STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 19 / ISSUE 25 / 29 JUNE 2017 / £4.49

SHARES

WE MAKE INVESTING EASIER

HOW TO GET EXPOSURE TO THE BOOMING EUROZONE

WE REVEAL WHY DOMINO'S PIZZA SHARES ARE DOWN 10% IN A WEEK

WHY DO PLATFORMS LIST DIFFERENT VERSIONS OF THE SAME FUND?

FAMILY *fortunes*

Why family-owned companies can be superior investments

BUMPER EDITION: *MINING, OIL AND GAS 'SPOTLIGHT' REPORT INSIDE*

Taken over yet remaining on the stock market

Hornby could be a rare example of a bid target which doesn't delist

Most takeover offers require shareholders to give up their partial ownership of a company in exchange for cash or shares in the acquirer.

Only in the rarest of occasions does the acquired business remain on the stock market and investors who didn't accept the takeover offer continue to hold the shares in their portfolio. It's quite an odd situation and one we believe will soon happen to toy maker **Hornby (HRN)**.

HORNBY LIKELY TO STAY LISTED

Phoenix Asset Management has become a 55.2% shareholder in Hornby after buying a 20.9% stake from activist investor New Pistoia Income.

Under takeover rules, an individual investor going beyond 29.9% ownership of a business must make an offer for the whole company. That's why Phoenix how now offered to pay 32.375p per share for the remainder of Hornby it doesn't already own, a mere 3.6% premium to the share price on the night before the news.

WILL INVESTORS ACCEPT THE OFFER?

Hornby's board says the offer price 'significantly undervalues' the business and its future prospects. While it might be correct, you have to look at the situation from three viewpoints.

Firstly, Hornby has been a disappointing investment for many shareholders, as evidenced by a 65% share price decline over the past two years, according to data from SharePad.

Phoenix's proposal might act as a reminder to long-suffering investors that they hold Hornby in their portfolio and accepting the offer is an easy way to get out.

Secondly, some investors may be uncomfortable at having a single shareholder own more than half the business, so they might get out.

Thirdly, Phoenix plans to transfer the shares to one of its managed funds, being **Aurora Investment Trust (ARR)**. Do you actually think that investment collective wants to own a whole company? I doubt it. The bid was forced upon Phoenix for technical reasons and not out of desire, in our opinion.

I view Phoenix/Aurora as an investor which wants to help Hornby's management to repair the business – and ultimately profit from the share price re-rating that could accompany a successful turnaround.

That is no doubt why it says it wants to maintain Hornby's AIM listing. Phoenix believes Hornby would 'benefit from the access to capital and increased profile and transparency that an AIM listing provides'.

I'm sure the other major shareholders would prefer an ongoing listing so they've got exposure to a liquid market and can exit once the turnaround plays out. These include asset managers Ruffer (13.19%), Downing (6.54%) and Artemis (3.55%).

Indeed, Downing fund manager Judith MacKenzie told me in April that Hornby's turnaround could take another three to five years to be realised – so it is hard to see her wanting to sell now in the absence of a generous bid premium.

WHO ELSE HAS BEEN 'TAKEN OVER' AND IS STILL LISTED?

Equatorial Palm Oil (PAL:AIM) is example of an AIM-quoted company which has stayed on the stock market, despite one of its shareholders having been forced to make a takeover offer.

Malaysian plantations group KLK provided growth finance to Equatorial Palm Oil in 2013 and the structure of the deal saw the partner lift its shareholding from 20.1% to 54.8%.

KLK made an offer to buy the rest of the business but only 8.4% of investors said 'yes'. As a result Equatorial Palm Oil continues to trade on the stock market as normal albeit with a dominant shareholder which has since gone to 62.86% ownership. (DC)

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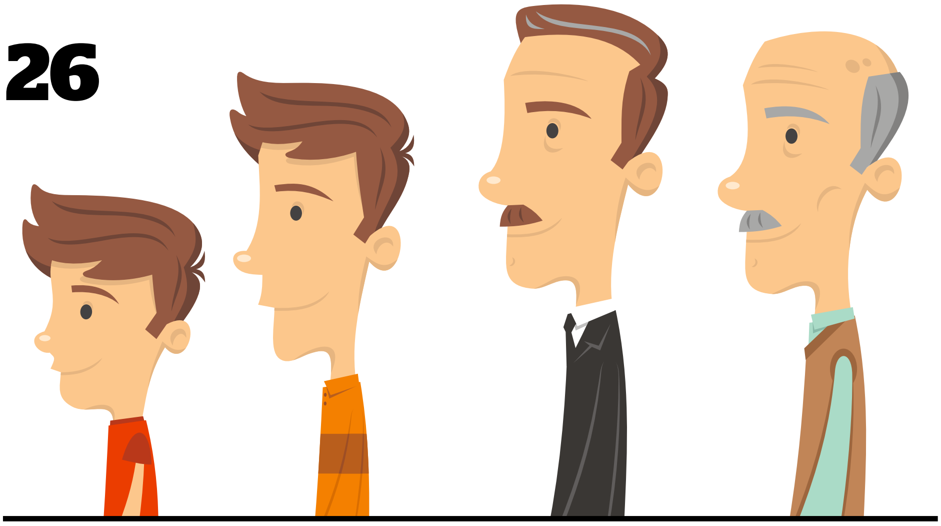

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BROKER RATINGS EXPLAINED:

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.

How to get exposure to the booming Eurozone

Consumer and business confidence provide a boost for European stocks

Eurozone consumer confidence in June reached its highest level for 16 years, suggesting growth in the economic area could be accelerating sharply.

A flash reading on consumer confidence from the European Commission came in at -1.3 in June versus -3.3 for May.

Unemployment is at its lowest level since 2009 and the latest German Ifo Business Climate index, which has a good track record of predicting the future trajectory of Europe's largest economy, returned its most bullish reading since 1991.

The index rose to 115.1 in June from 114.6 in May and against consensus expectations for a dip to 114.5.

In a statement Ifo president Clement Fuest described sentiment among German businesses as 'jubilant'.

Concern about the threat from populist politicians has receded since Emmanuel Macron's convincing defeat of far-right opponent Marine Le Pen in France and there now appears little concern about the German federal election on 24 September 2017.

Eurozone consumer confidence at 16-year high

Investors looking to tap into this improving picture have several options. There are some exchange-traded funds which provide targeted exposure to the consumer discretionary names which are the most direct beneficiaries of increased consumer confidence.

For example, **SPDR MSCI Europe Consumer Discretionary (CDIS)** offers exposure to names like Daimler, Adidas and Volkswagen, although it is worth noting circa 23% of the fund is invested in UK stocks.

Many funds with a European focus include UK stocks in their portfolio. If you don't want UK exposure then **Henderson EuroTrust (HNE)** is a good example of a pure play on mainland Europe.

German federal election takes place on 24 September 2017

Managed by Tim Stevenson for more than 20 years, the investment trust has a good track record of beating its benchmark and delivering dividend growth. It has delivered 158% total return over the past decade, according to data from SharePad.

Its holdings include the operator of the Channel Tunnel, Groupe Eurotunnel and delivery service Deutsche Post.

Read our recent article on Europe-focused open-ended funds if you prefer unit trusts and Oeics to investment trusts and want some ideas.

Risks to the positive backdrop include the timing of the European Central Bank's scaling back of financial stimulus and a better than expected showing for populist parties in German elections. (TS)

EUROPE-FOCUSED INVESTMENT TRUSTS

Name	Total return over past 10 years
Jupiter European Opportunities Trust	245%
Henderson European Focus Trust	159%
Henderson EuroTrust	158%
BlackRock Greater Europe Investment Trust	107%
JPMorgan European Investment Trust (Income)	101%
Fidelity European Values	93%
European Investment Trust	33%
JPMorgan European Investment Trust (Growth)	31%

Source: SharePad as of 6 June 2017

DISCLOSURE: Daniel Coatsworth, who edited this article, owns shares in Henderson EuroTrust.

Why Domino's shares are down 10% in a week

Two analyst research notes paint a worrying picture for the fast food seller

Shares in **Domino's Pizza (DOM)** have fallen by nearly 10% to 286.5p over the past week as two analyst research notes have expressed concerns about rising competition, increased price discounting, new stores cannibalising existing sites and a weak consumer backdrop.

These factors could put pressure on franchisees' like-for-like sales, says investment bank Investec which believes the shares could fall further to 271p. It says rising food and labour costs could squeeze profit margins which in turn could reduce the number of new store openings.

WHAT ARE THE OTHER CONCERNS?

Investment bank Berenberg believes Domino's no longer has superior technology as rivals have played catch up. Competitors such as Deliveroo and UberEATS use GPS tracking so customers (and restaurants) can see the exact location of the delivery driver.

Even more worrying is the fact that two franchisees accounted for 42% of Domino's UK and Ireland revenue in 2016, according to Berenberg, owning circa 400 stores. It says cost pressures may affect franchisees' ability and willingness to put money into local marketing and bundled food deals.

'If franchisees are unable or unwilling to put the same level of resources into these areas then it would likely have a materially negative impact on sales,' says Berenberg.

We flagged competition and store cannibalisation issues with Domino's in the 20 October 2016 issue of *Shares*. The majority of its new store openings last year were created by opening sites in existing trading areas rather than expanding into new geographic territories. You will see this referred to as 'splitting' in its financial results.

'Domino's recently quantified the impact of store splits on like-for-like sales, with store splits cannibalising the existing estate and reducing like-for-likes sales by 2.4% in the 2016 financial year,' says Investec.

GROSS MARGIN FEARS

Aggressive discounting by rival operator Pizza Hut has prompted Domino's to introduce two new cheaper bundle deals, according to Investec.

It is selling any two pizzas for £20, which is a 50% discount compared to the price if you bought two large pepperoni pizzas individually from one of its London stores. The same 50% discount is found with the other bundle, being a £24 pizza, sides and drink deal.

Discounted bundle deals represent 80% of Domino's sales, so the latest price cuts will have a meaningful (negative) impact on gross margins – particularly if customers get used to the lower pricing structure and order less often when Domino's eventually tries to push prices back up.

SHARES SAYS: ↘

We agree with the analysts' concerns and believe the shares could remain weak for some time. Avoid for now. (DC)

BROKER SAYS 5 6 1

Iomart shock as it reveals major acquisition talks

Scale of deal would be a departure but market remains sceptical

IT hosting and managed services company **Iomart (IOM:AIM)** is in talks to buy German managed hosting company PlusServer. The target is reportedly an unwanted part of the Host Europe business acquired by US websites business GoDaddy earlier this year.

The move has surprised investors but left some market experts sceptical. Securing the takeover of PlusServer would be a significant departure for the UK company in terms of target scale. According to analysts, PlusServer made $92m (£72m) revenue and $42m (£33m) earnings before interest, tax, depreciation and amortisation versus the £89.6m and £36.6m reported by Iomart for the year to 31 March 2017. A takeover would likely cost in excess of £400m, versus Iomart's current £360m enterprise value.

Iomart's largest acquisition to date was BackUp Technology in October 2013 for £21.5m. Buying PlusServer would require a large equity fund raise, in our opinion.

A deal would also fly in the face of industry observations 'that there is enough opportunity in the UK for both organic and acquisition growth without having to take the risk of new geographic markets,' says Philip Carse of IT consultant Megabuyte.

Negotiations remain at an early stage and no guarantees are offered, but a PlusServer acquisition by Iomart would be ironic. PlusServer's former parent Host Europe attempted to purchase Iomart three years ago, making offers of 275p and then 285p per share. Both were swiftly rebuffed by Iomart management. (SF)

Energy u-turn

ANALYSTS AT INVESTMENT bank Berenberg have called a potential Government u-turn on energy supply price caps a 'cop-out.' The analysts now think the Conservatives might replace an energy price cap that was promised in the party's manifesto with a consultation on prices, less than a year after a two year industry investigation by the Competition and Markets Authority. (SF)

Disappointment in store from Debenhams

STRUCTURALLY CHALLENGED department store **Debenhams (DEB)** says full year profit before tax could be towards the lower end of the forecast range 'should current market volatility continue'. The high street bellwether has seen a weaker clothing market in the second half of the year. Chief executive Sergio Bucher, seeking to turn Debenhams into 'the destination for social shopping', insists Debenhams' beauty, accessories, food and drink lines have helped to mitigate the impact. (JC)

Film finance play comes to AIM

FFI HOLDINGS is set to join AIM on 30 June, raising £59m and valued at £236m. Founded in London in 1950 and now headquartered in Los Angeles, the company provides the financiers of films and TV shows with so-called completion contracts. These stipulate productions will be completed on time and on budget. Since 2008 the company has unlocked funding for 1,700 productions with a gross budget of more than $17bn. (TS)

THE SEARCH FOR VALUE AND ATTRACTIVE YIELD

Henry Dixon - Portfolio Manager
Man GLG UK Income Fund
& Man GLG Undervalued Assets Fund

While the current yield attractions of equities have rarely been so strong relative to bonds it is undoubtedly right that a significant amount of commentary is currently devoted to record levels of net debt within the market and shrinking dividend cover.

In aggregate this is impossible to refute but we note just how concentrated the majority of debt is within the UK market with just four sectors accounting for over half of the debt. This means that through an active approach and with a focus on net cash balance sheets and superior free cash flow yields it is possible to construct a portfolio that's dividend not only looks sustainable but could also display growth ahead of expectations. The latter point here is an important one as the market handsomely rewards those companies that beat expectations. Be it Brexit, fears around China or mixed messages out of America we are seemingly permanently engulfed in a state of fear and concern. This is of course unnerving at times but crucially it does set the bar low when it comes to financial forecasts. Our focus is therefore on marrying low expectations with attractive valuations as this will be well rewarded in share price terms.

This approach invariably leads us to areas of the market that are out of favour but we are happy to adopt this if we can find the sanctity of net cash balance sheets. We also note just how buoyant and expensive the area of the market is that finds itself in favour. At this stage we do think it is important to acknowledge that the credibility of those that have argued for a more balanced level of bond yields and therefore bond proxies, as we have done, lies largely in tatters. However we are surprised just how front footed central banks have been this year, with the ECB particularly deserving of a mention. With recent rhetoric from almost all central bankers pointing to a more balanced approach in the future, and who knows perhaps even an interest rate rise, we think it right to be a little more circumspect at the prospect of unlimited liquidity further buoying the price of safe haven assets. Combine this with the recent political events in the UK perhaps calling time on austerity then the almost non-existent expectations for economic growth could well be challenged in the coming months. We are therefore concentrating on combining materially better balance sheets with more attractive valuations within the fund and we are confident that the trailing dividend yield of almost 5% could be grown at least in line with inflation.

Man GLG UK Income Fund:
Henry Dixon took over the management of the Man GLG UK Income fund in November 2013.

