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SHARES

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MARKET GIANTS

THE BIGGEST AND BEST UK STOCKS

CASH MACHINE UNDER THE BONNET OF MICRO FOCUS

FIRED UP Why BAE shares are in focus

RESHUFFLE TIME Who could be next to join or leave the FTSE 350?

WILL INCOME FUNDS HAVE TO CUT THEIR DIVIDENDS?

Should you tolerate odd decisions by directors?

Diageo is in the spotlight after making a string of peculiar moves

What happens if a company in which you have an investment makes odd decisions? Selling the shares might not always be the best course of action if the company eventually proves its decisions were wise.

As an investor you will need to decide whether to put your trust in the directors or not. Selling now or waiting to see if the decisions were the correct ones will mean you either avoid incurring a loss (if the decisions were bad) or you risk giving up gains if the decisions were good.

It's a subject raised by fund manager Nick Train in his latest commentary for **CF Lindsell Train UK Equity Fund (GB00B18B9X76)** and something which more investors should consider.

ODD DECISIONS IN PRACTICE

Examples of peculiar decisions might be an acquisition unrelated to a company's core business. Or it might be accelerating expansion at a time when market conditions are unstable.

Fortunately investors can have a powerful voice and influence corporate decisions. After all, a shareholder is someone who is part owner of the business.

Using his power as a fund manager, Nick Train says he has raised questions with the board of **Diageo (DGE)** about how the drinks group is executing its strategy.

He recalls Diageo's decision to increase exposure to emerging economies between 2011 and 2013 – in what turned out to be the top of the market.

Both the chief executive and chief financial officer have changed since the deals were done, and Train believes some of the businesses are still worth owning, despite having struggled in recent years. Yet it seems Diageo may not have learned from its mistakes.

WHAT LOOKS ODD?

Diageo recently announced a £1.5bn share buyback when its shares traded at an all-time high. Wouldn't this have been better two years ago when the shares traded one third lower?

And two months ago Diageo said it would spend up to $1bn on a four-year old tequila business called Casamigos – a high price and an odd move given it had bought another tequila firm only two years ago called Don Julio.

'What's more, part of the consideration to pay for Don Julio was the sale/swap of Diageo's then Irish Whiskey brand, Bushmills – the world's oldest distillery,' says Train.

'We were sorry to see Bushmills go and then somewhat surprised to see Diageo announce this year it is investing in the creation of a brand new Irish whiskey brand. It'll take some doing to match the 409 year heritage of Bushmills. And, ostensibly, it does not appear consistent.'

Train likes the company's brand portfolio and global distribution, as well as its ability to generate good margins and decent levels of cash.

But surely those merits are at risk if Diageo is misallocating its cash? Hopefully shareholder power will ensure such odd decisions are a rarity.

'We are watching very closely the capital allocation decisions taken by the boards of the companies we hold – knowing that cumulatively and over time it is the calibre of those decisions that will determine the long term success, or otherwise, of our own investment decisions, made with your capital,' concludes Train. Those are wise words – and ones which you should follow with your own investments. (DC)

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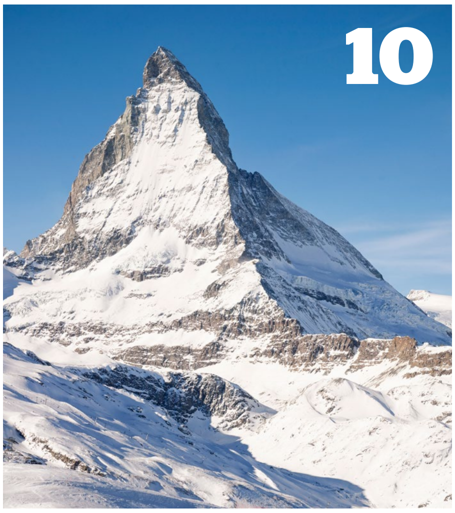

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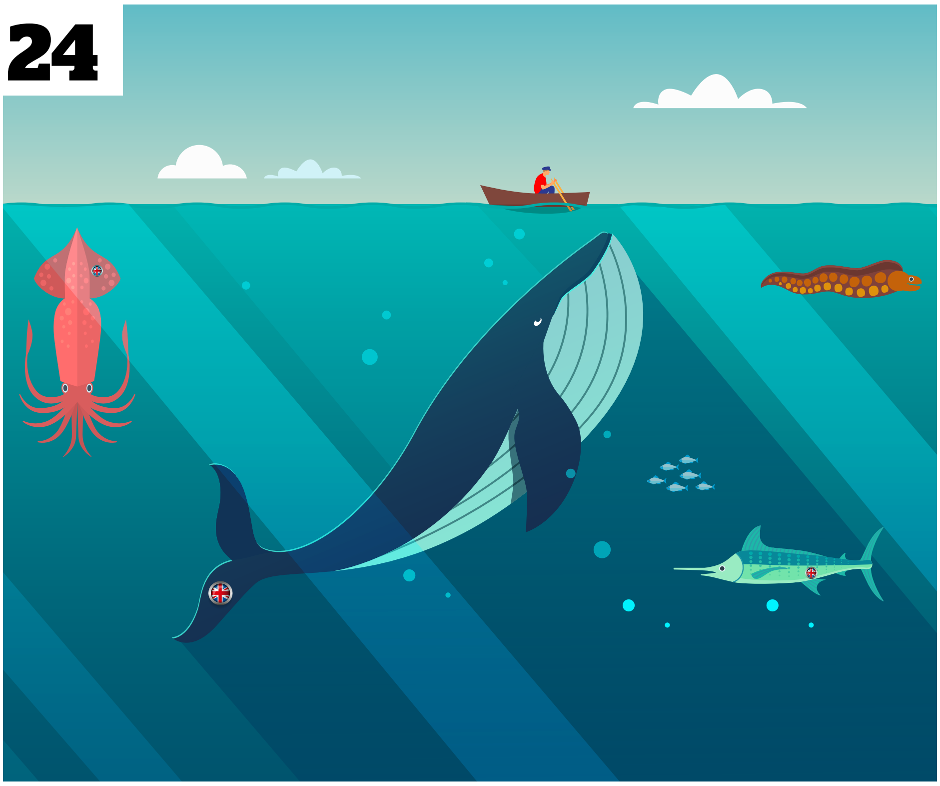

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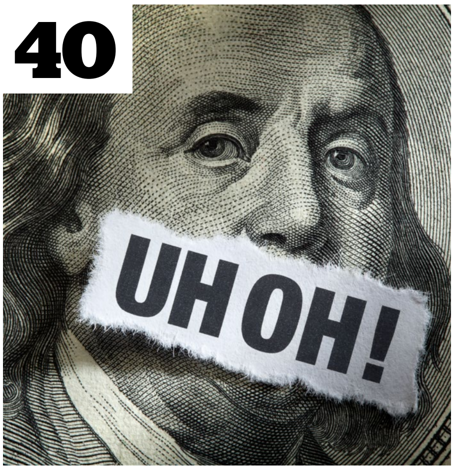

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BROKER RATINGS EXPLAINED:

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.

Get ready for changes to FTSE 100 and 250

We calculate eight stocks are set to switch places in the UK's market top indices

Banking group **Investec (INVP)** looks primed to join the FTSE 100 at September's index reshuffle, according to our calculations and assuming no major changes to market values over the next week.

Investec is expected to replace **Provident Financial (PFG)** whose share price collapsed earlier this week following another profit warning, dividend cancellation, chief executive departure and investigation by the financial regulator.

Three stocks could be promoted from the FTSE Small Cap to FTSE 250 index, based on our analysis of market values on 22 August. These are: investment fund **Sequoia Economic Infrastructure (SEQI)**; **Renewi (RWI)** which is the merged Shanks and Van Gansewinkel waste business; and share registrar **Equiniti (EQN)**.

They are likely to replace three stocks which currently look vulnerable for demotion from the FTSE 250 index to the FTSE Small Cap index. These include **Carillion (CLLN)** which is set to be kicked out of the FTSE 250 given its market value has fallen by three quarters since the last index reshuffle in June.

The other departing stocks are likely to be van hire group **Northgate (NTG)** and miner **Petra Diamonds (PDL)**.

The promotions and demotions will be confirmed by FTSE next week ahead of the index changes in September. These events are important to near-term share price movements as tracker funds have to either sell stocks leaving certain indices or buy those being promoted.

As such, a falling share price could get even worse if tracker funds no longer need to own the shares; and a rising share price could have upwards momentum if trackers are buying.

The rules are slightly complex regarding the way in which stocks qualify for certain indices. FTSE undertakes a quarterly review based on the following criteria and using market valuations on a specific day.

A share will join the FTSE 100 if it has risen to 90th place or above; a stock needs to have risen to 325th place or above to join the FTSE 250. (Remember that the FTSE 350 is the FTSE 100 and FTSE 250 index combined).

Demotions happens if a FTSE 100 stock has fallen to 111th place or below; and 376th place or below in the case of a FTSE 250 stock.

A constant number of constituents need to be maintained for the FTSE 100 and FTSE 250 indices. If more companies qualify for promotion to one of those indices than qualify for demotion, the lowest ranking constituent(s) already in that index is deleted.

Likewise, when more companies qualify to be demoted than promoted, the highest ranking company or companies not presently in that index will be inserted to match the number leaving the index. (DC)

Clouds gather as autumn political risks loom

The UK economy is steady for now but can that continue?

POLITICAL DATES FOR THE DIARY

End-August – Third round of Brexit talks
24 September – German federal elections
1-4 October – Conservative Party conference
19 October – EU to decide if trade talks can begin

The latest retail figures (see chart) imply the economy is stalling even if it is not in full blown retreat and some observers are warning of political risks to come this autumn.

First up at the end of August is the third round of negotiations over the UK exit from the European Union. These Brexit talks are critical because a soon after on 19 October the EU's chief negotiator Michael Barnier is due to report back to EU leaders on whether sufficient progress has been made to begin discussions on trade.

CHOPPY WATERS

In the intervening period prime minister Theresa May will have to negotiate a Conservative Party conference. From 1 to 4 October in Manchester the competing factions in her party are likely to stoke tensions over Europe. She is likely to come under pressure over the Conservative's worse than expected performance in the June general election.

The German federal elections on 24 September have long been seen as the point at which discussions over the UK and EU's future relationship can begin in earnest.

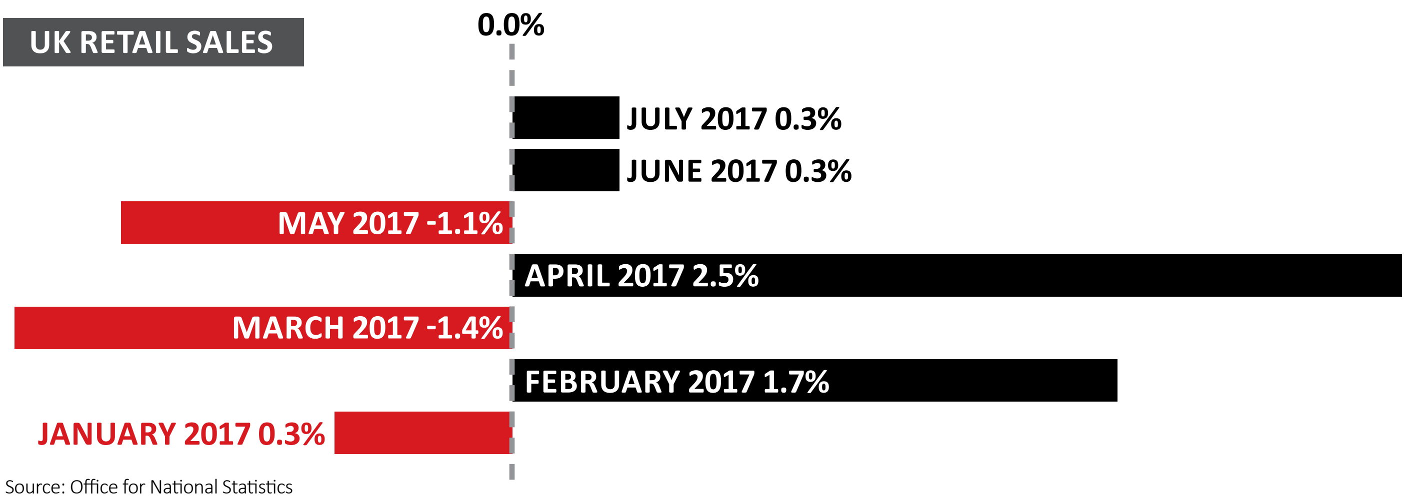
This is because the identity of the leadership of the continent's main power broker and largest economy is critical to the destiny of Brexit. Chancellor Angela Merkel is widely expected to be rewarded for Germany's strong economic performance with a bolstered mandate.

