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SHARES

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HOW POLICIES COULD IMPACT YOUR FINANCES

ELECTION COUNTDOWN

IS VODAFONE DIALLING UP MEGA DEAL?

INVEST IN TECH WITH INVESTMENT TRUSTS

WHAT EACH POLITICAL PARTY MANIFESTO MIGHT MEAN FOR INVESTORS

HOW TO GET BIG YIELDS OVERSEAS

Why corporate governance matters

Corruption scandal hits Petrofac as Serious Fraud Office swoop

Companies often pay lip service to good corporate governance but it is not necessarily top of the list for investors when deciding which stocks to buy or sell. Oil services firm **Petrofac (PFC)** is just the latest example of why you ignore the way a company is run at your peril.

Shares in the company have nose-dived as the Serious Fraud Office (SFO) swooped on the company and chief operating officer Marwan Chedid was suspended over alleged bribery, corruption and money laundering centred on contracts in Kazakhstan.

MASSIVE SHARE PRICE IMPACT

Since news of the SFO investigation first broke on 12 May the company has seen more than £1.2bn wiped off its market value.

What is particularly damaging is the SFO does not accept the findings of the company's internal investigation into this matter in 2016 and does not consider it has 'co-operated' with its own investigation.

Given the parts of the world they operate in, resources companies are particularly prone to these sorts of issues. **Royal Dutch Shell (RDSB)** is currently contending with corruption allegations of its own in Nigeria.

Leaked emails released in April appeared to validate claims of corruption over an $1.3bn oil deal in the country in 2011.

There is speculation Petrofac could face a fine of as much as $800m from the SFO but more significant is the impact the scandal could have on its ability to do business in the future.

LOSS OF CREDIBILITY

Once credibility is lost it can be extremely difficult to win back, broker Canaccord Genuity says 'a worst-case scenario would see value dropping to barely more than the disposal value of the remnants of the IES division, somewhere around 100p a share.'

Identifying the risks of corporate scandals before they occur is tricky but it is worth paying attention to the environmental, social and governance (ESG) information in an annual report. Make your own judgement on whether a company is taking these factors seriously.

MORE THAN
£1.2BN
WIPED OFF
PETROFAC'S
MARKET
VALUE

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01 June 2017

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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.

Vodafone nudges closer to Liberty deal

Mobile group could be cannily wooing Virgin Media-owner

Vodafone **(VOD)** may be increasing the volume of overtures to a key acquisition target. The mobile network business is believed to be mulling a tie-up with US media and communications group Liberty Global, the owner of the UK's Virgin Media. Vodafone's interest is likely to involve Liberty's UK and European fibre broadband infrastructure and content rights.

Vodafone told analysts in May that no new talks had taken place with Liberty, with chief finance officer Nick Read 'pointedly brought up strategic alternatives to Liberty,' reveal the telecoms team at investment bank Jefferies. 'It will be interesting to see whether Fox retains Sky UK phone and broadband should the takeover complete,' Read said.

Pay-TV company **Sky (SKY)** is in the middle of an £18.5bn buyout by Rupert Murdoch's 21st Century Fox.

Vodafone's Read also mentioned possible anchor tenant options with **BT's (BT.A)** Openreach that would quicken the pace of its own fibre UK infrastructure roll-out. Openreach runs the UK's broadband fibre backbone network.

Jefferies believes this name-dropping could be a subterfuge. 'Our suspicion is that market debate on Fox-Sky and Openreach is being used to transmit signals of confidence to Liberty.'

Vodafone and Liberty have held talks before. The UK company walked away from asset swap discussions in October 2015. Those conversations involved the pair's respective operations in the UK, Germany and the Netherlands. Speculation has refused to die down. (SF)

B&M is booming

Variety retailer's riding the structural shift towards value

BUSINESS IS BOOMING at cut-price variety retailer **B&M European Value Retail (BME)**, so much so that boss Simon Arora has upgraded his UK store number target for the Sir Terry Leahy-chaired concern.

Helping shoppers spend less at a time when retail prices are on the rise, the discounter is set fair for current economic uncertainty and plugged into the structural shift towards value, although B&M's valuation leaves scant room for disappointment.

Impressive full year results (25 May) from the soft drinks-to-garden furniture seller highlighted a 25.6% hike in profit before tax to a better-than-expected £190.1m. Strong like-for-like growth and an excellent start to 2018 have encouraged CEO Arora to upgrade the UK store target from 850 to 'at least' 950. 'Still under-represented in large areas of the UK', B&M has many years of growth ahead and its competitive prices are chiming with consumers hungry for value.

B&M is an exciting earnings and dividend growth story, although the valuation is rather fulsome. For the year to March 2018 Numis Securities forecasts a taxable profits push to £218m for earnings per share of 17.2p (2017: 14.8p), leaving B&M swapping hands for more than 21 times forward earnings.

High-flying B&M's booming but at 368p, investors have to pay up to access its growth. (JC)

Intertek can shrug off resources troubles

Company reports a decent hike in revenue but market focuses on problem division

FTSE 100 firm **Intertek (ITRK)**, a company that assesses the quality of a vast range of products ranging from shoes to pharmaceuticals, is in a rapid growth phase but the market appears unimpressed.

A recent trading update revealed it notched up a 14% rise in revenue to £883.5m for the first four months of 2017.

Investors marked the shares lower to £42.23 as they focused instead on a disappointing contribution from its resources division, which saw revenue fall by 4.7% to £162.8m.

The company says it is well positioned to exploit opportunities in the quality assurances market due to rising global trade, increased regulation and consumer demand for high quality products.

Not everyone is convinced though. Ben McSkelly, an analyst at Shore Capital, advises selling the company on valuation grounds, arguing a recovery in resources revenue is being priced in prematurely.

Robert Plant, an analyst at JP Morgan Cazenove is far more bullish on Intertek's fortunes. He reiterates an 'overweight' rating and increases the company's organic growth rate by 0.5 percentage points to 2% for this year, his firm have given Intertek an 'overweight' recommendation.

While he acknowledges resources will be a drag on performance in the near term, he reckons it will be less of a headwind next year after being offset by the company's products and trade divisions. These account for more than 90% of the company's earnings.

IAG grounded on British Airways woes

Carrier endures major IT failure over Bank Holiday

COST OF CANCELLING ONE DAY OF OPERATIONS £30M
Source: Davy Research

INVESTORS CONSIDERING the prospects of British Airways owner **IAG (IAG)** after the carrier's flights were grounded by technical issues over the Bank Holiday weekend need to decide if this was a blip or a sign of inherent vulnerabilities in its IT systems.

The share price left little margin for error as it traded close to its highest level since 2015 ahead of the failure, which saw thousands of flights cancelled but so far the damage to its market valuation has been relatively limited. As we write the shares are down just 2.2% on Friday's close at 600.25p.

The issue was blamed on a power surge, with a cyber attack ruled out, but this fails to answer why it took so long to get things back up and running and BA has also been criticised for its communication with customers affected by the problems.

TechMarketView research director Angela Eager says: 'What happened to the disaster recovery plan a company of BA's size surely must have had in place; a plan that ought to have been tested to see how it coped with an ugly shutdown.

'BA can expect a very expensive compensation bill but the damage to its reputation, may well be worse. There will be lessons for BA but other organisations and their IT suppliers should also be watching and learning.'

Given the shares remain at relatively elevated levels it seems prudent to remain cautious while the fall-out from this incident rumbles on. (TS)

Abzena poised for big growth

The life sciences business has interesting prospects following its £25m fundraise in April

Numis is excited about life sciences group **Abzena (ABZA:AIM)** ahead of its full year results on 13 June 2017, which is expected to reveal strong top-line growth of 40%.

NUMIS PRICE TARGET: 93P

FINNCAP PRICE TARGET: 80P

Stefan Hamill from Numis believes that investors can more than double their money over the next year with a target price of 93p. Abzena currently trades at 38.8p (26 May).

The company enhances the properties of pharmaceutical products to make them work more effectively through its *Inside* programme.

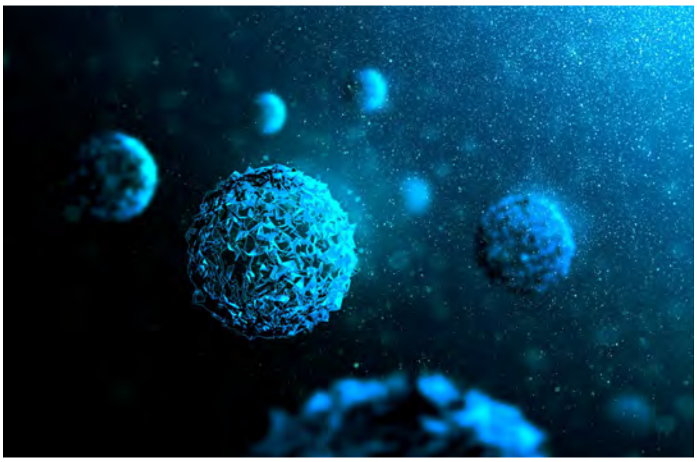
A POPULAR PROGRAMME

The programme is popular with twelve therapeutic antibodies currently being produced using its antibody humanisation technology. The antibodies are owned and progressed to clinical development by Abzena's partners.

In April, the company raised £25m to upgrade its US biomanufacturing facilities so it can supply more products, as well as enhance its biology and chemistry offering in the US and UK.

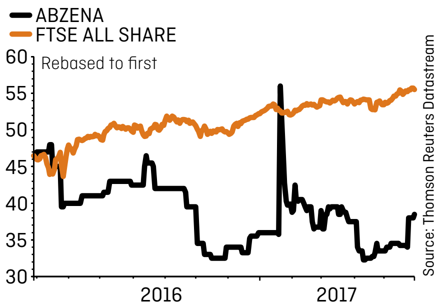
Hamill predicts the expansion will increase its manufacturing capacity three-fold in 2018 and add further capabilities to help it deal with customer demand.

As a result, he has brought forward his forecast for a maiden profit to 2020.



The analyst is also optimistic that a 'clear path to profitability' will start to emerge when Abzena announces interim results in November.

On 24 May, one of Abzena's partners, a clinical-stage biotech firm True North Therapeutics was acquired by Bioverativ for up to $825m.



True North produced its haemolytic blood disorder treatment TNT009 using Abzena's antibody humanisation technology.

The acquisition is welcome news for Hamill as he estimates the overall sales potential from the Abzena *Inside* programme currently in the clinic will be approximately $10bn, up from $9bn.

One of the potential risks that Hamill highlights is pressure on earnings in the near-term as the company invests in its manufacturing capacity.

FinnCap analyst Alex Pye sees benefits from the acquisition of True North by Bioverativ and also sees potential for investors to double their money with a target price of 80p.

If True North successfully commercialises TNT009, Abzena will receive a small royalty, which Pye estimates is 1%.

A MARK OF QUALITY

The analyst says: 'TNT009 is the fourth Abzena inside product that has changed ownership through acquisition, with the last being Roche's acquisition of Adheron Therapeutics in October 2015.'

The acquisitions of Abzena's partners implies the quality of the products they are producing using the firm's tech is attracting buyers. (LMJ)

150
AGMS MOVING TO THE INTERNET

MORE THAN 150 annual general meetings (AGMs) were held online by US corporates in 2016. That compares with less than 100 in 2015.

Ford and Hewlett Packard are among the big names ditching traditional AGMs in favour of online broadcasts. We wouldn't be surprised to see FTSE companies give it a go as well.

Virtual AGMs will suit many private investors unable to travel the UK because of work or family commitments, but you'd lose out on some perks like free food and drink.

50 POOCH PAMPERING A BOON FOR PETS AT HOME

PETS AT HOME (PETS) has added an extra 50 grooming salons over the past financial year as pet owners seek to have their animals treated to a bath or have their nails clipped.

The dog food seller-to-vet practices group won't stop at 290 sites; it plans to open another 40 to 50 grooming salons by April 2018.