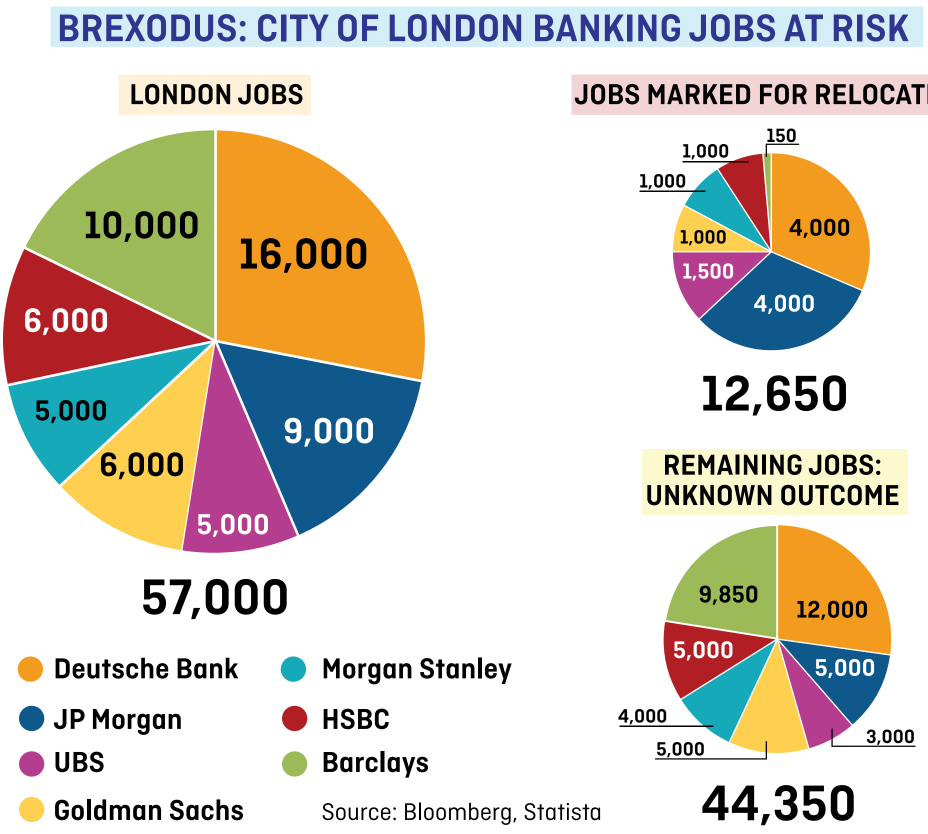
Discrete performance	31/05/16 - 31/05/17	29/05/15 - 31/05/16	30/05/14 - 29/05/15	31/05/13 - 30/05/14	31/05/12 - 31/05/13
Man GLG UK Income	21.95	-1.36	14.12	14.23	29.88
IA Equity Income Sector	18.86	-4.24	10.68	12.26	30.31
Quartile Rank	1	1	1	2	3

Data shown is for the GBP Professional C share class and is net of fees. Past performance is not indicative of future results. Returns may increase or decrease as a result of currency fluctuations

LONDON'S SHRINKING BANK INDUSTRY

THERE IS GROWING speculation that major financial institutions could migrate thousands of jobs away from London as a result of Brexit.

The exact details are still evolving but analysis by *Bloomberg* suggests Deutsche Bank has already marked one quarter of its 16,000 UK workforce for relocation. JP Morgan and UBS are also among the banks expected to shift a considerable number of jobs to new locations.



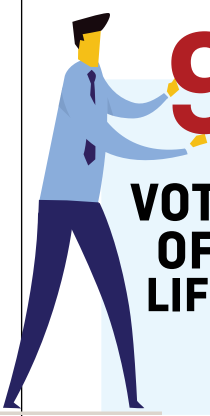
150m HURRICANE BLOWS CRYSTAL AMBER DOWN

CRYSTAL AMBER (CRS:AIM), the investment group run by veteran Richard Bernstein, has 150m shares in UK oil company **Hurricane Energy (HUR:AIM)**, representing its largest holding.

That's important because a 33% collapse in Hurricane's share price over the last three months has weighed on Crystal Amber's share price as well, down 8% over the same period.

The investor blames Hurricane for its 'poor handling' of a warrant issue in May and comments at the June AGM about funding.

Hurricane's woes also reflect a recent fall in oil prices which likely undermine the market's faith in its ability to secure a development partner.



98.6% VOTE IN FAVOUR OF STANDARD LIFE/ABERDEEN MERGER

SHAREHOLDERS HAVE APPROVED the merger of **Standard Life (SL.)** with **Aberdeen Asset Management (ADN)** with 98.6% of votes in favour of the deal. The merger is scheduled to complete on 14 August and will make the combined entity the largest active manager in the UK.

The first corporate transaction post-merger could be the acquisition of life assurer Scottish Widows, according to reports.

$390BN

WIPED OFF GLOBAL DRUG SALES FORECASTS

RESEARCH GROUP EVALUATE Pharma has reduced its sales forecasts for worldwide prescription drugs for the first time in 10 years. It attributes pricing pressure and major products coming to the end of their patent life for the downgrade.

It has slashed $390bn from its forecasts for the period between 2017 and 2022 for a combined $5.4tn in sales.

Increased pressure from politicians and the public have seen drug makers reduce prices to make treatments more affordable.

70%

PETER HAMBRO HAS been ousted as chairman of gold miner **Petropavlovsk (POG)** 23 years after co-founding the company.

Nearly 70% of the votes at last week's annual general meeting were against the re-election of Hambro.

The business has regularly been criticised for having poor standards of corporate governance.

We've viewed the stock as a poor investment for some time due to the governance reasons, together with concerns about high levels of debt and peculiar acquisition activity.

WHICH FTSE 350 SHARES HAVE REWARDED SHAREHOLDERS THE MOST OVER PAST 5 YEARS?

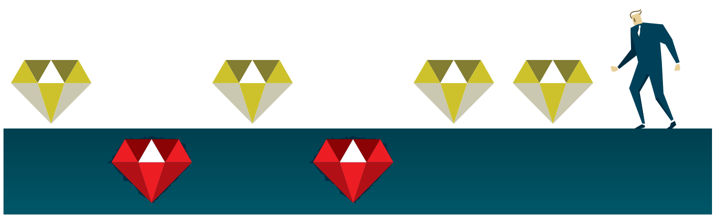
Stock	Total return*
Paysafe	1200%
JD Sports Fashion	1100%
NMC Health	1070%
Ashtead	551%
Smurfit Kappa	550%
Thomas Cook	531%
GVC	502%
3i	443%
UDG Healthcare	434%
Melrose Industries	429%

Source: SharePad. Data to 23 June 2017.
*Total return takes into account change in share price and dividend payments

WHICH FTSE 350 SHARES HAVE LOST SHAREHOLDERS THE MOST MONEY OVER PAST 5 YEARS?

Stock	Total return*
Tullow Oil	-86%
Serco	-69%
Petrofac	-53%
Aggreko	-48%
Anglo American	-44%
Tesco	-37%
Amec Foster Wheeler	-34%
Cairn Energy	-33%
Standard Chartered	-32%
Hochschild Mining	-30%

Source: SharePad. Data to 23 June 2017.
*Total return takes into account change in share price and dividend payments



Get in quick with this small cap investor

Analyst believes Gresham House Strategic won't stay cheap for long

Want to get paid while someone else does the hard work? If so, take a look at **Gresham House Strategic (GHS:AIM)**, an investment company with a difference.

It focuses on smaller firms and takes large concentrated bets on stocks. It presently owns stakes in 11 companies and just under 40% of its portfolio is dedicated to a single company, being cloud communications software firm **IMImobile (IMO:AIM)**.

Fund manager Graham Bird has a vigorous selection process for his stocks and will often take months to get to know them before investing. 'There are significant inefficiencies in this part of the market and you can often find things that are wrongly priced,' says Bird.

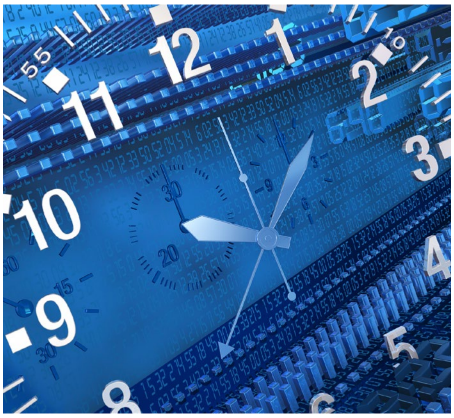
He categorises himself as an active investor, not an activist investor. Bird says he will engage with a company and offer corporate advice to which smaller players often are not privy compared to their FTSE 100 peers.

'The manager aims for a considerably higher level of engagement with investee company stakeholders aiming to benefit from market pricing inefficiencies and support a clear value creation plan, targeting above market returns over time,' says Jeremy Grime, an analyst at stockbroker FinnCap.

'As profits are realised, 50% of crystallised profits are returned to shareholders.'

GRESHAM HOUSE STRATEGIC BUY
(GHS) 910p
Stop loss: 637p

Market value: £34.7m



MAKING CONSIDERABLE PROGRESS

Gresham House Strategic's recent full year results (published 9 June) showed a 7.6% increase in net asset value over the 12 month period to 31 March 2017 and a maiden dividend of 15p per share. It ended the year with circa £13m cash.

Its shares trade at a 21% discount to its net asset value of £11.55. That assumes 1.1m shares in IMImobile will be sold to two other Gresham House vehicles at 193.5p per share as part of a rebalancing exercise, expected to happen by the end of 2017.

TOP HOLDINGS IN GRESHAM'S INVESTMENT PORTFOLIO

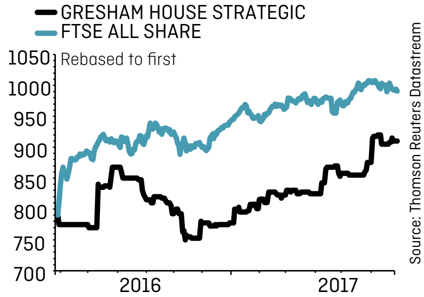
COMPANY	% OF PORTFOLIO
IMImobile	39.9%
Northbridge	7.7%
Be Heard	7.4%
Miton	5.3%
Quarto	5.1%
Space and People	2.7%
MJ Hudson	2.3%
Escape Hunt	2.3%

Source: Gresham House Strategic full year results (9 June 2017)

Grime at FinnCap believes the discount to net asset value will move to a premium once IMImobile becomes less dominant in the portfolio.

'At a time when the small cap market is reaching an all-time high, it seems anomalous that a small cap value fund should trade at a discount to net asset value,' adds Grime. 'The company has a strong pipeline of new investment opportunities and we expect the cash to reduce.' (DS)

BROKER SAYS: 1 0 0



EMERGING MARKETS ARE BACK IN VOGUE

Emerging markets stocks have attracted attention in recent months for all the right reasons, but many investors are still missing out. Emerging markets equities have performed strongly since 2016, but they remain at a 30% discount to developed markets equities, which include US, UK and European stocks. We think this discount provides a good entry point for investors, as emerging markets stock prices look set to continue to rise, closing the gap with other global stock markets.

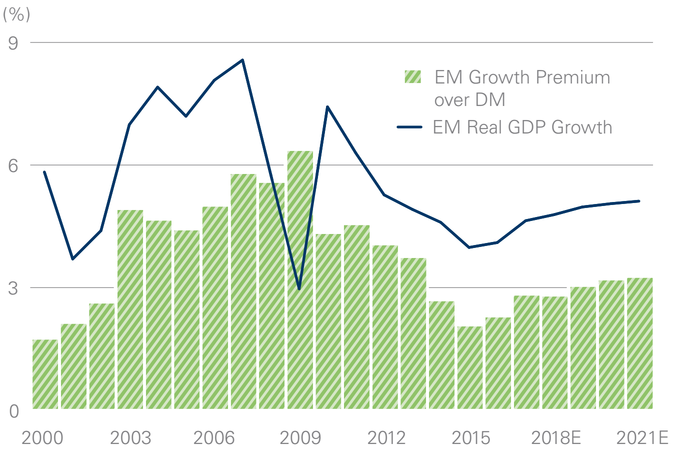
Not just flavour of the month

We believe the following factors could help emerging markets stocks to rise further over the long term:

- Emerging markets equities are significantly cheaper compared to developed markets
- Emerging economies are growing faster than developed countries
- The earnings potential of emerging markets companies is also expected to strengthen going forward as the economic picture brightens
- Political uncertainty in emerging markets has eased relative to developed regions
- Population trends and the rising spending power of consumers in emerging countries are also supportive

A tremendous growth opportunity

The pick-up in emerging markets growth is expected to continue and, with it, corporate profitability



As of 12 April 2016

Data: GDP (constant prices, p.a. % change). Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change.

Source: Haver Analytics, IMF

Why Lazard Asset Management for Emerging Markets Opportunities

The Lazard Emerging Markets Fund invests in emerging markets stocks that we believe are undervalued i.e. those trading relatively cheaply despite the strong business models and profits of the underlying companies that issue the stock.

Lazard's Emerging Markets Fund

- We analyse companies and try to identify ones that are trading cheaply despite showing high and stable levels of profitability or the potential for a sustained improvement
- This approach has consistently allowed us to participate in market rallies, but also to defend well in market downturns, given that we seek to only invest in stocks that we feel are in a strong position to weather a range of market conditions
- We closely monitor economic, political and company-specific risk factors when making investment decisions, and consider environmental, social and governance issues too—as these can affect the long-term profitability of companies
- Lazard's Global Risk Management team—which operates independently from the investment team—also helps to ensure that the Fund is adequately diversified

Lazard's Emerging Markets Team

- Lazard has over 20 years' experience investing in emerging markets
- More than 70 investment professionals from 19 different countries speaking 20 different languages
- Research support from Lazard's global sector analysts and portfolio managers

We believe our approach, long track record, experienced investment team and strong risk controls equip us to identify the most rewarding growth opportunities in emerging markets.

To find out more about the Lazard Emerging Markets Fund please visit lazardassetmanagement.co.uk

LAZARD
ASSET MANAGEMENT

Hitch a lift with Eddie Stobart

The logistics organisation's strategy is expected to see earnings motor

We reckon **Eddie Stobart Logistics' (ESL:AIM)** growth plans could prove very rewarding for shareholders.

Floating on the stock market in April, the company has already communicated a clear growth strategy which involves focusing on existing and new contracts, as well as e-commerce services.

According to Edison analyst Jamie Aitkenhead, existing contracts accounted for 67% of the company's sales in 2016.

It achieved 8% organic growth in its last financial year, significantly higher than the 2.5% market growth in the UK logistics sector estimated by Cenkos.

YOU'VE HEARD THE NAME BUT WHAT DOES IT DO?

Initially founded by Edward Stobart in 1970, the company transports cargo for retailers and the e-commerce sector, and operates storage facilities across the UK.

The company also operates a fleet of specialist equipment to carry loads for businesses in the manufacturing and industrial sectors.

Former parent company **Stobart Group (STOB)** sold 51% of its transportation and distribution division to private equity vehicle Greenwhitestar.

That business is now what's called Eddie Stobart Logistics which has reappeared on the stock market as a standalone entity.

Stobart Group retains a 12.5% stake, while Greenwhitestar has reduced its position to 15%.

EDDIE STOBART LOGISTICS
BUY
(ESL:AIM) 158.5p
Stop loss: 126.8p

Market value: £567.3m

THE SHARES ARE UNDERVALUED

Aitkenhead is optimistic about Eddie Stobart's prospects, forecasting earnings before interest and tax will grow at compound annual growth rate of 15.3% over the next three years.

He believes this will be underpinned by new contracts, a growing e-commerce sector and solid underlying market growth.

Eddie Stobart currently trades on an undemanding forecast price-to-earnings (PE) ratio of 12.8 for the year to November 2018, which is a discount to 19.8 for its peer group according to Edison.

It is also anticipated to have a 3.5% dividend yield this year, considerably higher than the sector average of 1.1% quoted by Edison.

M&A OPPORTUNITIES IN FRAGMENTED MARKET

Eddie Stobart is playing into a structural shift within retail in the UK from physical shops to e-commerce – selling and buying products online.

The fragmented UK market also presents an opportunity for Eddie Stobart to build its business through mergers and acquisitions in the manufacturing, bulk and e-commerce sectors.

One of the risks is Brexit negotiations as stringent regulations could affect the movement of goods between the UK and EU although chief executive Alex Laffey is confident a solution will be found.

Other potential headwinds include a potential crackdown by the UK to tackle dangerous levels of pollution thanks to pressure from the EU.

Fortunately, approximately 95% of Eddie Stobart's lorries are eco-friendly and comply with the highest expectations from the European Standards system. (LMJ)

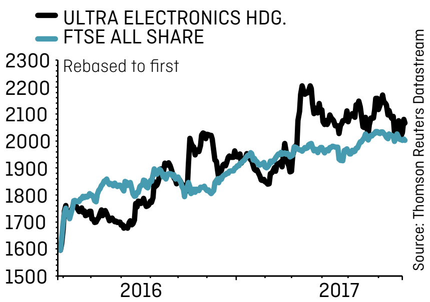
ULTRA ELECTRONICS
(ULE) £20.83

Loss to date: 3.4%
Original entry point:
Buy at £20.83, 11 May 2017

UK-BASED DEFENCE COMPANY **Ultra Electronics (ULE)** has announced (26 Jun) that it is in advanced talks to acquire Sparton, its partner in a major joint venture. The two companies are the sole supplier for the US Navy's sonobuoys, used in anti-submarine warfare.

Rami Myerson, an analyst at Investec, expects Ultra's wider underwater warfare offering that includes torpedo defence and sonars to be one of its fastest growing in the coming years. He says this is due to 'the proliferation of submarines and increasing geopolitical tensions'.