WHAT ARE THE EXPERTS SAYING?

Irish bank Davy's chief economist Conall Mac Coille says: 'UK retail sales data released on 17 August showed a similar picture to recent indicators — weak GDP growth but not an outright recession. However, political event risks for the UK are increasing amidst growing fears of a "cliff edge" Brexit in March 2019.'

The research team at ETF provider PowerShares point out the economy is being held up by a dramatic drop in household savings with the savings ratio (proportion of personal savings to disposable income) falling to a record low of 1.7% in the first quarter of 2017.

'In conclusion, we think there remains scope for Brexit chaos over the coming years, both political and economic; we doubt that sterling has yet bottomed,' they warn. (TS)



Source: Office for National Statistics

Standard Life Aberdeen looks set to bring returns

Merger is about more than just cutting costs

The FTSE 100 is now home to second largest asset manager in Europe behind France's Amundi, **Standard Life Aberdeen (SLA)**. The combination of Standard Life and Aberdeen Asset Management is worth around £12bn.

There is typically some fallout when mergers of this size take place, the loss of David Cumming, Standard Life's head of equities in March was a blow.

But this tie-up makes sense and not just from a defensive point of view as a counter to the increasing use of low cost passive funds. Aberdeen has a focus on emerging markets which are making a comeback, reflected in this year's rally of the MSCI Emerging Market Index.

Standard Life's standout Global Absolute Return Strategies (GARS) has seen its redemptions slow down and this one fund makes up for £24bn of assets under management.

ANALYSTS' VIEW

RBC Capital Markets is a fan of Standard Life Aberdeen, saying it has a favourable valuation. Using RBC's figures, the company trades on forecasted 2017 price to earnings ratio of 13.7 times, while also paying a healthy dividend yield of 5%.

Numis upgrades the company's earnings per share projections for 2018 by 3% to 34.6p largely due to Standard Life's interim results earnings beat. It also raises its target price to 520p implying 20% upside.

SHARES SAYS: ↗
We like the enlarged business.

BROKER SAYS 13 5 1

Rathbones in merger talks

WEALTH MANAGER **Rathbone Brothers (RAT)** is in talks with unlisted rival Smith & Williamson over a mooted £2bn merger.

Following waves of consolidation in the asset management industry, the potential deal values Smith & Williamson at £600m and would be structured as a takeover by Rathbones. Analysts view it as a good cultural fit.

The announcement follows on from the acquisition of investment manager Hargreave Hale by financial services group Canaccord Genuity last month. (DS)

The DIY Investor competition winners

TWO WEEKS AGO we ran a competition offering five free copies of Andy Bell's *The DIY Investor* book and we're pleased to announce the winners who were picked at random from the large number of entries.

Rachel Conway, Bristol
Andrew Warren, Bromley
Craig Russell, Rotherham
Martine Storey, Manchester
Robert Bottomley, Reading

Congratulations!
Your books are now in the post.

Zinc trading at a 10-year high

THE PRICE OF zinc hit a new 10-year high of $3,180.50 per tonne on 21 August amid supply issues. Falling inventory levels, the closure of exhausted mines and production cutbacks have all contributed to the price movement.

Zinc-related stocks on the London stock market include **Griffin Mining (GFM:AIM)** and **Vast Resources (VAST:AIM)** among the juniors; and **Vedanta Resources (VED)** and **Glencore (GLEN)** among the large caps. (DC)

AJBell FIT Awards2017

Voting is open for the AJ Bell
Fund & Investment Trust (FIT) Awards!


You are invited to have your say on who *you* believe to be the best investment funds and trusts in the UK marketplace.

An expert panel of investment professionals have already narrowed down the choices available to create a final shortlist of 6 investment funds or trusts in 15 award categories.

The award categories have been chosen to reflect how you, as investors, typically look for an investment, therefore cover all major regions, sectors and markets.

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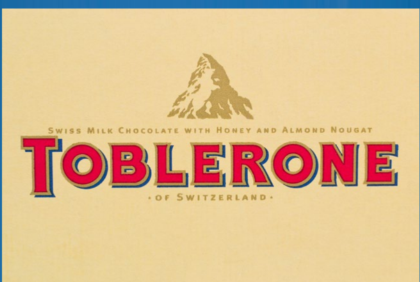
Shrinkflation sparks competition

2,500

THE NUMBER of products which have fallen prey to so-called shrinkflation and reduced in size since 2012, according to data from the Office for National Statistics. One of those is Mondelez's Toblerone which came under fire last year as it underwent a dramatic shape change to reduce the number of triangles on a bar. This week Poundland, which is planning to launch a rival Twin Peaks bar, claimed that Toblerone is no longer distinctive enough to be a valid trademark as it defended its right to sell a treat to compete.



1.8% ASDA SALES SUGGEST SUPERMARKET STRENGTH

SALES AT supermarket Asda were up 1.8% in the second quarter of the year, as consumers splashed out over Easter – it's the first time the firm has reported positive quarterly sales figures for three years. Official figures show that UK retail sales were up by 0.3% overall, despite fears that rising inflation would squeeze household budgets and slow shopping. Asda's sales uptick comes after it reported its worst ever quarterly performance last year when sales slumped 7.5%. Walmart chief executive Doug McMillon said he was encouraged by the latest UK sales figures.

$648m Most popular UK equity fund

DESPITE THE ECONOMIC and political uncertainty in the UK, **Lindsell Train's UK Equity Fund (GB00B18B9X76)** has attracted $648m in new money this year. This makes it the best selling active UK equity fund according to data from fund information provider Lipper.

Managed by Nick Train, it's top holdings are FTSE 100 stalwarts **Diageo (DGE)**, **Unilever (ULVR)** and **RELX (REL)**.

FDA

28

NEW DRUG APPROVALS EASE FEARS OF A REGULATORY SLOWDOWN

DRUG APPROVALS by the US Food and Drug Administration (FDA) are making a strong comeback after a lull in 2016. Market intelligence firm Evaluate says 28 new drugs were given the green light in the year to 19 July 2017, which has already exceeded the 26 approved in 2016.

Evaluate believes the FDA is on track to approve up to 43 new drugs this year and hopes this will address fears of a regulatory or innovative slowdown.

$1.67BN

DINOSAUR FILM *Jurassic World* was the fourth highest grossing film of all time and the second highest grossing film of 2015 raking in more than $1.6bn.

This bodes well for **Frontier Developments (FDEV:AIM)** whose third computer game franchise is set to be *Jurassic World Evolution*, launching in summer 2018 to coincide with the release of the latest Jurassic Park film, *Jurassic World: Fallen Kingdom*.

HIGHEST YIELDING UK STOCKS

Company	Forecast dividend yield (%)
NAHL (NAH)	12.1
Cenkos Securities (CNKS)	11.3
Epwin (EPWN)	9.9
Connect (CNCT)	9.5
SCS (SCS)	9.5
Petrofac (PFC)	9.1
Debenhams (DEB)	8.4
Gattaca (GATC)	8.1
Tavistock Investments (TAVI)	8
Bonmarche (BON)	8

Source: SharePad 22 August 2017

UK STOCKS WITH **HIGHEST** FREE CASH FLOW DIVIDEND COVER

Company	Trailing FCF divi cover
Hollywood Bowl (BOWL)	71.5
Blancco Technology (BLTG)	39.2
Paragon of Companies (PAG)	21.9
Barclays (BARC)	19.5
Rathbone Brothers (RAT)	19.5
Safeland (SAF)	16.4
Triad (TRD)	15.6
JD Sports Fashion (JD.)	15.1
Ideagen (IDEA)	15
North Midland Construction (NMD)	15

Source: SharePad 22 August 2017

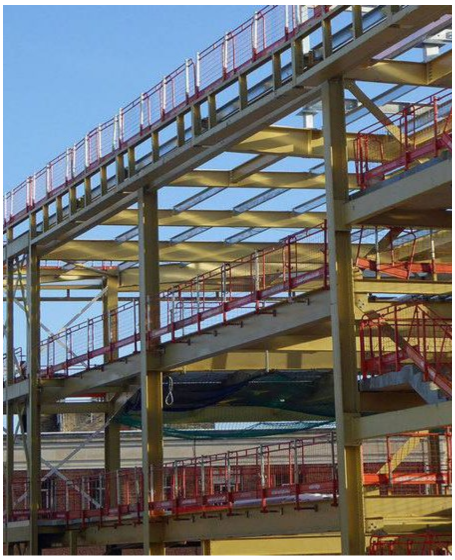
Get in quick with this unsung small cap hero

Steelwork contractor is primed for new growth spurt

There are plenty of companies on the stock market unfamiliar to many investors, despite them having delivered solid capital gains and dividends for shareholders. It's our job to put these companies on your radar and this week we've selected Barnsley-headquartered **Billington (BILN:AIM)** which we consider to be an unsung hero.

The structural steel specialist is now positioned for growth following a gradual recovery from the financial crisis-driven cyclical downturn nearly a decade ago. Growth plans are underpinned by a robust balance sheet.

The company is boosting capacity by up to 50% as it brings its newly acquired Shafton site up to the mark. The company is also close to 'materialising' opportunities for European expansion 'in the near future' according to chief executive Mark Smith.



BILLINGTON BUY
(BILN:AIM) 252.2pp
Stop loss: 202p

Market cap: £32m

THE NEXT CATALYST FOR THE SHARE PRICE

We believe first half year results in September could act as a catalyst for a share price which currently looks good value. The stock trades on an undemanding price-to-earnings ratio of 8.7 and yields more than 4%, based on consensus forecasts.

The company is number three in the UK steelwork contracting market behind the leading player **Severfield (SFR)**. The company tells *Shares* it has around 8% of its addressable market.

Steel companies enjoyed margins of around 10% before the recession almost a decade ago. In 2016 Billington's margin was 6% and the company says it will not get back to pre-recession levels 'overnight', noting it is happier with a 'slow and steady improvement' in profitability rather than risking a 'boom and bust' scenario.

MANAGING THE RISKS

The UK construction space has seen some high profile profit warnings this year but Billington's management is keen to stress that it has kept away from the likes of troubled services group **Carillion (CLLN)**, adding they credit insure all their business.

Billington works for around 10 major contractors with none accounting for more than 10% of its overall revenue.

It operates in a cyclical industry and currently faces an escalation in steel material prices. On fixed price contracts it has had to endure some pain although elsewhere it has passed on these costs to its clients.

The latest news flow has been positive. On 4 August it won two contracts worth £14m from two 'prominent' contractors working on a large distribution centre in the South West and a facility for a London University. (TS)

BROKER SAYS: 1 0 0

Shining a light on Midwich's bright future

AV distributor is growing fast and pays a healthy dividend

The world of audio visual (AV) equipment has changed radically since **Midwich (MIDW:AIM)** started life in the 1970s. At that point, the products it dealt in were mainly overhead projectors. Today the technology has moved on but the company has kept pace.

Midwich's managing director Stephen Fenby describes the business as sitting 'between the manufacturer and the customer' liaising with both to find the right solution for the client's need.

The company serves a vast range of clientele, from individuals to large corporates. Its job is to supply them with whatever AV equipment they need to present information to their staff, customers or in the case of universities and schools, students.

When asked why doesn't the manufacturer simply cut out the middle man, Fenby is candid enough to admit they sometimes do. But not often enough to halt the company's consistent growth.

