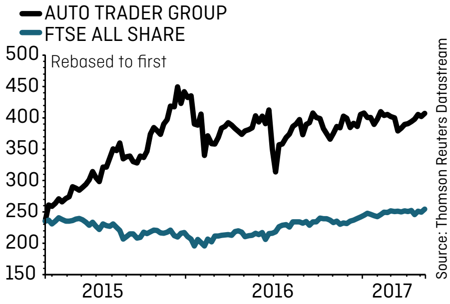
AUTO TRADER (AUTO) 407.4P

Shares in second hand car website Auto Trader have stalled year-to-date amid waning sentiment to the car market.

Investors have been concerned about the strength of the UK domestic economy, the pressures facing consumers and the introduction of the Vehicle Excise Duty (VED).

Don't be put off by these negative factors. Take a long term view and buy at 407.4p.





Auto Trader is reliant on the used car market (around 85% of the stock on its website) which could see some near-term benefit as buyers opt for used cars to avoid the hefty VED tax on some new cars.

The company is the market leader with a 75% share which should help protect its extremely healthy margins. Auto Trader's website is the one most visited by prospective car buyers because it has the most listings. Car retailers are therefore compelled to use its products, reinforcing its position. It has a 59.9% operating margin.

There are four key areas of operation – selling, buying, marketing and managing – and each one is broken up into different levels with price points moving progressively higher.

By cross-selling and upselling to existing clients, the company can increase average revenue per retailer (ARPR) and further bolster its margin performance.

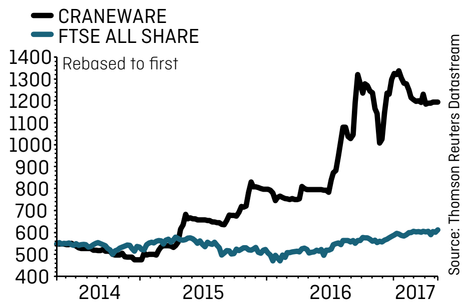
According to Liberum's forecasts, which are ahead of the consensus estimate, the stock trades on a prospective price-to-earnings ratio of 21.4 times. That is a material discount to the average of 26 times seen since its March 2015 IPO (initial public offering). The broker has a 530p price target on the shares.

Risks to consider include a possible tightening in the availability of car finance. (TS)

CRANEWARE (CRW:AIM) £11.95

Scotland's **Craneware (CRW:AIM)** supplies innovative financial analysis tools to hospitals. It is fast growing, generates lots of free cash flow and is a consistently high margin company.

Nearly all of its business is in the US despite the company being based in Edinburgh. That curiosity stems from the private healthcare system across the pond.



Founded in 1999, Craneware provides cloud-based technology solutions that help hospitals and other healthcare providers more effectively price, charge, code and retain earned revenue for patient care services and supplies.

Craneware has been busy adding extra tools and services to its platform which should help bolster already sticky customers – about 85% of annual revenue is recurring.

That implies about $46m of recurring revenue this year to 30 June 2017 ($57.8m forecast in total) and operating profit of approximately $15m, on a 25.9% forecast operating margin.

The future of the US healthcare system is not clear under president Trump's administration yet market drivers for value-based care look set to stay in place, in our opinion.

Craneware has mapped out how it can address the five-point healthcare reform plan trying to be pushed through by Trump.

With excellent cash generation, $45m of net cash on its books plus a $50m untapped funding facility, the company has the flexibility to build in-house products or obtain them via acquisition.

Analysts forecast annual growth of 15% a year through to 2020 in organic terms.

There is scope to do even better when you consider its bulletproof balance sheet and plenty of growth options to explore. That appears to justify Peel Hunt's £14.50, 12-month target price for the share price, even in the face of the stock's premium price to earnings (PE) ratio of 30-times. (SF)

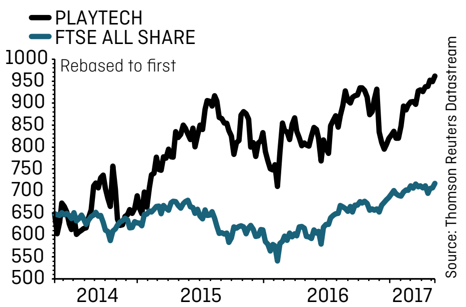
PLAYTECH (PTEC) 963P

Many people consider Playtech as one of the quoted gambling firms such as **William Hill (WMH)** or **Paddy Power Betfair (PPB)**. In reality, it is a software firm and should be benchmarked against technology stocks.