While the deal with Sparton should help Ultra increase its share in a growing market, the limited financial details regarding the deal has meant that Myerson cannot upgrade his forecasts. However, with the US Congress finally passing the budget in May with an increased military spend, Ultra has been seeing improving order uptake in general.



SHARES SAYS:
Keep buying Ultra. (DS)

BROKER SAYS: 5 4 0

NORTHGATE
(NTG) 446p

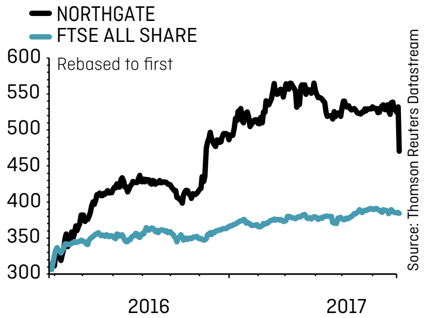
Gain to date: 8.5%
Original entry point:
Buy at 411p, 24 November 2016

DON'T PANIC FOLLOWING news of weakness in **Northgate's (NTG)** UK operations (27 June). We are encouraged by the new CEO taking immediate action to identify problems in the business and come up with a plan to fix them.

Full year results for the year to 30 April 2017 were below expectations with £75m pre-tax profit versus c£80m forecast by analysts.

Fortunately, the van hire group says its Spanish business continues to trade well and it expects to grow the number of vehicles on hire over the course of the new financial year.

The share price fell 16% on the results, not helped by analysts downgrading earnings per share forecasts by 10% to 11% for the next two years.



SHARES SAYS:
We're naturally disappointed by the outcome, but believe it is worth persevering with the shares.

We originally selected Northgate in the belief that activist investor Crystal Amber would put pressure on the business to either break itself up, potentially selling the Spanish arm, or do something else that could generate value for shareholders. That investment rationale still has merit today. (DC)

BROKER SAYS: 5 0 1

Can you profit from a fund with a social conscience?

New investment trust outlines strategy for generating 8% annual return

Anyone looking to help individuals and communities to have a better life may initially think of donating to charity or using a crowdfunding platform like GoFundMe. You hand over your money and get back the good feeling that you've helped a noble cause.

A new investment trust is hoping to offer a route by which philanthropic individuals can use their cash to help parts of the world *and* potentially enjoy a monetary gain.

Impact Investment Trust is seeking to raise $150m to invest in 10 to 15 funds, each likely to contain approximately 12 small to medium sized companies providing goods and services that could help communities in developing countries. Target sectors include education, healthcare, agribusiness and financial services.

HOW MUCH COULD YOU MAKE?

It hopes to generate 8% annual return for investors once the IPO (initial public offering) money is fully invested, which we're told could take between 12 and 18 months. Investors will be charged a 1.25% annual fee.

The investment trust will park the cash in fixed-income impact investing bonds as a short-term measure before it decides which funds to back.

Retail investors will get a chance to take part in the IPO offer. Many of the major stockbrokers and investment platform providers are accepting applications via their websites.

PROVEN EXPERTISE

The trust is being advised by Obviam which has been investing in impact funds for the past 19 years and even manages the Swiss government's development finance portfolio.

Obviam's chief executive Claude Barras says he expects most of the companies within the underlying Impact Investment Trust portfolio will be generating revenue and profit.

'The funds within the Impact portfolio provide growth capital to companies, potentially making them acquisition targets for regional players in the future,' he adds.

Barras gives the example of a firm which would be ideal for the new portfolio, being Ugandan pharmaceutical company APDL. 'Uganda imports 90% of its drugs. APDL has managed to produce drugs locally which are sold for 30% cheaper than imports and the business is creating lots of jobs. That has a clear social impact.'

He anticipates the investment trust's portfolio's geographic exposure will be split into 40% Africa, 40% Asia and 20% in Latin America.

Impact won't be the only one of its kind for long. **The People's Trust** is expected to join the London stock market in September with a strategy of investing in a way that benefits society and investors with a targeted 7% annual return. (DC)

WEEK AHEAD

FRIDAY 30 JUNE

FINALS	
TLA WORLDWIDE	TLA
AGMS	
ALECTO MINERALS	ALO
AUCTUS GROWTH	AUCT
BRACK CAPITAL REAL ESTATE INVESTMENTS	BCRE
BARON OIL	BOIL
COGENPOWER	CGP
FASTJET	FJET
HAGUE AND LONDON OIL	HNL
IMMUPHARMA	IMM
JKX OIL & GAS	JKX
LONDON CAPITAL GROUP	LCG
NOSTRA TERRA OIL & GAS	NTOG
ECONOMICS	
UK	
GFK CONSUMER CONFIDENCE	
FINAL GDP	

MONDAY 3 JULY

FINALS	
MERCIA TECHNOLOGIES	MERC
PLASTICS CAPITAL	PLA
AGMS	
ASEANA PROPERTIES	ASPL
ECONOMICS	
UK	
MANUFACTURING PMI	

TUESDAY 4 JULY

FINALS	
IMAGINATION TECHNOLOGIES	IMG

IT systems and applications testing business **SQS Software Quality Systems (SQS:AIM)** saw limited organic revenue growth last year and battled pressure on its managed services business.

Some of that can be blamed on a lack of customer commitment to new contracts. Past three to five year commitments look like becoming one or two year deals going forward. We'll find our more at its trading update on 3 July.

Cash and carry and foodservice provider **Booker's (BOK)** takeover by **Tesco (TSCO)** is being pored over by the UK Competition & Markets Authority (CMA).

As such, Booker's investment thesis is all about the merger, though the forthcoming first quarter trading update (5 Jul) gives the market a chance to check up on sales progress.

Full year results (18 May) revealed record sales and profit, despite tobacco legislation denting like-for-like tobacco revenues.

INTERIMS	
RPS GROUP	RPS
ST MODWEN PROPERTIES	SMP
AGMS	
VELTYCO	VLTY
ECONOMICS	
UK	
CONSTRUCTION PMI	

WEDNESDAY 5 JULY

TRADING STATEMENTS	
BOOKER	BOK
AGMS	
CHALLENGER ACQUISITIONS	CHAL
DODS	DODS
GRESHAM HOUSE STRATEGIC	GHS
SAINSBURY'S	SBRY
ECONOMICS	
UK	
BRC SHOP PRICE INDEX	
SERVICES PMI	

THURSDAY 6 JULY

AGMS		
ELEKTRON	EKT	
MCKAY SECURITIES	MCKS	
TWENTYFOUR SELECT MONTHLY INCOME FUND	SMIF	
EX-DIVIDEND		
AMATI VCT	ATI	2.5P
AVEVA	AVV	27P
BISICHI MINING	BISI	3P
BP	BP.A	4P

Investors will be looking for the 5 July trading update from housebuilder **Persimmon (PSON)** to match the positive momentum seen by many of its peers of late.

Key metrics to watch include the volume of completions, forward sales and the average selling price of its homes. Also watch out for any signs of cost inflation.

BURBERRY	BRBY	28.4P
N BROWN	BWNG	8.56P
CAFFYNS	CFYN	15P
CALEDONIA INVESTMENTS	CLDN	100P
CALEDONIA INVESTMENTS	CLDN	39.9P
CHARACTER GROUP	CCT	9P
DAIRY CREST	DCG	16.3P
ENTERTAINMENT ONE	ETO	1.3P
EUROPEAN INVESTMENT TRUST	EUT	1.5P
EUROPEAN INVESTMENT TRUST	EUT	8P
HIBERNIA REIT	HBRN	€0.01
HOMESERVE	HSV	11.2P
IMPELLAM	IPEL	13.5P
PETRO MATAD	MATD	$2.35
MURRAY INTERNATIONAL TRUST	MYI	11P
NEXT	NXT	45P
NEXT	NXT	105P
OCTOPUS AIM VCT	OOA	3P
PARAGON GROUP OF COMPANIES	PAG	4.7P
PALACE CAPITAL	PCA	9.5P
PENNON	PNN	24.87P
PANTHER SECURITIES	PNS	9P
SPEEDY HIRE	SDY	0.67P
SHIRES INCOME	SHRS	3.75P
STRIDE GAMING	STR	1.2P
TALKTALK	TALK	5P
UP GLOBAL SOURCING	UPGS	1.62P
WARPAINT LONDON	W7L	1.5P
WINCANTON	WIN	6.1P
WORKSPACE GROUP	WKP	14.27P
ZYTRONIC	ZYT	3.8P

Click here for complete diary

Franchise firm has tasty profit and dividend appeal

We explain how Filta makes money and reveal its growth opportunities

Franchise business **Filta (FLTA:AIM)** is an enticing investment proposition, in our opinion. It is a profitable business with low capital expenditure requirements, lots of repeat revenue and potential for decent dividend growth in the future.

The company floated on AIM in November 2016 at 83p and is the owner of FiltaFry, a business which cleans deep fryers and filters the oil used to cook food. Filta has operations in the US and UK and plans to expand into mainland Europe and Canada.

VERY BROAD CUSTOMER BASE

There is a misconception that Filta only has restaurant chains as customers. Chief executive Jason Sayers says these companies only account for one quarter of sales. The customer base is much broader, covering hotels, banks, tech firms, secondary schools, casinos, hospitals, universities and more.

One of the biggest markets for Filta is sports arenas and stadiums which are full of fryers due to the need to serve food to a large number of people as quickly as possible. 'Frying is a quick way of cooking food,' says chief executive Jason Sayers. 'There are 210 fryers alone in the new San Francisco 49ers stadium, for example.'

Filta provides cleaning services to many well-known sporting facilities including Wembley Stadium and Arsenal FC in the UK; and stadiums used by Denver Broncos and Cleveland Browns in the US.

Other customers include McDonald's, KFC, Burger King, Hilton, Holiday Inn, Pizza Hut, Microsoft, AT&T, Yale University, Cedars-Sinai hospital in Los Angeles, **Tesco (TSCO)**, **Sainsbury's (SBRY)** and **Mitchells & Butlers (MAB)**.

Being an approved vendor for some of the world's biggest catering groups including **Compass (CPG)** and Sodexo gives Filta an edge over its primary competition, according to Sayers. 'Our main rivals are local "man and a van" operators. It's hard for them to compete when they don't have national contracts like us.'

THERE IS A MISCONCEPTION THAT FILTA ONLY HAS RESTAURANT CHAINS AS CUSTOMERS. THE CUSTOMER BASE IS MUCH BROADER, COVERING HOTELS, BANKS, TECH FIRMS, SECONDARY SCHOOLS, CASINOS, HOSPITALS, UNIVERSITIES AND MORE

HELPING FRANCHISEES IN MANY WAYS

Filta spends a lot of time helping its franchisees to win new business, find new technicians and even undertaking some of the administration work.

'We want our franchisees to grow as our success is correlated to their success,' explains the CEO.

The company has 142 franchisees in the US and in the UK it has 40 franchisees and a direct network of 18 vans.

MULTIPLE SOURCES OF REVENUE

It earns revenue in a variety of ways. Franchisees in the US pay $85,000 to get going; of this amount, $35,000 is a territory fee to Filta which is cash up front but amortised over 10 years in the accounts where it appears as deferred income.

The remaining $50,000 pays for training, two weeks with a sales person from the parent group, a cleaning machine and kitting out a van.

The US start-up fees are much higher than the UK's £15,000 ($19,134) charge as the former territory has greater growth potential and is more likely to see multiple vans per franchisee, says Sayer.

Ongoing fees are derived from a variety of sources. In the US, franchisees pay $7,000 to rent a filtration and cleaning machine each year. Filta receives 15% margin on the sale of waste oil; $36 annual fee per FiltaCool Panel filter; and it takes a margin on supplies to franchisees including chemicals, oil, as well as charging an administration fee on national accounts.

SIGNIFICANT GROWTH OPPORTUNITIES

Growth will come from attracting new franchisees, existing franchisees doing more work and geographical expansion. Filta has various company-owned operations to aid franchisee's cross-selling efforts, including maintenance and the provision of new seals for refrigeration.

More recently, Filta has introduced a service called FiltaZyme whereby franchisees use fat-eating enzymes to clear drains, providing even more recurring revenue for the plc business.

'We saw an opportunity as existing customers already have a budget to clear drains. We introduced it earlier this year and so far eight out of 10 customers we've approached have taken up the service,' says Sayer. 'It will take two years to properly introduce the service across our estate.'

RISKS AND REWARDS

A key risk for the investment case is elevated health concerns about consuming deep fried food. The company says frying is a growing market, despite the increasing number of government and media initiatives to raise awareness of healthy eating.

There is also limited liquidity in the shares. Only 28.4% of the company is held in public hands. The Sayers family owns 49.6% of the business and has no intention of selling soon, according to Jason Sayers. Directors aren't allowed to sell any shares until November 2018 at the earliest.

The company raised £4.3m of new money at the IPO (initial public offering) and a further £1.9m went to executive director Victor Clewes who sold one third of his pre-IPO holding for personal reasons.

Broker Cenkos forecasts £2m pre-tax profit in 2017, rising to £2.5m in 2018. Gross margins are in the region of 45% and the business is expected to show a £4.6m net cash position at the end of the current year, rising to £5.8m a year later.

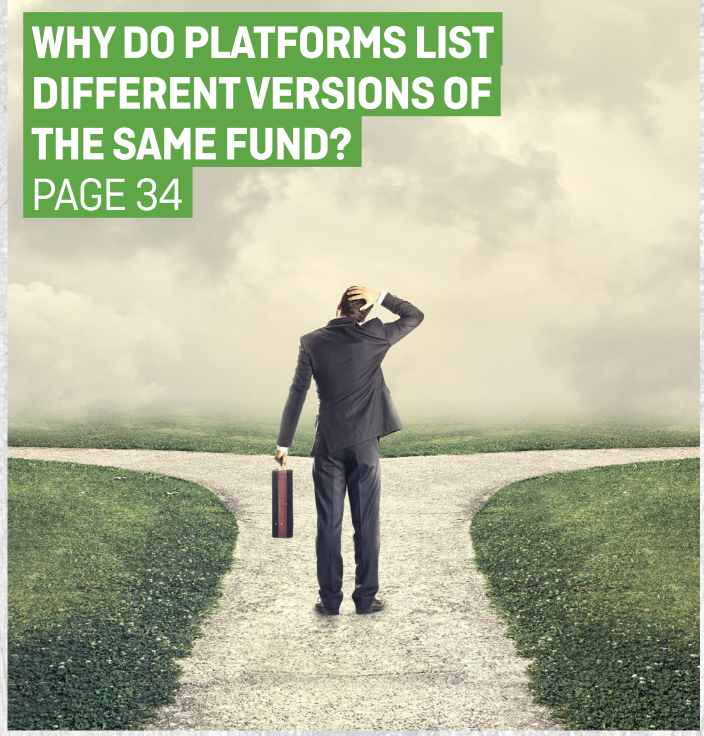
SHARES SAYS: ↗

Jason Sayers says he wants to build up Filta to be a £100m business, more than three times its current £31.5m value. We think that can be achieved. Buy at 117p. (DC)

BROKER SAYS: 1 0 0

KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY



WHY DO PLATFORMS LIST DIFFERENT VERSIONS OF THE SAME FUND?