MIDWICH ↗ BUY
(MIDW) 374p
Stop loss: 299.2p

Market cap: £305.28m

Midwich's revenues even grew through the financial crisis years of 2008- 2009, from £173m in 2008 to £184m in 2009. Before joining AIM in May 2016, the company executed six bolt-on acquisitions between 2006 and 2010. This supported entry into the French and Irish markets.

It has since gone into Germany as well as Australia and New Zealand. Across Australasia as a whole, the company enjoyed 42.8% revenue growth from 2015 to 2016. It acquired Wired in New Zealand which helped lay foundations for this rapid growth in revenue from the country.

BIG NAMES ON ITS CLIENT SHEET

Among the list of manufacturers that Midwich works with are top tier names including Samsung, Sony, Panasonic, Philips and LG to name a few of the 300 partners the company has.

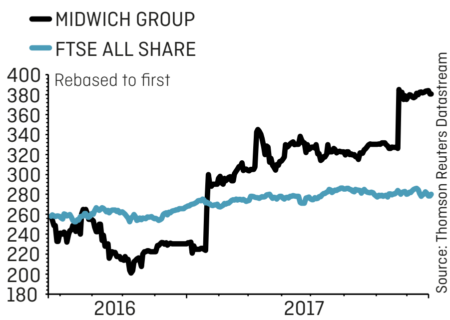
There is also plenty of diversification in its business model, serving as it does around 10,000 individual customers, many of which are intermediaries for the eventual end user.

Analysts upgraded their forecasts after Midwich confirmed they will be 'comfortably ahead' of expectations in July and research firm Whitman Howard has since increased its target price to 450p implying over a 20% upside.

It also raised its UK revenue forecasts from £270m to £280m. The company is trading on a forecast 2018 price to earnings ratio 16.3-times and pays a dividend yield of 3.3%. This valuation should be more than justified as long as the company can sustain levels of expansion which have delivered a three year compound annual growth rate in pre-tax profit of 13%.

And with AV technology constantly adapting to serve new purposes, for example fast food outlets allowing you to order a meal using touch screen technology, there should be plenty of scope for growth. First half results are out on 12 September.

BROKER SAYS: 1 0 0



BLUEJAY MINING
(JAY:AIM) 18.5p

Gain to date: 34.5%

Original entry point:

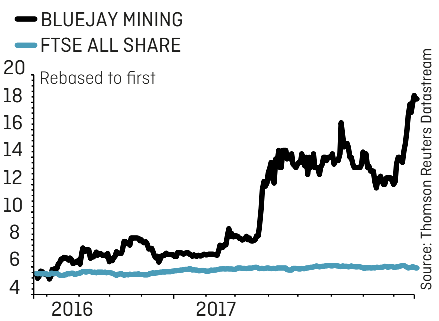
Buy at 13.75p, 13 April 2017

SHARES IN THE MINERAL sands explorer have been on a strong run since late July. We attribute this success to positive feedback from an analyst site visit to its Pituffik project in Greenland and better than expected drill results.

Chief executive Roderick McIllree says the first drill hole immediately east of its current resource area has intersected 'what appears to be extremely high-grade ilmenite bearing material throughout the entire 5.5m hole depth'. He calls this 'a remarkable outcome'.

A new drill rig has shown minerals sands to a depth in excess of 30m in some areas. Broker SP Angel says this is 'dramatically' better than its depth expectations and comments that Pituffik appears to be 'an exceptional deposit'.

'It is too early to give an accurate estimate as to the eventual scale of the mineral sands at Pituffik but it is easy to make the assumption that the resource should expand to a significant multiple of the current and relatively conservative SRK estimate of 23.6mt grading 8.8% ilmenite,' says the broker.



SHARES SAYS: ↗

We remain positive on the stock and continue to rate it as a 'buy', even after the recent share price rally. (DC)

BROKER SAYS: 1 0 0

CINEWORLD
(CINE) 681p

Gain to date: 7.8%

Original entry point:

Buy at 632p, 16 March 2017

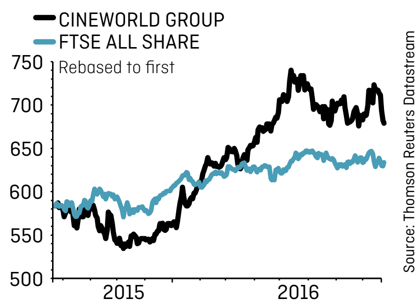
'IN A DULL leisure sector Cineworld continues to be a lone shining star,' says N+1 Singer analyst Sahill Shan. We agree, yet find it perplexing that the shares have drifted downwards since a very impressive set of half-year results on 10 August.

In those numbers, Cineworld reported 57.5% rise in pre-tax profit to £48.2m and a 15.4% increase in the dividend to 6p per share. Net cash generated from operating activities increased to £65.9m from £44.4m a year earlier.

Of great interest to us is the fact that Cineworld's non-UK business had higher earnings before interest, tax, depreciation and amortisation (EBITDA) than the UK for the first time, showing a £44.3m performance versus £40m from the domestic territory.

Many people forget Cineworld operates in multiple countries and is not entirely dependent on UK consumer spending. It has overseas operations in Poland, Israel, Hungary, Czech Republic, Bulgaria, Romania and Slovakia.

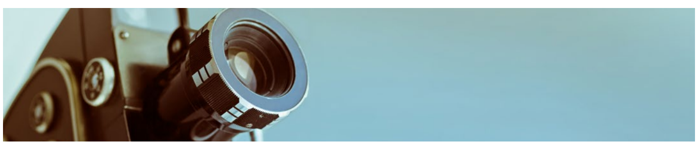
'Management has a stated ambition to continue consolidating the European cinema market with select accretive acquisitions. At 1.6x, net debt/EBITDA is well below the 2.5x that management is comfortable with, suggesting that M&A could be on the cards,' says investment bank Berenberg.



SHARES SAYS: ↗

An essential stock to own. Buy at 681p. (DC)

BROKER SAYS: 8 4 1



CAPITAL DRILLING
(CAPD) 39.5p

Loss to date: 20.8%

Original entry point:
Buy at 49.9p

HAVING EARLIER THIS year enjoyed a tidy paper profit on our **Capital Drilling Trade**, issues affecting miners and their service companies in Tanzania mean now we are losing money owning these shares. Don't panic.

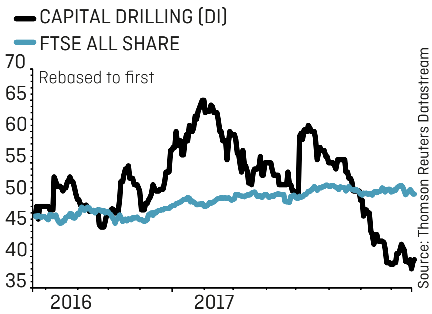
We believe the stock won't stay weak for long. Indeed, this is starting to look like a potential takeover target – perhaps for an oil services company looking to diversify sector exposure.

Capital Drilling's shares have been weak due to having two clients in Tanzania where the government is trying to extract more money from mining companies through various means. For example, this year has seen a ban on exporting unprocessed ore as a way of encouraging companies to build processing facilities in-country.

That's caused disruption to some gold mines as material cannot be sold so operations are being wound down. But, importantly, other mines still run as normal as they are producing dore bars which are still allowed to be exported.

One third of Capital Drilling's market value has been wiped off since May due to Tanzania exposure and lower guidance for dividend payments as cash is needed to be spent on additional equipment in order to service the resurgence in the mining industry.

Yes, some downgrade to the share price is warranted as additional work in Tanzania may prove harder to get near-term as miners could be cautious about spending more money until there is a resolution with the government. Capital Drilling has also seen drilling work in Serbia conclude four months earlier than expected.



These issues have led the company to say full year revenue may now come in at the lower end of its previous \$120m-\$130m guidance.

While that's disappointing, we think the severity of the share price fall is an overreaction, particularly as its two Tanzania contracts involve drill work on mines unaffected by the government's new rules. It also has plenty of work in other countries such as Egypt, Mali and Mauritania.

Broker Tamesis says the company is now trading on a mere 2.1 time enterprise value to earnings before interest, tax, depreciation and amortisation (EV/EBITDA). That's significantly below the 5-6 times EBITDA multiples at which established service companies should be trading, it says.

SHARES SAYS:

We selected Capital Drilling as one of our top picks for 2017 in the belief that the mining industry had returned to good health and would be more active with exploration and development work. That view is still valid.

The company has a \$3.3m net cash position, pays dividends and is enjoying its fastest rig utilisation rate for five years. Those credentials, together with a more positive industry backdrop (excluding Tanzania) and very cheap valuation, lead us to believe that Capital Drilling could receive an opportunistic takeover bid before long. (DC)

FRIDAY 25 AUGUST

INTERIMS	
BOOT HENRY	BOOT
AGMS	
SYSGROUP	SYS
ECONOMICS	
UK	
BBA MORTGAGE APPROVALS	

TUESDAY 29 AUGUST

INTERIMS	
BUNZL	BNZL
GLOBALTRANS INVESTMENT	GLTR
AGMS	
BANK OF CYPRUS HOLDINGS	BOCH
CALCULUS	CLC
CADENCE MINERALS	KDNC

WEDNESDAY 30 AUGUST

INTERIMS	
VIMETCO	42GD
BATM ADVANCED COMMUNICATIONS BVC	
CATHAY INTERNATIONAL	CTI
FISHER (JAMES) & SONS	FSJ
THE GYM GROUP	GYM
HSS HIRE	HSS
MEGAFON	MFON
PURETECH HEALTH	PRTC
TRADING STATEMENTS	
DIPLOMA	DPLM
AGMS	
NEW TREND LIFESTYLE	NTLG
ECONOMICS	
UK	
NATIONWIDE	HPI

THURSDAY 31 AUGUST

INTERIMS		
ALFA FINANCIAL SOFTWARE	ALFA	
ARROW GLOBAL	ARW	
BBGI SICAV	BBGI	
CHESNARA	CSN	
LADBROKES CORAL	LCL	
THE RESTAURANT GROUP	RTN	
STV GROUP	STV	
AGMS		
HIGHLANDS NATURAL RESOURCES	HNR	
SIMIAN GLOBAL	SMG	
ECONOMICS		
UK		
GFK CONSUMER CONSUMER		
EX-DIVIDEND		
ABERDEEN EMERGING MARKETS INVESTMENT COMPANY	AEMC	5P
ARBUTHNOT BANKING	ARBB	14P
ASCENTIAL	ASCL	1.8P
ALLIANCE TRUST	ATST	3.29P
AUTO TRADER	AUTO	3.5P
CENTAMIN	CEY	$0.03
CHEMRING	CHG	1P
CRODA INTERNATIONAL	CRDA	35P
DOWNING 4 VCT	D467	2P
GLOBALDATA	DATA	3P
DOWNING STRUCTURED OPPS VCT 1	DO1D	2.5P
ESURE	ESUR	4.1P
FIH	FIH	4P
FOXTONS	FOXT	0.43P
FIRST PROPERTY GROUP	FPO	1.15P
HAMMERSON	HMSO	10.7P
IMPELLAM	IPEL	7P
JPMORGAN AMERICAN IT	JAM	2.25P
LPA GROUP	LPA	1.05P
NCC GROUP	NCC	3.15P
NATIONAL EXPRESS	NEX	4.26P
PREMIER ENERGY & WATER TRUST	PEW	1.9P
PERSONAL ASSETS TRUST	PML	140P
RIGHTS & ISSUES INVESTMENT TRUST	RIII	10.25P
ROBERT WALTERS	RWA	2.75P
STAGECOACH	SGC	8.1P
STANDARD LIFE SMALLER COMPANIES TRUST	SLSC	1.75P
SOLID STATE	SOLI	8P
ST JAMES'S PLACE	STJ	15.41P
WALKER CRIPS	WCW	1.29P
XAFINITY	XAF	0.73P

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Investors may look for an update on how **Ladbrokes Coral (LCL)** might respond to stricter regulation of fixed odds betting terminals when it announces first half numbers on 31 August. A reduction in the maximum stake which can be placed on the machines could lead to a big hit to profitability. However, recent reports suggest Chancellor Philip Hammond may want to scrap any review of the machines due to the tax revenue they deliver.

