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SHARES

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WOODFORD BUYING UK PROPERTY

HOT RETURNS

THE FUNDS TO PLAY ASIA'S FASTEST GROWING ECONOMY

27 YEARS IN CHARGE: LESSONS FROM FUND EXPERT JAMES HENDERSON

DATA ON MENU FOR JUST EAT

DIVIDENDS: *HOW TO GET THEM AND WHEN YOU WILL BE PAID*

Are you ready for a market correction?

Investment experts believe we're long overdue a 10%-plus pullback in shares

Leading stock indices in many parts of the world have hit record highs this year. Investors should be pleased, but how long can the party keep going?

Coming back from a week's holiday, my email inbox is stuffed full of comment from institutional investors discussing global equity markets. They serve up a polite reminder that markets tend to move in cycles and that we're long overdue a market correction.

A correction is typically defined as a 10%+ decline from the 52-week high. A 20% decline equates to a 'bear market'.

The FTSE All-World index has risen every year apart from two since the start of 2009 and none are bad enough to be considered a correction. This index covers more than 7,400 companies in 47 countries. The 'bad' years since 2008's 'global financial crisis' include a 4.1% decline in 2015 and a 9.7% drop in 2011.

As for UK equities, the worst year for the FTSE 100 since the 31% collapse in 2008 was a mere 5.6% decline in 2011.

It is worth noting that these calculations are based on a calendar year. You only have to go back to summer 2015 to find a 10% correction in the FTSE 100 in less than a month amid fears about China.

JOIN THE RIDE OR CASH IN YOUR CHIPS?

So what are people now saying? David Lafferty, chief market strategist at Natixis Global Asset Management, recalls a recent meeting whereby a wealth manager summarised the situation very well.

They said investors who hadn't participated in the equity rally wanted to invest because they felt like they were missing out. Those who were already invested said they were nervous and were thinking about getting out. The wealth manager concluded by saying: 'They can't both be right'.

Miton fund manager David Jane says investors should be prepared for a near-term market correction, but implies any decline may not be too serious. 'Equity markets are volatile, and while deep bear markets are relatively infrequent, corrections are a regular feature.'

He says bear markets (20% fall or more) generally occur following a period of irrational exuberance leading to high levels of capital misallocation, or as a result of something bad occurring – sometimes both.

'Are these conditions prevalent today? There's evidently a degree of exuberance in financial markets but is this leading to large scale capital misallocation? Looking at recent examples, the internet bubble was clearly vast in scale in the late 90s, and the US housing bubble was also huge in terms of the amount of money concerned in 2007. The same can't be said of the current period.'

CLEARING THE ELECTION HURDLE

If you are nervous, why not put aside cash ready to buy good companies cheaper if upon any market correction?

For example, Seven Investment Management's **7IM Balanced (GB0033959296)** fund now has 12% cash weighting, the highest level since just before the Brexit vote and the fourth highest for 14 years. It currently believes UK equities don't fully price in economic and political risks.

One of the biggest tests for the UK market comes tomorrow (9 June) when we find out which political party has won the general election.

If you're reading this article ahead of the result, it might not be a bad idea to lock in some of your profit as anything but a Conservative majority win could prompt a knee-jerk reaction from the market.

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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.

Ocado's late delivery

Online supermarket finally inks oft-promised international deal

Online supermarket **Ocado (OCDO)** has finally rewarded patient investors with a long-promised deal with an overseas retailer to use its technology platform. However the excitement is tempered by news the new tie-up will be earnings and cash neutral in the current and 2018 financial years, albeit 'increasingly accretive thereafter'.

Rather than a global grocer, the £1.97bn cap's new partner is a mystery regional European retailer that 'wishes to remain anonymous until it launches its online business in order to retain competitive advantage'. The absence of firm financial details surrounding the tie-up also disappointed some.

This unnamed retailer will pay an up-front fee to Ocado for access to its Ocado Smart Platform (OSP), which gives access to Ocado's software required to run an online grocery business. Ocado's partner will also pay ongoing fees based on the volume of products sold online, but won't be using Ocado's automated warehouse technology.

With a 400p price target, Numis Securities remains confident that 'this will be the first of multiple deals, and continue to believe that Ocado can provide a best-in-class end-to-end solution for global online grocery retailers.' Given Ocado trades on more than 217 times Numis' 1.4p earnings per share forecast for the year to November, further deals will need to be signed to keep the market satisfied.

SHARES SAYS: ↘

Ocado promises further international deals, although at 304.67p, the shares are priced for perfection. (JC)

BROKER SAYS 7 2 6

Mixed signals ahead of UK vote

Bullish jobs report but retail sales fall again

THERE CONTINUES TO be both good and bad news on the UK economy heading into today's (8 Jun) general election.

A report on 6 June from the Recruitment & Employment Confederation showed demand for staff at a 21-month high.

'We remain of the view that UK labour demand will remain resilient throughout the remainder of 2017 as employers look to secure staff ahead of a potential tightening of availability later in the Brexit process,' says stockbroker Panmure Gordon.

Less positively, retail sales fell back in May – down 0.4% year-on-year according to data from the British Retail Consortium. This is the fourth month out of five in 2017 with a negative annual change.

For those reading this article ahead of the general election results, the polls remain widely divergent with leads of between one point and 12 points for the Conservatives. The prospect of a hung parliament remains in play.

Click here to discover how investors might be affected under different election outcomes.

Traders will have the first solid clue to the outcome at 10pm on 8 June when the exit poll is published. You should expect plenty of volatility in sterling if the election delivers anything other than a comfortable majority for Theresa May.

We will publish a full analysis of the election outcome and what it means for investors in next week's issue of *Shares*, published on 15 June.

Joules is an AIM gem

British lifestyle brand continues to sparkle

Our bullish stance on **Joules (JOUL:AIM)** - see *Great Ideas, 01 Dec 2016* – has proved an astute call, shares in the premium British lifestyle brand now 62.4% up on our 185p entry price at 300.4p.

In a sparkling pre-close trading update (6 June), Joules said full year profit before tax would be 'comfortably ahead' of expectations thanks to strong sales growth and improved gross margins, the latter helped by higher full price retail sales and a growing proportion of clothing sales within wholesale accounts.

The update triggered a further round of earnings upgrades for the clothing, bedding and wellington boots seller. Joules' heady growth reflects a compelling combination of expansion in the UK and international markets, strong online growth, better-than-expected store sales and positive customer responses to both new and core ranges.

Liberum Capital argues forecast risk is still on the upside and remains a buyer, upgrading its price target from 335p to 350p. While the economic outlook is indeed uncertain, Liberum believes 'Joules has been a beneficiary from the 'staycation' theme, as UK residents may increasingly holiday at home due to the pound's weakness. This could well be supported by Joules' rural and seaside store locations, providing a smoothing of revenues and driving an incrementally strong performance over summer 2017.'

Joules could benefit from 'staycation' theme

SHARES SAYS: ↗
We're staying positive on Joules given the likelihood of further upgrades.

BROKER SAYS 4 0 0

Polyus makes rapid return to London market

RUSSIAN GOLD MINER **Polyus** is to return to the UK stock market nearly two years since delisting from the London Stock Exchange. The $9.9bn business is big enough to be in the FTSE 100 but won't have a large enough proportion of shares listed in London or the right type of listing to qualify for the blue chip index. (DC)

Selling pressure on Centrica

BRITISH GAS-OWNER **Centrica (CNA)** is facing further selling pressure in the coming weeks regardless of the outcome of today's general election (8 Jun). Energy tariff price caps of some description could squeeze the group's future earnings and dividends, dragging further on the share price. British Gas is the UK's biggest energy supplier and Centrica shares have been weakening since February, but analysts at UBS calculate possible 15% further downside to the stock, currently trading at 197.7p. (SF)

Director exodus at Genel Energy

KURDISTAN OIL PRODUCER **Genel Energy (GENL)** is downgraded from 'speculative buy' to 'hold' by Canaccord Genuity after the departure of several key executives from its board. In April chairman and founder Tony Hayward announced his retirement and non-executive director Chakib Sbiti stepped down. In early June chief financial officer Ben Monaghan announced his departure and on 5 June co-founder and non-executive director Nat Rothschild and fellow non-exec Simon Lockett resigned. (TS)

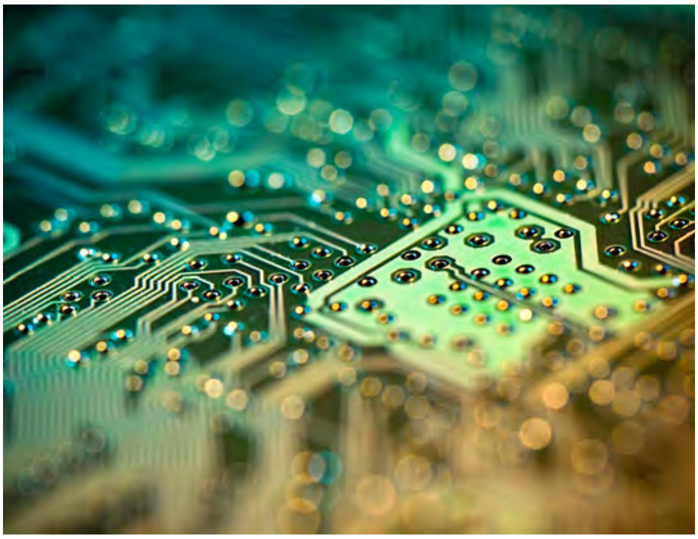
Electrocomponents increasingly well placed

Strong set of results implies scope for further positive surprises from distributor

Oxford-based **Electrocomponents (ECM)** is the UK's largest international industrial distribution company. It operates across 90% of the world's GDP so is a true global player offering a dizzying array of goods to engineers including tools, safety equipment and semiconductors.

2017's results to end of March show a company on the ascendancy with perhaps the key takeaway a hike in its dividend for the first time in five years.

Looking to 2018, broker Liberum is upgrading its earnings per share by 4%, reiterating its 'buy' rating and increasing its target price from 500p (which Electrocomponents has already surpassed at the current 597.5p) to 660p.

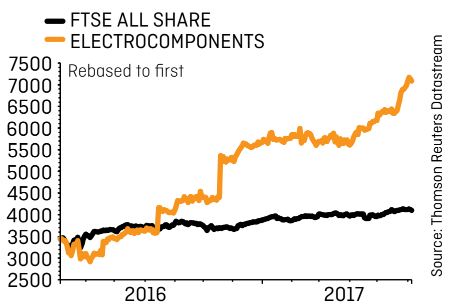


CONSERVATIVE ASSUMPTIONS

The broker is basing this upgrade on its discounted cash flow valuation, which involves assumptions on its long term growth rate and levels of capital expenditure. As this type of valuation is extremely sensitive to assumptions made, Liberum says it has stayed within conservative estimates.

These include a long term growth rate assumption of 2.5% and a capital expenditure to depreciation ratio of one-times. This last point is highly conservative as it suggests Electrocomponents will purchase the same amount of equipment at the same rate other pieces depreciate.

Last year's gross margin was 43.4% so LIberum's long-term gross margin assumption of 45% doesn't look too rich. Although its future earnings before interest and tax margin of 11.3% might seem high compared to the 8.8% delivered in 2017.



FURTHER UPSIDE FROM ACQUISITIONS

The broker says further upside can be achieved if Electrocomponents engages in some acquisitions. It has also been impressed by innovations from the company such as DesignSpark, a range of software packages allowing the user to reverse engineer objects among other uses.