It owns the infrastructure used to supply gambling company back-end operations. Playtech also creates content such as slot machines, live dealer games, poker and bingo.

Last summer Morgan Stanley calculated Playtech was among the fastest growing businesses in the technology sector and growing 'far faster' than the gambling sector.

Most of its income comes from revenue share fees. It enjoys increasingly long-term business-to-business contracts with high levels of recurring revenue. It generates high margins and has limited capital expenditure requirements. Canaccord Genuity estimates Playtech will be sitting on a €330m net cash position at the end of 2017.



Analysts point out that gambling firms rarely switch technology back in-house, meaning Playtech should have a sticky client base once it has persuaded them to use its technology.

Financial data provider Stockopedia calculates that Playtech has enjoyed an average 47.8% operating profit margin over the past five years. Investors may wish to also look at the EBITDA margin which is more closely related to net profit margin.

Net profit provides the base number from which EBITDA is calculated; importantly, it includes all of a company's costs and expenses which aren't included in the calculation of operating profit.

Morgan Stanley forecasts that Playtech's EBITDA margin will be 41.2% in 2017 and 41.6% in 2018 – both very healthy numbers. The gaming division (which accounts for c87% of group revenue) EBITDA margin is in the region of 43% to 44% but the headline figure is pulled down by Playtech's financial division being sub-30% margin.

It is worth touching on the financial division as its performance has been fairly lacklustre over the past year while it restructured operations. A few years ago it pulled out of two financial sector acquisitions worth more than £500m amid regulatory concerns.

The more recent purchase of CFH seems to have reignited interest in how its financial arm could grow.

CFH is one of the top interbank straight-through-processing venues in the world, claims Playtech. It sees a 'significant opportunity' with CFH's customer base having access to Playtech's proprietary trading platform and technology, 'effectively mirroring (our) B2B offering in the gaming division'. (DC)

First mid-cap tech float for 19 months

Asset management software supplier Alfa could soon join the FTSE 250 index

A new software industry IPO (initial public offering) is on the cards with **Alfa Financial Software** set to float in June. Analysts speculate a market capitalisation of £800m or more. At that level the company would be catapulted into the FTSE 250 index at the following index reshuffle, with 23 FTSE 250 constituents currently trading at lower valuations.

Founded by executive chairman Andrew Page in 1990, Alfa provides an enterprise system for the asset and consumer finance industry. The platform provides new business and agreement management functionality as well as workflow and analytics capabilities.

Alfa has a global client base for its browser-based, Java-developed solution that includes **Barclays (BARC)**, Bank of America, Mercedes-Benz and Toyota. Alfa has 10 offices worldwide with more than 250 staff.

NEW SYSTEMS ADVANTAGE

The world of asset finance may not sound terribly exciting yet there should be an opportunity for Alfa to develop and grow in this niche space.

That's largely because of the continued dominance of legacy IT systems often developed in-house. With the demand for increased digitisation and new functionality, many of these systems are fast becoming outdated.

'One of the key drivers of success is that Alfa is the only vendor with modern technology that also has deep domain expertise as well as a highly referenceable customer base globally,' explains Rob Warensjo, of the Megabuyte software industry analysis boutique.

'More significantly, perhaps, is how the company only seems to be scratching the surface of the market opportunity.'

FAST EARNINGS GROWTH

Figures revealed in the intention to float document highlight strong growth in the year to 31 December 2016. The numbers show revenue up 35% to £73.3m from which the company earned £32.8m of operating profit, itself up 46%.