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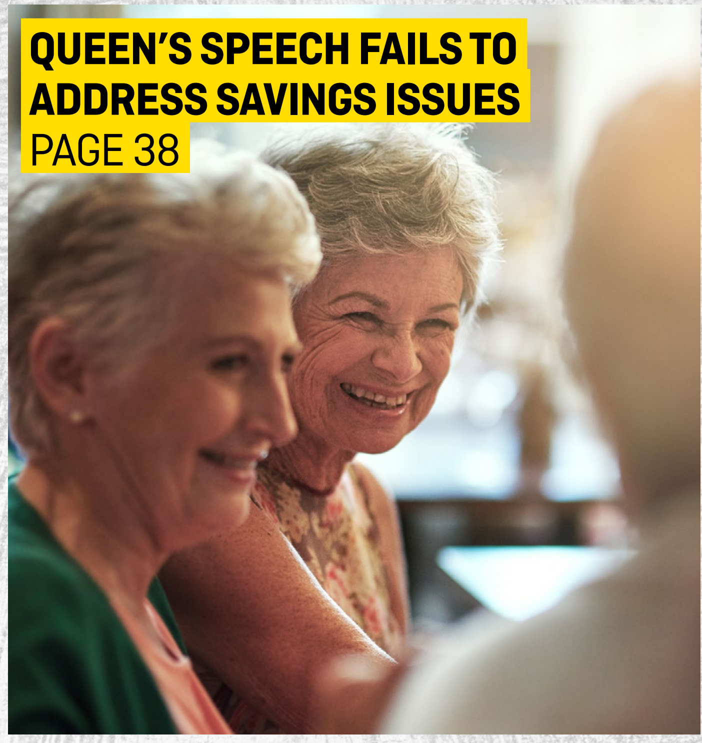

QUEEN'S SPEECH FAILS TO ADDRESS SAVINGS ISSUES

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FORTIFY YOUR DEFENCES WITH GAMES WORKSHOP

PAGE 42

SPOTLIGHT REPORT ON OIL, GAS AND MINING SHARES

PAGE 45

Funds to help portfolios blossom

Turning Japanese could help diversify portfolios and increase dividend income

LAND OF THE RISING STOCKS

The Japanese economy appears to be finally cranking back into growth mode after as 'Abenomics' and financial stimulus by the country's central bank take effect.

Reforms, introduced by prime minister Shinzo Abe, are matched by improving corporate governance and are broadly supportive of Japanese shares.

Companies are also flush with cash, meaning there's scope for material dividend growth and the market is cheap relative to other international markets. UK investors can gain Japanese exposure through a variety of funds.

VALUE ABOUNDS

In the Association of Investment Companies' (AIC) Japan sector, investors can choose from **JPMorgan Japanese (JFJ)**, **Aberdeen Japan (AJIT)** and the Andrew Rose-managed **Schroder Japan Growth (SJG)**, a trio of trusts trading at a discount to net asset value (NAV).

JPMorgan Japanese manager Nicholas Weindling summarises the bull case concisely: 'The long-term outlook is positive: government policy is supportive, steady global demand is a tailwind for the Japanese equity market, and companies are starting to emphasise increasing returns to shareholders. We continue to focus on structural growth areas such as factory automation, growing e-commerce, an ageing population, Japanese companies expanding in Asia and companies prioritising improving shareholder returns.'

Also standing at a discount to NAV within the AIC Japanese Smaller Companies sector is **Atlantis Japan Growth (AJG)**, offering exposure to Japanese small and mid-caps and whose long-term performance record under Taeko Setaishi makes it an interesting vehicle for investors, according to Stockdale Securities.

Trading at a 4.1% premium to NAV at the time of writing is **Baillie Gifford Japan (BGFD)**, the star performer steered since 1991 by Sarah Whitley. The trust pursues long-term capital growth through investments in medium to smaller sized Japanese companies which Whitley views as having above average growth prospects.

Active share of 86% versus the benchmark TOPIX index shows Whitley is prepared to go against the grain. Top 10 holdings include telecom operator-to-tech investor SoftBank, steered by billionaire Masayoshi Son, robotics and factory automation play Yaskawa Electric, internet advertising concern CyberAgent and baby care products play Pigeon.

Within the AIC Japanese Smaller Companies sector, **Baillie Gifford Shin Nippon (BGS)** has the stand-out 10 year share price total return at 14.3% on an annualised basis, according to Morningstar. Under manager Praveen Kumar, the trust invests in 40 to 75 attractively valued smaller companies offering good growth opportunities.

Kumar is excited about online fashion retailer Start Today, which has successfully fended off competition from the likes of Amazon and a host of smaller players to become Japan's leading multi-brand mall style website, a one-stop online shop for hundreds of fashion brands. 'We first bought the shares for Shin Nippon in early 2009. Since then, the share price has increased, but this does not mean that the growth story has run its course.'

Kumar argues Start Today's long-term growth opportunity remains underappreciated by the market. 'For one, we believe five years from now the number of people shopping for clothes online will be a lot higher than the market is currently envisaging. This means there is still a significant untapped growth opportunity that other investors are not factoring into their valuations.'

On the widest discount across both Japan sectors is **Fidelity Japanese Values (FJV)**, whose performance has picked up strongly since the appointment of GARP (growth at on a reasonable price) investor Nicholas Price as manager in September 2015.

BLOSSOMING INCOME

Japan is increasingly of interest as a dividend income market. Management behaviour and regulation has changed, supported by Abe, the Bank of Japan and the Japan Pension Association. Japan's excess cash flow is being returned to shareholders through dividends and share buybacks, while dividend cover is stronger overall than in major Western markets.

A great way to capture Japan's dividend opportunity is via the only dedicated Japanese equity income investment trust, namely **CC Japan Income & Growth (CCJI)**, a concentrated portfolio of 38 stocks managed by Coupland Cardiff Asset Management's Richard Aston.

'Our focus is on the shareholder return capabilities of the companies,' explains Aston, who says it is a high quality portfolio. 'We don't focus on value for value's sake and we don't want to get involved with value traps. The dividend culture in Japan is very much in its infancy but is gaining attention. There are a lot of companies with net cash on their balance sheets in Japan and dividend payers have outperformed over the last fifteen years.'

CC Japan income & Growth's top 10 holdings include Nippon Telegraph & Telephone, Japan's leading fixed line telephone operator offering stable and sustainable returns, tyre maker Bridgestone and semiconductor production equipment play Tokyo Electron. A small company position is Gakkyusha, an operator of cram schools in the Tokyo metropolitan area with the highest admission rates to secondary schools.

Structural gearing of 20% boosts the income generating capacity of the trust and Aston feels this is 'justified by the long term capital appreciation of the stocks which have demonstrated the characteristics of shareholder return we consider to be important.' (JC)

JAPAN IS INCREASINGLY OF INTEREST AS A DIVIDEND INCOME MARKET

FAMILY fortunes

We explain why family-run businesses are attractive and the stocks and funds to explore

By: Steven Frazer, Daniel Coatsworth, James Crux, Tom Sieber

Buy family-run businesses if you want to beat the market. It's a bold statement and credible one, according to various bits of research we'll discuss later.

Many of these studies categorise a family company as one where the family owns at least a 20% stake in the business and has at least one member on the board.

Global brands such as Heineken, Volkswagen, Mars, Novartis, L'Oreal, Estee Lauder and Canon are classed as family businesses of one stripe or another. Although none of those names are listed on the UK stock market, we have identified plenty of other good companies that are quoted on the London Stock Exchange. We'll get to those names in a bit.

One study discovered that family-run businesses (using the aforementioned 20%-plus stake and board representation rule) delivered compound annual returns of 13.6% versus 8.6% of non-family companies over a 10 year period.

Those findings sprang out of exhaustive research by Cristina Cruz Serrano and Laura Nuñez Letamendia of the IE Business School, which looked at almost 2,500 European stocks between 2001 and 2010.

'The study findings leave no room for doubt: listed European family businesses created more value for their shareholders during the period 2001-2010,' said the authors.

Even when examined for other factors that might affect value creation in all its aspects, such as size, debt level, risk and sectoral distribution, the results 'clearly point to the existence of a family effect which has a positive impact on creating long-term value for shareholders'.

WHY ARE MANY FAMILY-RUN FIRMS SO GOOD?

Fundamentally, the best family-owned firms are unlikely to make rash decisions. They want to ensure the business is around in 10, 50 or even 100 years' time so their children, grandchildren and so on will still have a future running a solid company.

Two years ago, Credit Suisse analysis of 920 public companies around the world found better share price performance by family-run companies had stemmed from outperformance in operational metrics.

Being patient is also likely to be a key trait among family firms. Analysts at investment bank Credit Suisse conducted a study into this area and found 40% of the first to fourth generation owners of family-owned businesses viewed their typical time horizon for the payback on a new investment to be between five to 10 years. That's much longer than most firms would desire.

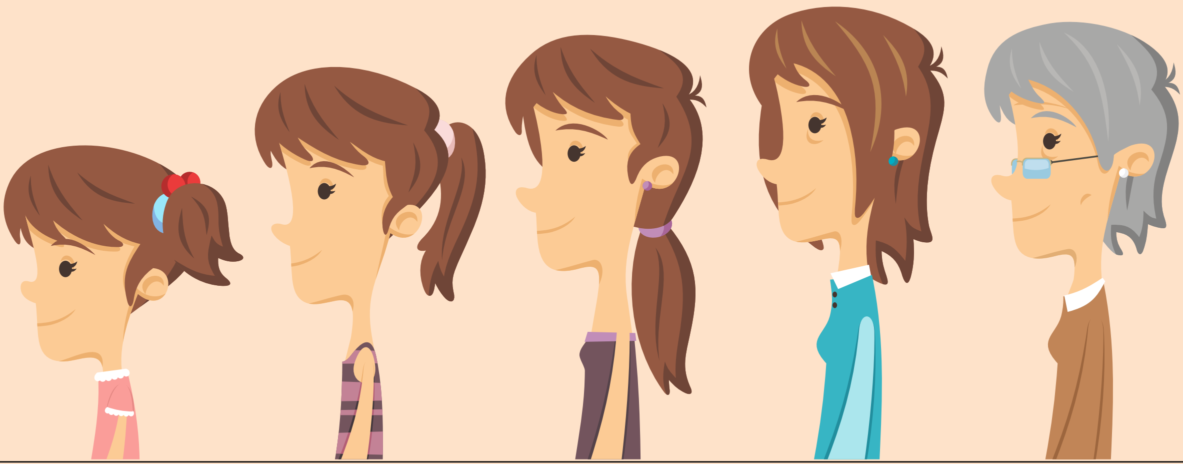
'Attitude towards risk appears to be an important factor in the long-term success of family-owned companies,' explains Glen Finegan, head of emerging market equities at Janus Henderson.

CLEAR EVIDENCE OF OUTPERFORMANCE

Mid cap and smaller companies controlled by one family significantly outperformed their peers in the 10 years to 2015, according to UBS.

It says family-owned mid cap businesses increased by 345% in value globally in this period. This far outpaced the global mid cap index during that time, which gained only 72%.

'A year later, we have updated our statistics – and they show that performance has also been favourable in the past 12 months. Family-owned companies are up 11% versus global indices up 5%,' UBS said in September 2016.



FOUNDERS ALONE DON'T COUNT

Global giants such as Google's parent company Alphabet, Facebook, or China's Alibaba could conceivably be called family-run, but we beg to differ.

Founders retain huge stakes in these businesses and are very hands-on with day-to-day operations, yet we believe a measure of generational handover is required to qualify. None of these companies have yet to pass on control to another family member.

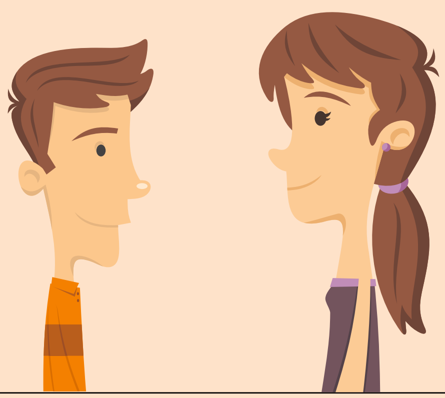
That goes for several UK-quoted companies where, for example, fashion chains **Supergroup (SGP)**, **French Connection (FCCN)** and **Ted Baker (TED)** are still run by the founders; Julian Dunkerton, Stephen Marks and Ray Kelvin respectively.

Metrology kit maker **Renishaw (RSW)** (36%-owned by chairman and CEO David McMurtry) and recently floated asset management software supplier **Alfa Financial (ALFA)** (68%-owned by founder and executive chairman Andrew Page) are also discounted for the same reason.

WHICH UK STOCKS DO QUALIFY?

Popular UK-quoted companies typically associated as family-run that have delivered for investors include LED lighting group **FW Thorpe (TFW:AIM)** (54% owned by the Thorpe family).

Other examples with a good track record of making money for shareholders include components maker **Dewhurst (DWHT:AIM)** (circa 50%-owned by the Dewhurst family) and **James Halstead (JHD:AIM)** (more than 30% owned by the Halstead family), the near-£1bn construction materials firm.



A £5,000 INVESTMENT 20 YEARS AGO IN EACH OF THESE FAMILY-CONTROLLED COMPANIES IS NOW WORTH:

STOCK	VALUE
FW Thorpe	£309,194
James Halstead	£222,557
Dewhurst	£100,663

Source: Shares, Thomson Reuters Datastream. Assumes all dividends reinvested.

It is important to understand that being a family-run business does NOT guarantee positive stock market performance.

For example, engineer **Goodwin (GDWN)** (48% owned by the Goodwin family) has seen its share price fall by nearly 22% over the past year. Similarly, car dealer **Caffyns (CFYN)** (about 25% owned by the Caffyn family) is down 9% in the past 12 months.

SIX FACTORS INFLUENCING SHARE PRICE SUCCESS AMONG MANY FAMILY RUN BUSINESSES

1. Higher profitability
2. Taking risks in the areas they know well
3. Disciplined capital allocation
4. Generation matters
5. Transparency is important
6. Better governance

Source: UBS

> IT IS IMPORTANT TO UNDERSTAND THAT BEING A FAMILY-RUN BUSINESS DOES NOT GUARANTEE POSITIVE STOCK MARKET PERFORMANCE.

WHAT ARE THE MAIN RISKS TO CONSIDER?

An IE Business School study notes higher liquidity risk in family-run firms – where freely trading stock may not always be possible.

Other potential pitfalls include excessive compensation, expropriation of assets and related party transactions, all examples of exploitative behaviour. These sorts of issues are often mitigated by a strong and independent board of directors.

Nepotism is another possible threat to family-controlled companies – keeping a level of control within a family probably should not be exercised to the detriment of a meritocratic workplace.

'While family ownership can help to align shareholders' interests with those of management, this should not be seen as a determinant of success,' believes Simon Rowe, manager of **Henderson European Growth Fund (GB0030617707)**. 'Of far greater importance is the business strategy and how this is applied.'

THE FUND MANAGER'S VIEW

'People treat their own money differently and they are more careful with their own money, for example, before an M&A deal or some other adventure,' says fund manager Richard Pease of CRUX Asset Management.

'The drawback can be when a fortune is passed down to children who are not as capable as the original entrepreneur or where the entrepreneur may be overly dominant or find it difficult to adapt to change. The latter factors can lead to difficulty in attracting new talent especially if there is a lack of delegation.

'An example of where family management backfired is SIKA, a Swiss company which produces specialty chemicals for the construction and automobile industries.

'The family has a share class with extra voting rights and controls the company despite a minority economic interest. There was a very public bust up as they tried to sell the company down the river to Saint-Gobain which is still a subject of litigation in the Swiss courts. This has been unsettling but in this case the management have been very helpful towards investors.

'For every SIKA example, there are examples where management own over half the company, for example AroundTown, and execute extremely well with a great deal of consideration for minority shareholders.'

FUNDS

TO PLAY THE FAMILY-OWNED BUSINESS THEME

SCOTGEMS (SGEM) 102P

As an asset manager, Stewart Investors likes family-controlled companies who are investing today so the next generation owners assume control of a solid business.

The desire to preserve intergenerational wealth can result in a board being very careful with regards to pursuing growth opportunities and not making rash decisions in order to hit short-term performance targets.

This investment preference is likely to play a key role in the Stewart Investors-managed ScotGems. This investment trust is expected to have a large bias towards family-owned businesses once it gets to work deploying £50.3m raised at this week's stock market flotation (26 June).

ScotGems is targeting smaller companies in emerging markets and Asia Pacific. It plans to capitalise on existing relationships forged by its fund managers with family-run businesses, particularly in India.

Stewart Investors previously told *Shares* that its fund managers meet over 1,000 companies a year, seeking ideas for some of its other funds including **Stewart Investors Asia Pacific (GB0033874214)** and **Stewart Investors Global Emerging Markets (GB0033873919)**.

The managers often come across interesting companies which are too small to be included at meaningful levels in the aforementioned funds, hence why ScotGems has been created in order to have stakes in the best of these smaller cap opportunities.

BRITISH EMPIRE TRUST (BTEM) 701.5P

Investors can gain an exposure to the advantages of the 'owner's eye' through funds such as the British Empire Trust.

The trust's objective is to generate capital growth through a concentrated portfolio of investments, with an emphasis on shares trading at a discount to estimated underlying net asset value (NAV).