Chief executive Lindsley Ruth has played a big part in the turnaround of Electrocomponents since joining in 2015. The company's share price has risen around 120% since he took the helm.

Liberum describes the management's approach as being to 'under promise and over deliver' and says its success justifies its premium valuation

As Electrocomponents is a diverse company, comparing it to a peer group is difficult. While Reuters includes staffers such as **Pagegroup (PAGE)** as its peers, Liberum's peer group seems closer to the mark with engineering and electronic distributers. According to Liberum's peer group, Electrocomponents trades on the highest price to earnings ratio of 25.6-times. Is this warranted?

While Robin Speakman of Shore Capital Markets says it would be a 'stiff challenge' sustaining historic growth rates, the direction of the firm seems to suggest it can keep up the pace. (DS)

Cyber star rising for Sophos

Shares cyber security top pick could go 28% higher

Cyber security solutions supplier **Sophos (SOPH)** is expected to grow its corporate billings by 16% this year to 31 March 2018 even if it were to win zero new business. That's according to analysts at broker Numis Securities.

High profile cyber attacks, like the recent WannaCry ransomware event that shut down IT systems that manage parts of the NHS, are sparking a massive rethink about how organisations protect themselves. For networks and security services specialist Sophos it means more of its existing customers are reaching out for additional defensive solutions, bolstering customer renewal rates and well as providing cross and up sell opportunities.

Last year Sophos reported renewals of 106% as existing clients extended agreements. Many customers are being drawn to the company's *Sophos Central* platform, which combines its network and end user security solutions through a single interface, making wider monitoring and analysis of organisation's IT systems faster and easier.

Numis has raised its target share price from 305p to 544p. Sophos is one of *Shares* key equity selections, having flagged the investment story on 28 July 2016 at 220p. The stock is currently changing hands for 426.6p. (SF)

43% OF US ONLINE SALES

THIS IS THE staggering dominance Amazon holds over online retail in the US, not to mention elsewhere. This is the finding of recent research by consultancy Slice Intelligence, which also revealed that Amazon accounted for 53% of the internet sales growth in 2016. Put simply, Amazon's already leading share of the US e-commerce market is increasing. Shares in the online marketplace opened at the $1,000 mark for the first time ever on 31 May 2017.

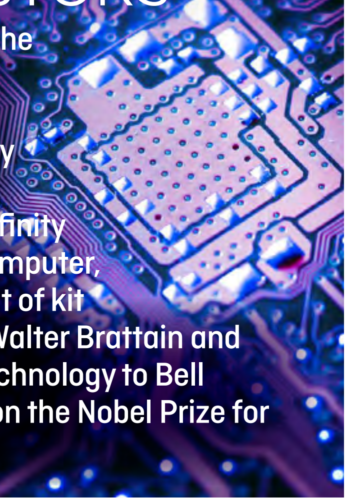
3RD DOMINO'S PIZZA FIRM HEADING FOR UK STOCK MARKET

FANS OF *Domino's Pizza* will soon have an even greater choice of how to invest in the fast food giant.

DP Eurasia, the master franchisee of the Domino's Pizza brand for Turkey, Russia, Azerbaijan and Georgia, will float on London's Main Market on 3 July.

Investors can already buy shares in UK-listed **Domino's Pizza (DOM)** which owns the master franchise rights for the UK, Ireland, Switzerland, Liechtenstein and Luxembourg, plus minority interests in Iceland, Norway and Sweden. Polish rights owner **DP Poland (DPP:AIM)** trades on AIM.

70TH ANNIVERSARY FOR TRANSISTORS



THIS YEAR WILL mark the 70th birthday of the semiconductor transistor. Transistors are basically switches used to amplify or alter electronic signals. They are most commonly used these days as digital versions on microchips for binary coding, the almost infinity long strings of 1s and 0s that make your computer, mobile phone or any electronic gadget or bit of kit work. American physicists John Bardeen, Walter Brattain and William Shockley first demonstrated the technology to Bell Labs managers in 1947, and collectively won the Nobel Prize for Physics in 1956 for their work.

12% DISRUPTIVE DISCOUNTERS ARE RAMPANT

12% IS THE joint record share of the UK grocery marked claimed by disruptive discounters Aldi and Lidl. The latest data (31 May) from Kantar Worldpanel reveals the aggressively expanding pair grew at their quickest rate since January 2015 in the 12 weeks ending 21 May, sales rocketing up 19.2% year-on-year. Alarmingly for the big four **Tesco (TSCO)**, **Morrisons (MRW)** and **Sainsbury's (SBRY)**, 62% of the UK populace shopped in an Aldi or Lidl in the period, up from 58% this time last year.

$2.5TN

REAL ESTATE ASSETS

AT THE END of last year, the total real estate assets under management (AUM) hit a record $2.5tn according to the Asian Association for Investors in Non-listed Real Estate Vehicles (ANREV).

In its recently released fund manager survey, ANREV found that in Europe AXA Investment Managers occupied top position with $61.2bn in real estate AUM. CBRE Global Investors and Aviva Investors, rank at the second and third spot with real estate AUM of $47.7bn and $45.7bn respectively.

$7.4BN

IMMUNO-ONCOLOGY MARKET SOARS

THIS WAS HOW much the immuno-oncology market was worth in 2016 according to FinnCap as pharmaceutical companies aim to use the immune system to fight cancer.

The immuno-oncology market increased in value by 159% over 2015 - driven by only five products. One of these was **AstraZeneca's (AZN)** lung cancer drug *Imfinzi* which recently dominated headlines after the firm revealed the drug significantly reduced the risk of the disease intensifying or leading to death.

BEST PERFORMING FTSE 100 STOCKS LAST 12 MONTHS

Company	Share price gain
Glencore	110%
Antofagasta	81%
Coca-Cola HBC	74%
3i Group	71%
Burberry	69%
Anglo American	66%
Rio Tinto	64%
Ashtead	62%
InterContinental Hotels	58%
Mondi	55%

Source: SharePad as of 6 June 2017

WORST PERFORMING FTSE 100 STOCKS LAST 12 MONTHS

Company	Share price loss
Intu Properties	-10%
Kingfisher	-10%
ITV	-12%
EasyJet	-12%
British Land	-15%
Pearson	-15%
Royal Mail	-17%
Next	-18%
Hikma Pharmaceuticals	-28%
BT	-29%

Source: SharePad as of 6 June 2017

MySale is a mega momentum trade

Global online retailer should prove no flash in the pan

Growth-focused investors should open a position in **MySale (MYSL:AIM)**, an international online retailer with momentum at its heels and ripe for near-term upgrades. A beneficiary of sterling weakness, the £169.8m cap is a compelling play on channel shift and has the balance sheet strength to invest behind its global flash sales brands and in selective acquisitions.

MYSALE BUY
(MYSL:AIM) 110p
Stop loss: 88p

Market value: £169.8m

FLASHY OPERATOR

MySale operates online 'flash sales' sites in Australia, New Zealand, South-East Asia and the UK. Flash sales are time-limited sales events in which fashion, beauty and homeware products are offered to a closed member base. Customers get access to leading brands at low prices, while firms have an avenue to dispose of excess stock at a discount.

Momentum is building at MySale, whose half year results (1 Mar) to December revealed a swing from losses of A$0.2m to an underlying profit before tax of A$0.6m. Online revenue rose 19% to A$127.1m and MySale, which closed the period with a bumper A$29.1m net cash in the coffers, reported 19% year-on-year growth in the active customer base to 870,000.

GROWTH PLATFORM

Growth hopes are high with a strategy to re-engage customers proving successful. MySale's highly scalable Retail Marketplace platform, which includes the Deals Direct, OO.com and Top Buy sites in Australia and New Zealand, is also making progress.

Sports Direct International (SPD) was the original flagship retailer to join this retail marketplace, while a more recent collaboration with US-based gilt.com, part of Hudson's Bay, has only widened the product range.

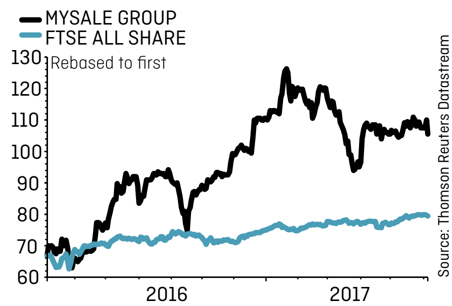
Analysts also welcomed MySale's acquisition (6 April) of Identity Direct for A$2.94m from the administrator. Bringing a valuable database of 66,000 active customers, Identity Direct also adds an additional revenue stream in personalised gifts and products and the complementary acquisition should yield significant synergies.

COULD SHARE PRICE DOUBLE?

N+1 Singer analyst Matthew McEachran's fair value estimate increased to 163p on the back of Identity Direct. In fact, N+1 Singer can 'see a potential route-map back to 226p over 12-18 months', suggesting MySale's shares could more than double. The broker's forecasts for the year to June 2017 point to adjusted pre-tax profits of A$2.4m, ahead of a conservative-looking A$4.8m and A$7.6m for 2018 and 2019 respectively.

Based on forward earnings estimates of 2.2 cent (1.27p) and 3.5 cent (2.02p) for 2018 and 2019 respectively, MySale trades on punchy forward PE ratios of 86.6 and 54.5, although strip out the cash and the valuation is lower. (JC)

BROKER SAYS: 1 0 0



Gold miner is fixed and ready to roar

Avesoro Resources is starting to look really interesting after sorting out problems

Gold miner **Avesoro Resources (ASO:AIM)** appears to have fixed its operational and financial pressures and now has an ambition to run a series of mines producing a combined 500,000 ounces of gold a year.

Buy the shares before the broader market cottons on to the rebirth of the business and its growth potential.

REMEMBER AUREUS MINING?

You may be more familiar with the stock under its previous name of Aureus Mining. The company enjoyed success with gold exploration and attracted widespread investor interest as it developed the New Liberty mine in Liberia.

Unfortunately the company encountered financial and operational problems as it moved into the production phase. Setbacks ultimately damaged the share price.

Turkish group MNG Gold pounced on the opportunity to invest at a low level and bailed out Aureus with a $30m investment in exchange for 55% of the company. A further $60m investment took MNG's position to 76.6%.

This financial injection helped the small cap to end an unfavourable agreement with a mining contractor, pay down a number of creditors and buy equipment.

Significant equity dilution was the price long-standing shareholders had to pay to keep the business afloat.

The company now has a heavyweight backer and chairman in the form of Mehmet Gunal, the founder of MNG Gold (now called Avesoro Holdings) and owner of Turkish infrastructure conglomerate MNG Group.

AVESORO RESOURCES
BUY
(ASO:AIM) 2.7p
Stop loss: 1.5p

Market value: £143.8m

THE FIRST OF SEVERAL DEALS?

Avesoro is in talks to acquire two of MNG's three gold mines, being Youga and Balogo in Burkina Faso. It also hopes to buy another 'build-ready' gold project in the next year or so.

MNG already had plans to have a listed gold business, so using Avesoro as the quoted vehicle makes more sense given it is already on the stock market.

Youga and Balogo are expected to produce between 100,000 and 110,000 ounces of gold this year. In contrast, New Liberty is forecast to produce 90,000 to 100,000 ounces in the same period.

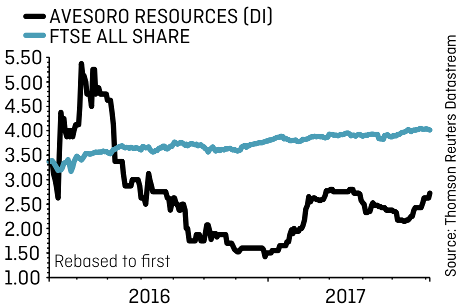
SHARE PRICE CATALYSTS

Second quarter results in August may not be outstanding as the company is still making improvements to New Liberty. We're told the third quarter results should show healthier cash flow.