Interestingly, Alfa remains financially robust enough not to require new funding. About 25% of the company is expected to be sold to investors, leaving founders and management firmly in control of the overall business.

This is a shot in the arm for the UK software sector which has seen little IPO activity of note during the past year or so. IT services and product reseller **Softcat (SCT)** was the last industry IPO of scale, floating at 240p per share in November 2015, for a £430m market value. Since then its share price has soared more than 80% to 435.7p for a rough £860m market cap. (SF)

More to come from Warpaint after 80%+ rally

Analyst predicts significant earnings growth for lipstick seller over next few years

Shares in lipstick and eyeliner seller **Warpaint (W7L: AIM)** have increased by more than 80% this year to 247.59p as investors wake up to its growth potential.

The business, which floated on AIM in November 2016, last week delivered maiden full year results ahead of expectations.

Sales increased by 21.1% in 2016 to £27m and adjusted pre-tax profit grew by 24.1% to £6.7m.

The figures prompted stockbroker Stockdale to raises its 12 month share price target by a very impressive 76% to 300p.

Warpaint sells a wide range of cosmetics including eyeshadow and nail polish through its main brand *W7*. Its close-out business also buys and sells excess stock of branded cosmetics such as Max Factor.

It targets discounter retailers such as TK Maxx, **B&M (BME)** and The Perfume Shop.

While Warpaint is enjoying success with W7, it intends develop its other four brands, *Outdoor Girl, CopyCat*, *Smooch* and *Taxi* that target beauty retailers, department stores and the value sector.

The cosmetics firm also wants to diversify its product range by selling popular accessories such as make-up bags.

The company has a strategy to roll out products through selected stores abroad. It hopes to use trade shows to increase its presence in various export markets such as the Middle East, Africa, Southern and Eastern Europe.

In particular, Stockdale analyst Robert Sanders is encouraged by Warpaint's potential to gain sales traction in the two biggest markets for cosmetics, being the US and China.

According to data from Mintel, the US colour cosmetics market is the largest with a retail value in 2015 estimated at $11bn. That is nearly three times the size of the second largest market China at $3.9bn.

On the downside, the analyst warns that Warpaint needs to continually deliver innovative products.

He says: 'The key to the *W7* success is spotting trends in cosmetic colourways or new products and then quickly launching a *W7* offering at a value price point.'

The company is clearly not sitting on its hands. For example, a new range called *Very Vegan* will be launched by June, being products specifically developed for vegans. Warpaint believes this range has great potential for growth.

Stockdale forecasts Warpaint will generate 9.4p earnings per share in 2017, rising to 11.9p in 2018 and 15p in 2019. That implies a price to earnings ratio of 26.3 falling to 16.5 times within two years.

SHARES SAYS:

We said to buy at the IPO at 97p last November and still see further share price upside. Keep buying. (LMJ)

BROKER SAYS: 1 0 0

Impax Asset Management has growing green appeal

Impressive demand for its funds trigger higher earnings expectations

Environmentally focused **Impax Asset Management's (IPX:AIM)** first half results to 31 March show £830m of inflows into its funds.

Chief executive Ian Simm says the environmental markets in which the firm invests should benefit from the US's shale and oil industry as there is greater need for clean water, recycling and waste management.

Not only has the firm enjoyed a 27% growth in assets in six months, it has also doubled its profit in the same period.

House broker Peel Hunt says Impax is enjoying strong momentum as investor demand is robust for the group's products. Impax's total assets under management now stand at £6bn, slightly exceeding the broker's earlier forecast of £5.9bn by September 2017.

Peel Hunt has upgraded its forecasts for the third time this year, now expecting earnings per share of 4.8p. This puts the firm's price to earnings ratio at a heady 21-times, suggesting the market has confidence that Impax can deliver.

SHARES SAYS: ↗

Peel Hunt says the half year results are a clear indication that Impax is going through a step change in scale, with profit and assets moving materially higher. We share the bullish view. (DS)

BROKER SAYS: 1 0 0

Flowgroup eyes £20m back-up plan

EMBATTLED BOILER technology developer **Flowgroup (FLOW:AIM)** may be be forced into a hugely discounted emergency fund raise. The £20m cash call would be needed if the company cannot find a buyer for its independent household energy supply business, *Flow Energy*. It has 270,000 consumer customers.