Business supplies firm **Bunzl (BUNZ)** releases its half year to 30 June results on 29 August and investors will be hoping for confirmation of revenue growth.

The company, involved in supplying businesses and schools with items such as toilet paper, announced in June that it expects its revenue to be up 7% for the first half, thanks to acquisitions and currency movements.

Is *Frankie & Benny's* owner **Restaurant Group (RTN)** on the road to recovery?

When Restaurant Group reports its half year results on 31 August, the market should focus on sales numbers to determine whether its turnaround strategy is paying off.

Last year, the decision to hike prices and remove value offers and popular dishes deterred customers and triggered several profit warnings. (LMJ)

Micro Focus a total returns rare breed

IT firm taking on its biggest value extraction challenge ever

Newbury-based **Micro Focus (MCRO)** is an excellent example of a high returns stock market story. Underpinned by operational excellence that delivers consistently high margins and enormous cash generation. For years it concentrated on earnings quality and cash, but now it has also added growth to the mix.

Micro Focus provides software refresh products and functionality to legacy IT systems. Many large organisations have years of investment stacked up in their IT systems. Ripping them out and starting again is out of the question. This makes adapting this creaking infrastructure to meet technological changes – cloud computing, e-commerce, mobile applications, for example – a high prize. This is where Micro Focus comes in, with its years of expertise in core computing languages, such as COBOL, Linux and the open source SUSE suite.

FINANCAL MUSCLE

In the 12 months to 30 April 2017 the company generated adjusted operating profit of $638.1m on $1.38bn revenue for a 46.2% operating margin. The adjustments strip out software amortisation, acquisitions costs and share-based payments to staff. It generated $452.4m of operating cash flow, easily covering borrowing costs, tax payments and the rough $177.5m of dividends paid out.

Those margins are protected largely by the legacy software licenses and subscriptions (about 44% of revenue) that Micro Focus supplies to a large installed base, plus maintenance fees thereafter (52% of revenue).

Micro Focus's superior total returns

	TSR 2016	TSR 2015	TSR 2014	TSR 2013	TSR 2012	TSR 2011	TSR 2010	TSR 2009
Micro Focus	40.0%	56.0%	50.3%	50.1%	65.3%	15.8%	-10.3%	62.7%
Average	0.8%	17.0%	31.9%	36.3%	13.4%	1.4%	34.6%	142.1%

TSR = total shareholder return
Source: Stifel

The rest comes from a small IT consulting unit.

Where management have been particularly effective over the last few years is efficiently managing its very large product portfolio to maximum effect. It has also bought in new product lines, improved operating efficiency and dragged those margins up by the boot straps.

PROVEN VALUE EXTRACTOR

This is perfectly illustrated by the acquisition of US IT services peer Attachmate. Bought for $2.35bn in 2014, at the time it was generating 33% margins on an earnings before interest, tax, depreciation and amortisation (EBITDA) basis. These were improved to 46% over the next 18 months.

The company is now facing its biggest growth and integration challenge ever having agreed to merge with the Hewlett Packard Enterprise Services (HPES) business in an $8.8 billion deal. HPES supplies data centre software and hardware across five main areas; IT operations management, application delivery management, cyber security, information management and data analytics, the latter division includes Cambridge-founded Autonomy.

Technically a reverse takeover (HPES shareholders will own 50.1% of the combined entity on completion, existing Micro Focus investors the other 49.9%), the combined business will have revenues of $4.5 billion and $1.4bn of earnings before interest, tax, depreciation and amortisation (EBITDA), before merger cost savings.

Those numbers are based on current HPES EBITDA margins in the low to mid-20s in percentage terms, far below Micro Focus's 47% last year. If bridging that margin gap sounds like a tough ask, even for Micro Focus, it is worth pondering comments of HPES chairwoman Meg Whitman when the deal was announced, referring to how such margin improvements may stack up.

'This is what Micro Focus does,' she simply stated.

The deal was voted through by shareholders in May and will officially complete in early September. HPES is believed to have several institutions on the register with a US-only investment remit, and their exit likely explains why the Micro Focus share price has weakened over the past three months, falling from £26.55 to the current £21.00.

> **BETWEEN 25 MARCH 2011 AND 31 OCTOBER 2016, MICRO FOCUS RETURNED 710.8M, OR 111.9% OF ITS AVERAGE MARKET CAPITALISATION DURING THAT PERIOD**

TOTAL RETURNS SUPERSTAR

Which makes now a great opportunity to get in on one of the UK market's great total return investments. Combining capital and income. Micro Focus paid out $5.51 per share in dividends since 2011, according to numbers crunched by Stifel analyst George O'Connor. It is due to make an extra $2.13 payout to shareholders once the HPES deal closes, so $7.64, or £5.89 at current exchange rates.

That works out at more than the value of the 566.9p share price at which Micro Focus began 2011. Since then the stock has soared 270%, and that's after recent declines. Adding these capital returns to the income above gives us the total shareholder return shown in the table, supplied by Stifel's O'Connor.

Most analysts are waiting for the HPES deal to complete before putting combined entity forecasts into the market although Numis has set the early pace. It anticipates $1.78 of earnings per share for the extended year to 31 October (the year end will change from 30 April), rising to $2.05 in the October 2019 12 months.

The implied price to earnings multiple of 15.3 falling to 13.3 is a far cry from the ratings we have become used to for technology sector companies, which often run to 20, 30-times or higher. By 2019 we wouldn't be surprised to see a return of surplus cash being returned to investors by way of special dividends too.

SHARES SAYS: ↗

We have been long-run fans of Micro Focus for its superb operational track record and its superior returns, and nothing has changed. (SF)

BROKER SAYS: 5 3 2

Why BAE Systems' share price slump might be over

We take a look at the defence expert following a difficult period on the stock market

The recent flair up in tensions between North Korea and the US has offered defence company **BAE Systems (BA.)** some temporary reprieve from its earlier share price slump, helping it to stabilise around the 585p level.

The value of its shares had previously declined from 677p in mid-June to 575p in mid-August, a fall of 15%.

BAE hit a milestone on 17 August, having produced 10% of its production requirement for the fighter jet the F-35 Lightening II.

The F-35 production deal is the world's largest single defence programme and signals BAE as a true global defence player.

Despite this milestone, BAE is not flavour of the month for everyone. David Perry, analyst at investment bank JP Morgan Cavenove, says '(BAE) is not a very interesting stock in our view given lack of growth for at least 18 months'.

Perry is concerned about political and economic uncertainty in the UK and Saudi Arabia as these two markets make up for around 40% of BAE's sales.

He's also worried by the company's £5.9bn pension deficit that requires significant cash funding and impacts any valuation of BAE using enterprise value as a metric.

However, other financial institutions see value in the company. For example, Goldman Sachs added the company to its conviction list on 15 August. The investment bank also raised its target price to 750p from 742p implying 28% upside over

the next 12 months.

The company's first half results (2 Aug) surprised some investors as its free cash flow figure of £70m was much better than expected.

Other analysts see plenty of growth opportunity for BAE and we share this bullish view.

Ben Fidler at Deutsche Bank sees the company's first half results as a return to earnings growth and believes that the outlook for organic growth remains favourable. This is despite some trail-off in Eurofighter revenues for 2018.

Using Deutsche Bank's figures, BAE trades on a forecasted 2017 price to earnings ratio of 15.1-times. This is a discount to its peers and also has a dividend yield in the region of 3.7%.

> THE COMPANY'S FIRST HALF RESULTS (2 AUG) SURPRISED SOME INVESTORS AS ITS FREE CASH FLOW FIGURE OF 70M WAS MUCH BETTER THAN EXPECTED

SHARES SAYS: ↗

As the war of words returns between North Korea and the US as the latter engages in a joint military exercise with South Korea, BAE's share price might tick up as military solutions are sought.

However, it is worth considering that increased geopolitical tension might be negative for investor sentiment across the board. Ultimately we rate BAE as a solid investment on a long-term view. Buy at 584.5p. (DS)

BROKER SAYS: 12 6 2

Zotefoams is one of our favourite chemical stocks

The company's expansion of its US site will increase global capacity by 20%

Materials technology firm **Zotefoams (ZTF)** is one of our top picks in the chemicals sector thanks to healthy profit margins and strong investment in the business to keep it competitive.

Zotefoams manufactures lightweight polyolefin foams and sells high performance products. It also licenses its MuCell technology to deliver stronger and more cost-effective packaging.

The £145m cap business plans to expand its US facility in Kentucky, which is anticipated to start-up in the final quarter of this year, increasing global capacity by 20%. Extra capacity will be used to service existing demand and can be doubled or even trebled, according to the company.

It is also pouring money into technology enhancement and product range expansion to encourage further growth.

In the first half of the year, Zotefoams reported sales growth across all divisions including sales in its MuCell division surging 77% to £1.96m, driven by its largest individual equipment order to date.

Investec analyst Thomas Rands is impressed with the latest update (8 Aug), highlighting that 'long anticipated growth' is starting to emerge in the polyolefins and high performance product (HPP) divisions.

Polyolefin foam sales grew by 8% in the half year period. They account for approximately 80% of overall revenue. That was thanks to strong volumes, higher selling prices and investment in Zotefoam's Midwest facility.

In HPP, revenue rose 40% in constant currency thanks to a strong ramp-up in foam sales for sports equipment, as well as significant growth in insulation products.

Zotefoams hopes to continue its impressive performance by taking advantage of key trends by using fewer materials and making its product range more lightweight.

The company plans to tap into high growth markets such as high performance packaging materials for the aerospace industry and focus on application-specific products in different parts of the world.

For example, demand for high performance materials is expected to grow in Asia, while India will require products to improve ventilation as the country's focus on pharmaceutical production intensifies.

N+1 Singer analyst James Tetley is impressed by Zotefoams' performance as the firm reached 48% of his forecast pre-tax profit of £8.4m in the first half of 2017. He believes profit will jump to £10.4m by the end of 2018.

Tetley also reckons the MuCell division has significant potential as it can speed up the conversion of royalty generating customers.

SHARES SAYS: ↗
We still believe that Zotefoams is a compelling investment as it takes advantage of key trends and increases capacity to support growing demand. Buy at 327.5p. (LMJ)

BROKER SAYS: 4 0 0

Toy group to show its Character

Portfolio of iconic brands leave toy company well-placed for Christmas

Recent share **Character (CCT:AIM)** is a buying opportunity. Elevated sourcing costs and a worsening UK consumer backdrop are headwinds but a trading update next month could flag strong appetite for its brands as retailers stock-up on Character's 'must-have' toys for Christmas.

Character's diversified portfolio of iconic brands appeal to successive generations of children and help make the business resilient. Panmure Gordon remains a buyer with a 635p price target implying 35% potential upside.

The broker views the extension (14 Jul) of Character's license for smash hit pre-school property *Teletubbies* for an additional three years as a positive, demonstrating the confidence that Teletubbies intellectual property (IP) holder DHX Brands has in Character's ability to develop and commercialise the toy product portfolio.

Character has held the brand license for *Peppa Pig* since 2004, while other top brands include *Little Live Pets*, *Minecraft*, *Scooby Doo* and *Fireman Sam*.

For the year to August 2017, Panmure

forecasts pre-tax profit of £15.4m, rising to £16.4m in August 2018. Based on estimated earnings of 54.9p and a forecast 21p dividend for the latter period, Character swaps hands for a modest 8.6 times forward earnings, while investors are being paid a 4.5% yield while they wait for the shares to move higher.

SHARES SAYS: ↗

Buy Character at 470p for its resilience and discounted valuation. (JC)

BROKER SAYS: 1 0 0

Yolo makes bold claim

TECH AND LEISURE investor **Yolo Leisure and Technology (YOLO:AIM)** says one of its investee companies is launching a streaming music service to challenge the likes of Apple Music and Spotify.