Investors may have to be patient as the broader market may want to see a few more quarters of solid production before turning positive on the stock.

Avesoro is confident it can reduce operating costs below the original plan for New Liberty. A revised life of mine plan in late 2017 will enable analysts to update their financial models and hopefully put a much higher valuation on the business. (DC)

BROKER SAYS: 1 0 0



SOMERO ENTERPRISES
(SOM:AIM) 286.5p

Gain to date: 0.3%

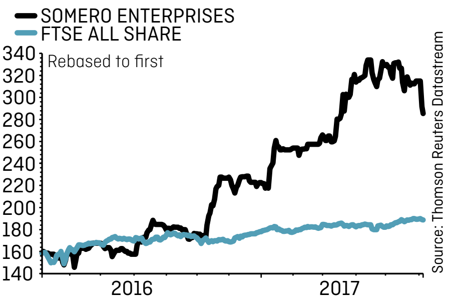
Original entry point:
Buy at 285.62p, 23 March 2017

SHARES IN CONSTRUCTION equipment specialist **Somero Enterprises (SOM:AIM)** have taken a knock after a disappointing trading update on 5 June. News of a 13.3c (10.3p) per share special dividend has been overshadowed by lack of growth in North America and a slowdown in China.

First half trading in North America has been hurt in part by poor weather delaying numerous projects and ongoing political uncertainty.

Many investors had bought the stock believing it would benefit from Donald Trump's plans to spend heavily on infrastructure in the US. Lingering concerns that Trump will now fail to push through his key policies have understandably made some investors nervous about Somero's prospects.

That's a fair point, but it does have a good track record at growing earnings in the past without a specific infrastructure stimulus programme. It is also enjoying decent growth in Europe.



The latest trading update has prompted some investors who've been in the stock for a while to take some profit, as many will have been sitting on significant gains. Somero is up by 80% over the past year and by 350% over the past four years.

SHARES SAYS: ↗
We're sticking with the stock and plan to talk to the company to better understand its opportunities and threats. (DC)

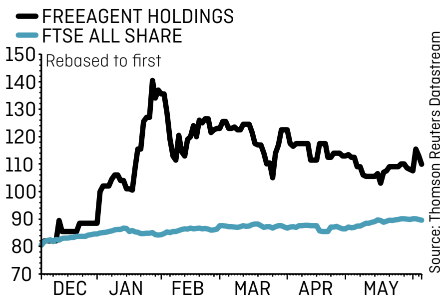
BROKER SAYS: 1 0 0

FREEAGENT
(FREE:AIM) 110p

Loss to date: 5.2%

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

WE LARGELY KNEW what to expect from full year results to 31 March 2017, **FreeAgent's (FREE:AIM)** first since its November 2016 IPO at 84p per share. Revenues of £8m, up 41%, and marginally better-than-expected losses on the earnings before interest, tax, depreciation and amortisation (EBITDA) line is very solid progress given stage in the company's growth profile. Of particular note is the stunning progress made through its accountancy practice channel, where user numbers nearly doubled from 16,705 to 33,147. That compares to just 11% growth from micro business customers signing up through is direct channel, the FreeAgent website in other words. There's also been little impact from big TV ad campaigns of rivals (Quickbooks has been especially visible lately), largely because of FreeAgent's deeper feature quality versus peers. A partnership **Royal Bank of Scotland (RBS)** remains in its early phase but FreeAgent anticipates having more to say in an update in September. Recently clariyy from HMRC on its 'making tax digital' programme designed to get all business online by 2020 should be a big driver as sole traders and micro businesses adapt, with early migrations from April 2018.



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

BROKER SAYS: 1 0 0

FRIDAY 9 JUNE

AGMS	
BAKER STEEL RESOURCES TRUST	BSRT
DELTEX MEDICAL	DEMG
GAZPROM	GAZ
TELEFONICA	TDE
TOMCO ENERGY	TOM
UK	
MANUFACTURING PRODUCTION	
CONSTRUCTION OUTPUT	
CONSUMER INFLATION EXPECTATIONS	
INDUSTRIAL PRODUCTION	

MONDAY 12 JUNE

FINALS	
MOTORPOINT	MOTR
MITIE	MTO
INTERIMS	
SERVOCA	SVCA
AGMS	
FORESIGHT SOLAR FUND	FSFL

ECKOH

It is eight months since the last profit miss and it is only recently that Eckoh's (ECK:AIM) share price has come out of investment stasis, rallying about 18% through May. Full year results to 31 March on 12 June will show that the contact centre automation and secure payment solutions supplier is back on the growth track. Expect better cash generation than originally anticipated, good contract momentum and decent visibility to additional new business. Watch for strong progress in the US. (SF)

TUESDAY 13 JUNE

FINALS	
ABZENA	ABZA
CML MICROSYSTEMS	CML
EVGEN PHARMA	EVG
FIH	FIH
HALMA	HLMA
IOMART	IOM
PARK GROUP	PKG
TELECOM PLUS	TEP
TRIFAST	TRI
INTERIMS	
ASHTEAD	AHT
OXFORD BIODYNAMICS	OBD
TRADING STATEMENTS	
CAPITA	CPI
MERLIN ENTERTAINMENT	MERL
AGMS	
ACTION HOTELS	AHCG
BOSTON INTERNATIONAL	BIH
CAPITA	CPI
MERLIN ENTERTAINMENTS	MERL
ECONOMICS	
UK	
BRC RETAIL SALES	
CPI	

MAJESTIC WINE

Investors will be looking for positive signs of recovery in the full year results (15 June) from specialist retailer **Majestic Wine (WINE:AIM)** against a backcloth of cut-throat competition and rising wine prices. The market will want to see the core Majestic Retail arm building on its biggest-ever Christmas and online arm Naked Wines continuing to secure international market share gains.

WEDNESDAY 14 JUNE

FINALS	
BIFFA	BIFF
CHARLES STANLEY	CAY
ENTEQ UPSTREAM	NTQ
NORCROS	NXR
SEVERFIELD	SFR
INTERIMS	
ELEGANT HOTELS	EHG
TRADING STATEMENTS	
BELLWAY	BWY
AGMS	
CONCEPTA	CPT
FUTURA MEDICAL	FUM
IGAS ENERGY	IGAS
ECONOMICS	
UK	
UNEMPLOYMENT RATE	

SERVOCA

Recruitment minnow **Servoca (SVCA:AIM)** is likely to strike a positive tone in its first half results on 12 June. A trading update on 27 April revealed the numbers, covering the six months to 31 March, were ahead of its own expectations.

THURSDAY 15 JUNE

FINALS		
CONSORT MEDICAL	CSRT	
MAJESTIC WINE	WINE	
INTERIMS		
SAFESTORE	SAFE	
TRADING STATEMENTS		
DRAX GROUP	DRX	
PZ CUSSONS	PZC	
AGMS		
ATTRAQT	ATQT	
CITY MERCHANTS HIGH YIELD TRUST	CMHY	
HIMALAYAN FUND	HYF	
LOOPUP	LOOP	
METALS EXPLORATION	MTL	
SERABI MINING	SRB	
EX-DIVIDEND		
3I INFRASTRUCTURE	3IN	3.78P
ASSURA	AGR	0.6P
ALLIANCE PHARMA	APH	0.807P
AMATI VCT	AT2	4.25P
AUGEAN	AUG	1P
FIRST DERIVATIVES	FDP	14P
FORTERRA	FORT	3.8P
HARVEY NASH	HVN	2.53P
3I GROUP	III	18.5P
MEARS GROUP	MER	8.4P
A&J MUCKLOW	MKLW	4.94P
MARSHALLS	MSLH	8.8P
NEW CENTURY AIM VCT	NCA2	3P
NEWRIVER RETAIL	NRR	5.25P
NEWRIVER RETAIL	NRR	3P
PERSIMMON	PSN	110
THE RESTAURANT GROUP	RTN	10.6P
SAFESTYLE UK	SFE	7.5P
SCISYS	SSY	1.43P
STOBART	STOB	4.5P
S&U	SUD	39P
XP POWER	XPP	15P

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

KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY

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HOT RETURNS
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THE ESSENTIAL GUIDE TO GETTING DIVIDENDS
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PROPERTY FUNDS COME BACK FROM THE BREXIT BRINK
PAGE 38

BUYING PORTFOLIO INSURANCE

HOW TO PROTECT YOURSELF AGAINST A STOCK MARKET CRASH

A large institutional buyer recently spent $120m on portfolio insurance to protect his clients against a market crash. The money has been used to purchase out-of-the-money call options on the VIX with the investment representing about 8.5% of the open interest in these contracts.

The VIX or Chicago Board Options Exchange Volatility Index measures market expectations of short-term volatility by looking at the prices of a wide range of options on the S&P 500.

If there was a stock market crash it would cause a spike in volatility that would result a sharp rise in the VIX and the value of the associated call options. The index is currently trading close to record lows at just over 10, but briefly closed at 28 last February when Chinese economic growth fell to a 25-year low.

It is thought that the buyer was Ruffer LLP, an investment management firm that looks after money for private clients and institutions, as well as running a range of funds including defensive multi-asset mandates such as **CF Ruffer Total Return (GB0009684100)** and the **Ruffer Investment Company (RICA)**.

BUYING THE VIX

Most private investors would not be able to buy the call options, but there are a handful of US-listed exchange traded products linked to the VIX that could provide short-term insurance. These include the **iPath S&P 500 VIX Short Term Futures ETN (VXX)** and the **ProShares VIX Mid-Term Futures ETF (VIXM)**.

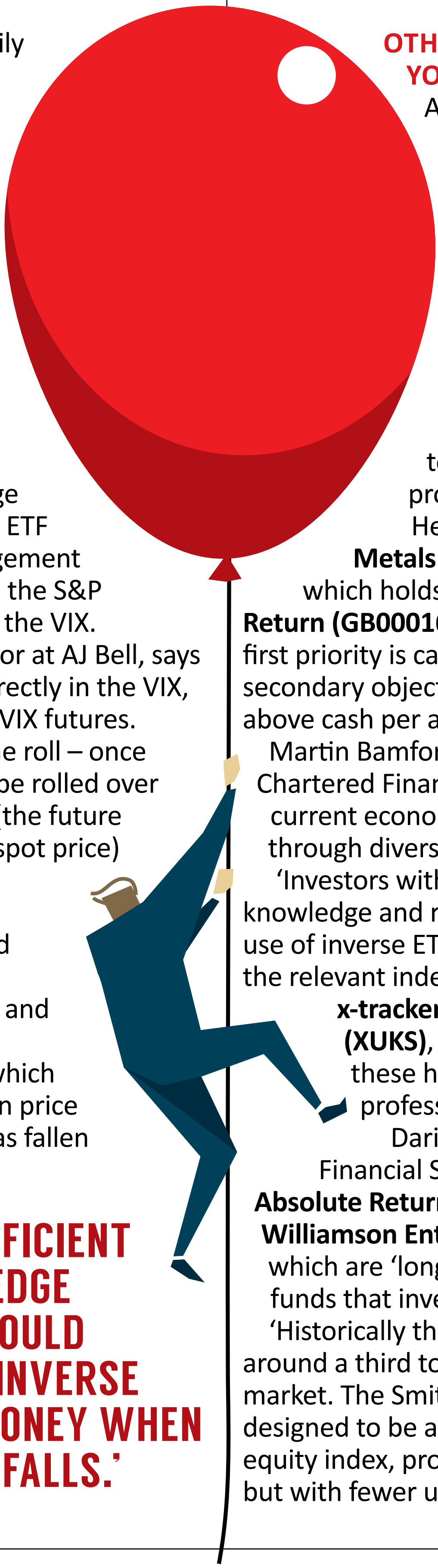
VXX provides exposure to a daily rolling long position in the first and second month VIX futures contracts. It has just under $1bn in assets under management and is structured as an Exchange Traded Note (ETN), which is an unsecured debt security issued by Barclays Bank plc.