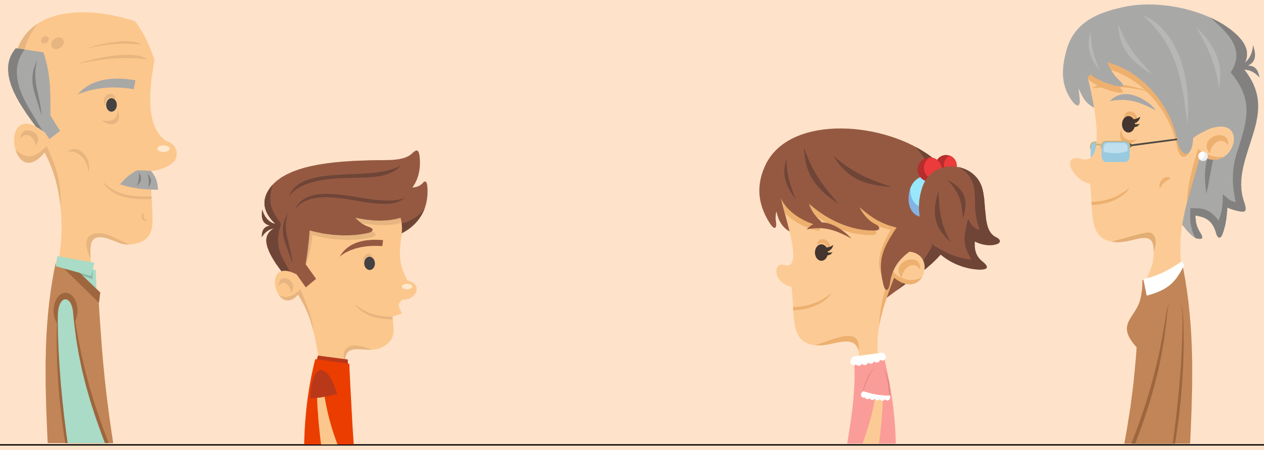
Managed by Asset Value Investors' Joe Bauernfreund, British Empire's portfolio includes positions in family-controlled investment holding companies which have diversified portfolios, owning stakes in a variety of other businesses.

Many investors shun such holding companies, despite their strong long-term performance track records. They aren't keen on this heavy diversification and the fact these family firms are less liquid.

These companies are less researched by analysts and therefore create mispricing opportunities which British Empire can exploit.

'They tend to own businesses that are quite high quality with cash flow and dividends,' explains Bauernfreund, an admirer of their long-term perspective, which is refreshing in an age of corporate short-termism. 'And they are active owners of these businesses,' he adds.

Exemplars held in British Empire Trust's portfolio include Sweden-based industrial holding company Investor AB, a leading owner of Nordic-based international companies founded by the Wallenberg family 100 years ago.



STOCKS TO PLAY THE FAMILY-OWNED BUSINESS THEME

WATKIN JONES (WJG:AIM) 198.5P

The student accommodation specialist is a ninth-generation family run-business currently led by Mark Watkin Jones who owns 30% of the shares.

The company was founded by his ancestor; Welsh carpenter Huw Jones in 1791. The company is still headquartered in Bangor, North West Wales and floated on AIM in March 2016.

Watkin Jones made the decision to move into student housing in 1999 and has subsequently built more than 28,000 student rooms on nearly 100 sites.

Revenue has grown from £227m in the year to 30 September 2014 to £267m in the year to 30 September 2016.

The company has a development pipeline of 31 sites worth £920m to be built by 2020. In June, the company announced it had forward sold six of these sites to institutional investor Europa Generation. As an asset class student accommodation has low volatility and does not react in the same way as commercial property. The company is also expanding into the private rental sector.

The shares trade on 13 times forecast earnings for the year to September 2018. The company has no debt and plenty of cash. A 3.7% dividend yield offers another reason to own the shares. Jefferies has a price target of 250p.

ASSOCIATED BRITISH FOODS (ABF) £29.13

FTSE 100 foods-to-fashion conglomerate Associated British Foods is controlled by the Weston family, whose careful husbandry of the business is evident in its strong long-term earnings growth and dividend track record.

The Weston family, spearheaded by ABF's current CEO George Weston, controls 54.5% of the high-quality global foods, ingredients and retail giant.

ABF's sugar businesses have been the main profit improvement drivers. Performance has been boosted by higher prices and the benefits of significant cost savings.

Its enviable cash flows are supported by a portfolio of British grocery brands with global potential, ranging from *Silver Spoon* and *Kingsmill* to *Patak's*.

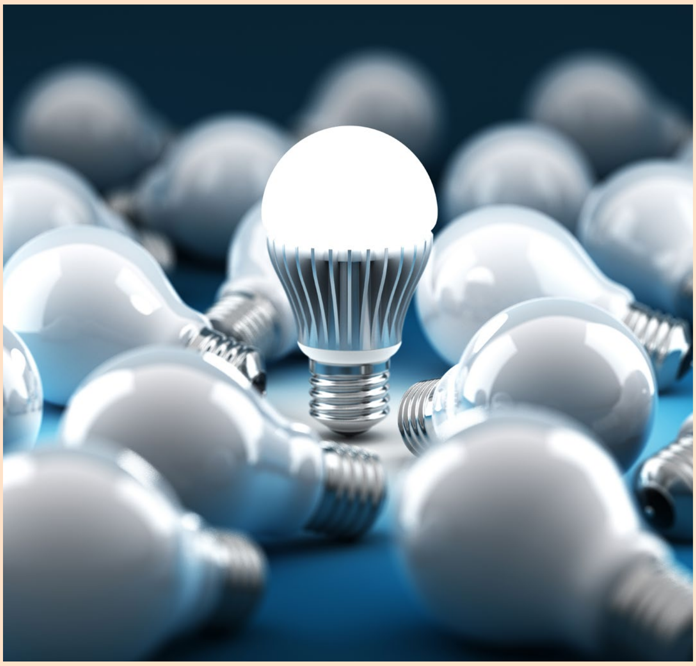
Yet the real excitement lies with ABF's value-for-money fast fashion chain Primark, a beneficiary of consumer down-trading in the UK. The clothing chain is primed for market share gains as it expands in continental Europe and builds a presence in the US.

Recent half year results (19 Apr) showed 'excellent progress on all fronts', with adjusted pre-tax profit up 35% to £624m and the dividend lifted 10% to 11.35p.

ABF expects underlying sales momentum in all its businesses will continue in the second half of the year, albeit profit growth will be tempered by sterling's devaluation against the dollar, which is creating a sourcing headwind for Primark.

STOCKS TO PLAY THE FAMILY-OWNED BUSINESS THEME

FW THORPE (TFW:AIM) 385.25P



The lighting products designer and manufacturer dates back to 1936 when it was established by Frederick Thorpe and his son, Ernest.

At the time they made vitreous enamelled steel reflectors, sometimes called porcelain enamel. This is an integrated layered composite of glass and metal used as shades that powerfully reflect and direct light, often used in industrial settings.

The company floated on the stock market in 1965 and remains controlled by the Thorpe family, which has a stake worth about 55% of the shares. It is also still run on a day-to-day basis by the family. Andrew Thorpe, grandson of the founder, is both chairman and joint CEO.

The AIM-listed company has eight operating units including LED manufacturing arm Thorlux Lighting. The firm employs roughly 500 people.

Products are sold around the world and the business has a long track record for growing sales, profit and, crucially for the family and many private investors, dividends.

The firm made operating profit of £16.2m in the year to 30 June 2016 on £88.9m worth of revenue. It paid a 4.05p dividend, up 11% on 2015, and there was also a 2p per share special dividend, something the company has done frequently over the years when it builds up surplus cash.

No earnings forecasts are available. But extrapolating average growth of 11.5% over the past three years into the future, a back of notebook sum implies earnings per share of about 12.5p to 30 June 2017, rising to 14p in 2018. That makes the stock look pricey on a 2018 price to earnings multiple of 27.5. A 4.5p payout would indicate a 1.2% income yield. Expensive but shareholders evidently like the reliability, and so do we.

THE COMPANY IS THRIVING...

BUT THE FOUNDER IS DITCHING SHARES

Why do platforms list different versions of the same fund?

Identifying the 'clean' share class ensures you don't pay over the odds

Deciding which fund to buy is difficult at the best of times, but when you're presented with lots of different versions of the same fund it can make the decision even harder.

Most investors should be comfortable with the fact that funds have an accumulation (Acc) and an income (Inc) version in addition to different currency classes, such as GBP, USD and EUR.

Some funds have seemingly random letters in their name – for example there is **Neptune Global Equity Fund B Acc GBP (GB0030679160)** and **Neptune Global Equity Fund C Acc GBP (GB00B8DLY478)**.

If you make the wrong choice you could end up paying considerably higher fees. The B version of the Neptune fund has an ongoing charge of 1.34% whereas the A version has an ongoing charge of 0.87%. There are a whole host of funds that charge vastly different fees depending on which share class you look at.

WHY DO DIFFERENT SHARE CLASSES EXIST?

The Financial Conduct Authority (FCA) in 2014 banned the payment of trail commission by fund managers to investment platforms.

Previously, investors had to pay for this commission through the fund's annual management charge (AMC). When the commission was banned, fund managers had to introduce 'clean' share classes – funds with no commission levied on them.

In general, removing commission resulted in the fund's AMC being lower. To make up the commission shortfall platforms introduced a platform fee that investors have to pay – it usually ranges from 0.25% to 0.5%.

EXAMPLES OF FUNDS AND THEIR FEES

Fund	Ongoing change	AMC	Fund rebate
Capital Group Global Equity Fund (LUX) X (GBP)	1.22%	1.00%	
Capital Group Global Equity Fund (LUX) Z (GBP)	0.90%	0.75%	
Guinness Global Energy Fund Class X	1.24%	0.75%	0.05%
Guinness Global Energy E Inc	1.24%	0.75%	
Julius Baer Multistock Luxury Brands Fund GBP B	2.04%	1.60%	
Julius Baer Multistock Luxury Brands Fund GBP C	1.30%	0.85%	
Kennox Strategic Value Fund A Inc	0.96%	0.80%	
Kennox Strategic Value Fund Class Institutional	1.16%	1.00%	
Neptune Global Equity Fund B Acc GBP	1.34%	1.25%	0.05%
Neptune Global Equity Fund C Acc GBP	0.87%	0.75%	
Sanlam FOUR Global Equity Fund A GBP	0.99%	1.00%	0.05%
Sanlam FOUR Global Equity Fund B GBP	0.25%		
Sarasin Thematic Global Equity Fund (Class I Acc)	1.71%	0.85%	0.05%
Sarasin Thematic Global Equity Fund (Class P Acc)	0.96%	0.75%	
Schroder QEP Global Core Equity Fund A Acc	0.40%	0.35%	0.03%
Schroder QEP Global Core Equity Fund I Acc	0.37%	0.35%	0.03%

Source: Shares, based on AJ Bell Youinvest data.

WHY HAVEN'T OLD FUNDS BEEN REMOVED?

Fund managers and platforms were given a deadline of 6 April 2016 to either convert investors to the new clean share class or to ensure the commission gained from the old 'bundled' funds was passed on to the client, rather than the platform, through rebates.

The vast majority of old bundled funds have been converted to clean funds and removed from platforms. But there are still several bundled funds in existence, which even with the fund rebate can be more expensive than their clean counterparts.

Miranda Seath, head of intermediary research at Platforum, says one reason why bundled funds still exist is because some investors did not give their permission to convert to a clean share class.

Under the FCA rules, platforms had to notify their clients that they were making the conversion to a clean share class. Investors had the option to tell their platform if they didn't want to be converted.

'This was because the FCA acknowledged that in some cases clients might be worse off moving into a clean share class from a bundled share class. So the client was able to object to the conversion – meaning that their investments could continue to be held in the bundled share class,' explains Seath.

AJ Bell Youinvest says bundled share classes still exist on its platform because customers have transferred in from another platform or direct from a fund group.

'As customers are holding these funds we show the information on the fund in the research section of our website but they are not available to be purchased,' says AJ Bell's head of PR, Charlie Musson.

'There is an ongoing programme where we transfer customers into clean share classes and we only add new clean share classes to the platform.'

HOW DO I IDENTIFY CLEAN FUNDS?

The wide range of letters used by fund management companies mean it's not clear at the outset which funds are bundled and which are clean.

Richard Bradley, head of data at financial consultancy Boring Money, says the key is to choose the lowest cost version of the fund.

'In general, look out for letters like I (institutional), P (platform) and Z for the clean share classes. The letters A and R often denote the older share classes, which can include commissions, but there are exceptions to the rule,' he says.

Clean actively managed funds tend to have an AMC of around 0.75% and an ongoing charge figure (OCF) of between 0.75% and 0.9%. You can also visit the fund manager's website or a research site to check the various versions of the fund and the associated charges.

WHAT HAPPENS IF I BUY THE WRONG VERSION?

AJ Bell Youinvest says any of its customers who accidentally bought the bundled share class could convert to the clean share class free of charge.

> THERE ARE A WHOLE HOST OF FUNDS THAT CHARGE VASTLY DIFFERENT FEES DEPENDING ON WHICH SHARE CLASS YOU LOOK AT.

In some instances it might not matter which share class you own – it depends on whether the bundled fund rebate reduces the fund's net charge to the same level as the clean version.

Justin Modray, director of Candid Financial Advice, says if the rebate reduces the fee sufficiently the performance of the bundled fund should be very similar to the clean fund, albeit waiting for the rebate could be a drag on returns in a rising market.

Modray says a lot of rebates are small or non-existent, particularly if you buy the fund direct from a manager. The typical annual cost difference between clean and bundled versions is 0.75%, which could also prove to be a big drag on returns.

ARE THERE ANY OTHER SHARE CLASSES?

Confusingly, some platforms have multiple clean fund versions. They are known as 'super clean' if the fund manager and platform enter a deal that results in lower fees being passed on to investors.

'There might be one version for platforms in general, a cheaper version for the largest platforms who negotiate a better deal and occasionally a lower charge still for very large institutional investors such as pension funds,' says Modray.

There's no easy answer; research and a keen eye for detail are the best ways of ensuring you don't end up paying more than you have to. (EP)

Queen's Speech fails to address savings issues

Where next for state pensions and tax allowances?

While Brexit is clearly sucking up huge amounts of policy time and resource, there remains a significant domestic reform agenda for the Government to undertake.

Unfortunately Theresa May's dramatic loss of power following the general election means a number of vital retirement reforms were watered down or simply not mentioned in last week's Queen's Speech.

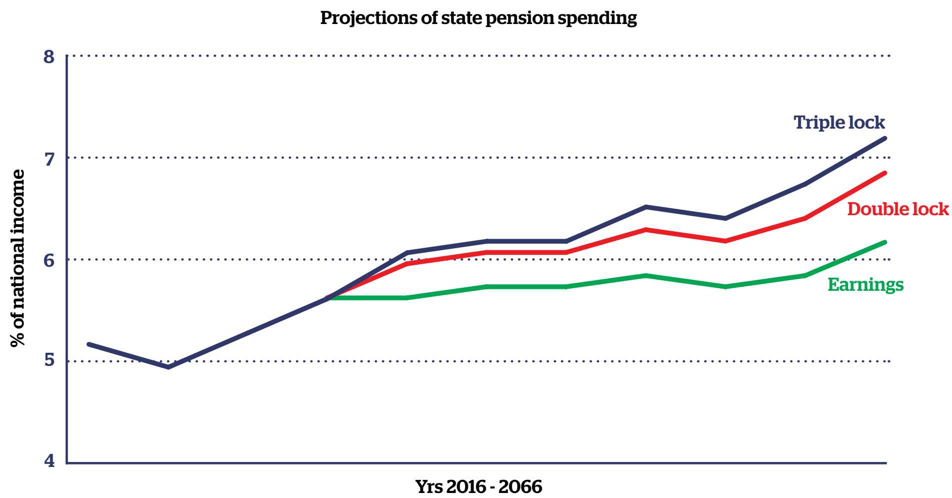
AGEING SOCIETY – REFORMING THE STATE PENSION

The ageing society is arguably the key challenge facing policymakers. Nowhere is this demonstrated more clearly than in the rising cost of the state pension.