Talks with several parties have seen a preferred buyer emerge although a deal looks far from certain. New funding, if required, would be priced at 1.5p per share, a 53% discount to the prevailing share price before news broke. (SF)

Vipera sees the future with mobile banking

INTEREST IS building in mobile financial services specialist **Vipera (VIP:AIM)**. Its shares have increased in price by 56% in just over a month to 6.25p.

Vipera secured its largest contract to date in April worth $2.4m. It generated €7.9m revenue in 2016 and a €1.5m pre-tax loss.

Mobile banking is popular in emerging markets which simply don't have the infrastructure for retail banks.

FinnCap says Vipera has an €8m+ pipeline of work on top of the recent contract win. (DS)

Why marketing specialist is up nearly 60% in a week

SHOPPING CENTRE marketing specialist **SpaceandPeople (SAL:AIM)** is up nearly 60% in a week to 37.9p. It has guided for a £1m pre-tax profit in 2017 and a healthy net cash position of £1.25m.

The shares last September crashed after a dividend cut and poor sales of its retail merchandising units. These are modules with shelving, signage, storage and an internet connection that allows retailers to sell products in shopping centres. (TS)

What can retail investors learn from fund managers?

We look for inspiration in six of Standard Life's top investing principles

Can retail investors get a head start by replicating stock picking and portfolio management techniques used by fund managers? The answer is definitely 'yes', although there are some limitations.

With this is mind, we attended a presentation on 10 May by asset manager **Standard Life (SL.)** to see if we could pick up any tips from their fund experts on how a retail investor could build and manage a portfolio of stocks.

Before we reveal six of their steps to investment success, it is worth considering that a large asset manager has various advantages over the average retail investor when it comes to choosing stocks. We now give you some examples.

KICK THE TYRES

Andrew Millington, acting head of equities at Standard Life, says 'the first thing we do is meet with companies and get to know the management team'.

Retail investors do have the opportunity to attend some presentations by companies, but they tend to be limited to very small stocks.

Therefore fund managers have an advantage in that they can pretty much meet anyone they want. Spending quality time with the management of a company in which you have an investment is extremely valuable, in our opinion.

You also have to consider that funds managers will probably have a large support team, helping them research the market and individual stocks.

Retail investors have to do everything on their own – and probably in their spare time, unless they are lucky enough to make a living from the stock market.

FIRST STEPS

So how can retail investor take influence from a fund manager? Firstly, read their investment process which is often published on their website.

At Standard Life's aforementioned presentation, two of its fund managers discussed their particular approach to picking stocks. Most of their strategy could certainly by replicated by a retail investor.

Taking to the stage were fund managers Lesley Duncan from **Standard Life UK Ethical (GB00B6Y80X40)** and Harry Nimmo from **Standard Life UK Smaller Companies Trust (SLS)**.

They like to look for growth stocks. These are the companies that have strong improvement potential for the future, growing in value but probably not paying great dividends.

Duncan likes **Boohoo (BOO:AIM)**, a young fashion retailer that combines speed of delivery with access to high fashion. She says it has 'fleet of foot adapting to changes in the retail market with plenty

of potential'.

Nimmo also likes to choose low risk quality stocks. He believes this group, along with growth stocks, should remain fine regardless of the state of the economy. Housebuilder **Bellway (BWY)** is cited as an example of one of his preferred stocks.

MOMENTUM APPROACH

The two fund managers say you should 'run your winners' and not take profit on winning stocks too early.

One way to spot companies in a rising trend is to use financial websites that offer pre-set filters to screen the market. Look for ones that say 'momentum'.

This filtering approach is relevant to Standard Life's next top tip, namely concentrating your efforts on certain parts of the market and not trying to look at everything.

The asset manager has a stock selection filter system called 'Matrix' which looks for companies based on certain criteria. Nimmo says this system 'cuts down the legwork' and reduces the 'noise'.