This part of its business was a key driver behind the 44.5% services revenue surge to £117.5m in the past year.

35% ACACIA SHARE PRICE HIT BY MIS-REPORTING ALLEGATION

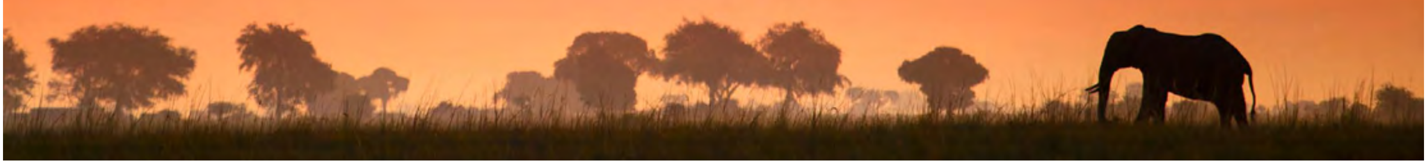
A NEW TWIST to **Acacia Mining's (ACA)** gold export problem saw its share price collapse by 35% in the course of a week to 286.3p.

The Tanzanian government, which recently banned the export of unprocessed ore, has accused Acacia of under-reporting the amount of metal in its previous shipments, something the miner denies.

Acacia is losing $1m a day in lost revenue as a large chunk of production from two of its gold mines cannot be sold. Investment bank Jefferies says the closure of these two mines 'now appears increasingly likely'.

Jefferies adds: 'With $196m net cash as of March 31st, we do not have immediate concerns over the liquidity of the company, though note a $22m advanced payment will likely need to be repaid near-term.'

Stockbroker Numis notes that Acacia has ongoing parallel disputes relating to VAT and dividend payments. 'It also faces pressure to change the ownership of its local operating companies to include a 30% holding by Tanzanian nationals.'



100

LOW VOLALITY FUNDS DOUBLE IN FIVE YEARS

THE NUMBER OF low volatility funds available in Europe has doubled in the past five years to almost 100 open-ended or exchange-traded funds. According to Morningstar, these products enjoyed an estimated €27 billion in net inflows over the period, and assets under management reached €40 billion by the end of 2016.

11 YEARS

SOFTCAT CEO'S 11 YEAR REIGN COMES TO AN END

THE LONG-STANDING chief executive of IT systems reseller **Softcat (SCT)** is to step down. Martin Hellawell is highly respected in the IT industry and has made shareholders lots of money.

Softcat has grown exponentially during his 11 years at the company. Revenue has increased from around £50m to a forecast £800m for the year to 31 July 2017.

Hellawell will become non-executive chairman, yet investors already appear to be lamenting the loss of his leadership as CEO. The shares are down more than 10% since the announcement, despite robust trading.

BEST PERFORMING MID AND LARGE CAP RETAIL STOCKS SO FAR THIS YEAR

Company	Share price gain
Boohoo.com	57.6%
JD Sports Fashion	43.4%
Card Factory	33.6%
B&M European Value	33.3%
ASOS	29.2%
N Brown	26.3%
CVS	25.4%
Pendragon	23.6%
DFS Furniture	22.1%
Inchcape	21.1%

Source: SharePad, as of 26 May 2017

BEST PERFORMING MID AND LARGE CAP PHARMA STOCKS SO FAR THIS YEAR

Company	Share price gain
Dechra Pharmaceuticals	40.6%
Hutchison China Meditech	36.9%
Abcam	27.6%
Clinigen	23.6%
AstraZeneca	18.2%
Eco Animal Health	16.3%
Indivior	8.7%
BTG	8.4%
Benchmark	5.4%
GlaxoSmithKline	4.7%

Source: SharePad, as of 26 May 2017

Explore Emerging Europe's exciting opportunities

Contrarians should buy BlackRock Emerging Europe for portfolio diversification

With equity markets on both sides of the Atlantic testing new highs, investors worried the bubble could burst should diversify portfolios to guard against a potential correction.

One region with high long-term return potential largely forgotten by investors is Emerging Europe, which should excite contrarians tolerant of political risk. One of the few regional specialist trusts is **BlackRock Emerging Europe (BEEP)**, where a 7.67% discount to net asset value (NAV) looks interesting.

BlackRock Emerging Europe has performed particularly strongly since the adoption of an unconstrained, concentrated investment approach in 2013. Its objective is to achieve long-term capital growth by investing in a concentrated portfolio of 20-30 companies doing business primarily in Eastern Europe, Russia, Central Asia and Turkey.

RIPE FOR A RE-RATING

'We've had a lost decade in Emerging Europe,' explain managers Sam Vecht and Christopher Colunga, addressing the de-rating of the region they view as a compelling deep value opportunity; Emerging European markets' good returns over the last 12 months have been driven by fundamentals rather than re-ratings to a higher market valuation.

Assuming the oil price remains reasonably stable, Russian equities will see a meaningful re-rating over the next 18 months. Yields on Russian energy and financial companies remain very high, underpinned by positive earnings growth and reductions in capital expenditure. The managers are also positive on prospects for Central Eastern European countries such as Poland, the Czech Republic, Romania, Hungary and even Greece.

BlackRock Emerging Europe performed strongly in 2016 in absolute terms, aided by a rally in Russian equities following a rise in the oil price and speculation President Trump's election would lead to an easing of sanctions.

BLACKROCK EMERGING EUROPE
BUY
(BEEP) 333.91p
Stop loss: 267.13p

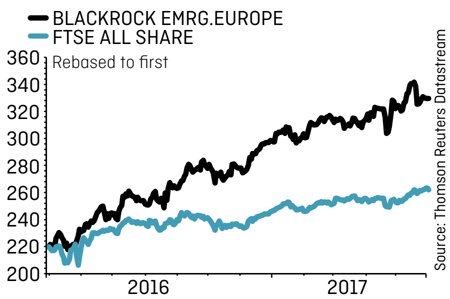
Market value: £118.39m

HIDDEN GEMS

'We invest in companies where the direction of travel is improving,' explains Vecht, who meets with management, customers, competitors and suppliers on the ground in order to unearth hidden gems and under-owned companies with improving returns. As at 30 April, the fund's fifteen largest investments ranged from Russia's Sberbank and Gazprom to hypermarkets operator Lenta and social network-to-online games play Mail.Ru, not to mention Powszechny Zaklad Ubezpieczen (PZU), Poland's largest insurance company.

Significantly, Winterflood Investment Trusts expect BlackRock Emerging Europe's discount to 'narrow materially' in advance of June next year. The reason is that on or shortly before 21 June 2018, the fund will allow shareholders a full cash exit at NAV less costs, dependent on the anticipated level of uptake. The plan is to provide similar periodic returns of capital at five-year intervals thereafter.

BROKER SAYS: 0 1 0



CityFibre part of superfast UK broadband solution

Fibre networks builder in right place at right time

A superfast broadband Britain is the aim and fibre network builder **CityFibre Infrastructure (CITY:AIM)** is an exciting way for investors to access the opportunity.

The AIM-quoted business builds ultra-fast fibre networks in medium-sized cities. Think Sheffield, Bristol, Glasgow and Leeds; these are a handful of the 42 locations being turned into 'Gigabit Cities' across the UK capable of providing local businesses and government organisations with state-of-the-art digital infrastructure.

It's a risk managed model because CityFibre insists on long-term anchor tenants before committing resources, guaranteeing funding payback. This typically means a local authority or internet service provider (ISP). Once operational, service providers sell services to end users, paying CityFibre on a subscription model. If growth fails to materialise, intense capital expenditure (capex) can be ratcheted down accordingly.

Last year to 31 December 2016 was transformational, scaling the business up thanks to buying infrastructure parts of **KCOM (KCOM)** and **Redcentric (RCN:AIM)**. This sparked a massive 230% jump in end users connections, or 63% in pre-acquisition organic terms. Contracted new connections jumped 206% or 58% organically,

CITYFIBRE INFRASTRUCTURE
BUY
(CITY:AIM) 66.5p
Stop loss: 53p

Market value: £177m

helping overall revenue increase from £6.4m to £15.4m.

Analysts value its existing fibre networks replacement value at £155m, solid asset backing for the current £177m market capitalisation. The company has £106m worth of committed future revenue over the next few years as it stands.

FUNDING RETHINK

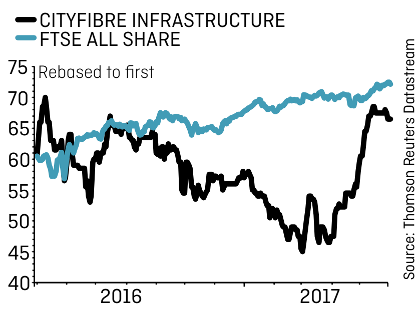
Now Ofcom is starting to show is teeth after years of under investment in UK fibre infrastructure. For years **BT's (BT.A)** Openreach has had the market largely to itself but the watchdog is demanding competition, sending a clearly encouraging signal to CityFibre.

Management are reviewing £100m of funding capacity, most at onerous interest charges. Net debt was £38.6m meaning a £7.3m interest bill last year. CityFibre will get better terms as its revenue visibility continues to improve, while the company refuses to look at equity funding due to the low valuation.

Longer-term, there also looks like a very good chance that CityFibre gets bought out, particularly with the UK's major mobile operators all vying for Fibre network access for their own multi-play service offerings (where customers get home phone, mobile, broadband and even digital TV as a bundle).

FinnCap anticipates £24m of revenue this year, and £38m in 2018, implying this year's £4.8m pre-tax loss will turn into a £2.1m pre-tax profit next year aided by near 90% gross profit margins. The broker has a 130p target price on the stock, while fund manager star Neil Woodford is a major stakeowner with 17.2%. (SF)

BROKER SAYS: 2 0 0



CLIPPER LOGISTICS
(CLG) 420.2p

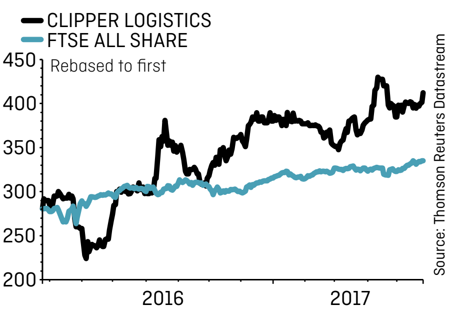
Gain to date: 36.9%
Original entry point:
Buy at 307p, 1 September 2016

OUR BULLISH CALL on **Clipper Logistics (CLG)** is now a tidy 36.9% in the money. Geared into the growth of online shopping, the fashion logistics specialist runs warehouses and delivery services for retailers, sending out clothes ordered via websites and handling returns.

Its 'sticky' customers include **ASOS (ASC:AIM)**, John Lewis, **Sainsbury's (SBRY)**, **SuperGroup (SGP)** and **Halfords (HFD)**; Clipper recently signed (3 May) a new eight-year contract with the latter and also counts **British American Tobacco (BATS)** as a customer.

Clipper's high-flying shares were helped higher by upgrades following the acquisition (25 May) of Tesam. Buying this smaller, Peterborough-based peer 'provides additional capacity, at an attractive location, at an attractive price, and enhances the ability of the group to implement its strong pipeline of new business', according to Numis Securities.

For the year to April 2018, the broker has upgraded its pre-tax profit forecast from £18.4m to £20m. Based on estimated earnings of 15.3p, Clipper isn't cheap on a prospective PE of 27.5 times, although we think its structural growth story and strong cash generation justify a premium rating.