VIXM tracks the S&P 500 VIX Mid-Term Futures Index, which measures the returns of a portfolio of monthly VIX futures contracts with a weighted average of five months to expiration. The ETF has $38m of assets under management and has a negative correlation to the S&P 500, but it does not closely track the VIX.

Russ Mould, investment director at AJ Bell, says that it is not possible to invest directly in the VIX, so these products look to follow VIX futures.

'Futures expose investors to the roll – once a futures contract ends it has to be rolled over and if the market is in contango (the future price is higher than the current, spot price) then the trackers have to sell cheaper short-dated futures and buy more expensive longer-dated ones. Over time this will create downward pressure on the price and performance.'

He cites the example of VXX, which since inception in 2009 is down in price by 99.95%, while the VIX itself has fallen by 78%.



'INVESTORS WITH SUFFICIENT EXPERIENCE, KNOWLEDGE AND RISK APPETITE COULD EXPLORE THE USE OF INVERSE ETFS, WHICH MAKE MONEY WHEN THE RELEVANT INDEX FALLS.'

'I am not sure that such tools are at all suitable or appropriate for private investors. If you don't understand or like the sound of any of the technicalities, you shouldn't even consider using this sort of instrument.'

OTHER WAYS TO PROTECT YOUR PORTFOLIO

Adrian Lowcock, investment director at Architas, says that the best thing to do is to be well diversified, as having exposure to 'safe haven' assets such as gilts reduces the impact of a correction.

'Gold is another asset class that is considered a safe haven asset, whilst there are some absolute return funds that look to deliver a return above cash and protect on the downside.'

He suggests the **iShares Physical Metals plc Physical Gold ETC (SGLN)**, which holds physical gold, and **Newton Real Return (GB0001642635)**, where the manager's first priority is capital protection, with the secondary objective being to deliver returns of 4% above cash per annum over the longer term.

Martin Bamford, MD of Informed Choice, Chartered Financial Planners, says that in the current economic environment, risk reduction through diversification is harder to come by.

'Investors with sufficient experience, knowledge and risk appetite could explore the use of inverse ETFs, which make money when the relevant index falls. One example is the **db x-trackers FTSE 100 Short Daily ETF (XUKS)**, although I would not recommend these holdings for anyone other than professional investors.'

Darius McDermott, MD of Chelsea Financial Services, suggests **Henderson UK Absolute Return (GB00B5KKCX12)** and **Smith & Williamson Enterprise (IE00B5NY4X40)**, both of which are 'long/short' targeted absolute return funds that invest in UK companies.

'Historically the Henderson fund has been around a third to a half as risky as the UK stock market. The Smith & Williamson fund has been designed to be about half as volatile as the UK equity index, providing equity-like performance but with fewer ups and downs.' (NS)

What's next on the menu for Just Eat?

We reveal how the company can use its data insight to boost profitability

Investors may not be fully appreciating **Just Eat's (JE.)** opportunity to drive revenue beyond simply signing up new restaurants and powering their online ordering system.

Peel Hunt analyst James Lockyer believes the company should also be able to use its data to earn more from restaurants and help them cut costs and push up prices.

He believes investors buying the shares today at 673.95p could make just over 30% profit over the next 12 months, citing an 895p price target.

GETTING DISCOUNTS FOR CUSTOMERS

The Peel Hunt analyst says Just Eat is quickly becoming a 'negotiator-in-chief' for its 71,000 restaurant customers, arranging discounted bulk-buy wholesale sourcing for items such as food, drink, broadband and even motorbike insurance for delivery drivers.

He believes the company's next step is to capitalise on the billions of pieces of takeaway food preference and order data it already collects each year. Lockyer believes this information could help restaurants to optimise their menus.

Theoretically this could mean dropping some of the least popular items, and potentially reducing costs as there would be less wastage. Restaurants may also then be able to push up their prices for the most popular items.

The analyst claims Just Eat could provide even more sophisticated data services, such as the average price of certain menu items in a geographic area. Another suggestion is using data to work out if a restaurant should think about relocating a branch if the current location is cannibalising sales from another site.

Any income boost should, in theory, mean restaurants would be more than capable of paying Just Eat additional money for its data analysis service. Lockyer believes this value-added service would essentially make the restaurants 'more sticky' customers as they would become even more reliant on Just Eat's services.

JUST EAT HAS 71,000 CUSTOMERS

The diversified model would not only boost Just Eat's profitability but could also deter others hoping to bypass the company by developing their own offering.

THE SHARE PRICE KEEPS RISING

Shares in Just Eat have shrugged market concerns about slowing growth and doubts whether it will be allowed to buy UK rival, Hungryhouse. They are up 15% so far this year and up 131% over the past five years.

The stock trades on 28.3 times forecast earnings for 2018, which many investors would consider to be a rich rating. Lockyer suggests price to earnings isn't perhaps the best way to value the business.

'When you are growing twice as fast as peers, one has to look at multiples adjusted for growth,' says the analyst. 'On this basis, Just Eat is 57% cheaper on sales, 47% on EBITDA (earnings before interest, tax, depreciation and amortisation), and 37% on earnings.' (LMJ)

Output and pricing lift OPG income hopes

Indian power generator set for cash boost and dividend jump

City analysts are increasingly reassured that Indian power supplier **OPG Power Ventures (OPG:AIM)** is back on track. But investors seem less willing to give the benefit of the doubt, possibly creating a valuation anomaly and buying opportunity.

The £150m AIM company issued a brief year-end update on 31 May covering the 12 months to 31 March 2017. 'During the year we stuck to our strategic priority of maximising the cash contribution of our existing assets and thereby making our business stronger for the long term,' spelled out chairman Arvind Gupta.

Points of note for investors include firm per kilowatt/hour (KWh) pricing and impressive plant load factor (PLF) statistics of 76% at its plant in Chennai, and 63% at its Gujarat installation. The PLF is calculated by actual output during a given period as a percentage of a plant's maximum capability. Private sector average PLF was 55.7% in the year to April 2017, according to statistics from India's Ministry of Power. The Gujarat plant is on target to hit an average 75% PLF later this year.

IMPROVED CASH COLLECTION

OPG has also improved cash collection and renegotiated its debt facilities to fund future energy generation projects, which could 'potentially increase dividends in the medium-term,' say analysts at Macquarie Capital. Macquarie anticipates a big jump in the payout over the two years with OPG set to make its maiden return to shareholders worth 0.8p per share for the year to 31 March 2017. The analysts are forecasting a 1p per share payout this year to March 2018 before steeply rising to 3p in 2019.

The market remains sceptical and the share is largely unmoved at 42.25p, potentially creating an opportunity for investors. 'In our view, the risk perceptions are overdone and have drifted away from underlying fundamentals,' say Macquarie analysts Dominic Nash and Dilip Kejriwal.

POWERING UP

OPG has spent years building its 714MW (megawatt) asset base of coal-to-electricity plants in Chennai and Gujarat, and is increasingly looking at solar and wind for environmentally-friendly energy. The company has a 62MW solar project in Karnataka progressing with a 'secured a Letter of Intent for the 124MW Jharkhand project and expects to commission it by end-2018,' Macquarie's Nash and Kejriwal explain.

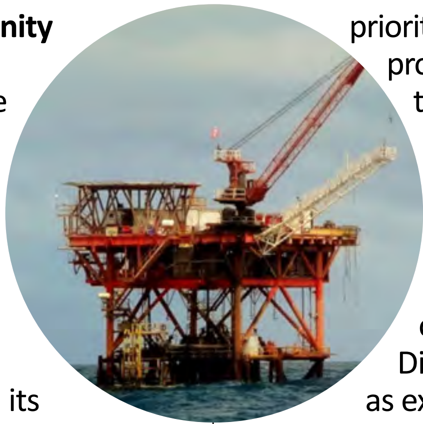
The shares are currently trading on a price to earnings (PE) multiple of 5.3-times this year's anticipated 8p of earnings per share (EPS). That's a circa 50% and 35% discount to Indian and EU utilities respectively, according to Macquarie's industry analysis.

SHARES SAYS: ↗
Growth is coming through and the 2019 income yield would stand at 7.1% if dividend rises come through as anticipated. (SF).

BROKER SAYS: 2 1 0

The small oil stock with big potential

Trinity Exploration one of AIM's top performers and there could be more to come



Trinidad-focused oil company **Trinity Exploration & Production (TRIN:AIM)** has been one of the best performing oil stocks this year on AIM following the completion of its financial restructuring in January.

The shares, which were suspended at 1.75p last July before the balance sheet fix, now trade at nearly 13.5p. There could be further upside to come as Trinity executes on its low cost and high margin growth strategy in the Caribbean.

House broker Cantor Fitzgerald has a price target of 37p, which is nearly three times the current share price.

Onshore development drilling is expected to lift output from 2,500 barrels of oil per day (bopd) to 3,000 bopd over the coming 12 months.

Cantor analyst Sam Wahab comments: 'In the current low oil price environment the company has prioritised the allocation of capital to its production and development assets to generate material cash flows and compelling economic returns, focusing on extracting value from the "low hanging fruit" in its portfolio.'

Trinity joined AIM in February 2013 through a reverse takeover of Bayfield Energy. Founder Bruce Dingwall, who serves on the board as executive chairman, has enjoyed success in the past with North Sea-focused Venture Production.

Venture was floated at 170p in 2002 and subsequently acquired by **Centrica (CNA)** in August 2009 for 845p.

SHARES SAYS: ↗
Trinity is on a firmer footing. Keep buying. (TS)

BROKER SAYS: 1 0 0

£10m setback for Stride Gaming

ONLINE BINGO OPERATOR **Stride Gaming's (STR:AIM)** share price took a small hit on news (30 May) of a further weakening in its social gaming business. Stride will suffer a £10.2m impairment charge on its social gaming assets, yet the good news is its core real money gaming business is gaining share. It is also pushing a business-to-business initiative called 'Stride Together'. (JC)

Horizon dips on full year numbers

GENE EDITING COMPANY **Horizon Discovery (HZD:AIM)** has suffered a 14.4% share price drop since its full year results on 30 May.

Broker Panmure Gordon analyst Mike Mitchell downgraded the stock from 'buy' to 'hold'.

He was put off by Horizon's higher than expected cash burn and the absence of tangible drivers to boost its share price performance. (LMJ)

Lamprell revived by Saudi tie-up

OIL RIG REFURBISHMENT and construction specialist **Lamprell (LAM)** is close to 12-month highs of 117p after recently agreeing a joint venture with Saudi Aramco to develop the biggest maritime yard in the region. The 'transformational' $5.2bn venture is expected to see Aramco become one of Lamprell's largest customers for new rigs. Canaccord Genuity analyst Alex Brooks says the deal will be worth 'a lot, eventually'. (TS)

BLACKROCK®

IPOs
BE SELECTIVE

This year looks set to continue to be another where politics dominates the headlines and potentially drives investor sentiment. While 2016 was characterised by Brexit and Donald Trump's victory in the US presidential election, the UK press has more recently focused on the French presidential election and the UK General Election. Brexit is still divisive, of course, with rumour and counter rumour providing plenty of fodder for journalists, all of which will create uncertainty for investors.