The Institute of Fiscal Studies estimates the state pension will cost an extra £30bn in today's terms in 50 years' time.

As part of a programme to control these costs, the Conservative manifesto proposed scrapping the triple lock – which guarantees yearly increases in line with the highest of earnings, inflation or 2.5% – and replacing it with a double lock to earnings and inflation.

Furthermore, an independent report produced prior to the election backed a raise in the state pension age much faster than under current plans.



Reports suggest the triple-lock will now be retained as part of a deal with the Democratic Unionist Party, while Labour's opposition to the proposed state pension age hike means this vital area of reform faces short-term political deadlock.

This state pension system is unsustainable over the long-term and, at some point, someone will need to either reduce the amount people receive or increase the qualifying age.

Unfortunately the Prime Minister has a wafer thin majority so bold, necessary reforms to increase the state pension age risk being kicked into the long grass.

MPAA AND PENSION SCAMS CLAMPDOWN

With all the noise surrounding Brexit negotiations it's easy to forget vital domestic personal finance reforms need addressing.

Savers who access their pension flexibly from age 55 are subjected to a lower annual tax-free pension saving allowance, known as the Money Purchase Annual Allowance (MPAA).

The Government announced a cut in the MPAA from £10,000 to £4,000 effective 6 April this year – but the legislation to make this happen was never enacted, meaning it is not clear which figure applies this year.

People who have used the pension freedoms need urgent clarity on this issue so they know how much they can put into their pot tax-free in the current fiscal year.

We are also still waiting for the Government to implement a crucial clampdown on pension scammers, including a ban on cold-calling. These are incredibly important consumer protection measures that must not be further delayed.

Tom Selby,
Senior Analyst, AJ Bell

What's going on with housebuilder Berkeley?

Berkeley continues to invest for the future but its founder has sold shares

The chairman of London high end housebuilder **Berkeley (BKG)** has an enviable record of calling the housing market.

Tony Pidgeley, who founded the company in 1975, led Berkeley in selling land in the late 1980s before the big crash in the early 1990s. He then took advantage of bombed out valuations to build up Berkeley's land bank in the aftermath.

Results announced on 21 June for the 12 months to 31 April show the company is continuing to add to its land bank, up year-on-year from 42,858 plots to 46,351.

That investment is despite Berkeley committing itself to generous annual cash returns of 200p per share over the next four years.

APPROXIMATELY **HALF** OF LONDON'S SITE LABOUR COMES FROM THE EU

REASONS TO BE CAUTIOUS

You need good reasons to go against Pidgeley's instincts and *Shares* has several.

First, Pidgeley has been selling shares in the company. Back in April he sold 1m shares at £31.30, 5% below the current share price.

Second, to quote investment bank Morgan Stanley, 'a boom in London house prices and volumes has benefited the company in recent years, which we think is in the process of (at least partial) unwinding.'

Although the devaluation of sterling may have made valuations more attractive, the ongoing Brexit process is, on balance, unlikely to be supportive to foreign investment in the prime London properties built by Berkeley.

There was a 30% year-on-year dip in the number of new homes it had begun building in London in the six months to 30 April 2017.

Build costs increased by 6% in Berkeley's most recent financial year. Chief executive Rob Perrins says: 'There is a recognised skills gap in the UK construction workforce and it is hard to predict how build costs will be affected by Brexit as approximately half of London's site labour comes from the EU.'

Nonetheless, citing its healthy balance sheet, bumper forward sales and strong market dynamics, Berkeley reiterated its guidance for pre-tax profit of £3bn over the five years to 2021.

ARE THE SHARES CHEAP?

On that basis, an April 2018 price-to-earnings (PE) of 7.4 times and prospective yield of 6% could look enticing. Arguably price to net asset value (NAV) is a better way to value a housebuilder than a PE ratio. Here, Berkeley is actually trading a touch above its long-term average at 1.8 times forecast NAV.

SHARES SAYS:

Berkeley should be able to deliver the promised payouts to shareholders over the next four years so it could interest income investors but in our view the longer-term picture is less certain. (TS)

NOW IS THE TIME TO FOCUS ON YOUR INVESTMENT PORTFOLIO

Come and join Shares and AJ Bell Media at their evening event in London on Tuesday 11 July 2017 and meet the directors from Midatech Pharma (MTPH), Sphere Medical (SPHR), Metal NRG (NEX.MNRG) and Xpediator.

London - Tuesday 11 July 2017

Sponsored by PrimaryBid AJ Bell Youinvest

Companies presenting

Metal NRG (NEX.MNRG) Paul Johnson, CEO
Metal NRG is a NEX Exchange quoted natural resource investing company seeking investments in precious and strategic metals. Metal NRG is reviewing opportunities in various commodities and jurisdictions and anticipates updating the market shortly with regard to its initial target investments.

Midatech Pharma (MTPH) Dr Jim Phillips, CEO
Midatech is an international specialty pharmaceutical company focused on oncology and other therapeutic areas with a US commercial operation marketing four cancer care supportive products, and co-promoting two others. Midatech's strategy is to internally develop oncology products and collaborate with partners in other therapy areas, and to drive growth both organically and through strategic acquisitions.

Sphere Medical (SPHR) Dr Wolfgang Rencken, CEO
Sphere Medical Holding plc is an innovative point-of-care monitoring and diagnostic devices company, which provides today a commercialisation update for its wholly-owned Proxima platform product. Proxima 4 was launched into the European market in December 2016 and a positive reaction to the product has been received with forward visibility of an expanding sales pipeline.

Xpediator Stephen Blyth, CEO
Xpediator Plc is expected to IPO on the London Stock Exchange's AIM market in July 2017. It is a well-established international provider of freight management services operating across the UK and Europe with a particular focus on, and expertise in, the CEE markets. The Group currently employs over 600 people with its operational headquarters in Braintree, England, and country offices in Bulgaria, Lithuania, Estonia, Macedonia, Montenegro, Moldova, Romania and Serbia operating from 22 sites in total.

REGISTER FOR YOUR COMPLIMENTARY TICKET TODAY

During the event and afterwards over drinks, investors will have the chance to:

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- **Get to know the companies better**
- **Talk with the company directors**

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Presentations to start at 18:30
Complimentary drinks and buffet available after the presentations

Contact

Chris Williams, Spotlight Manager
chris.williams@sharesmagazine.co.uk
0207 378 4402

Register free now
www.sharesmagazine.co.uk/events

Tax Systems excited by new strategic plan changes

New management to focus on existing client base instead of new territory expansion

Middlesex-based **Tax Systems (TAX:AIM)** plans to concentrate on opportunities within its existing customer base, putting its more ambitious expansion plans to one side.

The company supplies corporate tax reporting, planning and forecasting software that automates much of the compliance nitty gritty.

Tax Systems listed on the AIM market through a reverse takeover by investment company, Eco City Vehicles, which allowed the founders to exit the business.

When new management took over day-to-day operations in July 2016 they implemented a series of changes, bolstering its sales, technology development and senior management.

Running the show is Gavin Lyons, the chief executive officer and part of the **MXC Capital (MXCP:AIM)** mini merchant bank.

Management has subsequently discovered a wealth of growth opportunities among its existing customer base. The company has more than 1,000 corporates and large accountancy firms as clients, including 23 of the top 25 UK accounting firms and 43 firms in the FTSE 100.

The new focus means that previously announced plans to expand into the mid-market space and overseas are being temporarily mothballed.

Exception may be made depending on available resources and opportunities to move into new markets alongside projects with existing customers.

BUSINESS TAX REPORTING IS GOING DIGITAL

Part of the reasoning behind this strategic decision is the increasingly strict regulatory pressures being handed down by HMRC.

The government agency is pushing through a £1.3bn *Making Tax Digital* programme, which will see the phasing of mandatory quarterly reporting from 2018.

The programme is subject to the same emphasis from the new government, although that seems highly likely regardless of who settles in at Number 10.

Tax Systems is operating in a high barrier to entry market. Having developed a sticky product set, the company has been a cash cow for several years. The emphasis has turned to growth now it is a publicly-listed business.

'Regulatory drivers, along with internal pressures within large corporates and accountancy firms, certainly provide plenty of leads for a now proactive sales team to go after,' says Philip Carse, analyst at IT consultant Megabuyte.

FinnCap analyst Andrew Darley anticipates £5m of adjusted pre-tax profit for the year to 31 December 2017 on £14.7m of revenue. Those forecasts move up to £5.7m profit and £15.8m revenue for 2018.

SHARES SAYS:
This seems to be the right time and place for Tax Systems, and the shares offer a combination of security and growth. Buy at 74.5p. (SF)

Fortify your defences with Games Workshop

Resilient fantasy miniatures maker could help you battle through worsening consumer backdrop

Given the deteriorating outlook for the UK consumer, investors would do well to add some defensive ballast to portfolios. Fantasy miniatures maker **Games Workshop (GAW)** is a good example.

The £387m cap has a loyal base of global customers. These are hobbyists who are nigh-on obsessional about the company's high quality miniatures and games.

Peel Hunt analyst Charles Hall has upgraded his price target from £11.50 to £13.50 and nudged up his earnings estimates following a bullish trading update (2 Jun) from the company associated with the *Warhammer* brand.

Games Workshop says pre-tax profit for the year to 28 May will be at least £38m on sales of around £158m. Generating more than 70% of sales overseas, Games Workshop continues to benefit from the weak pound, whilst growing revenue through store openings and broadening the product range.

Ahead of the 2017 results publication on 25 July, Hall has upgraded his pre-tax estimate from £34m to £38m for earnings per share of 91.8p, with £34m and 82.1p respectively for 2018.

This decline prudently reflects an expected dip in royalties and increased wage costs, although Hall sees Games Workshop delivering £35m profit and earnings per share of 84.4p in 2019.

Games Workshop also offers an attractive 6.7% yield, based on a forecast dividend of 80p.

SHARES SAYS: ↗
We're buyers of resilient, cash-generative Games Workshop at £12. (JC)

BROKER SAYS: 1 0 0

Blur is on the verge of collapse

BUSINESS SERVICE marketplace **Blur (BLUR:AIM)** is in a frantic dash for cash to save it from complete collapse. At the end of May the company had just $1.14m, which may only be enough for three or four months before it runs out of money.

Blur has previously raised around £25m since it floated in October 2012. Cash call prices were struck at 82p, 150p and 75p per share respectively. The stock is now trading at 3.38p having collapsed by 60% last week. (SF)

Europe setback wipes shine off Warpaint

SHARES IN LIPSTICK seller **Warpaint (W7L:AIM)** fell by 11% to 215p on 26 June as investors were spooked by disappointing progress in Europe. The company says sales in that region so far this year are flat on 2016.

We note that broker Stockdale didn't see any reason to change its earnings forecasts. It retains a 300p price target for the shares. (DC)

Further setback for The People's Operator

THE SPECTACULAR collapse of mobile services supplier **The People's Operator (TPOP:AIM)** continues to play out. The company, started by Wikipedia founder Jimmy Wales, missed its 2016 revenue target by 5.6% at £3.4m. Cash burn remains a worry with just £1.7m on the books even after a £1.58m cash call in March. The shares have slumped to 3.5p, having floated at 130p in December 2014. (SF)

INDEX

KEY

- Main Market
- AIM
- Fund
- Investment Trust
- IPO Coming Soon

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OUR FREE 17 PAGE SPOTLIGHT REPORT CONTINUES ON THE NEXT PAGE

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INCLUDES COMPANY PROFILES, DATA, COMMENT AND ANALYSIS

INTRODUCTION

Welcome to the latest edition of *Spotlight*, a bonus title which accompanies your digital copy of Shares six times a year. This issue focuses on natural resources companies.

Spotlight offers small caps a platform to tell their own stories in their own words.

The businesses themselves write the company profiles, not the *Shares* team.

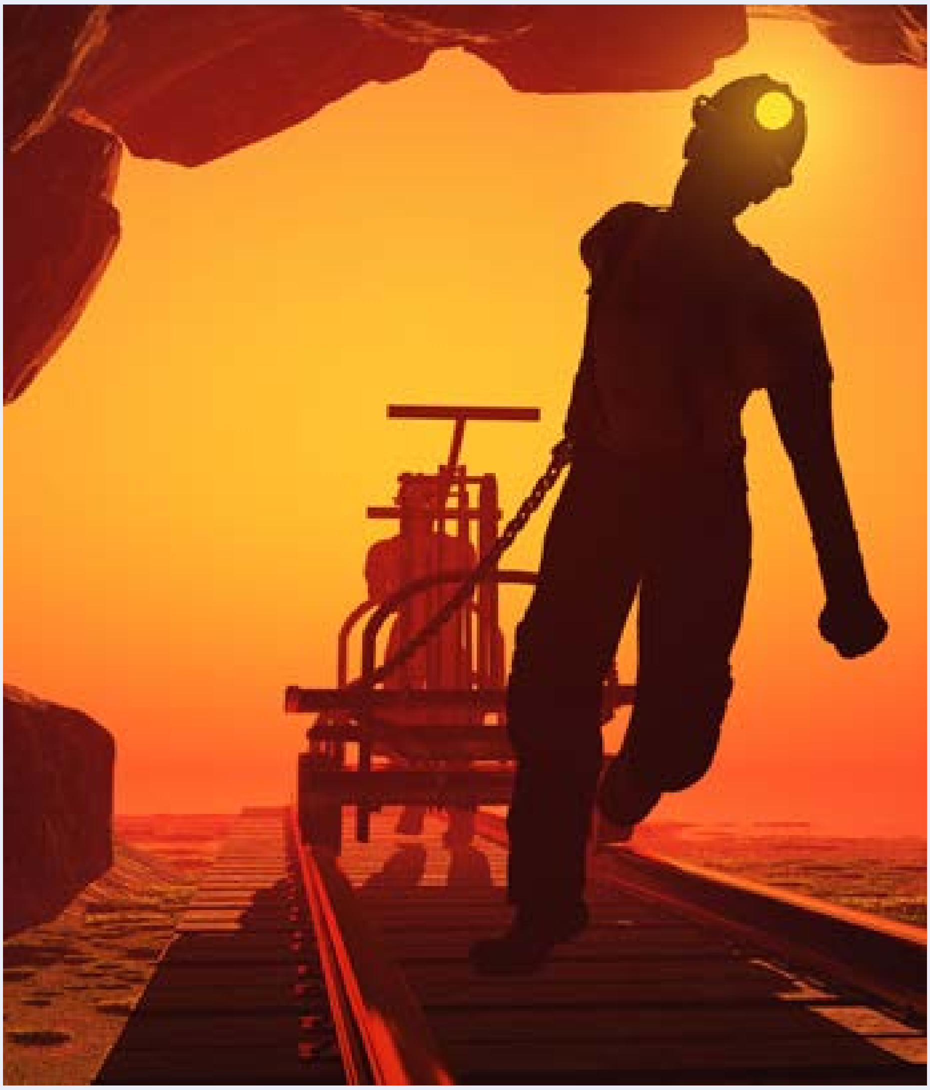
They pay a fee to get their message across to both existing shareholders and prospective investors.

As such, these articles should be considered as paid-for promotions rather than independent comment. While they are likely to have a positive bias, you are also getting to hear directly from the people who should know the company best.

Many of the firms appearing *Spotlight* will also appear at our investor evenings in London and other cities, giving you the opportunity to grill management on the finer details of their stories.

Click here for details of upcoming events and how to register for free tickets.

Previous issues of *Spotlight* are available on our website.



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Understanding the commodities markets

We look at the main commodities, how they are priced and how to get investment exposure

A commodity is defined as something supplied without 'qualitative differentiation' across a market. To put it a simpler way, a commodity such as copper has a universal price which fluctuates daily in reaction to supply and demand.

In contrast, an item like a smartphone is priced according to a number of different variables including: the strength of the brand; the specifications of the product and the market in which it is being sold.

In 2017 many major commodity markets have been extremely volatile. This matters for a number of reasons. It affects everything from the price you pay for petrol at the pump to how much a loaf of bread costs.

As an investor it has a direct impact on the costs faced by many listed companies. Ultimately this determines how much cash flow these firms generate and how much they can return to you through dividends.

WHAT ARE THE MAIN COMMODITIES FROM A MINING AND ENERGY PERSPECTIVE?