SHARES SAYS: ↗
Keep buying high-quality Clipper at 420.2p. (JC)

BROKER SAYS: 1 1 0

LUCECO
(LUCE) 239p

Gain to date: 59.3%
Original entry point:
Buy at 150p, 20 October 2016

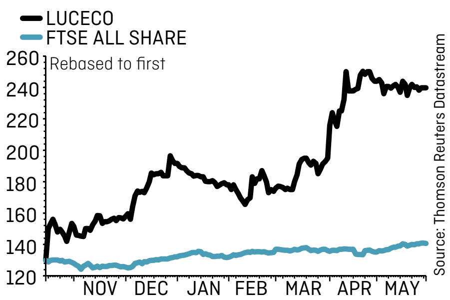
OUR POSITIVE VIEW on LED lighting specialist **Luceco (LUCE)** continues to be underpinned by robust operational performance. Luceco makes and distributes wiring accessories, power products and LED lights. It has a diversified customer base, selling to trade, retail and direct to businesses for specific projects.

In an AGM trading update on 25 May the company guided for results to be slightly ahead of expectations. It says the momentum flagged in full year results has continued with 'significant year on year growth in revenue and profit'.

'Growth has been driven by strong market share gains within the key brands in the UK and other newer markets, and the ongoing expansion of the product ranges,' it adds.

The company has an edge on the competition thanks to its low-cost manufacturing facilities in the Far East and we remain positive for now as there is little sign of the trading weakness which we said might lead us to take profit.

The shares are up more than 80% on the 130p issue price from its October 2016 IPO. The UK LED lighting market is expected to enjoy 15.4% compound annual growth between 2015 and 2020, according to AMA Research.

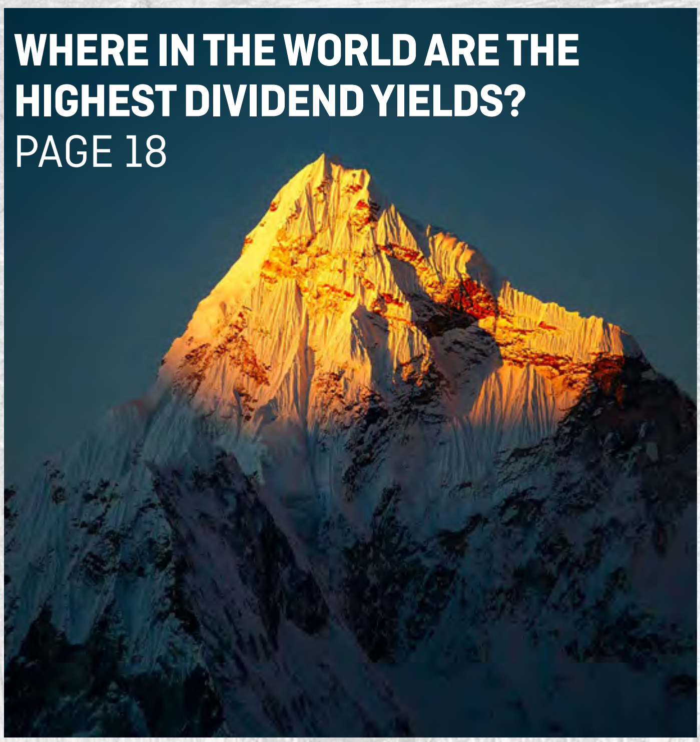


SHARES SAYS: ↗
Not reason to sell yet. (TS)

BROKER SAYS: 2 0 0

KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY



FRIDAY 2 JUNE

AGMS	
HONEYCOMB INVESTMENT TRUST	HONY
MANX FINANCIAL	MFX
SPHERE MEDICAL	SPHR
ECONOMICS	
UK	
CONSTRUCTION PMI	

MONDAY 5 JUNE

AGMS	
AFRICA OPPORTUNITY FUND	AOF
FRONTERA RESOURCES	FRR
REDSTONECONNECT	REDS
ECONOMICS	
UK	
SERVICES PMI	

TUESDAY 6 JUNE

FINALS	
FREEAGENT	FREE
INTERIMS	
OXFORD METRICS	OMG
AGMS	
BAGIR	BAGR
FAIR OAKS INCOME FUND	FAIR
FORBIDDEN TECHNOLOGIES	FBT
GEM DIAMONDS	GEMD
LONDON & ASSOCIATED PROPERTIES	LAS
MEDILINK-GLOBAL UK	MEDI
REALM THERAPEUTICS	RLM
SOMERO ENTERPRISES	SOM
VIETNAM ENTERPRISE INVESTMENTS	VEIL

WEDNESDAY 7 JUNE

FINALS	
PICTON PROPERTY INCOME	PCTN
RAMSDENS	RFX
AGMS	
BISICHI MINING	BISI
AUDIOBOOM	BOOM
DAVICTUS	DVT
HURRICANE ENERGY	HUR
JACKPOTJOY	JPJ
SECURE INCOME REIT	SIR
STANDARD LIFE INVESTMENT PROPERTY TRUST	SLI
WPP	WPP
ECONOMICS	
BRC SHOP PRICE INDEX	
HALIFAX HPI	

THURSDAY 8 JUNE

FINALS	
AUTO TRADER	AUTO
FLYBE	FLYB
AGMS	
PANMURE GORDON & CO	PMR

UK CONSTRUCTION SECTOR

In April, UK construction output experienced its sharpest rise so far in 2017, driven by faster increases in civil engineering and residential building activity.

Investors should look out on 2 June to see if the purchasing managers' index for the month of May will go over 53.1 recorded in April or whether the previous positive momentum was only temporary.

A figure over 50 represents economic expansion and a figure 50 below means contraction.

FREEAGENT (FREE:AIM)

Accounting software group **FreeAgent (FREE:AIM)** should report good growth progress and well managed costs when full year results are released on 6 June, as indicated by a trading update in April.

It will be interesting to hear about progress in its micro business target market given the self-employed land grab by rival *Quickbooks*, revealed in parent Intuit's recent third quarter figures.

RAMSDENS (RFX:AIM)

Pawnbroker and high street foreign exchange firm **Ramsdens (RFX:AIM)** told investors in April that its full year results would be ahead of management's previous expectations. We'll get the exact figures on 7 June when results are published.

It will be interesting to see if chief executive Peter Kenyon's claims of the business being more of a foreign exchange operation in terms of revenue and profit prove accurate.

EX-DIVIDEND		
TEMPLE BAR INVESTMENT TRUST	53IM	1.93P
ASSOCIATED BRITISH FOODS	ABF	11.35P
ANGLO-EASTERN PLANTATIONS	AEP	3P
AIR PARTNER	AIR	3.6P
APPLEGREEN	APGN	€0.01
ARROW GLOBAL	ARW	6.4P
AVIVA	AV.A	4.37P
BILLINGTON	BILN	10P
BOOKER	BOK	4.97P
BOOKER	BOK	3.02P
CAMELLIA	CAM	95P
CONNECT	CNCT	3.1P
CHRISTIE	CTG	1.5P
INSPIRED ENERGY	INSE	0.32P
INVESTEC	INVR	6.23P
ITE	ITE	1.5P
JUDGES SCIENTIFIC	JDG	18.5P
JPMORGAN GLOBAL GROWTH INCOME	JPGI	2.2P
LONDON SECURITY	LSC	40P
LEARNING TECHNOLOGIES	LTG	0.14P
NASSTAR	NASA	0.05P
PREMIER ENERGY & WATER TRUST	PEW	1.9P
PHOENIX SPREE DEUTSCHLAND	PSDL	3.7P
REDEFINE INTERNATIONAL	RDI	1.3P
ROTALA	ROL	1.5P
RESTORE	RST	1.3P
RTC	RTC	2P
M&C SAATCHI	SAA	6.44P
SIG	SHI	1.83P
SCOTTISH MORTGAGE INVESTMENT TRUST	SMT	1.61P
SYNTHOMER	SYNT	7.8P
VICTREX	VCT	12.2P
WPP	WPP	37.05P

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

WHERE IN THE WORLD ARE THE HIGHEST DIVIDEND YIELDS?

WE REVEAL THE STOCK MARKETS OFFERING THE JUICIEST SOURCE OF INCOME AND BEST WAYS TO INVEST

Fed up with the low dividends offered by the UK's largest companies? Why not look further afield as some overseas markets offer dividend yields of above 5%, as we now reveal.

Figures produced for *Shares* show there are several countries around the world offering far superior yields than the UK's main stock market index, the FTSE 100.

With a current yield of 3.8%, the UK doesn't even make the top 10 – unless the results are filtered to show developed markets only.

Top of the chart is Slovenia, with a juicy dividend yield of 6.2%. In second and third place are Australia and New Zealand, both of which yield 5.3%.

Close behind are three emerging markets: Russia (5%), Czech Republic (4.9%) and the United Arab Emirates (4.5%).

WHY DO THE YIELDS VARY?

There are lots of reasons why dividend yields vary. For countries like Slovenia, Russia, Czech Republic, Finland and Norway it's largely to do with the fact that their stock markets are dominated by state-controlled enterprises. These types of companies like to reward investors as they are often very reliant on their support.

'For example, Russia is 60% dominated by gas and energy companies, which are bloated enterprises that are controlled by the state,' says Viktor Nossek, director of research at WisdomTree Europe.

'They aren't sufficiently funded by the government so they need to fund themselves through the equity market. They offer high dividend yields to attract investors.'

The Czech Republic is dominated by one telecoms stock, CEZ. It has a 19% weight in the Prague Stock Exchange and a forward dividend yield of more than 5%.

'Investing in the Czech Republic stock market is almost an individual stock proposition,' says Nossek.

LOCAL INVESTOR PREFERENCE

Even when these state-dominated markets are excluded, there is still a big gap between the lowest and highest yielding countries.

Reasons include local investor preference, market governance and what types of companies make up the index.

Russ Mould, investment director at AJ Bell Youinvest, says investors in the US prefer share buybacks to dividends so the yield from US-listed companies has always been relatively low.

'Countries where governance and minority shareholders have been less of a concern, such as Japan and Korea, have also offered lower dividend yields, although both of these nations are now showing some improvement,' he adds.

The Australian ASX-200 index is dominated by high-yielding bank stocks, so it carries a high yield overall.

New Zealand has a large number of companies in the utilities and telecom services sectors, where earnings growth is relatively limited and the bulk of total returns can come from the dividend.

HOW CAN I GET EXPOSURE?

One of the simplest ways to get exposure to markets around the world is to invest in exchange-

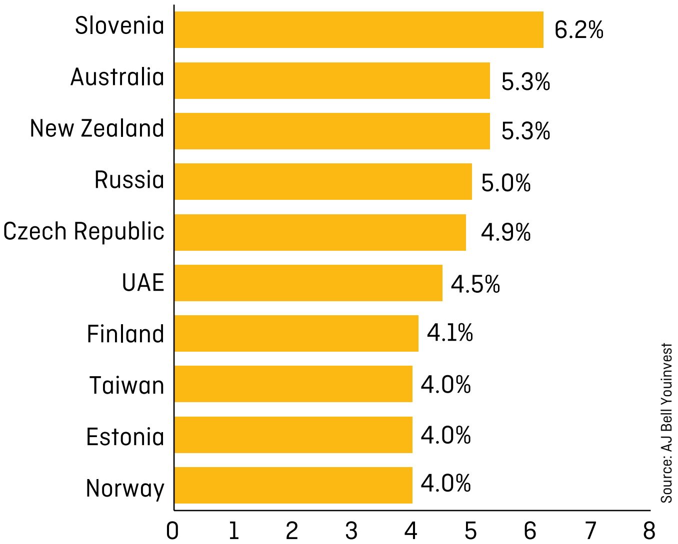
traded funds (ETFs).

There are ETFs targeting a single country, such as **iShares MSCI Australia UCITS ETF (SAUS)**. Offering exposure to 70 stocks, this ETF returned 21% in the 12 months to 31 March 2017. The ETF is accumulating, which means dividends are reinvested back into the fund rather than paid to you in cash.