While these events have a tendency to cause dramatic market moves, often followed by sharp reversals (as happened with Brexit), there are still opportunities in the market, provided you know where to look. One place where we can sometimes find attractive opportunities is in the initial public offer (IPO) market where the shares of a private company are offered for sale to the public for the first time, leading to a listing on the stock market.

While smaller company investments are often associated with greater investment risk than those of larger company shares, we believe UK small and medium-sized companies offer an attractive hunting ground for high quality business opportunities and the IPO market in this space is no different. One of the benefits of managing the BlackRock Smaller Companies Trust plc is often having more opportunities in the IPO space than those available to funds that invest in larger companies.

Companies that we are able to purchase at IPO have been strong contributors to performance for more than a decade. We are as selective when it comes to investing in IPOs as we are in companies that are already listed on a stock exchange and like to identify businesses that demonstrate strong organic growth. While past performance is no guarantee of future results, an example of one of our IPO successes which has been able to demonstrate some of the strongest organic growth is a premium mixer supplier. The company came to the market in November 2014 at a price of £1.34, valuing the company at £154m. Today, the shares trade at £16.41 with a total market cap of £1.9bn[1]. Obviously, this is an exceptional case, as since IPO the company shares have increased in value by more than 10 times the initial offer price. But it is a great example of a company that has shown excellent design and innovation skills, coupled with effective marketing and brand management. This has enabled it to capitalise on the growing demand for premium niche spirit brands.

There are still attractive IPO opportunities to be found, despite the recent economic uncertainty. A country clothing brand, for example, came to market at the end of May 2016, in the run-up to the EU referendum. The shares listed at 160p and have since increased by more than 50% as the company has shown growth across all sales channels, while increasing brand awareness and expanding its international footprint[2].

So, while economic and political uncertainty looks to be here to stay for the foreseeable future, we believe the UK market continues to provide opportunities to invest in high quality companies looking to make an IPO. We seek out companies that are run by dynamic management teams adept at steering their businesses through uncertainty and turbulence. We also look for strong market positions that we believe will enable the company to thrive despite the economic backdrop. The secret is to know the characteristics you are looking for and be selective.

To find out more about how the BlackRock Smaller Companies Trust takes advantage of the opportunities that IPOs and smaller companies represent, please **click here**.

[1] Thomson Reuters as at market close on 18 May 2017.
[2] Thomson Reuters as at market close on 18 May 2017.

HOT RETURNS

THE FUNDS TO PLAY ASIA'S FASTEST GROWING ECONOMY

Asian powerhouse India's macroeconomic health is the strongest it has been in a decade. The nation could be both a fantastic top down and bottom up investment story. Growth is accelerating driven by demographics and urbanisation, while corporate quality is high with many world class management teams treating minority shareholders properly. Furthermore, inflation is falling and the government remains busy and focused on its pro-growth, pro-reform agenda.

According to April's IMF World Economic Outlook, India is not only the fastest growing economy in the Emerging Market and Developing Economies segment but the world's fastest growing major economy. Having grown 6.8% in 2016, ahead of China's 6.7%, India's economy is projected to grow 7.2% in 2017 and 7.7% in 2018, outpacing its Asian rival's projected advances of 6.6% and 6.2%. India remains on track to become the world's third largest economy by 2030, overtaking Germany, Japan and the UK as an accelerating labour force combines with increasing labour productivity.

One key structural growth driver is the march of India's middle class. Anticipated going back to the early 1990s and the first days of economic liberalisation, the emergence of the middle classes has been held back by a slower move towards urbanisation than in China, not to mention challenges presented by India's culturally and geographically diverse population.

STARS ARE ALIGNING

Stars are now aligning which mean the hoped-for acceleration in middle class spending is on the way. Steady urbanisation has seen a major shift in the labour market from the agricultural sector to manufacturing and services, while India also has a youthful, digitally-savvy population with internet penetration expanding rapidly.

FORECAST GDP GROWTH 2017

7.2%

(SOURCE: IMF WORLD ECONOMIC OUTLOOK)

Shares notes a fascinating recent blog post by Viktor Nossek, director of research at WisdomTree Europe, who has identified five reasons why Indian equities could spice up investors' portfolios. Chief among them is 'a fast-growing workforce: By 2050, India's workforce (defined as people between 15-59 years old) is expected to have grown from the current 674m to a staggering 940m. To put this into perspective, the US workforce will be a little over 200m in 2050 at its current rate and China is likely to be facing a shrinking workforce. This will potentially drive up labour costs in China—which would be a dent to its competitiveness.'

ENORMOUS LABOUR FORCE

1 IN EVERY 6

PEOPLE ON EARTH IS INDIAN

Asia's leading market is not without risk. There are still political and economic uncertainties to navigate, there's stubbornly embedded corruption, new infrastructure developments frequently falter and the state-controlled banking sector is encumbered by bad debts. And, following positive returns from the Indian equity market, small and mid cap valuations appear stretched.

TASTY POTENTIAL

Kunal Desai, manager of the **Neptune India (GB00B1L6DV51)** fund, says: 'The setup for India over the next few years is particularly positive — alongside increased political stability, we have now passed through the short-term demand reset from demonetisation (see *Demonetisation decoded*).

'Corporate earnings are set to rebound as return ratios will be driven higher by the combination of excess capacity, improving demand and operating leverage and continued balance sheet restraint. India's macro scorecard remains amongst the healthiest in the emerging world whilst investor ownership has receded.'

While some argue the country has failed to live up to the hype thus far, growth-focused investors cannot afford to overlook India. GDP growth is partly being fuelled by a more affluent, expanding population and a swelling consumer market. Combined with the ongoing process of restructuring, India could prove to be one of the most compelling investment stories for the next decade and beyond.

55M HOUSEHOLDS IN THE MIDDLE CLASS INCOME BRACKET, EXPECTED TO INCREASE TO 110M BY 2020

MODI'S MAJOR MOVES

Historically Indian companies had grown in spite of the government. However, since the election of a majority pro-reform party, investors and corporates alike have cheered a new dawn of stable politics.

Indian policymakers that are not shy of taking bold steps and opening the economy; a central bank that successfully fought inflation is now supportive of growth through lenient monetary policy; financial planning that is accelerating consumption, infrastructure and digitisation; and a global macro environment that is not disruptive to India's growth.

Three years ago, Prime Minister Narendra Modi swept into power in an historic election. The first party in the country's history to govern without the need for coalition support, Modi's Hindu-nationalist Bharatiya Janata Party (BJP) was voted in on the promise of an impressive reform agenda.

With a focus on industrialisation, investment in infrastructure, clearing red tape and fiscal federalism, Modi has had both the political will and the firepower to push through necessary but politically unpopular reforms.

This March, the BJP and Modi won a stunning victory in the state election of Uttar Pradesh, India's most populous state. The margin of victory was unexpected and has further lowered the political risk premium in India. Commentators believe Modi's government now has a reasonably clear runway until the next general

30 PEOPLE LEAVE RURAL INDIA FOR URBAN AREAS EVERY 60 SECONDS

DEMONETISATION DECODED

DEMONETISATION, MODI'S shock therapy designed to purge India of its informal economy, is well underway. The demonetisation of Rs500 and Rs1,000 currency notes announced on 8 November and resulting in 86% of the currency becoming non-legal tender overnight, created shockwaves throughout India. By starving the country of cash, Modi's government is attempting to corner the corrupt, bring tax evaders onto the books and address the issue of counterfeit notes used for terrorism. India is therefore undergoing a dramatic structural shift away from cash and towards a digitally banked economy.

election in 2019, which will likely stimulate further reform activity in an attempt to drive India's medium term growth potential higher.

Following the abrupt cancellation of 86% of the Indian currency in circulation by the Modi government, the Indian equity market corrected sharply but recovered in January to March 2017 to touch an all-time high. Politics boosted market sentiment as the BJP party performed very strongly in the provincial elections in several states, particularly in Uttar Pradesh, confirming Modi's enduring popularity on the ground in the aftermath of Demonetisation.

Neptune's Desai believes that 'one of the most significant reforms has been the parliamentary approval of the long-awaited Goods and Services Tax Bill (GST) after a decade of squabbling. Once implemented, the GST will harmonise the patchwork of national, state and local levies with a single unified VAT system, overhauling the country's fragmented tax system.'

'Given how this key reform has been used as a political football over the past decade, its smooth passing underlines the reformist drive from the Government whilst its implications could be a game-changer. Tax payers will now be linked to their respective PAN ID numbers which will make evasion far more difficult.

'As India moves to a unified tax market, productivity will be lifted whilst providing a boost to Modi's manufacturing push too – the heavy burden of cascading taxes (tax on tax) will be reduced as companies can now claim tax credits for tax already paid by their suppliers. This lower cost of manufactured products will help boost consumption too.

65% OF INDIA'S POPULATION IS IN THE WORKING AGE BRACKET, ONE OF THE YOUNGEST COUNTRIES IN THE WORLD

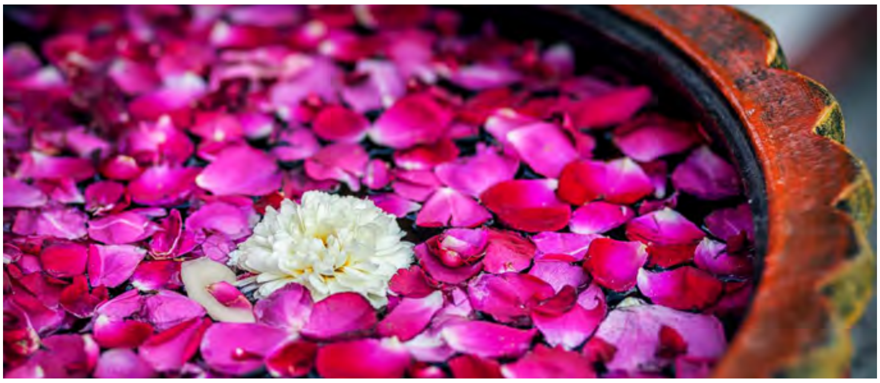
Perhaps more importantly for global investors though, the GST has underlined our view that India continues to resolutely move in a pro market, pro-reform direction.'

'Despite the market's strong performance, India remains a bifurcated market with huge valuation divergence,' continues Desai. 'In particular, large-cap, quality stocks were the clear winners in an era of uncertainty and re-adjustment and as a result mid-caps trade at a 29% discount to large-caps.

'Indeed, mid-caps and cyclicals trade significantly below long-term averages – value exists in the market but you have to find it. The Neptune India Fund therefore remains overweight both mid-caps and domestic cyclicals as they are likely to benefit from valuation support, are under-owned and are the most leveraged to the market's cyclical upswing.'

FLOURISH THROUGH FUNDS

When investing in far-flung markets, the nous of professional fund managers with contacts on the ground is invaluable. In the funds universe, one portfolio meriting attention is **Jupiter India**



(GB00B2NHJ040), which has returned a cumulative 51.9%, 105.4% and 152.8% over one, three and five year periods respectively according to Trustnet, outperforming the IA Specialist sector. Aiming to generate long-term capital growth, the Avinash Vazirani-managed unit trust's holdings include Hindustan Petroleum, Godfrey Phillips India and Infosys Technologies.