Yolo has a 41.4% interest in Magic Media which has launched a service called ROXI. Although the new service has licence agreements with Universal, Sony and Warner, its rivals have very entrenched positions. (TS)

Victoria gets Cameroon well boost

SHARES IN CAMEROON gas producer **Victoria Oil & Gas (VOG:AIM)** are in demand after a bullish update from its Logbaba natural gas field (17 Aug). The La-207 development well is expected to be a 'substantial producer' according to chief executive Ahmet Dik. Year-to-date the shares are up 68% to 58.75p. (TS)

AorTech shares soar on financial update

HEART VALVE DEVELOPER **AorTech International (AOR:AIM)** saw its shares almost double in value last week to 21.25p after saying it had moved into an operating profit and costs had been reduced. The shares have since eased back to 16.75p at the time of writing. The company remains in an extended legal dispute with former chief executive Frank Maguire. (TS)

MARKET GIANTS

THE BIGGEST AND BEST UK STOCKS

Size matters. The UK's largest stocks are typically easy to buy and sell, hold dominant market positions, are often diversified across several different areas and typically generate plenty of cash which can be returned to shareholders through generous dividends.

'Economies of scale' also make it cheaper for these market giants to buy in goods and services and allow them to manufacture their own products more efficiently. In this article we look at the ten largest companies by market value from the FTSE 100 – itself made up of the 100 largest firms on the Main Market.

We also look at the top 10 mid cap stocks from the FTSE 250 and AIM's 10 largest constituents. From each of these lists we pick out one name which warrants further examination.

FTSE 100 TOP TEN

MANY OF THE largest firms from the FTSE 100 will already be familiar to most investors.

Top of the tree is the Anglo Dutch oil company **Royal Dutch Shell (RDSB)** which is valued by the market at an eye-watering £176bn. Shell is attempting to reduce its reliance on crude oil, shifting at least some of its focus towards natural gas and, as we discussed in last week's Editor's View electricity. Its rival **BP (BP.)** is number five on the list. Both companies have high dividend yields of around 7%.

If the market starts to believe these dividends can be maintained the yields should fall or, in other words, their share prices should rise.

In second place is Europe's largest bank **HSBC (HSBA)** which has seen its shares enjoy a strong run as its overseas earnings are boosted by the weak pound, a robust balance sheet allows it to return cash to shareholders and the business begins to return to growth after years of contraction.

Tobacco manufacturer **British American Tobacco (BATS)** has recently suffered a hit after plans were unveiled by the US Food & Drug Administration (FDA) to limit the amount of nicotine in cigarettes.

Mining companies **BHP Billiton (BLT)** and **Rio Tinto (RIO)** have been working to increase the efficiency of their operations to cope with volatile commodity prices. Activist investor Elliot Partners has ramped up pressure on BHP to sell its US shale operation, recently increasing its stake in the miner to 5% (16 Aug).

The list is rounded off by pharmaceutical business **GlaxoSmithKline (GSK)**, which in July announced plans to sell 130 non-core products in an attempt to reduce costs, spirits maker **Diageo (DGE)** and mobile telecoms titan **Vodafone (VOD)**. The latter recently reiterated guidance for 2017 earnings growth of 4% to 8%. (TS).

FTSE 100 TOP TEN

Company	EPIC	Market cap
Royal Dutch Shell	RDSB	£175.2bn
HSBC	HSBA	£147.6bn
Unilever	ULVR	£126.6bn
British American Tobacco	BATS	£109.2bn
BP	BP.	£86.7bn
GlaxoSmithKline	GSK	£73.2bn
BHP Billiton	BLT	£71.4bn
Diageo	DGE	£64.7bn
Rio Tinto	RIO	£61.5bn
Vodafone	VOD	£58.5bn

Source: SharePad, 18 August 2017

FTSE 100 GIANT IN FOCUS

UNILEVER (ULVR) **£44.31**

ANGLO-DUTCH PACKAGED consumer goods giant **Unilever (ULVR)** is the FTSE 100's third biggest constituent by market value and while mindful of a demanding rating, we're staying positive on the PG Tips, Persil, Dove, Hellmann's, Dollar Shave Club and Ben & Jerry's brand owner, dubbed a 'compounding wonder' and 'dividend machine' by revered UK fund manager Nick Train.

Unilever's share price surged in February following a $143bn takeover offer from Kraft Heinz, the mooted megamerger only serving to highlight the unlocked value in the £56.41bn cap FTSE 100 stalwart.

Paul Polman-led Unilever successfully batted away the bid but was effectively forced into a strategic review (6 Apr). This outlined the acceleration of Unilever's 'Connected 4 Growth' programme and the targeting of a 20% underlying operating margin by 2020, with cost cutting, increased capital returns and fresh acquisition activity of its own also on the menu.

Unilever's 'Connected 4 Growth' programme and review are making the company more agile, both from a cost and organic sales growth perspective.

We're fans of the fundamentals of Unilever, a unique business on the stockmarket which would leave a gaping hole in portfolios were it to be taken over. Entrenchment in the supply chains of its retailers is the source of Unilever's wide economic moat, its earnings are reasonably predictable, fantastic brands confer pricing power, while strong cash flows have enabled Unilever to consistently grow its dividend in real terms for decades. In addition, it has global reach and is at the foothills of its growth in emerging markets with burgeoning ranks of middle class consumers hungry for branded wares.

ULVR – 'DIVIDEND MACHINE'	
2016 (A)	£1.21
2017 (E)	£1.28
2018 (E)	£1.35
2019 (E)	£1.43

Source: Liberum Capital, Company data

Following first half results (20 Jul), showing a strong margin performance, growth ahead of its target markets and with management calling a recovery in emerging markets, Berenberg reiterated its 'buy' rating on Unilever, upgrading its price target from £48.50 to £50.75.

It is also worth reminding readers that on 9 July, Pablo Zuanic, an analyst at trading firm Susquehanna, argued that a hostile takeover approach from Kraft Heinz is more than 75% likely to happen. He noted the company has made no moves on M&A since its aborted pursuit of Unilever, implying that the FTSE 100 member remains its prime acquisition target. Zuanic believes Unilever would now cost close to $200bn to buy given the increase in its share price and the likely need for a 20% premium to entice shareholders to sell. (JC)

MID CAP TOP TEN

LONDON'S FTSE 250 'second liners' are headed up by **Investec (INVP)**, the £5.3bn specialist bank and asset manager, with London high-end housebuilder **Berkeley (BKG)** in second spot, a reflection of founder and chairman Tony Pidgley's legendary ability to call the housing market and reward shareholders with profits growth and copious capital returns.

Third place in the market cap rankings goes to a perhaps less familiar name to investors, recycled packaging supplier **DS Smith (SMDS)**, which has risen through the market cap ranks by delivering strong organic growth with customers across Europe as well as strategically canny acquisitions and consistently strong dividend growth under the stewardship of CEO Miles Roberts since 2010. 'Although economic conditions remain uncertain, our innovation-led offering, the scale of our operations, and the momentum in the business gives us confidence in further growth and sustainable returns in the years ahead,' assured Roberts at the time of the display packaging play and progressive dividend payer's full year results (29 Jun).

Other top 10 constituents of the FTSE 250 include **Halma (HLMA)**, the resilient global maker and seller of equipment demanded by health, safety and environmental rules, as well as valves, pumps and control systems star turn **Spirax-Sarco (SPX)**. **NMC Health (NMC)**, the largest private healthcare provider in the United Arab Emirates (UAE), floated at 210p in 2012 and this *Great Ideas* selection is now knocking on the door of the FTSE 100, while another high-flying mid cap marvel is the online takeaway ordering system **Just Eat (JE.)**. (JC)

FTSE 250 TOP TEN

Company	EPIC	Market cap
Investec	INVP	£5.3bn
Berkeley	BKG	£5.04bn
DS Smith	SMDS	£5.01bn
NMC Health	NMC	£4.7bn
Melrose Industries	MRO	£4.5bn
Capita	CPI	£4.4bn
Just Eat	JE.	£4.35bn
Halma	HLMA	£4.2bn
Spirax-Sarco Engineering	SPX	£4.1bn
Polymetal	POLY	£4bn

Source: SharePad, 18 August 2017

MID CAP GIANT IN FOCUS

JUST EAT (JE.) **631.5P**

JUST EAT OPERATES an online and mobile marketplace for takeaway food, sporting operations in 13 regions and more than 64,000 takeaway restaurants.

Floated on the Main Market in April 2014 at an offer price of 260p, Just Eat's share price rise reflects stellar growth in an expanding takeaway market, the beating of top-line growth expectations and excitement surrounding scale-building acquisitions. These include France's ALLORESTO, Menulog, SkipTheDishes and hungryhouse from Delivery Hero, a deal under investigation by the CMA.

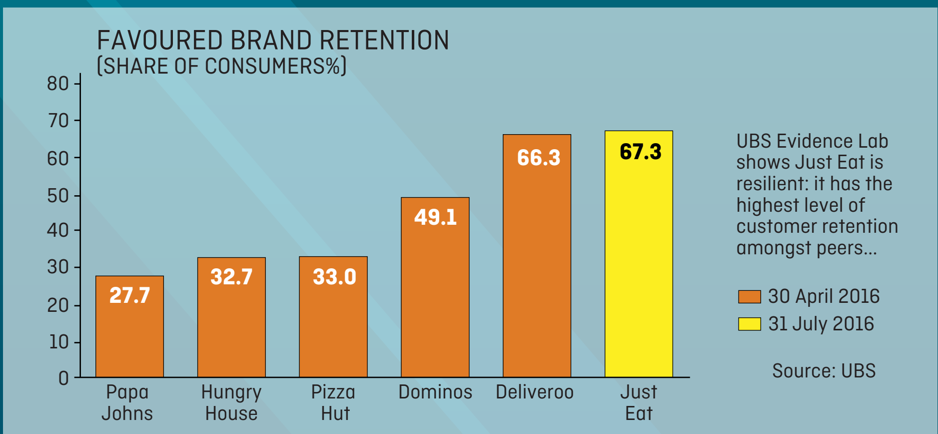
Bulls argue Just Eat has years of strong sales growth and strong free cash flow generation to come and UBS has upgraded (17 Aug) the stock from 'neutral' to 'buy' with a 740p price target, seeing a share price pullback as an attractive entry point for investors.

First half results (27 Jul) triggered a de-rating, investors focusing on an earnings miss, concerns over the margin impact of higher than expected costs from delivery investments and competition from the likes of Deliveroo and UberEATS. Yet full year revenue guidance was upgraded to a £500m-to-£515m range and pre-tax profit before tax powered 46% higher to £49.5m.

UBS notes Just Eat has been resilient to the emergence of new delivery players and has 'by far the largest share of loyal customers'. UBS writes: 'We are not too concerned about delivery investments in the UK, which will remain limited in our view (in the £10- 20m/annum range) and should be more than compensated by operating leverage from 2019 onwards.'

Analysts Chris Grundberg and Hubert Jeaneau argue Just Eat has the highest consumer loyalty amongst competing brands such as Deliveroo and Domino's, a good base for new CEO Peter Plumb to work with. 'We see Just Eat's business model as attractive, with strong network effects, a winner-takes-most market structure and potential for high margins,' adds UBS.

Berenberg has a 'buy' rating and 700p price target for Just Eat, forecasting a top line surge from £376m to £517m for 2017, ahead of £649m and £759m in 2018 and 2019 respectively. (JC)



AIM TOP TEN

OUR SCREEN OF the big beasts of AIM reveals online fashion phenomenon **ASOS (ASC:AIM)** continues to bestride the junior market like a colossus, despite shares in the fast-fashion seller falling back from January 2014's £70 peak. Amid Brexit uncertainties and with UK shoppers reining in spend, investors continue to warm to the increasingly international dimensions of this outstanding growth stock and beneficiary of the structural shift to the web.