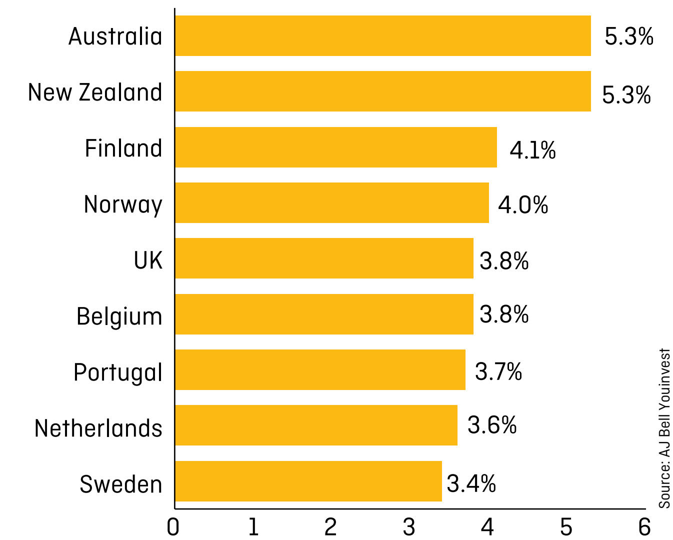
Single country ETFs tend to concentrate on developed markets. If you want to invest in a frontier or emerging market you'd need to consider a broader product like **iShares Core MSCI Emerging Markets Investable Market Index ETF (EIMI)**. It offers exposure to countries like China, South Korea, Taiwan, India and Russia.

If you're unsure in which market to invest you

TOP 10 YIELDING COUNTRIES: WHOLE OF THE WORLD

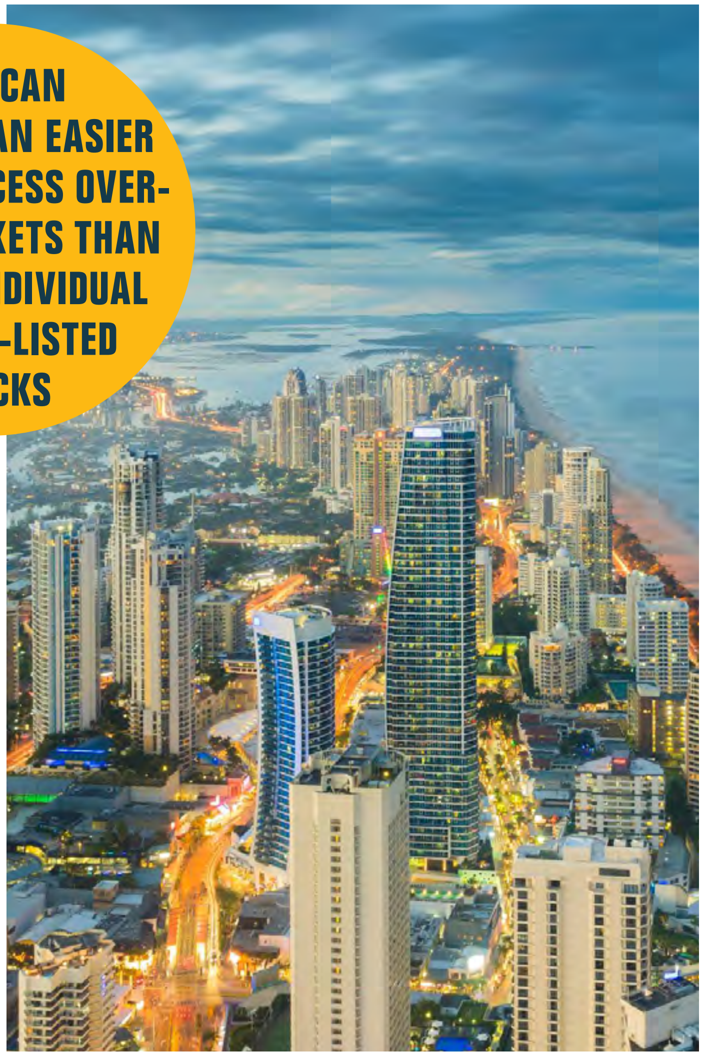


TOP 10 YIELDING COUNTRIES: DEVELOPED MARKET ONLY



could look at ETFs with global coverage. For example, **Vanguard FTSE All-World High Dividend UCITS ETF (VHYL)** is designed to target high-yielding companies around the world. The product offers a yield of 3.1% and tracks nearly 1,200 stocks, including oil and gas corporation Exxon Mobil, pharmaceutical company Johnson & Johnson and banking giant Wells Fargo.

ETFS CAN OFTEN BE AN EASIER WAY TO ACCESS OVER-SEAS MARKETS THAN BUYING INDIVIDUAL FOREIGN-LISTED STOCKS



DON'T JUST LOOK AT DIVIDEND YIELD

It's important not to focus too much on dividend yield when deciding where to invest. You should also think about whether the country offers good value and has decent prospects.

Mould suggests looking at the market's dividend cover ratio, which shows how much profit the companies are making relative to the dividends they're paying out.

'If cover is low and profit falls, then dividends could be cut as companies hunker down to see out the downturn,' he says.

Another factor to consider is dividend growth. Andrew Wheatley-Hubbard, co-manager of the **BlackRock Global Income Fund (GB00B3VXK756)**, says dividend yield and dividend growth drive over 80% of equity returns over the long-term.

'It is not enough to focus just on today's yield to improve returns. It is about understanding where the yield might be in years to come,' he adds.

With that in mind, you may wish to look at **WisdomTree Eurozone Quality Dividend Growth UCITS ETF (EGRA)** which selects stocks based on their growth and quality characteristics. Companies being tracked by the ETF include software provider SAP, semiconductor specialist ASML, consumer goods giant **Unilever (ULVR)** and aerospace company Airbus.

THE IMPORTANCE OF TOTAL YIELD

Andrew Walsh, head of ETF sales, UK & Ireland at UBS, argues that instead of purely focusing on high dividends, investors should also seek exposure to companies that undertake lots of share buybacks.

He says this gives a more balanced sector exposure because there are certain sectors that focus on paying dividends and others that concentrate on share buybacks.

You can combine the two strategies via the **UBS ETF Factor MSCI EMU Total Shareholder Yield UCITS ETF (UD05),** which focuses on the Eurozone.

As well as screening for dividends and share buybacks, the index tracked by the ETF excludes companies that increase their debt to pay dividends. You would get exposure to such stocks as chemical producer BASF, pharmaceutical company Sanofi, insurer Allianz and telecoms provider Telefonica. (EP)

ELECTION COUNTDOWN

SPENDING ON INFRASTRUCTURE, DEFENCE AND EDUCATION, PLUS NATIONALISATION THREATS, ARE ALL MAJOR THEMES

The UK is now a week away from voting in the general election. At the time of writing, the Conservative Party held the lead in the polls although the gap against Labour has narrowed.

The current market rally, as represented by the domestically-focused FTSE 250 index, implies a Tory victory. There wouldn't be any radical changes to how the country is run and Theresa May could concentrate on getting the best possible Brexit deal.

However, a lot can change in a week when it comes to politics, so investors should not assume that the Conservative Party is guaranteed to win when the public casts their vote on 8 June.

We will now look at five of the main political parties and the key points in their manifestos relevant to investors.

You can also click here to read a separate article exploring the manifestos from a personal finance perspective such as changes to tax allowances and pensions. In that article we look at how three groups – young professionals, working families and people in retirement – will be affected either under a Conservative or Labour Party victory.

It is important to stress that *Shares* is an unbiased publication when it comes to political matters.

'IF THE CONSERVATIVES FAIL TO MATERIALLY INCREASE THEIR HOLD ON THE HOUSE OF COMMONS THEN STERLING MAY FALL'

Currency recovery

Before we dive into the individual manifestos, it is worth looking at the performance of pound sterling as another gauge of the market mood.

Although traders had been betting on sterling falling ever since last June's Brexit vote, there were two key reasons why it has recently bounced back.

Firstly, it looked oversold against better than expected economic data.

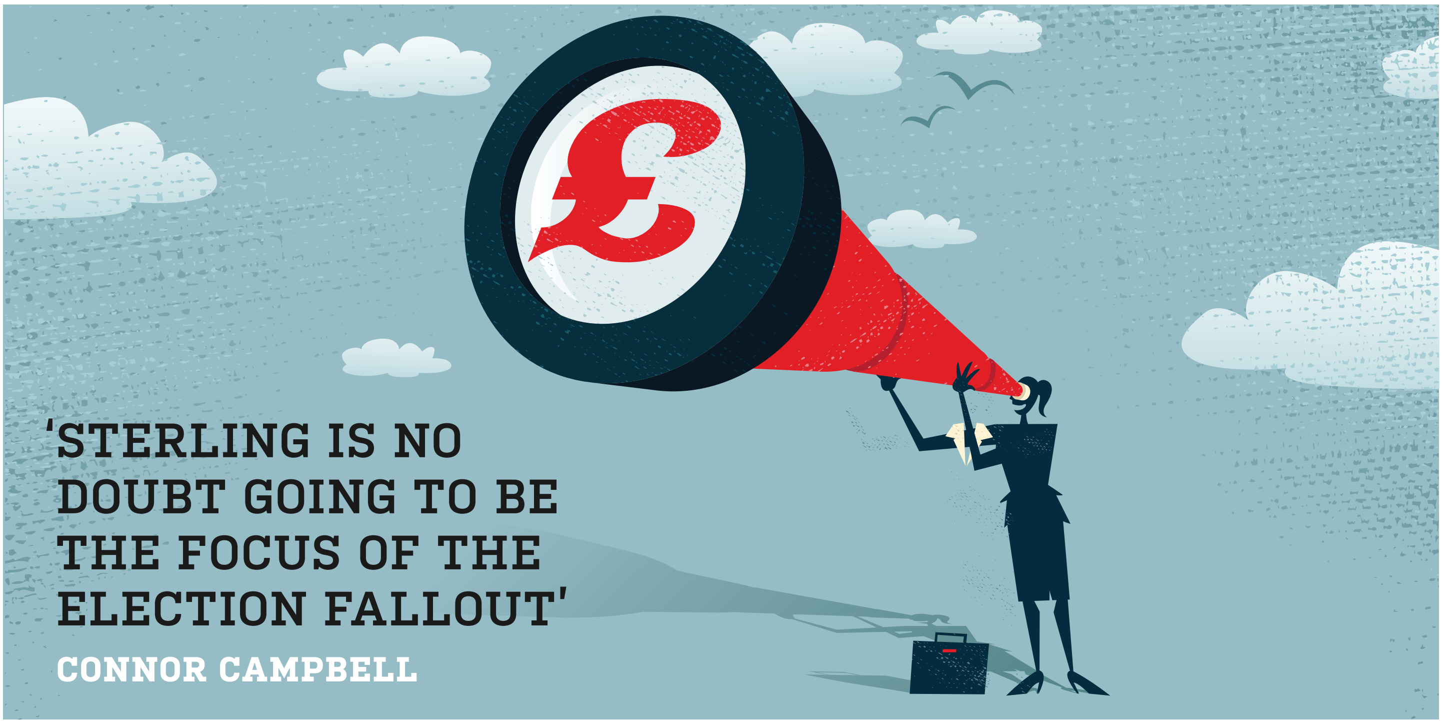
Secondly, markets seemed to like the decisive action taken by Theresa May to try and remove a major distraction to sorting out Brexit.

If the opinion polls are correct, the Conservatives could be in power with a much larger majority than in the current Parliament. 'This would provide greater domestic political stability for the next five years, and give the Prime Minister a stronger base from which to negotiate the UK's exit from the EU,' says UBS strategist John Wraith.

The pound has gone from sub $1.20 at the start of the year to rest at $1.30 in late May. The pound really started to move when the election plan was announced on 18 April.

Different scenarios for the pound

'Sterling is no doubt going to be the focus of the election fallout, especially given just how excited it got when Theresa May surprised everyone with her



'STERLING IS NO DOUBT GOING TO BE THE FOCUS OF THE ELECTION FALLOUT'

CONNOR CAMPBELL

announcement,' says Connor Campbell, financial analyst at Spreadex.