The aforementioned Neptune India has significantly outperformed the MSCI India Index under manager Kunal Desai's tenure. To qualify for portfolio inclusion, stocks must be industry disruptors – 'we are keen to invest in the disruptors, not the disrupted' – boast high accounting quality, have sufficient liquidity and strong corporate governance.

'A company that exhibits these characteristics is more likely to benefit from a virtuous circle of increasing investment, sales, cash generation and, therefore, shareholder value,' says the manager. Those that pass muster with Desai include the likes of structural growth company Asian Paints, turnaround play Infosys and Apollo, India's largest hospital network.

Options in the closed-ended investment companies space include Terry Smith's **Fundsmith Emerging Equities Trust (FEET)**. Trading at a 1.6% premium at the time of writing, 'FEET' has recently taken positions in Indian generic drugs maker Ajanta Pharma and Royal Enfield motorcycles maker Eicher Motors.

Others include the **Aberdeen New India Investment Trust (ANII)**, on a 10.3% discount as well as the **JPMorgan Indian Investment Trust (JII)**, where an 11.2% discount may tempt value seekers. With a bias towards quality names, the latter trust underperformed its MSCI India Index benchmark in the six months to 31 March. However, its long-term performance is strong. JPMorgan Indian has outperformed the benchmark over the three, five and ten years to 31 March 2017.

'India is among the fastest growing economies in the world and will be for the foreseeable future,' says portfolio manager Rajendra Nair. 'We try and take a long-term view and capture that opportunity. We have a distinct long-term investment horizon – some of our holdings have been in the portfolio for more than a decade such as HDFC Bank, which has delivered extremely profitable growth over time, and we let compounding

1BN PEOPLE WILL BE IN INDIA'S WORKFORCE OVER THE NEXT DECADE, THE LARGEST WORKFORCE IN ONE COUNTRY IN HUMAN HISTORY

50% INDIA'S EXPECTED URBAN POPULATION BY 2050; UP FROM 32% IN 2014

DAVID CORNELL

WE LIKE TO INVEST IN COMPANIES WITH A LONG TERM HISTORICAL TRACK RECORD OF DELIVERING PROFITABLE RETURNS

IT MAKES LOW-PRICED PRODUCTS THAT A BILLION INDIANS SWEAR BY AND HAS STRONG BRAND RECOGNITION AND AMAZING DISTRIBUTION ACROSS INDIA

INDIA CAPITAL GROWTH

INVESTORS SEEKING A concentrated fund with high active share and a mid-cap bias can purchase the **India Capital Growth Fund (IGC:AIM)**, an AIM-quoted portfolio of 30-40 stocks with an emphasis on companies deriving the bulk of earnings from the domestic market.

Managed by Ocean Dial Asset Management, India Capital Growth's 15.5% discount has significant scope to narrow. 'We firmly believe going down the market cap spectrum does not necessarily mean going down the quality spectrum,' says fund manager David Cornell, who insists 'the closed-ended structure is ideal for mid cap India. It means we can take a longer term view.'

'We see risk as the long-term destruction of capital,' says bottom-up value investor Cornell. 'We're identifying companies managed by people with high levels of integrity and who understand the difference between a P&L and a balance sheet,' he says. 'We like to invest in companies with a long term historical track record of delivering profitable returns to shareholders and we like companies that pay dividends.'

Cornell is palpably excited by the growth potential of India, which is 'where Mexico was 37 years ago'. Portfolio positions include the likes of Jyothy Laboratories, a maker and marketer of fabric whiteners, soaps, detergents and mosquito repellents that 'has been a strong compounder over the last four or five years. It makes low-priced products that a billion Indians swear by and has strong brand recognition and amazing distribution across India,' says Cornell.

'We also like housing finance companies,' says Cornell, invested in Dewan Housing, a play on rapidly rising penetration off a low base of basic financial products. He is also a fan of demonetisation beneficiary Kajaria Ceramics, the fastest growing and most profitable company in the Indian tile industry with a vast unorganised or informal market to chase. 'The informal sector will either have to pay tax or it will get swallowed up,' says Cornell, who insists Kajani's 'market share gains will be huge in the next four to five years.'

do the work for us.'

Prospective investors in the trust will be pocketing an exposure to other financial names such as Kotak Mahindra Bank and Indusind Bank.

Those seeking to mitigate India-specific risk could look to the broader **Martin Currie Asia Unconstrained (MCP)**, a trust trading on an even wider 14.1% discount.

'India's long-term fundamentals are very interesting and under Modi there is a very interesting domestic story,' says manager Andrew Graham, although he adds 'animal spirits are very powerful in India, it is expensive relative to other markets and we are a little bit more cautious on it.'

Relevant portfolio positions include auto manufacturer Maruti Suzuki India, a 'very profitable, well-run' producer of small cars, as well as motorcycle maker Hero Moto Corp, which 'generates a high return on capital, has a net cash balance sheet and pays a growing dividend.'

100 'SMART CITIES' WILL BE BUILT BY 2020, DRIVING MASS INFRASTRUCTURE INVESTMENT

LONDON-LISTED EXPOSURE

INVESTORS CAN ALSO access India through ETFs such as **Amundi ETF MSCI India (CI2U)**, **db x-trackers MSCI India (XCX5)**, **Lyxor MSCI India (INRL)** and **WisdomTree India Quality (EPIQ)**. A number of London-listed companies also offer a passage to India, among them alcoholic drinks giant **Diageo (DGE)**. The majority owner of India's United Spirits is seeing tipples such as Johnnie Walker and McDowell's on a growth tear and is increasingly helping wedding planners in the country set up pop-up bars at their events. Packaged consumer goods colossus **Unilever (ULVR)** has been in India since the 1880s, while health and hygiene products giant **Reckitt Benckiser's (RB.)** Dettol and Harpic brands are growing strongly in the Asian nation.

Soon-to-be-subsumed into **Tesco (TSCO)**, food wholesaler **Booker (BOK)** operates in India from four sites in Mumbai, one in Surat and one joint venture branch in Pune. Other stocks offering some exposure to India's growth include airports and train stations food seller **SSP (SSPG)**, which recently entered the world's second most populated country by acquiring 15% of Travel Food Services (TFS) in India in December 2016. A further 18% was bought in March 2017, bringing SSP's shareholding to 33%. Kate Swann-steered SSP will acquire a further 16% stake in TFS, which has operations in six of the main airports including Delhi and Mumbai as well as in railway stations, by the end of 2018.

Other India options include Holiday Inn owner **InterContinental Hotels (IHG)** or **Mortice (MORT:AIM)**,forecast to grow quickly through its exposure to India's personal security market through its Peregrine Guarding subsidiary. Lower down the market cap ranks, youth fashion portal **Koovs (KOOV:AIM)** offers a play on the booming demographic of young Indian urbanites, while **OPG Power Ventures (OPG:AIM)** has a compelling medium to longer-term investment case.

Following its merger with Cairn India, **Vedanta Resources (VED)** has been transformed into a diversified natural resources powerhouse anchored in India. Via its taste & nutrition arm, Ireland-based ingredients-to-packaged foods group **Kerry (KYGA)** is establishing a new production facility in India to support taste and clean-label technology delivery.

Lowland places two big bets

Insurance and industrials fancied to keep income and capital growth wheels oiled

UK investors may feel there are more questions than answers as we hurtle towards Brexit and detailed negotiations on a deal with Europe. That won't change in the short-term regardless of the outcome of today's General Election and the identity of the next government. That suggests, in our opinion, that buying market experience into your portfolio could be a sensible move, and few fund managers have more hard-earned nous than James Henderson.

With namesake fund management firm Janus Henderson since 1983, he has traded through recessions, stock market crashes, the dotcom bubble, the financial crisis and more during his 27 years running the **Lowland Investment Company (LWI)**. Yet despite this evident wealth of experience Henderson is also wise enough to realise that he needs to be 'challenged by new ideas.' That is why he invited Laura Foll to become co-manager alongside him, in November 2016, having been his capable assistant for the previous four years.

Lowland is a £428m net assets investment trust that scans the entire UK equities space in the hunt for shares with good solid income dynamics. But decent capital growth is also important, which feeds into greater future dividend scope. Lowland has an impressive track record for returning returns to shareholders through its own dividends. It has raised the payout every year in the past 20 baring 2009, in the teeth of the financial crisis.

That equated to a 45p per share dividend for the last full year to 30 September 2016, up nearly 10% on the previous year's 41p return. Similar growth would imply a 3.2% yield this year at the current £15.31 share price. Dividends are also paid quarterly, convenient for investors reliant on regular income.

INCOME AND CAPITAL INGREDIENTS

The trust currently holds stakes in 129 companies ranging from the very largest (**Royal Dutch Shell (RDSB)** is its single biggest shareholding) to the relatively small. Henderson has been building a small stake in £110m gentlemen's outfitter **Moss Bros (MOSB)** recently, the trust's first small retailer 'in some time,' he admits.

The aim is to invest in a mixture of large, medium-sized and smaller companies. 'I'm after diversity,' he says. There are times when everything can seem to be going right in a particular investment space, he points out, but these periods are inevitably followed by the opposite, so spreading funds across the investment spectrum works for Lowland.

Yet the trust's balance has been tipped towards larger companies more recently. Half of Lowland's 10 biggest holdings now are FTSE 100 constituents, three in the FTSE 250 with just a single small cap and one (Irish ferries and shipping group **Irish Continental (ICGC)**) unindexed. 'We typically have about a third of funds in the FTSE 100, but it is bigger now,' says Henderson. Normally, the fund manager explains, a greater part of the trust would be in small caps, but 'people are nervous and so are paying premiums for certainty,' he says, explaining why valuation ratings of some companies can appear very full right now.

'I do fret,' says Henderson about Brexit negotiations and how they could impact UK plc and individual company share prices. He believes that in the short-term life is going to be very difficult for many companies.

TOP TEN HOLDINGS
(AS AT 30 APR 2017)

Royal Dutch Shell	4.7%
Phoenix Group	2.9%
HSBC	2.8%
Hiscox	2.8%
Prudential	2.3%
Senior	2.2%
Standard Chartered	2.0%
GKN	1.9%
Headlam	1.9%
Irish Continental	1.8%

FAST FUND FACTS
LOWLAND INVESTMENT COMPANY

Ticker:	LWI
AIC Sector:	UK Equity Income
Benchmark:	FTSE All Share
Share price:	£15.31
Estimated NAV:	£16.32
Discount:	-6.2%
Yield:	3.1%

Source: Janus Henderson Investors

FORTUNE MAY FAVOUR THE BRAVE

Spotting opportunities when others only feel fear is part of the trick to trading successfully through perceived lean spells. Henderson mentions **Rolls Royce (RR.)**, the aero-engineer previously caught up in a previous corruption scandal. 'Rolls is getting there,' says Henderson, 'focusing on where money can, and cannot be made in the long-term,' he believes. The fund manager has been buying stock this year and it is paying off, shares in the company having rallied 32% so far in 2017.

Other areas Lowland's manager sees opportunity include insurance and industrials, 'our two big bets,' he states. The former is evident in the trust's top 10 stakes, where **Phoenix (PHNX)**, **Prudential (PRU)** and **Hiscox (HSX)** are all prominent features.

Joining Rolls Royce on the industrials side of the bet is chemicals supplier **Scapa (SCPA:AIM)**, which Henderson reveals has been 'a really good share for us.' The fund manager reveals that Lowland initially bought shares at about 20p to 25p, which implies trades made as far back as 2010.

Past asbestos issues, struggles in the automotive industry and pension deficit woes have apparently been managed well, sparking a return to the dividend list in 2014. The stock now changes hands at 511.5p, so no wonder Lowland is now starting to take some of those impressive profits by selling stock. 'It has been one of our most successful investment of the past few years,' Henderson says. (SF)

The death of lifestyle investing for retirement?