This tool helps the firm identify companies with improving or deteriorating characteristics. Standard Life also says this tool helps dispassionately steer stock selection.

Nimmo likes **XP Power (XPP)** which he claims is below the radar of many investors. He says XP is an extremely efficient producer of low power solutions.

Clearly retail investors are at a disadvantage because they wouldn't have access to Standard Life's Matrix system. However, there are plenty of stock screening services available for a small fee to the general public from the likes of SharePad and Stockopedia, for example.

They may not be as sophisticated as Standard Life's system, which includes filters on risk and credit quality, but they will certainly be good enough to sort the market into different silos depending on what you desire.

STANDARD LIFE'S SIX PRINCIPLES OF INVESTING*

1. Go for growth
2. Go for quality
3. Run your winners
4. Concentrate your efforts
5. Management longevity
6. Value isn't everything

*According to two of its fund managers. Some of these principles won't apply to all types of investments; for example, high growth companies wouldn't suit a capital preservation strategy.
Source: Standard Life / Shares

TIME AT THE TOP

The Standard Life fund managers favour leadership longevity in a company. It bodes well if the founder of a successful company is still in control. One could deduce that they know what they're doing. Conversely, a company that regularly reports a change in management may well be one to avoid.

The final principle the Standard Life duo apply to their equity selections may seem controversial. They suggest that 'value isn't everything'. They do not restrict themselves to only buying stocks if the rating is low.

For example, they cite theme park virtual queuing specialist **Accesso Technology (ACSO:AIM)** as a stock on a high rating, yet a business which they believe is worth owning for attractive earnings growth. (DS)

Global funds don't always live up to their name

Investors can often miss out on large chunks of the world without them knowing

Global funds and exchange-traded funds (ETFs) are billed as a great way to access lots of companies around the world, but their level of diversification isn't always as high as you might expect.

One of the most common benchmarks used by tracker funds and ETFs is the MSCI World index. It is tracked by a multitude of products, including **Fidelity Index World (GB00BLT1YP39)** and **iShares Core MSCI World UCITS ETF (SWDA)**.

Contrary to what its name suggests, the MSCI World index doesn't cover the whole world but only provides exposure to developed markets.

HOW DO I GET FULL EXPOSURE?

If you want to invest in both developed and emerging markets you would need to opt for a fund or ETF tracking the MSCI All-Country World index. There are fewer products available but one example is **Lyxor MSCI All Country World UCITS ETF (ACWL)**.

If you dig deeper into the underlying portfolios you'll discover that both indices are highly skewed towards the US.

MSCI World covers 23 markets but the US makes up 59% of its equity exposure. Its top holdings are Apple, Microsoft, Amazon and Facebook. The next highest country weightings are Japan at 8.6% and the UK at 6.5%.

MSCI All-Country World covers 46 markets (23 developed and 23 emerging) yet the US has a 53% weighting, followed by Japan at 7.6% and the UK at 5.9%.

The reason for the high US weighting is that the benchmarks are constructed on a market capitalisation basis, meaning that more exposure is given to the largest companies.

'There is significant exposure to US equities because it is the largest stock market in the world,' says Ryan Hughes, head of fund selection at AJ Bell Youinvest.

'Some actively managed funds will invest away from the benchmark but is it highly unusual to find global funds that have little exposure to the US.'

WILL AN EQUAL WEIGHTING ETF HELP?

In recent years benchmarks have been launched that give an equal weighting to their constituents, meaning they are not skewed by market cap. You can get ETFs that track equal-weighted versions of the S&P 500 and the FTSE 100.

Unfortunately there don't appear to be any ETFs available that track a global equal-weighted index.

Amanda Rebello, head of passive distribution, UK & Ireland at Deutsche Asset Management, says this is because it would be technically difficult to manage the portfolio in a low-cost way.

'You'd be starting with an

enormous basket of stocks representing all countries with listed equities (or most countries at least) and you'd have to re-balance the portfolio, say quarterly, to maintain the equal weighting.