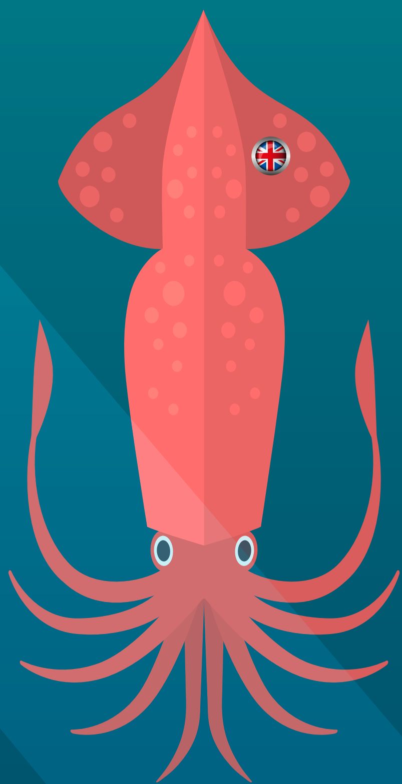
Potential risks to ASOS' eye-watering equity rating range from the potential for weakening spend in key markets, adverse moves in currency rates and expansion by competitors. Yet *Shares* sees ASOS positive sales momentum continuing for a long while supported by ongoing investment in prices and customer proposition as well as a currency tailwind from bowed sterling.

The £4.94bn cap is increasing its differentiation in the rapidly growing online retail channel and has huge potential in an array of overseas markets including North America, investment in a new e-commerce fulfilment centre near Atlanta in the US signalling the scale of its ambitions.

FTSE AIM TOP TEN

Company	EPIC	Market cap
ASOS	ASC	£4.9bn
Fevertree	FEVR	£2.8bn
Boohoo.com	BOO	£2.6bn
Burford Captial	BUR	£2.5bn
Hutchinson China Meditech	HCM	£2.23bn
Abcam	ABC	£2.2bn
Phoenix Global Resources	PGR	£1.3bn
Breedon	BREE	£1.28bn
Clinigen	CLIN	£1.2bn
Purplebricks	PURP	£1.17bn

Source: SharePad, 18 August 2017



Hot on ASOS' heels in terms of burgeoning market value are two relative newcomers to AIM's upper echelons, namely rival online fashion star turn **Boohoo.com (BOO:AIM)** and premium mixers marvel **Fevertree Drinks (FEVR:AIM)**, the latter having rewarded backers with a meteoric share price rise since its late 2014 IPO, now worth a staggering £2.8bn versus £154m at float.

AIM's top 10 titans also include litigation finance provider **Burford Capital (BUR:AIM)**, disruptive online estate agent **Purplebricks (PURP:AIM)** and high-growth construction materials group **Breedon (BREE:AIM)**, whose executive chairman Peter Tom is reassured by the government's seeming shift from continued austerity towards fiscal stimulus.

Other AIM giants include pharmaceutical and services concern **Clinigen (CLIN:AIM)** and **Hutchison China Meditech (HCM:AIM)**. Known as 'Chi-Med', the China-based biopharmaceutical company focuses on oncology and immunological diseases, has a strong and growing clinical pipeline and is backed by billionaire Li Ka-shing's CK Hutchison group. (JC)

AIM GIANT IN FOCUS

PHOENIX GLOBAL RESOURCES (PGR:AIM) 49P

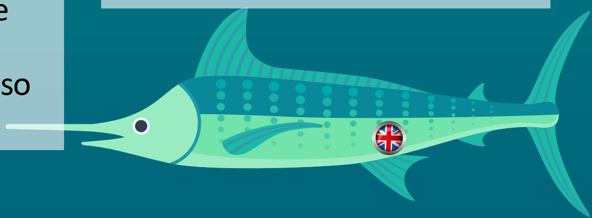
THIS IS A new addition to the list of AIM giants. Commencing trading on 10 August, **Phoenix Global Resources (PGR)** is a combination of an existing junior market business Andes Energia and PETSA, a vehicle for privately-held Swiss commodities trader Mercuria. The deal creates an Argentinian oil and gas operation with production of 11,300 barrels of oil equivalent per day (boepd) and total proved and probable reserves of 63m barrels. Andes shareholders have been left with around a quarter of the larger entity.

Notably, Phoenix is chaired by **BT (BT.A)** and **WorldPay (WPG)** chairman Michael Rake. Mercuria is likely to have been attracted to a tie-up with Andes due to its material acreage position in the Vaca Muerta shale formation which compliments PETSA's own interests here. Located in the Neuquén basin in west Argentina the formation known as Vaca Muerta, or 'Dead Cow' in Spanish, is potentially one of the largest shale plays in the world. It is currently one of the few economically producing shale oil formations outside of North America with production of more than 65,000 boepd.

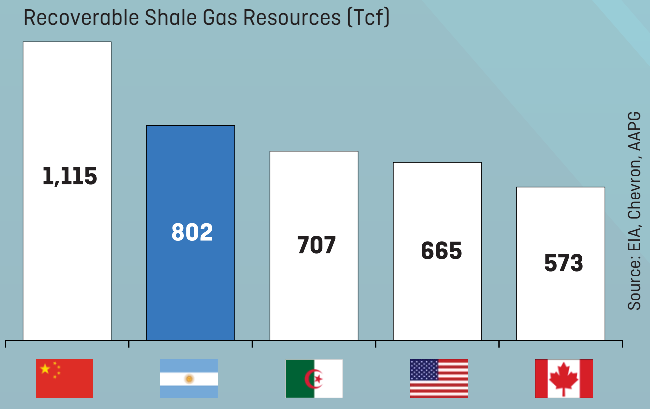
Mercuria is extending borrowing facilities to Phoenix of $160m. These funds will help underpin a work programme aimed at doubling current output by 2021. There are also plans to drill several wells in the Vaca Muerta by the end of 2018. This activity could act as a catalyst for the stock.

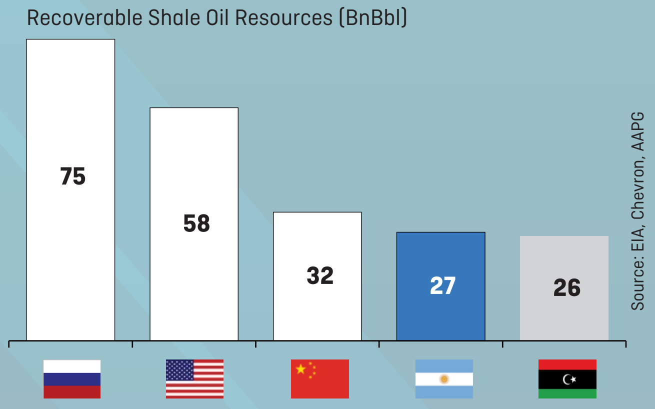
The major sticking point is the lack of material free float with Mercuria owning three quarters of the firm and existing Andes shareholders the remainder. This may have contributed to a slow start for the shares.

Other risks include a change in administration from the current business-friendly government in Buenos Aires and the technical challenges associated with shale assets. (TS)



ARGENTINIAN SHALE IN A GLOBAL CONTEXT





Are insurers braced for another change to compensation payments?

Government still hasn't responded to industry consultation on Ogden rate

An update on major legislative changes to the insurance sector has failed to emerge, leaving investors wondering what's going on.

An announcement had been expected on 3 August regarding industry consultation over how compensation claims are calculated, known as the Ogden discount rate.

Various insurance trade media now report the consultation response won't come out until later in the year. We now explain what this means for insurance companies and their shareholders.

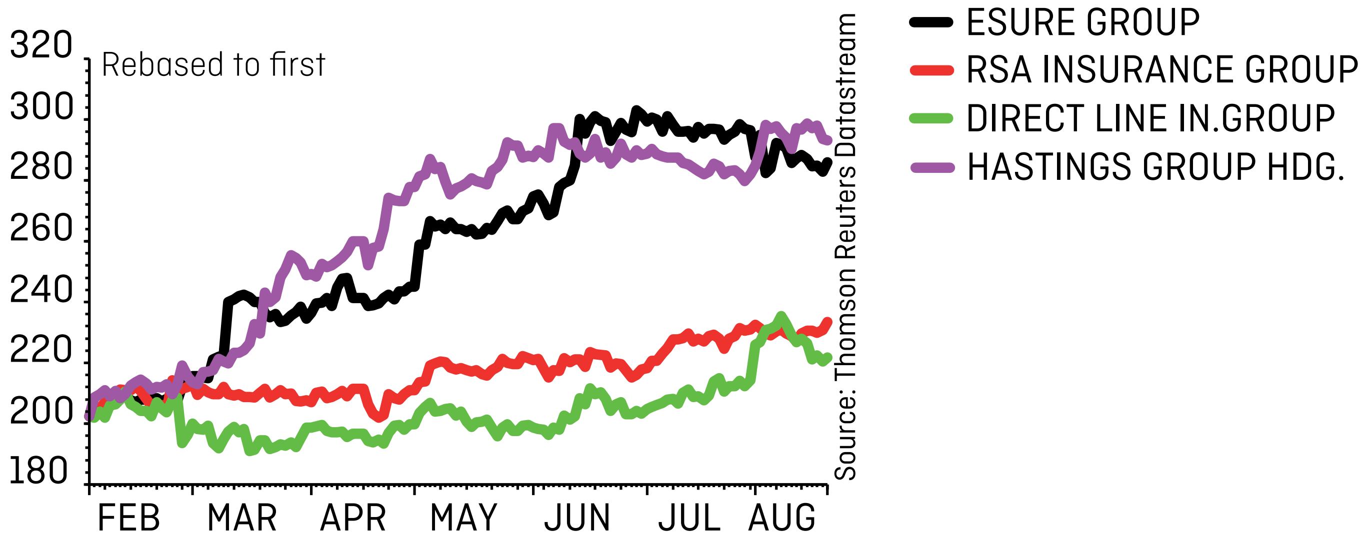
WHAT IS THE OGDEN RATE?

A highly controversial change to the legislation was announced by the Ministry of Justice in February whereby the Ogden rate would move from 2.5% to -0.75% from March.

In simple terms, if a claimant won £1,000 in compensation from an insurer under the old rate, they would receive £975. Under the new rate they would receive £1007.50 as the rate takes into account the investment return the claimant would make on the compensation.

At the time of the original announcement, the Ministry of Justice said it would undertake a consultation to consider whether there was a 'better or fairer framework' for claimants and defendants.

> WORRYINGLY THESE INCREASES ARE UNLIKELY TO BE THE END OF THE ROAD IF REINSURANCE PREMIUMS GO UP AT THE END OF THE YEAR, ADDING FURTHER COSTS TO INSURER



It added: 'The consultation will consider options for reform – including whether the rate should in future be set by an independent body; whether more frequent reviews would improve predictability and certainty for all parties; and whether the methodology is appropriate for the future.'

WHAT DO THE INSURERS THINK?

The Association of British Insurers (ABI) earlier this year warned the rate change would lead to increased costs for insurers. These companies may have to pass the price increases on to consumers in the form of higher premiums.

The ABI in July calculated the average motor premium had subsequently gone up by £48 to £484. 'Worryingly these increases are unlikely to be the end of the road if reinsurance premiums go up at the end of the year, adding further costs to insurers,' said ABI director general Huw Evans.

UNFAIR RATE?

The ABI said in May that the rate was unfair as it is tied to index-linked government bonds (aka gilts) which are low yielding at present. 'It fails to recognise the investment options open to claimants and how they invest their compensation,' it added.

Talking to *Shares* last week, Mohammad Khan, head of insurance at PwC, says it's wrong to assume a risk adverse person (as someone with life-changing injuries may understandably be) would only invest in index-linked gilts.

He believes the insurance industry's view is that investing in a basket of assets could produce a return much better than -0.75%.

> **MOST OF THE ADVERSE IMPACT FROM THE INCREASE IN THE COSTS OF LARGE INJURY CLAIMS, RESULTING FROM THE CHANGE IN THE OGDEN DISCOUNT RATE, WAS CAPTURED IN OUR 2016 SECOND HALF RESULT. HOWEVER, SOME EXTRA COSTS CARRY INTO 2017**

HAVE INSURERS STARTED TO FEEL THE PAIN?

Companies are now starting to report the impact of the Ogden rate change including motor insurer **Admiral (ADM)**, whose share price fell by 8% on releasing its first half results on 16 August. It revealed the rate change would cost the business £150m.