'The gains the currency made in the aftermath of that announcement, combined with the forecasts for the election result, suggest that investors are seeking a big win for the Tories.

'If that does happen then, dependent on how far the pound has strayed from $1.29-$1.30, the currency may see some slight gains but nothing too drastic, as the market has largely priced in that eventuality.

'Any other result than a substantial Tory majority will likely be greeted by a sliding scale of disappointment. If the Conservatives fail to materially increase their hold on the House of Commons then sterling may fall, as in theory it would make the Brexit negotiations more difficult.

'As for a Labour win or coalition government, this situation may see the most pronounced losses for the pound, if purely because it is the outcome that most complicates the Brexit proceedings.'

David Page, senior economist at AXA IM, believes sterling could start to weaken after the election result, even if the Conservative Party wins. It considers current Brexit expectations as being 'too sanguine'.

UK GENERAL ELECTION POLL OF POLLS

PARTY	SHARE OF VOTE
CONSERVATIVE	46%
LABOUR	33%
LIBERAL DEMOCRATS	8%
UKIP	4%
GREEN PARTY	2%

Source: FT, as of 25 May 2017. This is time-weighted average of seven pollsters' most recent polls

'In addition, while gilt yields should remain well supported with an increased Conservative majority, we still see room for some domestic policy surprises.'

A week ago, Page at AXA said he had considered the current state of polls and betting markets and come up with a few possible scenarios:

Increased Tory majority (probability 70%).
'Conservatives win a majority of 40+ seats. Polls and betting market probabilities drive our central expectation for a marked increase in the Government's majority.'

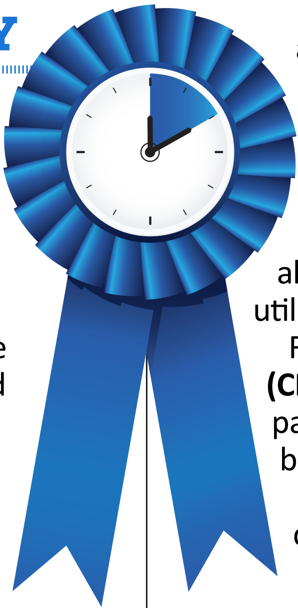
Little change in Tory majority (probability 15%).
'Conservatives achieve a majority of 1-40 seats — a status quo ante. Opposition parties would likely see this as a positive outcome. PM May remains beholden to the extreme factions of her party.'

A Conservative-Lib-Dem coalition (probability <5%).
'Polls are wrong and Tory support is not that strong, while Lib Dems recover some ground. We see a similar likelihood of this electoral outcome to the Tory minority government discussed below. However, we consider a coalition with the Lib Dems as unlikely.'

Conservative minority government (probability 5%).
'A more likely outcome should we see a modest reduction in Tory support than a Conservative/ Lib-Dem coalition. This would make governing difficult as the Tories would rely on support to pass major legislative bills. While some domestic policy may proceed, the Brexit negotiation process would most likely be severely undermined.'

A Labour-led government/coalition (probability 5%).
'Polls are wildly wrong and Labour is able to form a government either outright, or in coalition with the Lib Dems, and/or the Scottish National Party (SNP).' (DC)

CONSERVATIVE PARTY



IN LESS THAN a year the UK has managed to reinvent investment property taxation, decided to leave the European Union, change prime minister, begin Brexit talks and call a new election.

Early polls following the snap election decision put the Conservatives in firm pole position but Labour has recently narrowed the gap. Election seat spreads (how many each party will win) appear to back a Tory victory, although by a narrower margin than the 150 seat majority assumed a week or so ago.

Such a result would 'provide the wiggle room necessary to forge a transition agreement, which in turn is essential for the UK to avoid hard Brexit,' says Will Hobbs, Barclays' head of investment strategy in Europe.

Managing Brexit is high on voters' agenda given its wide implications for UK plc but the NHS, education and immigration all remain hot topics.

Key Conservative policies revolve around £8bn extra healthcare spending by 2022/23, £4bn additional schools funding by 2022 and energy bill caps. Plans for later life care have come under intense scrutiny.

THERESA MAY INTENDS TO CARRY OUT A REVIEW OF SHARE BUYBACKS BY FTSE COMPANIES TO STOP THEM BEING USED TO HIT PERFORMANCE TARGETS ARTIFICIALLY.

The Conservative's proposed cap on gas and electricity bills for households that pay standard variable tariffs has already started to drag down shares in utility companies.

For example, British Gas-owner **Centrica (CNA)** has fallen about 6.5% during the past month and earnings forecasts have been cut.

Tighter rules on mergers and takeovers could scupper overseas buyouts of some companies, telecoms groups in particular. These would in future be viewed as national interest assets, although much of the UK's communications infrastructure and services are already in foreign hands, such as Virgin Media, for example.

Theresa May intends to carry out a review of share buybacks by FTSE companies to stop them being used to hit performance targets artificially.

The ultimate drivers of company share prices and valuations are profit and, particularly, cash flow. Investors are advised to ideally focus on their long-term strategy and goals rather than get caught up in any short-term impact that a political event may have on performance.

'Sticking with a buy-and-hold approach in funds and shares with good-quality underlying businesses will avoid missing out on long-term gains,' say Barclays analysts. (SF)

LABOUR PARTY

THE LEAKING OF Labour's draft manifesto on 11 May failed to trouble shares in various sectors threatened with nationalisation, perhaps because investors at the time were giving Labour little chance of winning.

Clearly Labour's position has started to strengthen as we draw closer to the big vote.

If you believe Labour now has a stronger chance of winning, keep a close eye on the stocks that could be hit by nationalisation under its plans.

The principal ones are: postal delivery group **Royal Mail (RMG)**, utility firms including **SSE (SSE)** and train operator **Go-Ahead (GOG)**.

Labour wants at least one publicly-owned energy supplier in every region of the country, with the government controlling the transmission and distribution grids. The latter would be a negative for **National Grid (NG.)**.

It is not clear how much a new government would pay to nationalise a listed business. You could assume that investors would initially panic sell these 'threatened' stocks if Labour were to win the election. However, we'd also assume there would be appetite by other investors take advantage of any sell-off and buy low in the belief that the government would ultimately have to pay a fair market price for nationalisation.

In the event of a Labour win, companies with government contracts would only be allowed to pay their highest earner 20 times more than the lowest.

High ranking management of UK-listed companies that work for the government including outsourcers **Capita (CPI)** and **G4S (GFS)** will be nervously awaiting the election result.

Labour's manifesto also has implications for the gambling sector, as it includes a pledge to reduce the maximum stake on fixed odds betting terminal (FOBT) gaming machines in UK shops from £100 to £2. Such a move would be unhelpful for both **Ladbrokes Coral (LCL)** and **William Hill (WMH)**.

Consumer facing stocks, including many retailers and purveyors of high-end goods, could see their share prices tumble if Labour wins, as the market may price-in a pinch on spending on life's little luxuries.

Labour is pledging to source 60% of our energy from zero-carbon or renewable sources by 2030, a potential boon, one would think, for sentiment towards an array of renewables-focused closed-ended funds.

Examples of such funds include **The Renewables Infrastructure Group (TRIG)** to **Greencoat UK Wind (UKW)**, **Bluefield Solar Income Fund (BSIF)** and **John Laing Environmental Assets (JLEN)**.

It would mean Britain could be mostly powered by cutting-edge clean technologies that would also provide skilled jobs, fairer bills, and cleaner air.

Yet as Greenpeace UK's head of public affairs Rosie Rogers points out, 'backing community-owned energy projects and ditching the top-down imposition of unpopular fracking is a smart move, and a new drive to insulate millions of homes will help cut energy bills too. But setting targets is one thing: hitting them quite another. The jury will be out until the actual policies come in.' (JC)

LIBERAL DEMOCRATS

THE PARTY'S MANIFESTO promises significant new investment in health, social care and education. In particular, the Liberal Democrats wants to put 1p in the pound on income tax to boost spending on key public services.

The party wants to increase corporation tax from 17% (which is the Conservative's planned rate from 2020) to 20% which could be deemed a negative from the stock market's perspective.

Although this would boost government funding for investment in areas such as education and training, which is theoretically good for the long term future of the country, it would reduce post-tax profit for businesses.

A £100bn package of additional infrastructure investment should benefit construction stocks, engineers and infrastructure service companies, of which there are many on the UK stock market.

In terms of individual stocks, a pledge to invest nearly £7bn in education would, in theory, create a stronger market backdrop for education tech specialist **RM (RM.)**.

A ban on diesel cars and small vans by 2025 would be bad for van hire firm **Northgate (NTG)**.

Plans to take over the Southern Rail train franchise would be negative for Go-Ahead which currently operates the franchise in conjunction with French transport group Keolis.

On a broader market basis, investors may be interested to note the party's plan to have women representing at least 40% of board members in FTSE 350 companies. The Lib Dems also want to increase ethnic minority representation.

Last year, a review backed by the current government expressed a desire that females would represent at least one third of FTSE 350 board members by 2020.

Elsewhere, the Lib Dems want to retain City of London's rights in EU financial markets. That should be seen as a positive from an investor's perspective. But the party's plan to hold a second EU referendum would inevitably create a new bout of stock market volatility in the run up to the vote. (DC)

LIBERAL DEMOCRATS WANT AT LEAST 40% FEMALE REPRESENTATION ON FTSE 350 BOARDS

GREEN PARTY

LIKE LABOUR AND the Liberal Democrats, renationalisation is firmly on the agenda for the Green Party. For example, it wants to take back control of the British rail network, putting franchises back in the public sector once existing agreements expire.

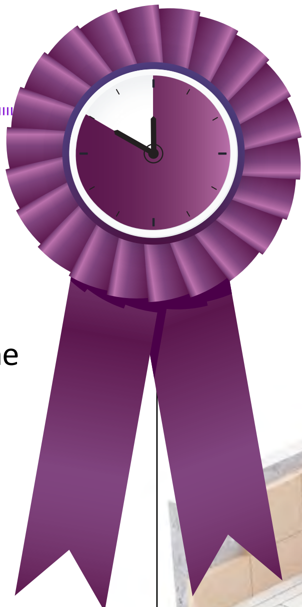
FirstGroup (FGP) and **Stagecoach (SGC)** would be negatively affected under this scenario, alongside the aforementioned Go-Ahead Group.

Energy, water and the Royal Mail are also on the Green Party's hit list for services that it believes should be under public ownership.

Elsewhere, major investment in social care for elderly 'and all those who need it' could benefit the likes of **Mears (MER)**. It provides care for older and disabled people who want to avoid 'costly' nursing homes and would like to continue living in their own homes.

The Green Party wants to 'phase out' coal, oil and gas plants and stop fracking companies from drilling the countryside. This would be negative for small cap oil firms such as **iGas Energy (IGAS:AIM)**, **Europa Oil & Gas (EOG:AIM)** and **Egdon Resources (EDR:AIM)**. (DC/LMJ)

UKIP



ALTHOUGH IMMIGRATION IS central to UKIP's manifesto, the party has also gone strong on the tax angle with more generous benefits for many people. This includes a higher earnings threshold before you start paying income tax and the abolishment of VAT on household bills.

It wants to provide up to 100,000 new homes for younger people every year via high quality, low cost factory built modular homes.

In terms of stocks, defence companies like **BAE Systems (BA.)** and **Ultra Electronics (ULE)** would theoretically benefit under a UKIP government as the party wants to spend 2% of GDP on defence plus £1bn extra for the defence budget every year. (DC)

LOOKING FOR NEW INVESTMENT OPPORTUNITIES FOR YOUR ISA?

If you are looking for new investment opportunities there is no better starting point than coming along to our Shares investor evening event on 6 June at NEX Exchange. You will have the chance to meet the directors of growing companies and find out about their plans for 2017.