'There would be a risk you'd hit liquidity constraints for stocks in some of the smaller countries. So it's just technically quite tricky to do,' she explains.

INVESTING ON A SINGLE-COUNTRY BASIS

If you want global equity exposure without a heavy bias towards the US you could invest an equal amount in several country-specific funds or ETFs.

There are ETFs providing exposure to single countries and ones with exposure to certain regions like Europe, Latin America, Asia Pacific and the Middle East.

Trevor Clark, operations director at Rutherford Wilkinson, a financial advice firm, says selecting funds on an individual basis would enable you to know the exact make-up of your global exposure.

'Ensuring you have exposure to different regions across the globe does not have to be achieved through a global fund,' he points out.

When it comes to emerging markets, Clark suggests opting for a broad fund like **Vanguard Emerging Markets Stock Index (IE00B50MZ724)**. 'This (approach) means there is not too much risk concentration in a particular emerging market, where political risks and global risk aversion can cause stark stock market corrections,' he explains.

'ENSURING YOU HAVE EXPOSURE TO DIFFERENT REGIONS ACROSS THE GLOBE DOES NOT HAVE TO BE ACHIEVED THROUGH A GLOBAL FUND'

Another option to consider is investing in smart beta ETFs which weight equities according to specific 'factors'. The country exposure can vary greatly.

Db x-trackers MSCI World Minimum Volatility UCITS ETF (XDEB) has a 60% weighting to US companies whereas **Db x-trackers MSCI World Value Factor ETF (XDEV)** has a weighting of less than 40% to US companies.

INVESTMENT OPTIONS

Andrew Craig, founder of Plain English Finance and author of *How to Own the World*, says there is a low probability of working out the next 'hot' area or what the top performing asset class is going to be in the next few years.

'More often than not, not even the experts get this right and I would argue that amateur investors who try to time markets this way significantly increase their probability of losing money. Far easier to just own it all – and far better for the probability that you'll make decent long run returns through thick and thin,' he says.

Some experts say: 'Don't try to time the markets; it is easier to own it all'

THE ACTIVE APPROACH

In addition to passive funds, there are a whole host of active funds that take a global approach to investing.

Hughes likes **Baillie Gifford Global Alpha Growth (GB00B61DJ021)**, which has a five-year annualised return of 17.3%. Top holdings include retail giant Amazon, leisure outfit Royal Caribbean Cruises and insurer **Prudential (PRU)**.

An alternative is **Newton Global Income (GB00B7S9KM94)** with 15% annualised return over the past five years. Top holdings include technology group Microsoft and tobacco firms Reynolds American and Philip Morris International.

If you want exposure to small caps, **Standard Life Investments Global Smaller Companies (GB00B7KVX245)** may be suitable for higher risk investors, says Hughes.

Top holdings include Chinese optical instruments group Sunny Optical, British tonic water specialist **Fevertree (FEVR)** and Japanese online retailer Start Today. (EP)

Is BTG's share price weakness an opportunity?

It has developed a compelling portfolio after re-focusing the business

A negative reaction to full year results (16 May) from FTSE 250 specialist healthcare firm **BTG (BTG)** reflects market focus on the underwhelming performance of its Varithena varicose vein treatment and a stock which was priced for perfection.

Investors taking a view on whether this sell-off represents a buying opportunity need to concentrate on its ongoing transition from specialty pharmaceutical, addressing conditions with small patient populations for which there are limited or no existing treatment options, and deriving royalties from products sold by partners, to an increased focus on interventional medicine. Currently revenue is split relatively evenly between these three areas.

Interventional medicine seeks to provide diagnosis and treatment of conditions in a less invasive way by pinpointing problems inside the body and providing targeted solutions.

Cantor Fitzgerald reckons BTG is 'on the cusp of driving strong growth from its key interventional medicine business from 2018'.

This might explain why, despite recent weakness, the stock still trades on a relatively lofty 17.8 times Panmure Gordon's forecast March 2018 earnings per share of 37.2p.