Study implies reducing stock market risk at retirement may not be best approach

One of the central tenets of retirement planning theory has been 'lifestyling'. This is where your asset allocation is automatically shifted away from higher risk investments towards bonds and cash as you approach a set retirement date.

Lifestyling is based on a world where most people turned their defined contribution savings into a guaranteed income stream by buying an annuity. Nowadays, most people choose to stay invested in the market at retirement.

Annuities are still important, despite this shifting landscape, as around 80,000 of such products are sold by the insurance industry each year.

Lifestyling might well provide adequate protection against the downside risk associated with stock market investing. But whether this approach is appropriate for the majority is now open to serious challenge.

UNDERSTANDING THE SPREAD OF RISKS

A recent paper published by 7IM – essential reading for anyone looking to familiarise themselves with the debate – argues that investment risk is often given too much weighting versus other retirement risks.

These include:

- **Savings risk** – the risk someone doesn't put enough to one side while working to fund their retirement
- **Longevity risk** – the risk someone outlives their savings
- **Inflation risk** – the risk that rising prices erodes the real value of accumulated savings
- **Event risk** – the risk a saver's plans are hit by an unexpected life event, such as divorce or illness

The 7IM paper argues that for many retirement investors, lifestyling is no longer appropriate.

Taking investment risk off the table as you get older reduces potential stock market returns, just as your pot is reaching a size where equity exposure could make the biggest difference.

7IM points to academic research from the US which suggests INCREASING equity exposure over time – essentially the reverse of the 'hold your age in bonds' maxim – delivered the best outcome over a 30 year period.

However, taking lots of risk isn't for everyone and if you are going to follow this approach, you need to remember that the value of your pot can go down as well as up – particularly in the short-term.

IS THERE ANOTHER OPTION?

One alternative is to look at 'dynamic lifestyling'. This allows the portfolio mix to shift depending on the prevailing market condition, whereas asset allocation changes are often pre-determined with traditional lifestyling.

One dynamic strategy might involve a portion of the client's portfolio – say 20% – invested in a dynamic fund which makes unconstrained asset allocation decisions. The remaining 80% would go into a traditional, deterministic lifestyle fund.

Another version is 100% dynamic, but within certain set parameters. So if, for example, the deterministic lifestyle strategy puts the emerging equities allocation at 6%, the dynamic lifestyle strategy could have the flexibility to alter this to anywhere from 3% to 9%.

Tom Selby,
Senior Analyst, AJ Bell

The essential guide to getting dividends

There are several dates you need to grasp to ensure you're entitled to payouts

Most investors are used to receiving dividends and/or reading dividend declarations in companies' financial results. But you might be less familiar with the specific timescale that determines who qualifies for a dividend payment and when those payments will reach your bank account.

There are four key dates you need to be familiar with: the declaration date, the record date, the ex-dividend date and the payment date.

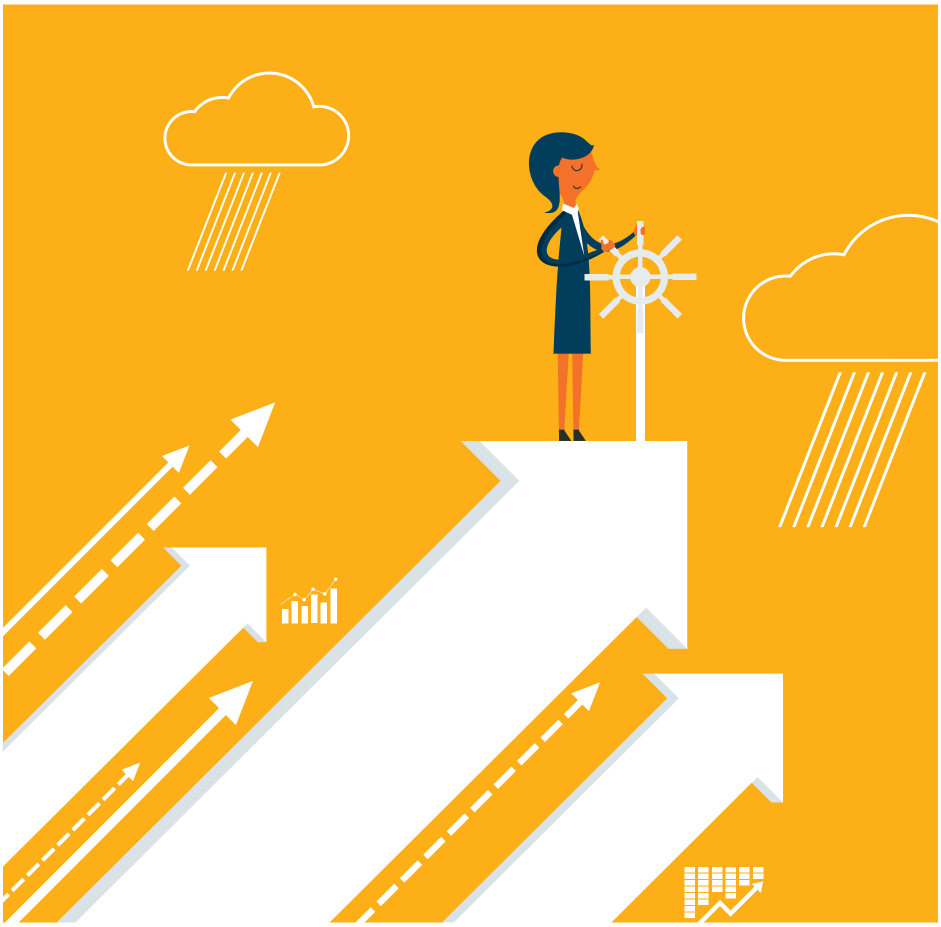
Having an understanding of these dates will help you establish if and when a dividend will be paid to you.

DECLARATION DATE

This is the date that the dividend is announced by the company's board of directors. You will be able to see information about the size of the dividend, the date of record and the payment date. The company has a legal responsibility to pay the dividend once it has been declared.

RECORD DATE

This date is used to determine who is on the share register and therefore entitled to the dividend. The company sets the date of record after it has announced that it will pay a dividend. You must be a shareholder on this date in order to receive the dividend. Record dates are usually on a Friday.



EX-DIVIDEND DATE

To ensure you are a shareholder by the record date you need to buy shares at least one day before the ex-dividend date. This is because the standard settlement for UK equities is two working days.

Take the example of Company ABC, which sets a record date of Friday 5 May. The ex-dividend date would be Thursday 4 May.

If you bought shares on Wednesday 3 May the trade would settle two days later on 5 May so you would be on the share register on the record date and would qualify for the dividend.

If you bought shares on Thursday 4 May this would not settle until Monday 8 May. 'You would not be on the share register as at the record date and therefore would not qualify for the dividend,' explains Neil Evans, head of middle office at financial services firm Killik.

If you want to sell a stock and still receive the dividend that has been declared, you need to sell on or after the ex-dividend date. If you sell earlier, you will lose your right to claim the dividend.

Because record dates are usually on a Friday, most ex-dividend dates in the UK are on a Thursday.

The timescale will vary if a company pays special dividends or if it is an overseas issuer which only has a secondary listing on the London Stock Exchange.

PAYMENT DATE

This is the date dividends will be paid to your ISA or dealing account. Evans says the length of time between the initial record date and payment date varies, but is typically between one and two months. The London Stock Exchange says companies should aim to pay dividends within 30 business days of the record date.

Companies will usually reveal details of the payment date on their website and in shareholder announcements.

You won't have to wait long for dividends to be credited to your account. Investment platform AJ Bell Youinvest says that most dividends will be credited to investors on the stated payment date, especially if they are UK dividends.

Some international dividends may take a few days longer as the platform might need to convert the dividend income to sterling.

WITHDRAWALS TO A BANK ACCOUNT

If you want your dividends to be paid from your ISA or dealing account into your registered bank account you can make this request to your platform. AJ Bell Youinvest says it usually takes between three and five days for the cash to appear in an investor's bank account.

It's not possible to bypass your ISA/dealing account and get dividends paid directly into your registered bank account.

You could consider setting up a regular withdrawal payment for the consolidated natural income (i.e. all income generated from your investments) to be paid from your ISA/dealing account into your bank account on a monthly, quarterly, half yearly or annual basis. This would remove the need to contact your platform every time a dividend is paid.

THE REASON FOR SHARE PRICE FALLS

If you monitor your stocks closely you might have noticed that the share price often falls on the ex-dividend date.

This is because the value of the forthcoming dividend is included within the share price up until the ex-dividend date. At this point, the current holder of the shares becomes entitled to the dividend, even if they then decide to sell the shares before the dividend payment date.

'In effect the dividend itself becomes separated from the underlying shares, and that is why the share price often falls on this date,' says Evans.

As an example, Company X has a share price of 100p and has announced a dividend of 5p. When the market opens for trading on the ex-dividend date, the share price will have been adjusted down to 95p.

On the ex-dividend date, the shareholders on record will become entitled to the 5p dividend. The shareholders would still be entitled to a total value of 100p (as they were before the ex-dividend date) but this would effectively be comprised of 95p per share and a 5p cash dividend per share. (EP)

Property funds come back from the Brexit brink

Why real estate is back in demand as the anniversary of referendum nears

One of the areas worst affected by the EU referendum was the UK property sector whose performance is dependent on the health of the economy. Many of the real-estate investment trusts (REITs) suffered sharp falls in their share prices, but confidence has improved due to the resilience of the economic data.

Neil Woodford thinks that people are too downbeat about the UK economy and has included the **NewRiver REIT (NRR)** and **British Land (BLND)** as two of the fifty holdings in his new **CF Woodford Income Focus Fund (GB00BD9X6796)**.

In a recent update he said that he was keen to capture some of the contrarian opportunity he currently sees in domestically-focused cyclical stocks, which he believes have become too cheap to ignore in the wake of last year's Brexit vote.

The NewRiver REIT specialises in the UK retail and leisure sector, but recently announced a fall in annual pre-tax profits from £69m to £37.4m due mainly to a £24m reduction in the value of its property portfolio. It is yielding an attractive 6.2%.

British Land is one of the country's largest REITs with a market value of £6.5bn and owns, manages and develops a portfolio of properties around the UK. The shares are trading on a 30% discount to the latest NAV of 915p and have a prospective yield of 4.7%.

Russ Mould, investment director at AJ Bell, says that it is no surprise to see such a huge discount tempt Neil Woodford.

'It suggests a lot of the potential bad news may already be priced in, while Woodford himself has publicly stated that he does not think Brexit will be a huge negative for the UK economy, so he will be taking a view that the shares are oversold.'

The large, generalist REITs like **Land Securities (LAND)** and British Land are typically trading on sizeable discounts of 20% to

30% to NAV, whereas many of the direct property investment trusts are trading on small premiums.

'The big FTSE 100 REITs still have exposure to new developments or major refurbishments (which makes them more risky), whereas the direct property investment trusts do not, focussing instead on managing their existing assets and the rental yield on them,' explains Mould.

PROPERTY INVESTMENT TRUSTS

The closed-ended nature of investment trusts makes them an ideal vehicle to invest in the physical bricks and mortar as in the normal course of business they can never be forced into selling the properties to meet client redemptions. They can also use prudent levels of gearing (debt) to enhance the returns and revenues.

Alan Brierley, director of the investment companies team at Canaccord Genuity, says that given the IPF UK consensus forecast average annual total return of 5.2% over the next five years, he believes that asset management will be a key driver of alpha.