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Companies presenting

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Central Asia Metals (CAML) Nigel Robinson, CFO
An AIM-listed UK company based in London and owns 100% of the Kounrad SX-EW copper project in Kazakhstan. The company has been producing copper at industry leading cash costs for five years and will continue beyond 2030. CAML has a dividend policy of distributing to shareholders a minimum of 20% of gross revenue from Kounrad and has to date returned over $95m to its investors.

St Mark Homes (SMAP) Barry Tansey, CEO
Listed on the NEX Exchange since 2000. They are a residential developer operating in London and the South East. They primarily operate on a joint venture basis targeting schemes with individual property sales below the £600,000 Help to Buy threshold. Annual dividend is currently at 5p per share.

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Capital for Colleagues (CFCP) David Gorman, Head of Research
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What could the election mean for your finances?

We look at proposed tax changes and other money matters in the Conservative and Labour election manifestos

Deciding how to vote in a general election is something of a minefield. Not only is each party attempting to convince you it has the right answer on a vast array of major topics – they also rubbish the claims of others.

Amidst this noise, it can be difficult to decipher who has said what and, more importantly, what it will mean for you.

With that in mind, we thought it would be useful to trawl through the details of the Labour and Conservative manifestos and pick out the bits that will affect investors at different stages of their life.

We have split the analysis into three broad social categories – young savers, working families and those who have retired.

To do this, we have made the following broad assumptions:

Younger savers

• Likely to be renting or saving for a first home

• Just started putting money aside for retirement

• Unlikely to be close to the existing higher rate tax threshold (£45,000)

Working families

• More likely to own their own home (or be in the latter stages of saving for a home)

• More likely to be a higher or even additional rate taxpayer

Retired

• Likely to have paid off, or be close to paying off, mortgage on their home

• Likely to be in receipt of the state pension

• More likely to need to pay for care

Clearly this is for illustration purposes only and there will be many policies that, to a greater or lesser extent, affect people across all age groups.

Furthermore, this is just a snapshot of the policies we believe – based on what's in the manifestos – could impact on peoples' finances.

1 YOUNGER SAVERS

Both the Labour and Conservative manifestos are lacking in proposals to win the vote of our younger saver, particular versus our retired voter.

This is hardly surprising – analysis of the 2015 general election by Ipsos MORI reveals 78% of over 65s voted, compared to just 43% of those aged 18 to 24 and 54% of 25 to 34-year-olds.

Conservatives

The Conservative's promise to raise the personal allowance to £12,500 by 2020 will boost most workers, but the benefit will be greater as a percentage of income for those on lower wages.

Around 24m basic-rate taxpayers will be £33 a year better off (in today's prices) under the plans, according to think-tank the IFS.

The party points to the Lifetime ISA – a policy it has already introduced – as evidence of its commitment to helping younger people get on the housing ladder and save for retirement.

In addition, the Tories want to increase the Living Wage – currently set at £7.50 per hour – to 60% of median earnings by 2020.

Labour

Labour, on the other hand, says it will not impose an increase in income tax for those earning below £80,000 and guarantees personal National Insurance contributions and VAT will not go up.

It has also promised to 'restore confidence' in workplace pensions and 'end rip-off fees and charges'.

There is little detail on what exactly this means, although it would be no surprise if a Labour government looked to impose a stricter charge cap than the existing 0.75% that is applied to workplace pension investment funds.

On the housing front, Labour has promised to keep the Help to Buy shared ownership scheme in place until 2027.

Finally, the party has pledged to boost the living wage to £10 an hour by 2020.

2 WORKING FAMILIES

For those who are in work, earning money and saving for retirement, both the major parties' manifestos contain key promises that could sway how you vote on 8 June.

Conservatives

While Theresa May has made it clear she is willing to intervene in certain markets – such as energy – the prime minister remains a traditional low-tax Conservative.

To this end, the party's manifesto commits to raising the higher-rate tax threshold to £50,000 from 2020.

Combined with the planned increase to the personal allowance, higher-rate taxpayers would gain £208 per year in total, the IFS says, while the highest-income 0.5m individuals – who do not get a personal allowance – would gain £175 per year.

The state pension age will also likely rise under a Tory government, with the party saying future changes need to 'reflect increases in life expectancy, while protecting each generation fairly'.

This could mean that people in their early 40s today will have to wait until age 68 to receive their state pension, while

younger voters could face a state pension age closer to 70.

The party also wants to extend automatic enrolment to the self-employed. Such a move would be a huge benefit to millions of people, although how exactly it would be done remains to be seen.

Labour

Higher earners will face paying more tax under a Labour government, with earnings over £80,000 taxed at 45% and a new 50% tax band introduced for those earning over £123,000.

Jeremy Corbyn also plans radical changes to the state pension age for future retirees, with the party pledging to halt all state pension age rises beyond age 66 and instigate a review of the system.

This review would take into account, among other things, variations in life expectancy experienced by people working in different industries.

3 RETIREES

Given their propensity to vote, it's no surprise to see both the Conservatives and Labour unveiling a string of policies to woo older voters.

Conservatives

On the state pension, the Conservatives have promised to retain the 'triple-lock' – which guarantees the payment rises in line with the highest of earnings, prices or 2.5% – until 2020. This will then be replaced with an earnings/prices 'double-lock'.

Social care was the other big issue tackled by the manifesto, with the Tories promising to set a £100,000 capital floor.

Theresa May subsequently 'clarified' that a cap on overall care costs would also be introduced, although a figure has not yet been set out.

Labour

Labour has pledged to keep the triple-lock for the entirety of the next Parliament and retain the winter fuel allowance and free bus passes.

The party will also inject an extra £8bn into the social care budget over the next five years, promising to cap lifetime care costs, increase the asset threshold below which people are entitled to state support, and provide free end of life care.

Tom Selby
Senior analyst
AJ Bell

NINE EXCITING SMALL CAP IDEAS

KEEP READING THIS WEEK'S MAGAZINE AND DISCOVER NINE STOCKS TIPPED BY A BROKER TO OUTPERFORM (PAGE 41)

Reducing dividend tax the REIT way

We explain why some property firms pay dividends that are taxed in a different way to ordinary ones

If you invest in a real estate investment trust (REIT) like **British Land (BLND)**, **Assura (AGR)** or **Derwent London (DLN)** you might have noticed that some or all of your dividends are paid as 'property income distribution' (PID) dividends.

The key difference between PID and 'normal' dividends is the way they're taxed. This has important implications for where you decide to hold your investments.

WHY DO PIDS EXIST?

PID dividends have been around since 2007 when the REIT regime was introduced in the UK.

A REIT is a special type of status conferred upon certain commercial property companies. It allows investors to invest in real estate and be treated for tax purposes as if they owned the property directly.

To qualify as a REIT, a company must have the bulk of its assets and income connected to real estate investment.

Ion Fletcher, director of policy (finance) at the British Property Federation, says if the REIT rules didn't exist investors would suffer double tax: once because the company would pay corporation tax and twice because you'd then pay tax on the dividends.

A company with REIT status isn't subject to corporation tax. In return, HMRC demands that REITs distribute at least 90% of their property income to shareholders every year as PID dividends. The REIT must withhold basic rate income tax of 20% on these payments.

'In this way, HMRC still collects tax from REITs, although it is effectively paid by investors rather than by the REIT,' explains Fletcher.

MIX AND MATCH

Some REITs, such as Assura, give you the option to receive your PID as either a cash dividend or a stock dividend.

Instead of providing you with income, a stock dividend effectively increases the amount of shares you own in the company.

REITs can also issue normal dividends which are subject to the normal tax rules.

British Land, for example, says dividends can be entirely PID, entirely non-PID or a combination of the two. The board decides the most appropriate make-up on a dividend-by-dividend basis.

At least 90% of profit from British Land's property rental business has to be distributed as

PID dividends. Its other business activities are the source of income for normal dividends.

Derwent London announced a final dividend of 38.5p in its 2016 results, of which 32.7p will be paid as a PID and the balance of 5.8p as a conventional dividend.

HOW ARE THEY TAXED?

PIDs are taxed as property rental income. You have to declare it as such on your tax return in the same way as if you received rent from a buy-to-let property.

When you receive a PID you'll already have paid withholding tax of 20%. If the REIT paid out £100, you'll receive £80 and HMRC will get £20.

If you're a basic rate taxpayer you won't have to pay any more tax when you fill in your tax return. Higher rate taxpayers are taxed at 40%, so using the above example they'd need to pay an additional £20 to HMRC.

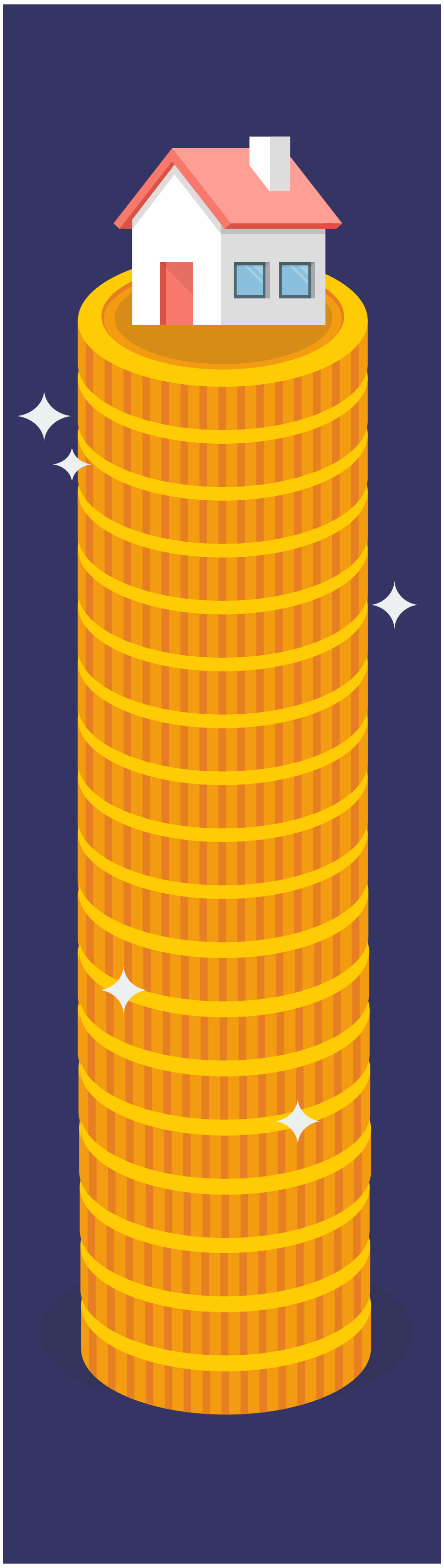
Because PIDs are taxed as property rental income, they can't form part of your annual dividend allowance.

Normal dividends benefit from a £5,000 dividend allowance – you can receive dividend income of £5,000 and you won't have to pay any tax on it.

THE IMPORTANCE OF TAX WRAPPERS

The only way to ensure you don't pay tax on your PIDs is to hold your REITs in a tax wrapper, such as an ISA or pension. If you do this, the PID will be paid gross – i.e. without the withholding tax deducted.

Stockbroker AJ Bell Youinvest says if you own accumulation



units it's not possible to receive the distribution gross. Instead, the tax equivalent is reinvested into the fund and additional units will be credited to you. It is all done automatically by the platform.

WHICH TAX REGIME IS MORE BENEFICIAL?

Kersten Muller, a partner in Grant Thornton's real estate tax team, says if you're investing through ISAs and pensions, REITs are a lot more tax advantageous than non-REITs.

This is because non-REITs have to pay corporation tax of 19% on their profit, so the dividends are being paid from a smaller pot.

'If you hold a REIT in an ISA it is completely tax-free. The REIT is exempt from corporation tax and the investor doesn't have to pay tax on dividends because of the ISA wrapper,' says Muller.