We can separate commodities into four key classes: energy, represented by oil, gas and coal; agricultural products such as corn, coffee and sugar; industrial metals like copper and iron ore; and precious metals.

The most heavily traded global commodity in terms of volumes is crude oil and its various derivatives such as heating oil and gasoline.

Like many commodities, oil is traded in futures contracts. These involve the purchase or sale of a barrel of oil agreed at a fixed price for delivery on a specified date – typically either one month, three months or six months in the future.

This facilitates the buying and selling of a commodity without anyone having to take physical delivery and only a small proportion of these contracts are settled through deliveries.

As well as the price of the futures contract, you may see reference to the 'spot' price of a commodity and this is the price quoted for immediate delivery.

A BETTER UNDERSTANDING OF THE PRODUCTS

The two main benchmarks in the crude oil market are West Texas Intermediate (WTI) and Brent. US oil is priced off WTI while the latter is the yardstick for crude sold in Europe and Asia. Demand for oil is a function of economic growth.

Copper is also seen as a good barometer of the health of the global economy, earning it the name 'Dr Copper'. This is largely due to its ubiquity. The metal is a critical component in the manufacturing of electronics, homes and infrastructure.

Precious metals are rare and have high economic value. The platinum group metals (PGM), which include platinum as well as palladium, iridium and rhodium, do have industrial uses – principally in the construction of emissions-limiting technology in cars. Silver is by the electronics and medical industries but like gold, which has limited industrial use; a significant proportion of global output is also used in the manufacture of jewellery. Gold is also seen as a traditional store of value and therefore a safe haven at times of market volatility.

DEFENSIVE AGRICULTURE

The agriculture market is seen as having defensive qualities as demand for food is relatively inelastic.

Most consumers are likely to prioritise having enough to eat over spending on luxuries such as cars, expensive clothes and holidays.

The world has a growing number of mouths to feed and the 2010-2019 World Agriculture Report, prepared jointly by the Organisation for Economic Co-operation and Development (OECD) and the Food and Agriculture Organisation of the United Nations (FAO), estimated that a 70% increase in world food production is required by 2050 if global food demand is to be met.

HOW TO INVEST IN COMMODITIES

There are several options available for prospective commodities investors. The most accessible direct exposure can be gained by buying an exchange-traded commodity (ETC) product via a stockbroker or investment platform provider.

In the past, investing directly in commodity markets was left almost entirely to the professionals. The development of ETCs, offering exchange-traded exposure to a wide list of different commodities from oil, gold and copper to more esoteric markets such as live cattle and rhodium, has altered this dynamic.

Investors seeking diversified exposure may wish to look at an exchange-traded fund (ETF) which tracks a range of commodities. Another route is to buy a managed fund which invests in mining, oil or gas companies.

While a newcomer to the commodity markets may be more comfortable putting their cash in the hands of a professional, it is worth remembering that you will have to pay for the expertise of the person managing the fund.

TAKING THE DIRECT ROUTE

Some investors may prefer to buy shares in individual companies, such as a firm exploring for metals or someone developing a range of producing oil wells.

As well as tracking the price of the respective commodities they exploit, the share prices of these miners and oil companies will respond to operational performance.

This offers the prospect of greater upside if a company performs well but also risks more significant downside if it performs badly.

Firm in the resources sector vary from behemoths like the Anglo-Dutch group **Royal Dutch Shell (RDSB)** and Aussie miner **Rio Tinto (RIO)** to 'blue sky' exploration plays such as **Providence Resources (PVR:AIM)** which operates offshore Ireland.

MetalNRG's high energy plan

MetalNRG (NEX:MNRG) is focused on energy metals and minerals, the commodities that help power and drive our world. The company is seeking investments in coal, cobalt, copper, lithium and uranium. The intention is to secure very high potential opportunities at modest cost.

The business is a cash burn model which means MetalNRG doesn't plan to generate trading revenues but instead spend money raised from investors on assets that the company hopes will increase in value over time through further investment and development. Ultimately the aim is to have assets that can be sold outright or joint ventured on terms that secure windfall gains for shareholders.

THE COMPANY IS SEEKING INVESTMENTS IN COAL, COBALT, COPPER, LITHIUM AND URANIUM. THE INTENTION IS TO SECURE VERY HIGH POTENTIAL OPPORTUNITIES AT MODEST COST.

RISK V REWARD

MetalNRG may or may not succeed. Natural resource investing is fraught with risk, however the returns if successful can be dramatic. The company will predominantly focus on early stage assets which is the highest risk area of the resource investing world, but where the returns can also be the highest.

The company has a management board with extensive experience, from geology to accounting, public company management to business development. And MetalNRG has access to some of the best energy metals and minerals advisors able to guide the company and ensure it invests in the best opportunities.

MetalNRG is starting small with a low market capitalisation, reasonable but modest funds and a natural resource sector just emerging from many years of under investment. Opportunities abound and the company feels it is well placed and it has very grand ambitions.

GETTING IN ON THE GROUND FLOOR

There is an opportunity to follow the company from the early days as it builds its story and articulates its value

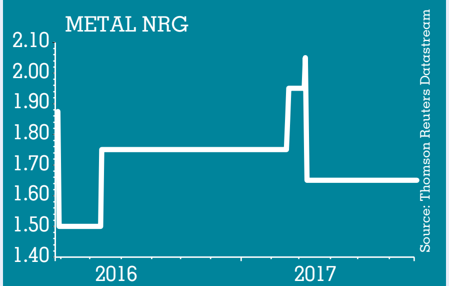
proposition for shareholders and investors. As deals are completed and investments announced the picture will become apparent in the market.

MetalNRG is quoted on NEX Exchange, London's growth market for ambitious, early stage resource investing companies.

MetalNRG

WEBSITE: WWW.METALNRG.COM

SECTOR:	NATURAL RESOURCES
SHARE PRICE:	1.65P
MARKET CAP:	£2.3M



Eurasia set to shine

Eurasia Mining (AIM:EUA), the platinum group minerals (PGM) production, development and exploration company with an exciting portfolio of assets in Russia, commenced its first full season (May until late October) of production from its West Kytlim mine this year. It is also continuing to develop its asset portfolio, with the Monchetundra project now at Mining Licence application stage.

Set these two developments on a backdrop of a positive PGM supply and demand outlook, with supply struggling to keep up with demand, and things are really starting to look up for the miner.

A NEW MINING COMPANY

The West Kytlim alluvial mine, located in the Ural

Mountains, was successfully advanced from development to production during 2016, with initial production being achieved in September of that year. The mine, with reserves of approximately 2,200 kilogrammes of raw platinum and resources of approximately 1,800 kilogrammes of raw platinum, produces platinum, with additional gold, and 2017 will be the first full season of production in the projected 12 year mine life.

West Kytlim, which is already generating revenue for Eurasia, is operated by Eurasia's mining contractor, SKRS Region Metal, which has an exclusive right to mine all the reserves and resources on the mining licence if it meets an agreed set of criteria.

The mine operates on a seasonal basis and the focus is on a low cost, environmentally friendly operation.

Production guidance for the year is approximately 100 kilogrammes of raw platinum increasing to approximately 400 kilogrammes per annum by 2020.

POTENTIAL COMPANY MAKER?

In addition to its operating mine, Eurasia has a portfolio of assets in Russia including the Monchetundra project and the Semenovsky Tailings project.

Monchetundra, located in the Kola Peninsula, northwest Russia, is an extremely exciting project with the potential to be a 'Company Maker' for Eurasia. It has state-approved, maiden reserves of 1.9 million ounces of total PGM, platinum and palladium with significant base metal credits, making it considerably larger than West Kytlim.

Eurasia has an Engineering, Procurement and Construction contract, with Sinosteel Equipment and Engineering, already in place for Monchetundra and the contract value totals $176m, with an associated loan covering 85% of the contract value.

WITH A LOT GOING ON, AND A SUCCESSFUL TRACK RECORD OF OPERATING IN RUSSIA, EURASIA IS DEFINITELY A COMPANY TO KEEP AN EYE ON.

The company is currently working towards receiving a Mining Licence for the project and expects to employ an experienced mine operator to commission and run the mine.

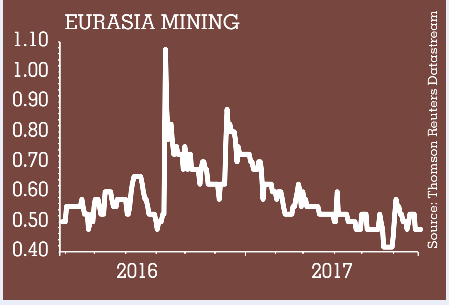
In addition, Eurasia has an exclusive option to earn up to 67% in the Semenovsky Tailings Project where Maiden Reserves of 2.99 million tonnes of ore grading 1.18 grammes per tonne gold and 16.44 grammes per tonne silver for 3.5 tonnes of gold and 49.3 tonnes of silver were approved in August 2016.

SHARES SPOTLIGHT

EURASIA MINING PLC

WEBSITE:
www.eurasiamining.co.uk

SECTOR:	MINING AND PRODUCERS
SHARE PRICE:	~~0.14P~~
MARKET CAP:	~~£5M~~



OPERATING IN RUSSIA

Eurasia, which has been operating in Russia for 20 years, has proved that it is able to operate successfully in the country. It has positive relationships with all local bodies, a good working knowledge of the Russian system and a history of converting exploration projects into producing mines in the country.

Russia also has a better set of cost dynamics than South Africa, where a lot of platinum projects are located, making it a lower cost location to produce PGM.

With a lot going on, and a successful track record of operating in Russia, Eurasia is definitely a company to keep an eye on.

Premier in production

The next six-to-12 months could be quite an exciting time for **Premier African Minerals (PREM:AIM)**. Premier commenced production at its RHA tungsten mine in Zimbabwe earlier this year and is ramping up production to the plant's design rate of 120,000 metric tonne units (mtu) tungsten concentrate per annum, which it plans to achieve later this year. Tungsten is a niche commodity but has seen significant increase in demand with the tungsten price increasing by around 40% over the last year and currently averaging around US$225 per mtu. At the plant's full capacity, RHA will supply around 5% of global tungsten market.

LOOKING FOR MINERAL RESOURCE UPGRADES

Premier has recently announced excellent metallurgical test work results on its wholly-owned Zulu Lithium and Tantalum project demonstrating that a commercial grade lithium concentrate can be achieved. Premier also announced a large maiden resource during May on the Zulu Lithium and Tantalum project of 20.1 million tonnes grading 1.06% Li20 following a 2,500m drilling programme.

What is not well known is that Zimbabwe is a lithium producer, and that Zulu is regarded as the largest underdeveloped hard rock lithium deposit in Zimbabwe. The project currently has a strike length of around 3.5km, with depth extensions below 200 metres and true widths varying from 10 to 25 metres. Drilling encountered grades of up to 3.3% Li20 and includes intersections of 40m at 1.2% Li20 and 18.9m at 1.5% Li20.

Premier has extended the drilling programme to both upgrade as well as to expand the mineral resource estimate.

The company's technical team believes that the project is analogue to other world-class lithium deposits and its exploration target is anywhere between 60-80 million tonnes. Drilling continues and assay turn-around time should be expedited given that the company uses its facilities at RHA for core management and sample preparation. The samples will be sent to SGS in South Africa for independent analysis.

OTHER INTERESTS

The company also has an interest in a very large forestry and limestone concession in Mozambique and, apart from its own projects, it also maintains a small stake in Casa Mining, a privately-owned company developing the 1.2m ounce Akyanga Project in the DRC.

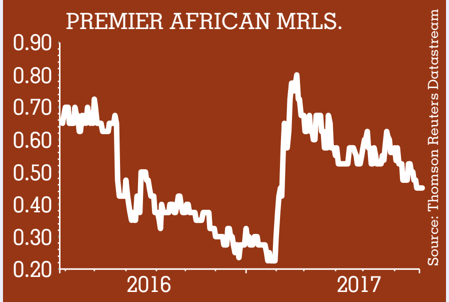
In addition, Premier has a significant investment in Circum Minerals Limited. Circum is a privately- owned company that is developing the world-class Danakil potash project in Ethiopia. The project boasts a NPV of more than $2bn and Premier

SHARES SPOTLIGHT

Premier African Minerals

WEBSITE:
WWW.PREMIERAFRICANMINERALS.COM

SECTOR:	MINING
SHARE PRICE:	48P
MARKET CAP:	£20.9M



PREMIER STANDS OUT FROM OTHER RESOURCE DEVELOPERS. THE COMPANY HAS CONSTRUCTED A STRONG ASSET BASE, AND IS BRINGING THE RHA TUNGSTEN MINE INTO COMMERCIAL PRODUCTION AT A TIME WHEN COMMODITY PRICES WERE LOW AND WHEN THERE WAS LITTLE INVESTMENT FOR THE MINING SECTOR AVAILABLE, LET ALONE ZIMBABWE.

owns a 2% stake in the company.

Circum has recently received its mining license and Morgan Stanley has been appointed to seek a strategic partner to advance the project. An announcement regarding the success of this is anticipated later this year. Assuming this goes as planned, a significant re-rating of Premier's shares could be warranted.

Premier stands out from other resource developers. The company has constructed a strong asset base, and is bringing the RHA tungsten mine into commercial production at a time when commodity prices were low and when there was little investment for the mining sector available, let alone Zimbabwe.

Premier has just released a very significant resource at the Zulu project, which it is very excited about, as well as excellent metallurgical test work results that demonstrate a viable process route to produce a commercial grade lithium concentrate. The Zulu project has the potential to be a world-class lithium project.

In addition, it has a significant interest in Circum Minerals, which could add security and value to the Premier's shares. In terms of management's track record, George Roach, who founded Premier African Minerals, was one of the founders and initial managing director of UraMin. This company was sold to Areva, the French nuclear giant, for $2.5bn in 2007.

THE CASE FOR ZIMBABWE

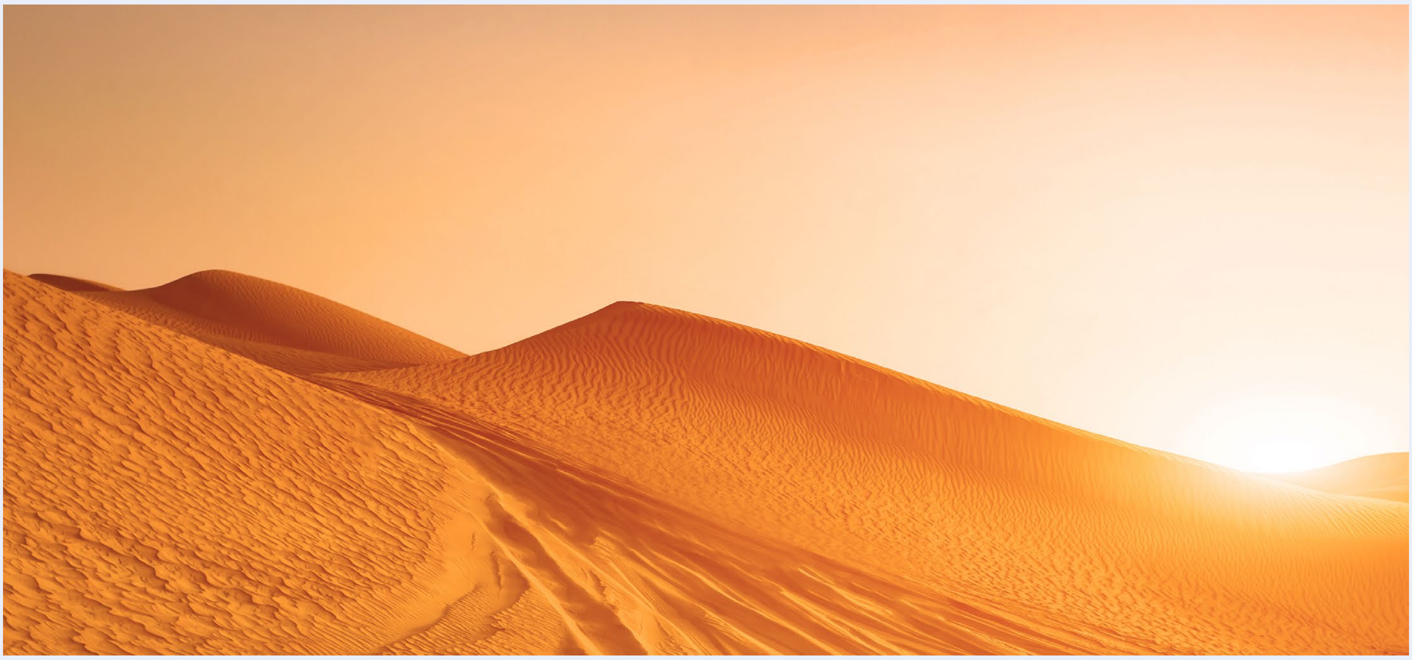
Although Zimbabwe is perceived as politically unstable, in general, it is a good country to be operating in compared to anywhere else in sub-Saharan Africa. What is relatively unknown is that the country has significant potential; fertile farmland, abundant mineral deposits, good infrastructure and importantly, one of the highest literacy rates in Africa because of an excellent education system.