'In this environment, we believe the entrepreneurial style of asset management of Ediston Property leaves it well placed, and these fundamental attractions are enhanced by the current discount. UK Commercial Property also offers good relative value.'

The £141m **Ediston Property REIT (EPIC)** invests in a diversified portfolio of office, retail and industrial properties in the UK. It was launched in October 2014 and is yielding 5% with monthly dividends. The shares are trading close to par value.

His other selection, the **UK Commercial Property Trust (UKCM)**, was launched in September 2006 and has a market value of £1.14bn. It owns 42 properties across the UK with a bias towards prime, institutional quality buildings. The fund has a conservative approach to gearing (capped at 25%) that has helped to preserve value in difficult market conditions.

UKCM is yielding 4.2% with quarterly dividends and the shares are currently trading close to par value. It has a number of high quality tenants.

The investment company analysts at QuotedData have recently issued a positive update on the **Drum Income Plus REIT (DRIP)**. The small £37m fund concentrates on acquiring properties overlooked by large institutional and overseas buyers.

Matthew Read, a senior analyst at QuotedData, says that DRIP targets lot sizes worth between £2m and £15m, and looks for second tier property assets in what the managers consider to be good, but not necessarily prime locations.

'The managers believe that such assets offer marked yield advantages over prime assets in prime locations.'

The managers look for properties where they can add value through asset management initiatives and have a long-term gearing target of 40% of gross assets to help boost the returns in favourable market conditions. DRIP is yielding 5.7% with quarterly distributions and the shares are trading close to NAV. (NS)

How shareholders remove company directors

The methods used by activist shareholders to change company behaviour

Shareholder activism continues to be a strategy pursued by investors seeking to realise value by influencing or changing company behaviour.

Hedge fund Elliott Advisors in May commenced legal action in the Dutch courts to force chemicals group Akzo Nobel to convene a general meeting of shareholders to vote on a resolution to remove the chairman of the company as part of a strategy to engineer a takeover by PPG.

The position of Akzo Nobel was complicated by the inclusion in its constitution of provisions enabling certain directors to make binding nominations to its board.

In the UK, any such a provision would be contrary to the provisions of the Companies Act 2006 with respect to the appointment and removal of directors. However, a UK company having a separate class of shares with enhanced voting rights in friendly hands might be able to defend itself against the unwanted appointment or removal of directors.

FROWNED UPON

In practice such arrangements are not favoured by institutional investors and may be seen to undermine the principles of good governance and accountability to shareholders.

In the UK, the Companies Act 2006 allows shareholders representing at least 5% of the paid-up voting shares to require a company to call a general meeting and to propose a resolution which can be properly moved at the meeting.

In order to achieve their aims activist shareholders might therefore propose a resolution to remove one or more directors and to appoint one or more others in their place.

If having received a valid requisition, the company does not within 21 days convene a meeting; the requisitioning shareholders may themselves convene it without having to go to court. In this respect the UK is considerably less protectionist than a number of other jurisdictions.

TAKEOVER RULES

In seeking changes to the board of a UK public company, activists do need to be mindful of the provisions of the City Code on Takeovers and Mergers so as not to inadvertently trigger a mandatory bid for the company under Rule 9 of the City Code.

This applies to acquisitions resulting in a person or persons acting in concert having an interest in shares which carries 30% or more of the voting rights of the company).

While shareholders voting together on a particular resolution are not normally presumed to be acting in concert for the purposes of Rule 9, there is a presumption that shareholders who requisition or threaten to requisition a meeting to consider a board control-seeking proposal are acting in concert.

A mandatory bid obligation could then be triggered as a result of any member of the group subsequently acquiring an interest in shares that causes a relevant Rule 9 threshold to be crossed.

By Stuart Fleet, partner in the corporate team at law firm Ashfords

Who keeps tabs on the auditors?

Investors need to tread carefully if a company's balance sheets appear too good to be true

There are risks associated with investing but at the very least you should expect to be able to trust a company's audited accounts.

Most people remember what happened to Enron. In 2001, the company was the seventh largest in the US and had profits approaching $1bn. Then due to some 'creative' accounting which turned out to be fraudulent, not only did the company go bankrupt it brought down one of the world's largest accountancy firms, Arthur Andersen.

Shareholders saw Enron's value collapse from over $90 a share to under $1.

You'd hope that lessons would be learned on both sides of the Atlantic but events show that investors still have cause to be wary of some company accounts.

FOCUS ON ACCOUNTING FIRMS

The Financial Reporting Council (FRC), the body in charge of enforcing accounting and auditing standards, tends to focus on the accountancy firms when it comes to reprimands.

In reality, only a handful of companies are sanctioned for filing dodgy accounts. But if analysts voice their concerns, they may well need a thick skin. When Matthew Earl, a former analyst at Matrix, issued bearish reports on UK outsourcer Connaught way before the rest of the market, he was attacked by the company's head, Mark Tincknell. Tincknell even described Earl's work as 'a masterful feat of incompetence'.

Less than a year later, Connaught had gone the way of Enron, collapsing into administration.

Michael Donnelly, an analyst at Panmure Gordon and one-time colleague of Earl tells *Shares* that when looking at balance sheets, he's rarely looking for fraud as it's extremely rare. Donnelly is looking for imprudent and aggressive accounting.

If a company is recognising revenue too early and deferring costs well into the future this should ring alarm bells. These aggressive accounting techniques suggest a company is trying to manipulate its earnings. Donnelly put a 'sell' recommendation on **Utilitywise (UTW)** two years ago due to its accounting methods.

Private investor and highly respected blogger Paul Scott says he can easily spot dodgy accounts, even when the auditor gives a clean sign off.

'You just have to look for things that don't look right - e.g. excessive debtors, excessive capitalising into intangibles, weird other debits sitting on the balance sheet where they wouldn't normally exist,' says Scott.

Connelly likes to look at balance sheets every six months to see if there's anything amiss and Scott checks the movement over several years on the balance sheet to make sure that the changes in balance sheet values match up.

IT'S NOT EASY TO SPOT

If a chief financial officer (CFO) or finance director really wants to try and fool an auditing firm, there's not much the firm can do about it. Richard Murphy, a chartered accountant and political economist, says if a CFO is really 'crooked' they can hide transactions for some time if they really want to.

Auditors should resign if they think that risk exists as KPMG did at Lycamobile recently but the lack of resignations in general suggests not enough caution is shown in Murphy's opinion.

Scott agrees, saying that a determined and clever CFO can easily pull the wool over the eyes of auditors. However, he says that auditors should act as whistleblowers if they suspect fraud and not just resign.

It is the auditors though who more often than not face the wrath of the FRC although there are many who don't think the organisation is set up correctly.

Jason Yardley, a partner at law firm Jenner & Block says the FRC has an odd set-up. It is an industry funded body acting as judge and jury over its own members behaving as if it's a court but without the rigour of a court.

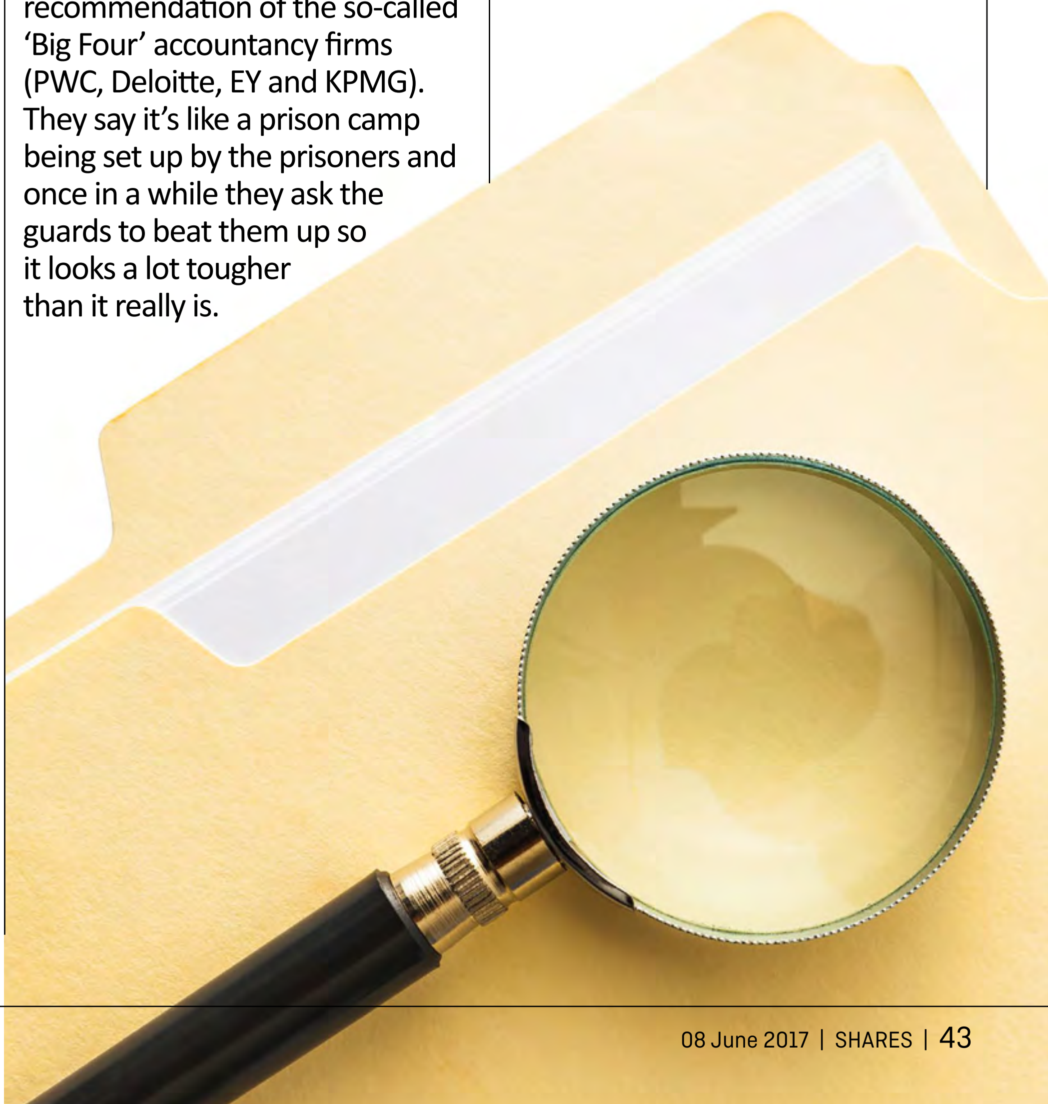
Tim Bush, head of governance and financial analysis at the Public Interest Research Centre (PIRC) is also no fan of the FRC. Bush says the FRC breaks the normal rules on the separation of powers.

Another source who didn't want to be named said that the FRC was set up under the recommendation of the so-called 'Big Four' accountancy firms (PWC, Deloitte, EY and KPMG). They say it's like a prison camp being set up by the prisoners and once in a while they ask the guards to beat them up so it looks a lot tougher than it really is.

WHAT CAN BE DONE?

With the current system, there's a huge conflict of interest as the management of a company appoints the auditors and determines their fee. Yet the auditor is supposed to be independently checking management figures. There are ways to resolve this.

- Let the shareholders appoint the auditors and the director that deals with them without interference from the company.
- Have the fee approved by shareholders.
- Have the auditor appointed by a third party, combine the task with tax inspection and have a government approved panel of auditors paid for by a levy on all companies as part of a registration fee for owning a company.



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