IMPROVEMENTS IN PATIENT CARE

Patient care can be improved using interventional medicine as it treats diseases locally and minimises side effects. It also allows patients to recover faster compared to conventional surgery, which can help hospitals cut costs.

BTG develops and sells innovative products directly to interventional radiologists in the US and uses distributors in Asia.

In 2011, BTG made its first major move into interventional medicine when it bought Biocompatibles for its bead technology, which literally involves inserting very small beads into the body.

It has three key areas of focus in interventional medicine: oncology; interventional vascular; and interventional pulmonary.

Among its core products is its LUMI range, which BTG developed as a next generation version of Biocompatibles bead technology by making the beads more visible inside the body.

LC Bead LUMI is a radiopaque bead that sends radiation to the tumour without hitting the rest of the body, helping to reduce side effects.

The bead is inserted through a catheter and can be loaded with doxorubicin to treat liver cancer. Surgeons can also see where it is going in real-time and where it has been up to six months later.

EXPANSION IN ONCOLOGY

In 2016, BTG expanded its oncology division by acquiring

Galil Medical, a manufacturer of cryoablation systems and needles. These are used to treat kidney cancer as the needles can be inserted into the tumour.

Galil's systems use compressed argon gas to produce extremely low temperatures that form an ice ball at the tip of the needle as the gas passes through, effectively freezing and destroying the tumour.

BTG has funded studies to try and expand the use of the needles to tackle lung cancer and bone metastases.

Treating pulmonary embolisms is a key focus of its interventional vascular division using its endovascular system, which was acquired from EKOS in 2013.

The EkoSonic system makes it easier for blood clot medicine to get into the affected area by creating an acoustic pulse to break up the fibrous elements of the clot.

BTG is trying to find out how much of the clot-busting drug is needed to help lower the bleeding rate and is awaiting a study readout for its EKOS acoustic pulse thrombolysis treatment.

THE VARITHENA PROBLEM

Interventional vascular also encompasses Varithena, of which the bulk of the development, clinical and regulatory work was undertaken by BTG. Varithena is a foam that can be injected into swollen and enlarged veins known as varicose veins. It displaces the blood by directing it to other veins.

Varithena has experienced a slower launch than anticipated as problems with the payment system means it can take at least six months for the hospital to get paid for patients on Medicare.

Cantor describes the £4.1m worth of Varithena sales in the March 2017 financial year as 'somewhat disappointing', however, the company is optimistic that uptake will improve when new reimbursement codes are introduced in the US in January 2018.

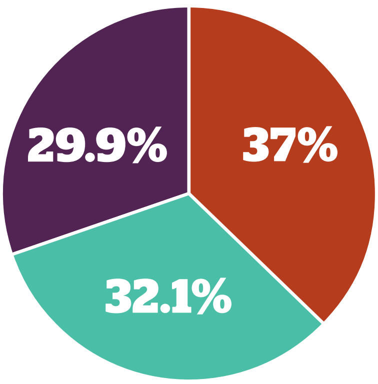
In 2014, BTG bought PneumRx as it saw minimally invasive coil RePneu as an attractive addition to its portfolio.

RePneu helps people who suffer from severe emphysema, a long-term, progressive disease of the lungs caused by smoking. It makes it difficult to breathe as the lung sacs have degraded and are bloated with air.

The coil, which is not yet approved in the US, grabs damaged tissue and props open the lung to help people to breathe better and exercise more.

WHAT TO EXPECT GOING FORWARD

BTG is bullish about the outlook, guiding for mid-to-high teens growth in interventional medicine revenue; specialty pharma sales growth of low-to-mid single digits; and a high teen decline in royalty income from licensing in the March 2018 financial year.



BTG – 2017 REVENUE BREAKDOWN

- Interventional medicine
- Licensing
- Specialty pharma

Source: Company Reports

SHARES SAYS: ↗

The 7% share price decline following the results looks unjustified. Buy at 664.5p. Panmure Gordon's price target of 809p implies upside of more than 20%. (LMJ)

BROKER SAYS: 6 3 0

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KEY

- Main Market
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