If REITs and non-REITs are held outside of an ISA or pension such as in a dealing account, a basic rate taxpayer would either be affected by the 19% corporation tax levied on a non-REIT or the 20% withholding tax levied on a REIT PID dividend.

Higher rate taxpayers would be affected by the same 19% corporation tax paid by non-REITs and would have to pay 40% withholding tax on the REIT PID dividend.

DON'T FORGET YOUR DIVIDEND ALLOWANCE

The tax you pay on non-PID dividends will be higher if you've breached your annual dividend allowance. Basic rate taxpayers will be taxed at 7.5% and higher rate taxpayers at 32.5% on any dividend income above £5,000.

If you're likely to exceed your annual ISA allowance (currently £20,000) and your dividend allowance, you can analyse the various tax charges to determine the most tax-efficient place in which to hold investments. (EP)

How fund managers flex muscles with takeovers

They can help to stop bad deals and encourage good ones

It has been a bumper year for takeovers and we're not even at the halfway point in the calendar year. By April more than $2 trillion worth of company mergers and acquisitions had already been announced across the world.

Research by Dealogic reveals there were 125 deals worth more than $1 billion in the first three months of 2017 alone, while cross-border acquisitions – where a company buys another in a different country – have doubled over the past five years.

'We are slap bang in the biggest period of M&A I have ever seen, and you can expect more to come,' says Nick Train, manager of **Finsbury Growth & Income Trust (FGT)**.

RELIEF THAT A BIG DEAL COLLAPSED

Perhaps the most high profile bid so far in 2017 was the approach of US food giant Kraft for UK consumer products firm **Unilever (ULVR)**.

Train says: 'Thank goodness that transaction never got anywhere near getting off the ground – people recognised what this dividend machine [Unilever] can do. But the £120bn price ticket put on Unilever shows that nothing is too big.'

What many investors may not realise is that, behind the scenes in these deals, fund managers play a major role.

HAVING A SAY IN ACCEPTING OR BLOCKING BIDS

Investment funds, particularly those which invest in smaller companies, can hold large stakes in companies which find themselves the target of a takeover bid; and the managers of these funds can be hugely influential in determining whether or not a deal goes ahead.

Gervais Williams, fund manager of **Miton UK Smaller Companies (GB00B8DHL556),** says: 'We have five or ten per cent stakes in some companies so they will involve us in decisions.

'A fund manager has a different perspective than the management of a business – they are looking at market trends, company valuations and changes in the sector, and when you piece all of those things together you can get a true picture of what's best for everyone. A takeover is a major event and it's important to get it right.'

A recent tussle in which he has been involved was the bid for aerial platform specialist Lavendon. The Leicester-based firm found itself the subject of a bidding war at the end of 2016 when an offer of 200p a share was made for the business, whose shares were trading at 139p at the time.

Williams says: 'There had been some earnings disappointments but growth was starting to come through and its future prospects looked good. We didn't feel that offer was particularly attractive.'

Lavendon's management team decided to hold out, and a takeover was eventually agreed at 270p a share.

HAVING A VALUABLE VOICE

Alastair Gunn, fund manager of **Jupiter Growth and Income (GB0001577351)**, is also keen to have his say in acquisition deals. 'There have been times where we have been in conflict with management teams,' he says.

Gunn was disappointed that Pfizer's bid for **AstraZeneca (AZN)** in 2014 did not go ahead. He says: 'We thought the price being offered was attractive and should have been put to shareholders and it was blocked.' While he remains an investor in the latter, since the disagreement he has sold some of his shares.

Meanwhile, he has sold all of his shares in **Sky (SKY)** since its takeover by Fox was announced in December 2016. 'I felt it was surprising that more people didn't come out against that deal being too low. But we were minority investors – Fox already owned 39 per cent of Sky – so in that instance we can't do much,' he says.

DEAL FAILURE CAN BE GOOD NEWS

Not all takeover offers end in disappointment, however. Gunn was pleased when housebuilder **Galliford Try (GFRD)** abandoned a bid for rival **Bovis Homes (BVS)**.

Shareholders argued that the fundamentals of the industry were strong and that there was enough organic growth in the sector that an acquisition was unnecessary. 'It was a good example of management listening to shareholders,' says Gunn.

Andrew Millington, head of equities at Standard Life Investments, is a major investor in engineering firm **WS Atkins (ATK)**, which is currently the subject of a £2bn takeover bid by Canadian rival SNC.

He says: 'At the moment we are comfortable with the bid, though we haven't given an irrevocable agreement to vote in favour.

'It's an example of a company and management team we really like, where we have already made good money as shareholders and the bid is the icing on the cake.'

TAKING A LONGER TERM VIEW

Millington is not always so amenable to acquisitions. When engineering business Tomkins – in which he had a 3% stake in – was bought in 2010, the fund manager voted against the offer.

He says: 'We thought it was in the early stage of recovery and the bid didn't reflect the ultimate value of the business. I think if we had have held on we would have made considerably more than 325p a share.'

When a share price shoots up after a company has received an offer, it can be tempting to take the money and run but fund managers are looking at the long-term prospects of the business.

A fund manager may not always get their way, but they can at least bring a different view to the negotiation table.

Williams at Miton concludes: 'There will be more and more merger and acquisition bids to come but the point of fund management is that it's not just about making money, we have to be socially useful too.' (HB)

Investment trusts with a technology edge

Collectives can be a great way to access multiple disruptive investment themes

Big technology companies have become hugely influential over past few decades. Technological advances have revolutionised our lives, changing the way we shop, communicate, work and even date, thanks to the internet's ability to connect people like never before.

It's no wonder that investors have flocked to the technology in hope of profiting from this favourable industry backdrop.

Names like Apple, Facebook and Google have become part of the everyday lexicon – either as individual stocks in people's portfolios or core holdings in many funds or investment trusts. We'll get to investment trusts in a minute; just hear us out on a few points first.

Investors looking for technology options have little choice among FTSE 100 stocks. There are only two constituents in this space, being accountancy software supplier **Sage (SGE)** and infrastructure IT firm **Micro Focus (MCRO)**.

It's a very different story on a global scale. For example, the five biggest companies in the S&P 500 by market capitalisation are all tech stocks, exerting 12.8% of the index's weighting (or influence on the S&P's direction) from just 1% of its constituents.

SIMPLE QUESTIONS

Before deciding to take the technology plunge investors should consider some basic questions. First, you should reconsider the economic cycle. Technology stocks have typically enjoyed steep peaks followed by sharp declines. This makes valuation another important point to think about.

The dot-com boom and bust of the late 1990s and early 2000s was a stark illustration of how markets can initially get carried away sending share price soaring on promises of huge profit potential that ultimately fail to materialise. Is there a clear source to revenue and earnings growth?

It is also worth asking if technology companies have an opportunity for a long game, not simply a fashionable flash in the pan. For every Microsoft, for example, there are hundreds of Blackberry's or Yahoo's which are struggling to survive.

INVESTMENT TRUST OPTIONS

Picking the winners can be a difficult job, which is why it can pay to turn to the experts for help. By that, we mean using investment trusts or funds where you can access years of experience from seasoned experts.

There are three main options for investment trust fans, being **Allianz Technology Trust (ATT)**, run by Walter Price; Katie Potts' **Herald Investment Trust (HRI)**; and **Polar Capital Technology Trust (PCT)**, managed by Ben Rogoff.

The trio have combined assets under management worth £2.35bn (Allianz £255m, Herald

£844m and the biggest, Polar with £1.25bn).

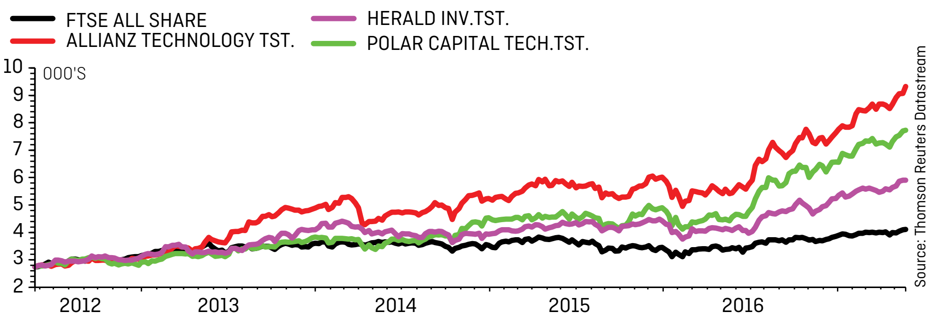
Allianz and Polar share many strategic similarities. Both try to identify transformational and disruptive long-term trends, and buy companies capable to dominating those spaces.

Apple, Amazon, Facebook and Microsoft all feature in their respective top 10 holdings; as does Salesforce. This business is less well known but a market leader in marketing and customer relationship management (CRM) enterprise tools and services.

Backing such companies has really paid off for investors. Over the past five years the Allianz share price has increased by 231%; while Polar's performance has been also as impressive, up 180%.

One area when Rogoff and Price differ is China. Polar holds decent stakes in Chinese tech firms Tencent (a sort of Chinese Google) and Alibaba (the equivalent of Amazon, in general terms), and Allianz largely steers clear.

The main reason is the government, which can become a bit of a back-seat driver of companies in which it holds a stake.



DIFFERENT BEAST

Herald Investment Trust has an alternative investment philosophy. Instead of chasing mass market themes it concentrates on pace-setting specialists in niche areas.

It also puts far more of its money into UK-based companies (although it also invests overseas) with 57.9% of its portfolio in UK companies. That compares to just 1.7% and 1.1% for Allianz and Polar.

Herald is currently invested in 255 different companies but there a several among its top 10 stakes that may be reasonably familiar to UK investors.

For example, we've written extensively about **GB Group (GBG:AIM)** which features in the Herald portfolio. The company has carved itself a leading position in the identity authentication niche of the wider cyber security market.

IQE (IQE:AIM) is holding that should be familiar to *Shares* readers. The Cardiff-based compound semiconductor technology company is making fast progress beyond its core wireless industry, in areas like infrared imaging products, solar energy and laser technology. Its share price has risen by 237% in the past 12 months.

Israeli Internet of Things (IoT) connectivity kit designer **Telit Communications (TCM:AIM)** is another strong share price performer in the portfolio, up 75% in the past year. (SF)

TOP 10 STAKES

Allianz Technology		**Polar Capital Technology**		**Herald**	
Company	**% of fund**	**Company**	**% of fund**	**Company**	**% of fund**
Apple	8.7	Alphabet (aka Google)	8.7	Diploma	2.9
Amazon	6.8	Apple	7.1	GB Group	2.6
Facebook	4.2	Microsoft	6.1	IDOX	2.6
Micron Technology	4.0	Facebook	5.8	IQE	2.2
Samsung Electronics	4.0	Samsung Electronics	3.8	Next Fifteen Communications	2.0
DXC Technology	3.0	Amazon	2.9	Silicon Motion Technol-ADR	1.8
Microsoft	2.9	Tencent	2.7	M&C Saatchi	1.6
Teradyne	2.9	Alibaba	2.4	Telit Communications	1.6
ServiceNow	2.6	Salesforce	1.7	Pegasystems	1.5
Workday	2.5	Splunk	1.7	Be Semiconductor Industries	1.5

Why PayPoint faces downgrades?

Convenience store payment specialist is at a major crossroads in its career

Investors in convenience store payment specialist **PayPoint (PAY)** should be aware of growing risks to the investment case, as reflected by a weak share price since April.

Full year results on 25 May perhaps represent a turning point for the business. Net revenue was flat at £123.9m and adjusted operating profit nudged ahead by 4% to £52.3m.

The mobile payments business has been sold and a new retail payment system has started to be rolled out to convenience store operators. Its parcel delivery and collection joint venture Collect+ has become profitable.

WHY THE GLOOMIER OUTLOOK?