Chief executive David Stevens says 'most of the adverse impact from the increase in the costs of large injury claims, resulting from the change in the Ogden discount rate, was captured in our 2016 second half result. However, some extra costs carry into 2017'.

UNDERSTANDING THE FIGURES

Consultant EY says that while the adjustment was announced in February, most insurers have already reflected the impact on outstanding claims in their 2016 figures – causing the motor insurance market to report significant underwriting losses.

But PwC's Khan says there's a difference between the level at which companies settle a claim and provisions in their accounts. 'Claims are being settled at an Ogden discount rate of between 0.5% and 1% at the moment. The reason is that as people are waiting for the Government to come out with something, you don't want to settle too high,' says Khan.

This may explain some of the discrepancies with first half results among non-life insurers. Some like **Direct line (DLG)** says the lowering of the Ogden discount rate 'indicated a lower than expected increase to claims costs'.

However, the company's gross written premiums are up 9.9% on a year on year basis which it says is a reaction 'to ongoing claims inflation including the response to the Ogden discount rate change'.

NOT AS BAD AS SOME THINK?

Esure (ESUR) also played down the impact of the rate change, saying it was 'not material'. However its reinsurance costs increased by 33% as a result of the rate increase. Esure uses reinsurance to mitigate risk outside of the company's appetite for claims.

A reinsurer is an insurance company that agrees with another to cover part of the latter's claims liability. Esure estimates the additional cost of reinsurance equates to £10 per vehicle on a like-for-like basis.

The company has increased its prices across its motor division to mitigate the extra cost of reinsurance.

FTSE 100 heavyweight **RSA (RSA)** says in their first half results the Ogden discount rate change brought its reserve margin down from 5.5% to 5% which, although lower, is still within its target range.

POSITIVE IMPACT FOR HASTINGS

Motor and home insurer **Hastings (HSTG)** goes as far to say that the change to the rate has benefited the company. Consumers went to price comparison sites to look for better deals on car insurance due to premium increases and it saw a pick-up in new business sales.

> IF THE GOVERNMENT DOES DO SOMETHING ABOUT THE RATE, THE BUILD-UP OF RESERVES COULD PROVE VERY USEFUL FOR INSURANCE COMPANIES' FULL YEAR RESULTS

Again, this is not to suggest that Hastings emerged totally unscathed from the change in rate. The firm believes that it added between 1% and 1.5% to its loss ratio which is immediate. An increase in pricing takes 12 months to earn through so Ogden's impact on claims should be negated by the second half of the year.

EY has estimated the overall cost of the Ogden rate change to the insurance industry to be £3.5bn across all lines of business. Khan at PwC says if the Government does do something about the rate, the build-up of reserves could prove very useful for insurance companies' full year results. The extra capital could be returned to shareholders or used to boost their capital ratios. (DS)

New stars of the investment trust space

Fastest growing trust launches dominated by alternative assets

Investors hunting for reliable income streams are helping drive the value of investment trusts up to new heights, some up almost ten-fold over past five years.

Research by the Association of Investment Companies has reveals how the net asset value of dividend-paying investment trusts has soared, pushing many to hefty premiums.

Some 77 investment companies were launched in the five years to June, with 70% of these focused on alternative assets such as infrastructure or renewable energy.

> THE TOTAL ASSETS UNDER MANAGEMENT OF INVESTMENT COMPANIES REACHED A RECORD 168BN IN MAY THIS YEAR

BIG BOX, BIG GROWTH

Tritax Big Box (BBOX), which owns logistics facilities and distribution centres used by the likes of Amazon and **Tesco (TSCO)**, is the fastest grower of the lot. It launched in December 2013 with assets of just £200m.

It now manages some 19.5m square feet of space including a 653,000 square foot Argos warehouse in Staffordshire and an 880,000 square foot B&Q distribution centre in Nottingham, which is leased until 2031.

By the end of June this year the trust's assets had grown an incredible 979% to more than £2.1bn. The shares yield 4.4% and are trading at a chunky 11.8% premium.

That investors are willing to back a trust at such a toppy premium to its value shows how popular alternative assets have become.

Alex Scott, deputy chief investment officer at Seven Investment Management, says: 'There is a clear appeal for investors in the long-term, highly predictable cash flow which infrastructure assets offer, along with a degree of inflation-linking.'

Student accommodation specialists are also among the fastest-growing trusts of recent years. **Empiric Student Property (ESP)** has seen its assets grow from £85m when it launched in June 2014 to £637.3m just three years later – a rise of 650% - while **GCP Student Living (DIGS)** has seen the value of its assets climb 631% to £680m, from just £93m when it launched in May 2013.

The two trusts own and operate student accommodation across the UK. Empiric has sites spanning Aberdeen, Cardiff and Bath; its portfolio ranges from an 84-bedroom building in Bristol to a 561-bed unit in Manchester. The trust yields a meaty 5.5% and is trading at a 4.8% premium.

GCP's portfolio includes a 220-unit of en-suite studios in Surrey and 541-room building in London's Shoreditch which also includes 50,000 square feet of commercial space. The trust, at a premium of 6.2%, yields 4%.

Scott adds: 'The obvious concern with this asset class is that the trusts tend to trade at quite high premiums to their net asset value and they have done so for almost all of the sector's decade-long history.

'That is off-putting in a world where we are used to seeing investment trusts at a discount but, even taking the effect of the premium on returns into account, these investments can still seem very appealing compared to other assets.'

PREMIUM VALUATIONS

Of the top 20 fastest growing trusts, according to data compiled by Morningstar for the AIC, just four are trading at a discount.

These include the **Blue Capital Alternative Income (BCAI)** trust – which invests in the catastrophe reinsurance market – trading at a 5.3% discount, and **P2P Global Investments (P2P)** – which invests in peer-to-peer loans – at an 11.6% discount.

The stellar performance of many of these trusts is being driven by investors' hunger for income. Investments which pay a reliable, growing dividend have become harder to find in recent years as interest rates remain at record lows and many alternative assets have long-term tenants and lease agreements in place which offer a much-needed certainty of income, which often rises in line with inflation.

The trust yields a meaty 5.5% and is trading at a 4.8% premium

The total assets under management of investment companies reached a record £168bn in May this year.

Annabel Brodie-Smith, communications director at the AIC, says: 'It is significant that all the fastest growing launches over the past five years are in higher yielding alternative assets where there has been strong investor demand.

'The closed-end structure of investment companies is particularly suited to illiquid alternative assets. This has been emphasised by the problems suffered by open-ended property funds after the Brexit vote.'

Indeed, many companies have been keen to capitalise on the rising popularity of trusts. Already this year, 13 new investment companies have been launched and at least four more are slated for the coming months.

BUBBLE RISKS

But some experts say parts of the alternatives market may be entering bubble territory, after a prolonged period of fast growth.

Nick Edwardson, senior multi-asset investment specialist at Kames Capital, says: 'Parts of the markets do look more fully valued in terms of their premium to net asset value – the average renewable energy investment trust, for example, is trading at a premium of 12%.'

The reliance of many of these trusts – particularly those focused on infrastructure and renewable energy – on Government policy leaves them vulnerable to regulation changes, a risk which has heightened with so much ongoing uncertainty around Brexit. Their appeal could also fade if interest rates rise and investors can get less risky income elsewhere.

But Edwardson says the fact these trusts are growing their dividends and have little correlation with the stock market could mean their climb continues for some time to come. (HB)

What an income fund shake-up means for you

Changes to the rules may see some investors disappointed in their hunt for yield

Investors searching for income may need to take a closer look at their Equity Income funds, based on research by Sanlam UK.

The wealth management firm has published its bi-annual Income Study and warns that changes to the sector could leave some investors disappointed.

Earlier this year the Investment Association changed the rules for the investment sector. Where previously funds had to deliver at least 110% of the yield of their benchmark index, now they only need to match the index yield. Funds which don't deliver 90% of the yield in any one year will be kicked out of the sector.

RULES ARE RELAXED

The previous income hurdle saw 21 funds booted out of the sector for failing to meet the requirements. Since the changes four of those funds have made a return.

The lower yield target should mean managers have more flexibility over which firms they back, rather than chasing those which pay the greatest dividends. But Sanlam is warning that the softer target could see many managers change their strategy.

Phil Smeaton, chief investment officer at Sanlam, says: 'The IA's decision has the potential to impact investors looking for income in the future. In the short term, a lower dividend target might even lead to dividend cuts from some equity income funds. And while funds will have greater flexibility, investors' main concern is that a fund can perform its desired role in a portfolio.'

But Robin Geffen, manager of **Neptune Income (GB0032315516)**, says he will continue to target a yield which is 110% of the FTSE All Share despite the changes to the sector requirements. He says: 'Investors have bought the fund on the understanding it has a specific income focus, and we believe it is our duty to continue to run it on that basis.'

Siddarth Chand Lall, manager of the **Marlborough Multi Cap Income (GB00B908BY75)**, adds: 'We won't deliberately sacrifice capital growth opportunities – and they've certainly helped total return – but our key focus has to be on income.'

> IF EVERYTHING IS PULLING ITS WEIGHT IN GENERATING INCOME THEN WE DON'T HAVE TO EXPOSE THE FUND TO STOCKS WHERE WE HAVE CONCERNS ABOUT DIVIDEND COVER

AJ Bell has analysed the top-yielding funds in the sector and those which have produced the greatest total return over the past five years. The results show that, depending on what investors want from their Equity Income fund, their choice is likely to vary.

The top income producers in the sector are the **Insight Equity Income Booster (GB00B7XF7Y37)** and **Schroder Income Maximiser (GB00B0HWJ904)** funds, which yield 7.2% and 7% respectively. Yet when it comes to total returns these funds have not been so successful; ranking in the third and fourth quartile respectively over three years according to Trustnet data.

TOPPING TOTAL RETURN TABLE

In terms of total return the top performer is **Chelverton UK Equity Income (GB00B1Y9J570)**, which has produced an annualised return of 18.3% over the past five years. **Miton UK Multi-Cap Income (GB00B4M24M14)** comes a close second with an annualised return of 17.9% over that period. The fund, run by Gervais Williams and Martin Turner, also takes top position in Sanlam's White List of best performing Equity Income funds.

But investors prioritising income might be disappointed with the pay outs from the funds, which yield 4.1% and 4% respectively.

Russ Mould, investment director at AJ Bell, says: 'In general, those funds purely targeting income will have a different investment style and will target different stocks compared to those which are seeking to provide superior total returns.'

Income-focused funds may tend to focus on the highest-yielding FTSE 100 stocks. Indeed, the most recent Capita Dividend Report revealed that in 2016 some 38% of all FTSE dividend pay outs came from just five companies. All five of the top-yielding funds in AJ Bell's analysis invested in **HSBC (HSBA)**, while four out of five held **Aviva (AV.)** shares.

While this strategy may produce a hefty yield, it could leave investors vulnerable if any of the companies cut their dividends. The dividend cover of FTSE 100 firms – a measure of how safe a company's dividend is – has fallen from 2.3 times in 2008 to a seven-year low of just 0.7 times.

It's something on the mind of Gervais Williams, manager of the Miton UK Multi-Cap Income fund. He says the reduction to the yield requirement is a 'step in the right direction for the sector'.

'We need managers to have flexibility so they are not all forced into the same stocks and can deliver some downside protection in their portfolios. Dividend cover is low and we are likely to see cuts to payouts if there are any economic setbacks so it is reassuring that the change means managers are crowded into the same, vulnerable stocks,' he says.

Williams is looking across the market cap spectrum for steady, rising dividends and backs companies including infrastructure firm **Stobart (STOB)** and greetings card maker **IG Design (IGR)**.

> WE NEED MANAGERS TO HAVE FLEXIBILITY SO THEY ARE NOT ALL FORCED INTO THE SAME STOCKS AND CAN DELIVER SOME DOWNSIDE PROTECTION IN THEIR PORTFOLIOS

CHANGE IS NEEDED

Lall's strategy is to try to ensure each holding in the portfolio contributes to income rather than have some which are high-yield and some high-growth. The fund's largest holdings include **WH Smith (SMWH)** and energy firm **SSE (SSE)**.