Given the current negative perception of the country, there is relatively little competition for resources. This has enabled us to assemble a good portfolio of both brownfield and greenfield opportunities at a relatively low cost.

The RHA tungsten mine remains a key focus for the company, as it will provide us with a strong economic base. Another key area is the Zulu lithium project. Few people in the industry know of this massive pegmatite deposit, although Premier is now starting to get more enquiries from industry players.

Moreover, it is important to highlight to the mining investment community that Zimbabwe is one of the world's largest lithium producers and has significant resources of the metal, more so than anywhere else in Africa. Developing the Zulu lithium and tantalum project will remain a key focus area for the business.

SDX Energy's high margin growth



SDX Energy (SDX:AIM) is an North African focused oil and gas company with high margin onshore production, and development assets offering transformational exploration upside.

Following a successful secondary listing and capital raise on AIM in May 2016, the company has a strong and supportive institutional investor base, further strengthened by an extremely active 2017 and the strategic acquisition of Circle Oil's Egyptian and Moroccan assets. SDX's portfolio contains interests in six concessions across Egypt and Morocco.

Since listing on AIM last year, SDX has delivered on all its near and medium term objectives, resulting in a 194% share price increase over 12 months. With an experienced management team in place and a solid balance sheet, the company is in a strong position to grow into a highly profitable, mid-tier E&P company in North Africa. This will be achieved through an aggressive organic and inorganic growth strategy that delivers superior returns to shareholders.

WHY NORTH AFRICA?

The operating environment in North Africa continues to present considerable opportunities. SDX's proven track record as a successful operator, with strong in country relationships, leaves the company well placed to significantly increase its production profile.

The geology in Egypt remains exciting and is home to three of the most value accretive hydrocarbon basins in the world and some of the largest commercial discoveries, such as Eni's Zohr field. Morocco is home to one of the best E&P fiscal regimes in the world and the local supply shortfall for natural gas means the domestic market can be highly profitable for producers in the region.

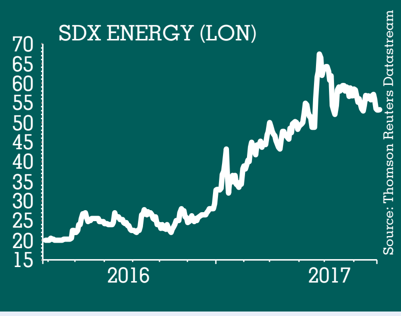
SOLID PRODUCTION BASE

SDX has a solid production base, resulting in the company being cash flow positive, with a 50% interest in the North West Gemsa concession and a 50% working interest in the Meseda licence, both of which are onshore and in the Eastern Desert of Egypt.

In Morocco, the company has a 75% working interest in

WEBSITE:
WWW.SDXENERGY.COM

SECTOR:	OIL & GAS PRODUCERS
SHARE PRICE:	53P
MARKET CAP:	£98.8M



the Sebou concession, located in the Rharb basin, which has been subject to extensive 2D and 3D seismic testing and has current average production of 6.2m cubic feet per day (mmscfpd) or 1,033 barrels of oil equivalent per day (boped). SDX also owns a 75% interest in the Kenitra industrial zone pipeline and local gas distribution network, which has capacity to deliver to the regional industrial market in Morocco.

HIGH IMPACT FUNDED EXPLORATION PROGRAMME

SDX possesses a number of exciting exploration assets in both Egypt and Morocco. At the South Disouq concession, located in the Nile Delta regions of Egypt, the drilling campaign at the successful SD-1X well was completed in May 2017, with confirmation of a significant natural gas discovery exceeding initial expectations.

The SD-1X well was flow tested at a rate of 25.8 mmscfpd which was the maximum that the surface testing facilities could handle. In addition to the successful discovery in the shallow Abu-Madi section the Company also remains very confident about the deeper oil potential of the well, where a working petroleum system was also discovered.

The company also has an active work programme for the Meseda license with plans to upgrade the treating capacity of the central production facility to 20,000 barrels of oil per day. Once the facilities upgrade is completed the workover programme will recommence with net production anticipated to double on the license over the course of 2017.

Strong operational progress has also been made in Morocco since the acquisition of Circle Oil's assets in January 2017. The drilling campaign on the Sebou and Lalla Mimouna permits is on track with pre-drilling tendering activity having started for 7 wells that it intends to drill beginning in September of 2017. In addition to this, SDX recently expanded its footprint in Morocco with the award of the Gharb Centre exploration permit where any new discoveries can be easily tied into the existing infrastructure.

In acquiring the Rharb Center permit SDX, along with it's partner Office National des Hydrocarbures et des Mines (ONHYM), controls the acreage in the entire basin providing the company with a dominant commercial and technical position by which to capitalise on opportunities to grow the reserve and production base in Morocco. The company's target is to fulfil the pipeline capacity, resulting in production quadrupling from current levels.

Finally, the company is well funded with $40m of working capital of which $20 million is cash and most importantly no debt. The company's average opex is under $9 per barrel and is profitable down to a Brent oil price of $21 per barrel. This makes the company very resilient in a low oil price environment and highly profitable at today's prices.

WITH AN EXPERIENCED MANAGEMENT TEAM IN PLACE AND A SOLID BALANCE SHEET, THE COMPANY IS IN A STRONG POSITION TO GROW INTO A HIGHLY PROFITABLE, MID-TIER E&P COMPANY IN NORTH AFRICA.

Solgold's glittering opportunity

SolGold is a copper gold exploration and development company focused on discovering and defining world-class copper-gold porphyry deposits in Ecuador.

The highly experienced and significantly invested team has spent the past three-and-a-half years and $46.5m developing Cascabel, the company's flagship copper-gold project. Through the highly successful programme and development of Cascabel, the team, led by Jason Ward has defined a blueprint for the acquisition of systems and operations of efficient copper porphyry programmes.

SolGold's strategy is to apply this exploration blueprint across Ecuador.

Ecuador's underexplored status, the prospectivity and upside in the copper market all present SolGold with an extraordinary opportunity to grow the company into a copper resource explorer, developer and miner of global significance.

PRO-MINING ECUADOR

Ecuador is embracing the mining industry. Since the creation of a Mines Ministry in 2015, around 300 new exploration concessions have been granted, and in December 2016 an Investment Protection Agreement was signed to allow Lundin Gold to develop the Fruta del Norte project. This was a major milestone for the country which provided specific terms and conditions for the development of a new mine.

Ecuador's pro-mining stance has been further validated by the arrival of the majors; Newcrest has secured a 14.54% interest in SolGold and **BHP Billiton (BLT)**, Fortescue and First Quantum have all become active explorers in the country.

Ecuador has excellent exploration potential. It lies along the prolific Andean copper belt, which is responsible for 48% of global copper production but has remained underexplored having seen minimal investment over the last decade. With a progressive legislative approach to resource development SolGold is working closely with the government and local communities to create a sustainable and thriving industry.

EXPLORING THE CASCABEL DISCOVERY

Cascabel, a Tier 1 copper-gold discovery is characterised by fifteen identified targets, world class drilling intersections over 1km in length at potentially economic grades, and high copper and gold grades in richer sections, as well as logistic advantages.

To date, SolGold has drill tested three of the fifteen targets with over 39,000m of drilling completed. This has been accomplished

without lost time injury or environmental incident. Exploraciones Novomining S.A. (ENSA), the local Ecuadorean subsidiary of which SolGold holds 85%, employs a workforce of approximately 176 Ecuadorean workers and geoscientists and six expatriate Australian geoscientists.

The results of 26 holes drilled (including re-drilled holes) and assayed have produced some of the best drill hole intercepts in porphyry copper-gold exploration history including Hole 12 (CSD-16-012) returning 1002m grading 0.76 % copper and 0.77 g/t gold. The average grade of all metres drilled on the project boasts 0.32 % copper and 0.27 g/t gold.

The Alpala deposit is open in multiple directions and the mineralised corridor marked for drill testing of the greater Alpala cluster occurs over a 2.2km strike length from Trivinio in the northwest to Cristal in the southeast. The mineralised corridor is known to be prospective over some 700m width. High priority targets within the Alpala cluster: Moran, 700m to the north; and at Aguinaga, 2.3km north east, are closely modelled by 3D MVI magnetic signatures that currently encompass over 15 billion tonnes of magnetic rock. Based on a strong spatial and genetic relationship between copper sulphides and magnetite, this body of magnetic rock requires drill testing for strong potential to host significant copper and gold mineralisation.

The team is focussing on extending the dimensions of the Alpala Deposit before completing a resource statement and drill testing of the other key targets. An intensive drill programme is planned for the next 18 months, which includes 95,000m of drilling and up to ten drill rigs.

WITH A PROGRESSIVE LEGISLATIVE APPROACH TO RESOURCE DEVELOPMENT SOLGOLD IS WORKING CLOSELY WITH THE GOVERNMENT AND LOCAL COMMUNITIES TO CREATE A SUSTAINABLE AND THRIVING INDUSTRY.

Both high tonnage open cut and underground block caving operations, as well as a high grade / low tonnage initial underground development are being investigated as potential options towards the economic development of the project.

EXPANDING THE PORTFOLIO

As a result of a nationwide study conducted by the company over the past three years, SolGold has formed and initially funded, four new 100% owned subsidiary companies in Ecuador; Carnegie Ridge Resources S.A., Green Rock Resources S.A., Cruz del Sol S.A. and Valle Rico Resources S.A.

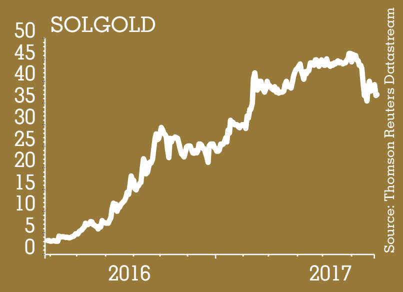
The objective of these subsidiaries is to apply the exploration blueprint developed at Cascabel to discover more world-class copper-gold deposits porphyry in Ecuador. Each subsidiary deals with a geographic region of Ecuador and is resourced with geologists and equipment to effect rapid review and early stage exploration. Early reconnaissance results are expected in the next quarter.

Thirty-eight new mineral concessions have been granted, totalling at least 1,600 km2 and form 14 potential porphyry targets. SolGold has several more applications lodged that await granting, covering eight more potential porphyry targets.

SolGold

WEBSITE: WWW.SOLGOLD.COM.AU

SECTOR:	MINING
SHARE PRICE:	44P
MARKET CAP:	£625M



Union Jack Oil flies the flag

Union Jack Oil (UJO:AIM) is an AIM-quoted oil and gas production and exploration company with a focus on opportunities within the UK onshore hydrocarbon sector.

The directors of Union Jack Oil see the UK onshore arena as being an attractive target for investment in hydrocarbon projects where the company is active in a reasonably low cost operating environment and where the licensing regime is fully transparent.

The board of directors, David Bramhill, Joe O'Farrell, Graham Bull and Ray Godson are all very experienced in the UK oil sector and have been involved for decades in the development and corporate activity in respect of several energy companies which include OilQuest Resources, acquired by EnCore Oil and subsequently taken over by **Premier Oil (PMO)** for an impressive premium.

Union Jack has adopted a low-cost, non-operating business model, typically acquiring minority interests in late stage projects, thus minimising risk and cost exposure to individual wells which are considered to have excellent scope with the drill bit for future discoveries, the Wressle-1 discovery in which Union Jack holds an 15% interest being a prime example.

WHAT ASSETS DOES UNION JACK HAVE?

The company has acquired interests in seven licences located in the East Midlands and the Weald Basins, both being established hydrocarbon producing provinces.

The East Midlands and Weald Basins are proven to have all the elements of commercial systems, a source rock with sufficient organic content, maturity, a viable migration path, a reservoir and trap formation.

During 2016 and 2017 the company has been on the acquisition trail and two additional, potentially high impact projects, Holmwood and Broughton North are now within its portfolio. In addition, a further 6.67% of PEDL180 and PEDL182 was acquired including the Wressle-1 discovery.

WRESSLE-1 DISCOVERY

The Wressle-1 discovery straddles PEDL180 and PEDL182 on the western margin of the Humber Basin, on trend with the producing Crosby Warren oilfield and the Brigg-1 oil discovery.

The Wressle-1 well was drilled in 2014 and was successfully production tested in 2015 flowing an aggregate of 710 barrels of oil per day from four tests in three conventional sandstones.

Union Jack's licence portfolio	
PEDL180 and PEDL182 Wressle and Broughton North	15.00% interest
PEDL005(R) Keddington Oilfield	10.00% interest
PEDL143 Holmwood	7.50% interest
PEDL253 Biscathorpe	12.00% interest
PEDL241 North Kelsey	20.00% interest
PEDL201 Burton on the Wolds	10.00% interest
PEDL209 Laughton	10.00% interest

Source: Union Jack Oil

Wressle is expected, within months, to become a producer from the Ashover Grit reservoir at a controlled rate of 500 barrels of oil per day subject to planning. Union Jack's income from this development is expected to have a material impact on the company's cash flow generation and to contribute to financing other projects within the portfolio.

A Field Development Plan has been submitted to the Oil and Gas Authority and the results of the independent Competent Persons Report confirmed the commercial attractions of the Wressle-1 discovery.

The Broughton North Prospect is also located within PEDL182 and has been generated from the high quality 3D seismic set acquired during 2012.

The Wressle-1 discovery has significantly reduced the geological risk over PEDL180 and PEDL182 and the acquisition of further interests including Broughton North will benefit the company going forward in any 'add on' development decisions which may follow once Wressle is in commercial production.

THE HOLMWOOD PROSPECT

In 2016, the company acquired a 7.5% interest in PEDL143 containing the drill-ready Holmwood Prospect from **Europa Oil and Gas (EOG:AIM)**. This is the first Weald Basin licence interest to be introduced to the expanding Union Jack portfolio.

Holmwood is a conventional oil prospect first identified by BP in 1988 and is located just 12 kilometres from, and on trend with the much documented Horse Hill-1 and Brockham discoveries.

Holmwood is expected to be drilled during 2017 and the company has high expectations of the result of this venture.

THE KEDDINGTON OILFIELD

In 2015, Union Jack acquired its first production asset, a 10% interest in the Keddington oilfield including the associated infrastructure and production facilities.

PEDL005(R), located in Lincolnshire, also contains the drill-ready Louth and North Somercotes prospects.

This farm-in to the Keddington oilfield is in line with Union Jack`s strategy and evenly balances the company's portfolio by introducing production to its base and additionally impacts upon shareholder perception and supports management's objectives of creating value and reaching the point at which Union Jack is self-sustaining.

WHAT IS THE PLAN GOING FORWARD?

The company has a well-balanced portfolio of production, development and drill-ready projects.

Administrative and general costs are low and the company remains debt free and has in excess of £2m free cash to fund its share of the Biscathorpe and Holmwood conventional exploration wells and the development of the Wressle-1 discovery. The growth of Union Jack is poised to continue without any financial concerns.

The company's strategy of focusing on conventional relatively low risk and low cost onshore production, development and exploration drilling, avoiding early stage and frontier projects is already showing signs of coming to fruition. It also allows an opportunity for investors to become involved in a company with a well-balanced asset portfolio with the combined components of production, appraisal, discovery and exploration with guaranteed news flow throughout 2017 and beyond.

UNION JACK OIL

WEBSITE: WWW.UNIONJACKOIL.COM

SECTOR:	OIL & GAS PRODUCERS
SHARE PRICE:	0.14P
MARKET CAP:	£5M