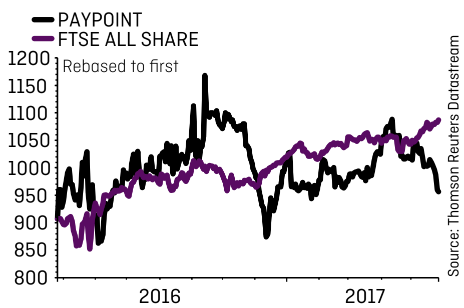
Investment bank Liberum has downgraded its earnings per share forecast for the year to 31 March 2018 by 9%; and slashed the following's year forecast by 11%.

Fees to Collect+ partner Yodel will increase; a £2.4m VAT recovery in 2017 is non-recurring and the end of a government service this summer will cost PayPoint £4m a year in lost revenue.

The latter relates to the Department of Work & Pensions winding up its Simple Payment Service, which allows consumers to receive benefits as cash via PayPoint stores.

It is also worth considering changes to the way customers are paying for their energy using PayPoint's services. The company makes money per transaction but consumers are now paying larger amounts, fewer times. While impacting its net revenue, PayPoint is hoping to mitigate this loss in volume by improving margins.

Liberum believes the Romanian operations and PayPoint's core retail services will continue to grow, but expects further money will be spent on the PayPointOne retail terminal.



'The incremental sales from PayPointOne terminals in the 2017 financial year are a little more than £500,000. Management continues to target 3,000 to 4,000 customers per year and PayPoint has started well with 3,600 six months after the launch in September 2016,' says Liberum.

'We continue to believe that medium term, 20,000 to 30,000 retailers should be possible, particularly given that all of PayPoint's retail partners will eventually be migrated to PayPointOne.'

WHAT DO OTHERS SAY?

Canaccord Genuity has also slashed its 2018 and 2019 financial year estimates, lowering pre-tax profit forecasts by 9% for each of the two years.

'PayPoint is undergoing a transition. Headwinds in the traditional payments business are being offset by growth in retail services (PayPoint One, ATMs, card acceptance) as PayPoint aims to pivots itself at the heart of running the retailers' business,' says Canaccord analyst Daud Khan.

He has a £11.62 price target for the next 12 months whereas Liberum expects to shares to ease back to 900p. They traded at 962.71p at the time of writing. (DS)

Nine small caps tipped to 'outperform'

Momentum analysis by N+1 Singer flags stocks with short-term upside potential

A handful of technology stocks, a make-up supplier, a mortgage adviser and a pharmaceutical firm are among a list of smaller company shares expected perform strongly over the coming few months.

The nine featured companies are highlights from a quantitative number-crunching exercise conducted by analysts at N+1 Singer.

The stockbroker regularly scans the lower end of the market cap spectrum for momentum-driven stock ideas using technical analysis.

The analysts periodically refresh their selections based on accelerating or decelerating share price momentum.

N+1 Singer explains that it had started to note in January a very interesting subset of stocks in the screening exercise. 'It looks like sharply increasing and reducing price momentum could be a worthwhile differentiator of relative performance,' the broker explains.

'Since the last refresh the screen has significantly outperformed both the main small-cap and micro-cap indices against a background of strong and stable momentum generally.'

On a weighted basis, which gives higher value to stocks for higher market value, N+1's screen seems to have performed impressively, beating the main small cap and micro-cap indices by 16.8% and 10.8%, the broker says.

On an unweighted basis (which treats all stocks equally regardless of market capitalisation), the outperformance was less but still significant, at 10.6% and 4.6%.

SUMMER HOTSHOTS

Of N+1's nine selections this time round, only computer gaming event organiser **Gfinity (GFIN:AIM)** remains from the January list.

The data is essentially telling the broker's analysts that more share price upside could be on the cards short-term despite the stock's 32% rally since 10 January.

New names on the latest list include financial risk analysis software company **Lombard Risk Management (LRM:AIM)** and **Statpro (SOG:AIM)**, which provides a software platform to asset managers. Both have recently issued positive news.

Digital coupons business **Eagle Eye Solutions (EYE:AIM)**, which has former **Tesco (TSCO)** chief executive Terry Leahy on its board (he also owns an 8.8% stake), grabs a place on the list; so does electronic components designer **Stadium (SDM:AIM)**.

Make-up supplier **Warpaint (W7L:AIM)**, which only joined AIM in November 2016 at 97p, is on the list despite its shares soaring to 275p in just seven months. Loss-making biotech hopeful **Faron Pharmaceuticals (FARN:AIM)** joins ahead of Phase III trials for *Traumakine*, its acute respiratory distress syndrome treatment.

Ingredients business **Treatt (TET)** and property funding adviser **Mortgage Advice Bureau (MAB1:AIM)** complete the list of nine. (SF)

Headlam's flooring the competition

Small cap company is enjoying market share gains and significant cash generation

European floor coverings distributor **Headlam (HEAD)** continues to outperform peers and profitably consolidate its chosen markets.

Steered by chief executive Steve Wilson who is focused on driving operational efficiencies across the business, we admire Headlam for its consistent market share gains and scope for further special dividends.

Headlam's annual general meeting update (25 May) highlighted 2.2% total sales growth to £221.2m for the four months to April.

Given this is a seasonally quiet period, the carpets-to-underlay supplier appears set fair for a strong second half, in our view.

Like-for-like sales in the core UK business grew 1.9%, encouraging given a demanding 4% year-on-year comparative figure, and with positive performances delivered in the commercial and residential sectors.

Headlam's European business is also in growth, with 'very strong' residential sector growth of 9.3% offsetting a drag from its Swiss commercial business.

Able to mitigate the impact of the weak pound through price increases, Headlam's net cash balance sheet and strong cash flows mean it is well-equipped to consolidate the market organically and through acquisitions while lavishing capital returns on shareholders.

Investec Securities has a 710p price target implying 12.7% near-term upside. For the year to December 2017, the broker forecasts pre-tax profit of £42.5m (2016: £40.1m) and a 25.6p ordinary dividend.

Headlam, which has paid out special dividends for the last two years, offers an attractive yield north of 4% on the ordinary dividend alone.

SHARES SAYS: ↗
Keep buying high-flying Headlam for growth and income at 630p. (JC)

BROKER SAYS: 3 0 0

Target price hike for ECSC

THE RECENT *WannaCry* ransomware attack that shut down many NHS IT systems has sparked a massive valuation rethink at cyber security tiddler **ECSC (ECSC:AIM)**. Broker Stockdale has raised its 12-month share price target from 360p to 600p. 'We forecast ECSC to return to profit in 2018 and deliver an operationally-geared increase in profit from 2019 onwards,' it says. (SF)

Wynnstay bitten by its pet retail chain

AGRICULTURAL PRODUCTS supplier **Wynnstay (WYN:AIM)** has warned first half profit will be down year-on-year. The culprit is the Just for Pets retail chain, seeing subdued demand and become loss making. The encouraging news is Wynnstay's core agri activities will show a better performance as trading headwinds for farmers are beginning to abate. The future of the pet retail arm is under review by the company. (JC)

Keywords key men cash in

TWO DIRECTORS at video game technical services company **Keywords Studios (KWS:AIM)** are cashing in on a part of their stake in the business (24 May).

Chief executive officer Andrew Day sold shares valued at a cool £4.1m while Giorgio Guastalla, a non-executive director, made an eye watering £32.6m with his share sell-off.

They apparently sold the shares to satisfy institutional demand. (DS)

Why cash shells have turned their back on AIM

Small investment companies are flocking to London's Main Market for many reasons

You may have noticed that small investment companies are increasingly shunning the AIM market in favour of having a standard listing on London's Main Market. Historically cash shells and SPACs (special purpose acquisition companies) would have always joined AIM which supposedly has looser regulation.

Cash shells and SPACs are vehicles which have no assets apart from cash. They are generally set up by people with experience in capital markets or specific industries with the intention of finding a business to acquire. They reverse the acquired business into the shell vehicle and generally adopt the former's name for the plc group.

Current examples of cash shells on the stock market include **Derriston Capital (DERR)** which hopes to buy something in the medical technology space. There is also **Spinnaker Opportunities (SOP)** whose board members have experience in the oil and gas sector.

WHY IS AIM NO LONGER THE NATURAL HOME?

AIM closed the door firmly in the face of cash shells following the Gate Ventures debacle in 2015. Gate went from boom to bust in less than a year with shareholders losing all their money.

Asian investors were mysteriously paying above-market price for the shares, even though Gate had no assets apart from cash and the rights to produce a musical about Woody Allen. The nomad resigned and Gate was kicked off AIM as it no longer complied with market listing rules.

The level of cash required for a SPAC was raised to £6m and various other unattractive conditions were imposed, killing AIM as a viable home for listing all but the largest cash shells.

In contrast, a SPAC with a standard listing on London's Main Market needs as little as £700,000 in cash on admission. The costs of listing are also low.

With no need for a sponsor or nomad (or even reporting accountants), the all-in expenses for a bringing a SPAC to the market will normally be less than £100,000 and can even be lower.

AIM IMPOSES QUALITY CONTROL

There should be little surprise that those wishing to float SPACS are flocking to the Main Market.

But it's not just the shellmeisters whose attention has been attracted. A standard listing on the Main Market is also seen as increasingly attractive to operating companies.

Admission to AIM is meant to be policed by the nomads whose role is to judge the suitability of companies for admission, but the AIM team have begun imposing their own (increasingly conservative and risk-averse view) as to what should be coming to the market, second guessing their front-line regulators.

AIM rejects (or those fearing rejection) will naturally seek an alternative and the LSE's Main Market via a standard listing, along with NASDAQ's OMX First North, are the next ports of call.

One company whose float was killed by AIM at the end of 2016 (against the protestations of our client, the nomad) is now pursuing a standard listing.

We are also receiving a number of enquiries from AIM listed companies or their advisers who are looking for a simpler life on the Main Market, away from what they see as the increasingly intrusive and over-bearing reach of AIM regulation and, for many, the expense of having to retain a nomad.

Having a standard listing is also seen as an attractive option, especially for overseas companies, who tend to view it as more prestigious than AIM which is still struggling to shake off its image as a 'casino'.

COST BENEFITS OF BEING ON LONDON'S MAIN MARKET

As well as status, there is a significant attraction from a cost perspective, with the expenses of a standard listing on the Main Market being as little as half of the equivalent on AIM.

The absence of fees for a nomad (and their lawyers), together with increased flexibility in the flotation process (e.g. as to whether a long-form report is commissioned) are the biggest factors.

Post-listing there are also potential cost advantages over AIM with, for instance, no requirements for fair and reasonable opinions on related party transactions or to retain a nomad.

A premium listing on London's Main Market, on the other hand, is only (with limited exceptions) available to companies with a three-year track record and requires the appointment of a sponsor for coming to the market and for certain transactions.

There are also other onerous continuing obligations for a premium listing which make it less attractive to companies, such as the need for shareholder approval for significant transactions as well as all but the smallest related party transactions.

NOT AN EASY RIDE

So what are the downsides to having a standard listing on London's Main Market?

The looser corporate governance and reporting regime makes institutional investors wary and the lack of eligibility for market indices put standard listed companies beyond the remit of many.

So it is more suitable for retail investor-backed fundraisings, which probably makes it unviable for those looking to raise more than £5m.

The requirement to have 25% of shares held in public hands in the EEA (European Economic Area) can also cause difficulties. In addition, a company needs to publish a fresh prospectus when it wants to do secondary fund raisings involving an increase in the number of shares in issue of 10% or more in a year.

The FCA is currently consulting on changes to the standard listing regime to make its role clearer and further enhance its attractiveness to overseas issuers as part of its review of the effectiveness of UK primary markets. The upshot of that review is likely to enhance further the appeal of the regime – including the creation of an international segment and a potential change of name.

By Richard Beresford, a co-founder, chairman and head of corporate at law firm McCarthy Denning.

KEY

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