He says: 'We take the view that if everything is pulling its weight in generating income then we don't have to expose the fund to stocks where we have concerns about dividend cover.'

While the Sanlam report warns investors to watch out for a change of tack from their Equity Income fund, Williams argues that it could be what is needed.

He says: 'Our number one job is to maintain income and hopefully grow it. We need companies which are investing for the future, because that is what drives dividend growth.' (HB)

How savers have missed out on £94bn of returns

We flag four funds that could plug the gap

Over 14m working age adults in Britain are not saving at all, while some 26m do not hold adequate rainy day or pension savings.

Even those who are setting money to one side are potentially missing out on billions of pounds of valuable income by holding too much money in cash.

Those were the headline findings from a recent Social Market Foundation report on the state of the UK savings nation.

According to the report, savers hold more than £200bn in cash above and beyond their 'rainy day' needs – which is defined as three months' worth of income. To put that in context, the FTSE 100 has risen by 47% in real terms over the last five years, equivalent to £94bn (before charges) if all that spare money had been invested.

Clearly that figure assumes 100% stock market exposure, which may not fit your risk appetite, and past performance is of course no guide to the future.

But with interest rates trundling along at 0.25%, Cash ISAs offering paltry returns and inflation returning to the economy (and currently standing at 2.6%), investors should consider taking some risk in order to prevent the real value of their savings being eroded away.

PENSIONS

If you want to save for retirement, pensions remain the best option for many people. Even if you're only saving a few pounds a month, that money will benefit from an automatic bonus of 25% if you're a basic rate taxpayer through tax relief – and you can claim extra relief through your annual tax return if you're a higher-rate taxpayer. It will also receive a boost from the magic of compound growth, described by Albert Einstein as 'the Eighth Wonder of the World'.

> ANYONE CONSIDERING SAVING IN A PENSION NEEDS TO REMEMBER THE MONEY WILL BE LOCKED AWAY UNTIL THEY ARE 55, WITH 25% AVAILABLE TAX-FREE AFTER THIS POINT AND THE REST TAXED IN THE SAME WAY AS INCOME

Your first port of call should be your workplace pension. Automatic enrolment reforms currently being introduced mean that, by 2019, all employers will have to match your first 3% of contributions – extra free money on top of the tax relief on offer. If you want to save beyond this (and for most people the total minimum auto-enrolment minimum will not be enough to fund a decent retirement), you can top-up your workplace scheme or open a more flexible Self Invested Personal Pension (SIPP).

Anyone considering saving in a pension needs to remember the money will be locked away until they are 55, with 25% available tax-free after this point and the rest taxed in the same way as income.

> OVER 14M WORKING AGE ADULTS IN BRITAIN ARE NOT SAVING AT ALL, WHILE SOME 26M DO NOT HOLD ADEQUATE RAINY DAY OR PENSION SAVINGS

FUND PICKS FOR PENSION SAVERS

Fidelity World Index (GB00B8075673) – This is a passive, or tracker, fund. The annual cost of only 0.15% and widely diversified portfolio make it a good long term holding for young savers to start their portfolio with.

Standard Life Global Smaller Companies (GB00B7KVX245) - Assuming the investor has very long time horizon, smaller companies can be a great place to invest. While higher risk, the long time horizon is ideal, particularly when investing on a monthly basis

LIFETIME ISA

For lots of younger people their main priority for any spare cash will be saving a deposit to buy their first home. The Lifetime ISA (LISA), launched by the Government in April this year, is an attractive option for people in this position.

You can save up to £4,000 a year in a LISA and receive a 25% bonus, worth up to £1,000. You can then take the money out tax-free if you're using it as a deposit on your first home, provided it's worth £450,000 or less.

You can also access your pot tax-free from age 60 or if you are terminally ill, but any other early withdrawals will be whacked with a 25% penalty on the entire withdrawal – which could mean you'll get back less than you put in.

How you invest your LISA money depends on when you plan to access your pot. Someone who thinks they'll need 20 years to save to buy a house should be able to absorb more investment risk than somebody investing for a shorter period of, say, five years.

FUND PICK FOR LISA SAVERS

Baillie Gifford Global Alpha (GB00B61DJ021) - This fund has a reputation for excellent stock picking from its strong team and the long-term approach could suit someone's LISA – any investment in shares is really a 10-year plan, although this does mean the investor would need to carefully assess the risks if and when they get to the stage of wanting to access their cash.

STOCKS AND SHARES ISA

If your priority is ease of access then an ISA is a good option. You can put in up to £20,000 a year, your money grows tax-free and you can take it out at any time without penalty.

But with Cash ISAs offering interest rates well below inflation, many people would be well advised to consider using a stocks and shares ISA instead in order to at least protect their spending power.

How you invest your money will, again, depend on how soon you might need to access it and your willingness to tolerate risk.

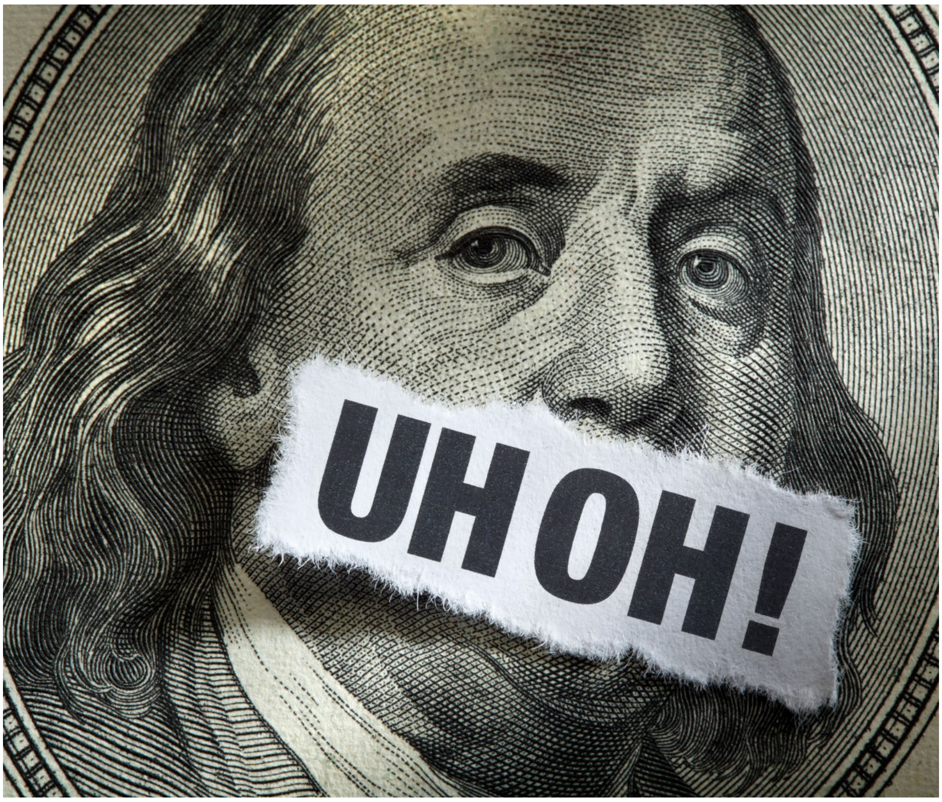
FUND PICK FOR ISA SAVERS

Evenlode Income (GB00B40SMR25) – this fund, managed by Hugh Yarrow, looks at companies that can grow their dividends in a sustainable way which should over time provide some inflation protection.

Tom Selby,
Senior Analyst, AJ Bell

The 10 biggest investment mistakes

We reveal the common errors that can ruin your chances of investment success



Whether you're an experienced investor or just starting out it's likely you'll make some mistakes along the way. These are the 10 common errors you should try to avoid in order to boost your chances of success.

NOT HAVING AN INVESTMENT GOAL

Before you start investing it's important to think about what you want to achieve and over what timeframe. For example, your goal might be paying off your mortgage in 15 years or going on a world cruise when you reach age 60.

Andy Bell, chief executive of AJ Bell and author of *The DIY Investor*, says starting to invest without a set of objectives is like going for a drive without a destination in mind.

When you have an objective it's easier to figure out how much risk you can take and which assets might be suitable.

NOT DIVERSIFYING

You might favour a particular sector or stock, but if you invest all your money in it and the stock or sector plummets it will have a hugely adverse impact on your portfolio.

You can spread your risk by investing in a range of asset classes which don't all rise and fall together, such as equities, fixed interest, property and cash.

You can also diversify across geographies, sectors and company sizes.

TRYING TO TIME THE MARKET

Nobody can time the markets consistently or predict with confidence what is going to happen in the future. But this doesn't stop many people from trying.

'Unfortunately many individuals get swayed by short-term noise, performance or market sentiment, moving money out of areas they think are destined to fail and jumping into those they believe are primed for success,' says Patrick Connolly, head of communications at Chase de Vere, a financial planning firm.

Connolly says the best approach is to have a long-term investment strategy and stick with it through good times and bad.

It's worth realising that when the market dips you only lose money if you sell your investments.

REFUSING TO ACCEPT MISTAKES

This doesn't mean sticking with terrible investments. Robert Ward, chartered wealth manager at Walker Crips, says one of the most damaging trends is the reluctance to accept a mistake.

Investors are often loathe

to sell a poor performing investment in the hope it will bounce back at some point.

'The reality of investing is that you will not get every single investment decision right – it's simply not possible. Being able to accept a mistake and sell an investment when it is losing money is difficult but can save a lot of pain over the long term,' says Ward.

PUTTING TOO MUCH EMPHASIS ON CASH

Cash isn't the safe haven it appears to be. Inflation can reduce the value of cash over time and reduce the value of your savings.

'The level of cash held should be viewed as part of a diverse portfolio which is in line with investment objectives,' advises Gareth Evans, investment manager at Hargreave Hale.

FAILING TO REVIEW

It's not sufficient to set up a portfolio and then leave it because investments might not perform as expected.

'Regular and detailed reviews are essential to ensure a portfolio is in line with current goals and objectives,' says Evans.

If some of your investments have performed well and others have performed badly, this can change the overall shape of your portfolio meaning you could end up taking too much, or too little, risk.

You can rebalance your portfolio by selling some of your investments which have performed well and reinvesting into those which have performed poorly. This will help to get you back to your starting position.

> **"NOBODY CAN TIME THE MARKETS CONSISTENTLY OR PREDICT WITH CONFIDENCE WHAT IS GOING TO HAPPEN IN THE FUTURE. BUT THIS DOESN'T STOP MANY PEOPLE FROM TRYING."**

CHASING LAST YEAR'S WINNERS

Investors often jump into funds or asset classes which have a strong short-term performance, believing the outperformance will continue.

You end up investing at the top of the market after gains have already been made, and then selling out near the bottom just as the performance is about to turn.

'This approach can lead to people making sizeable losses and having a thoroughly miserable experience along the way,' says Connolly.

BELIEVING THE HYPE

A lot of the investment industry is based around trying to sell products or promote 'star' fund managers. As a result, different funds or asset classes are constantly hyped up.

An obvious example is the technology boom and bust in the late 1990s.

Connolly says many people select funds that are promoted by discount brokers or the media.

The result is they end up with a portfolio of individual 'flavour of the month' funds with no real overall strategy and little idea of the overall asset allocation and risk profile of their portfolio.

Connolly says investors should look at the bigger picture and buy funds that enhance their overall portfolio, rather than buying a random fund which is predicted to perform well over the next six months.

MISSING OUT ON TAX BREAKS

You and your spouse or partner can each pay £20,000 into an ISA and £40,000 into pension each year to shelter your money from income tax and capital gains tax.

Andy Bell says investors should make the most of their £11,300 capital gains tax allowance by cashing in sufficient gains each tax year. You can move investments between spouses to make the most of your allowances and income tax bands.

IGNORING CHARGES

Costs eat into your investment returns, so it's important to compare the fees levied by platforms and funds. They can often vary hugely.

The ongoing charges figure is the best number to look at when comparing funds, as it's made up of the annual management charge plus administrative expenses.

It's important to compare like-with-like when deciding whether a fund is over-priced or not. (EP)

KEY

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