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SHARES

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TIME TO HIKE? *RATE RISE COULD COME SOONER THAN YOU THINK*

Can outsourcers make a comeback?

Sector looking to put profit warnings and accounting issues behind it

Among the worst performing group of stocks in the last five years are the outsourcers. According to number crunching by UBS these companies, which do a variety of jobs in the public and private sectors such as running prisons or air traffic control, have underperformed the wider market by 50%.

But now analysts at the investment bank think the names in its outsourcing universe – **G4S (GFS)**, **Serco (SRCO)**, **Mitie (MTO)**, **Capita (CPI)** and **Carillion (CLLN)** – are poised to make a comeback in 2018.

> ARGUABLY OUTSOURCERS ARE ALSO MORE PRONE TO ISSUES OVER THE WAY THEY PREPARE THEIR ACCOUNTS

They argue: 'Our core thesis is that the varied problems hampering performance for the past five years have been a result of overexpansion in the period before this. However, 2018 will see these problems come to an end, in our view: companies are generally finishing restructuring, have significantly transformed internal cultures, and are starting to rebuild sales pipelines.'

In the last 12 months, there have been multiple profit warnings from the space. The latest and probably most serious of which came from Carillion which suspended its dividend and was forced to set aside £845m to cover problem contracts. The share price subsequently slumped more than 70% in a matter of days.

Many of the problems facing these companies have been of their own making but last September Capita and Mitie also blamed the uncertainty created by Brexit for their respective warnings that month. And as we discussed in this column back in June the inconclusive result of the UK General Election is not helpful in terms of agreeing new contracts.

ACCOUNTING ISSUES

Arguably outsourcers are also more prone to issues over the way they prepare their accounts. Unlike a manufacturer, for example, which would typically produce a good which would then be sold in short order for an agreed price, an outsourcer is selling a contract to provide a service over several years. The way revenue and profit from this contract is reported to the market can be open to interpretation.

UBS notes managers of outsourcers were 'until very recently' encouraged to put near-term revenue growth above everything else. This distorted the running of these businesses so they were focused on securing very large contracts with little thought to their ability to deliver the work profitably down the line.

It adds: 'This increasingly became an issue in the sector as contracts grew in complexity from 2008 onwards as clients looked for continued incremental savings. Whereas the client saw a 'one line' price, behind it were increasing layers of assumption on volumes, wage growth, procurement savings, etc.'

Having interviewed customers and former employees and reviewed long-term performance UBS now reckons the culture is changing with a greater emphasis on sustainable returns. It notes the sector is pricing in lower margins and growth but believes both are poised to recover, with new technology helping to boost demand for outsourcing.

Even so, it does not think all of the outsourcers can recover – remaining firmly negative on Carillion. Its favoured stock is Serco, which is also one of top ten selections for 2017. (TS)

Contents

07 SEPTEMBER 2017

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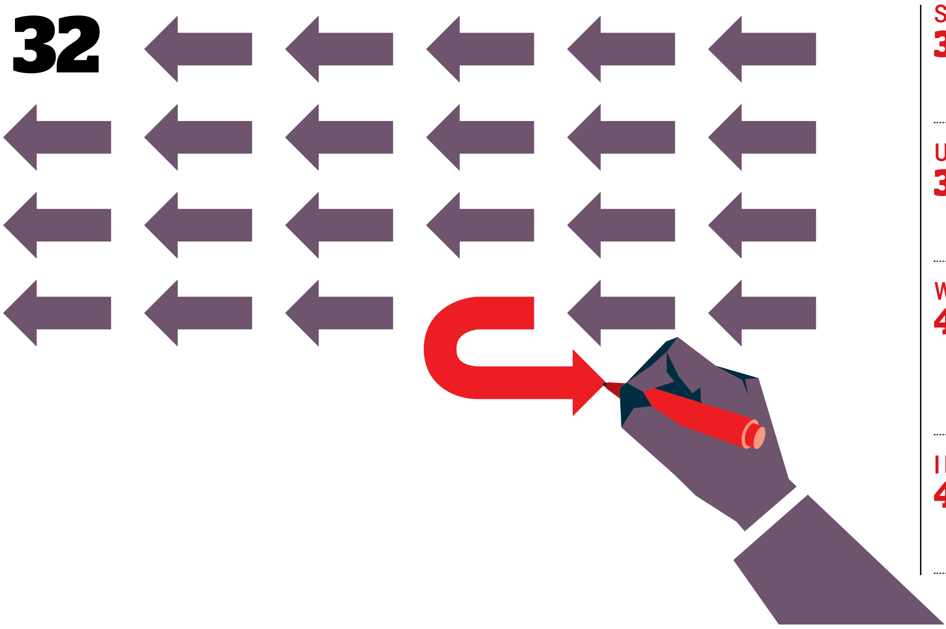
Contents



WHO WE ARE

EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

REPORTER: David Stevenson @SharesMagDavid

JUNIOR REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTORS Emily Perryman, Tom Selby

PRODUCTION
Head of Design
Rebecca Bodi

Designer
Darren Rapley

ADVERTISING
Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

MANAGING DIRECTOR
Mike Boydell

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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.

Calls for first rate rise in a decade

City analysts say monetary policy has 'done its job'

Many economists believe the time is not yet right for UK interest rates to increase but City analysts disagree, calling for the first base rate rise in more than a decade. Number crunchers at investment bank Berenberg claim that monetary policy 'has done its job,' and called for 'policy to begin to normalise.'

Berenberg's analysis shows the Bank of England used interest rate manipulation to meet four objectives following the financial crisis. These were to sustainably return inflation to 2%, support asset prices and aid balance sheet repair, increase the flow of credit to the real economy, and return the economy to full employment.

'Monetary policy has achieved all of these aims,' Berenberg's team say.

Berenberg speculates that a rate rise could come as soon as November's meeting of the Bank of England's Monetary Policy Committee (MPC). The MPC's last gathering in early August saw a vote of six to two to maintain rates at 0.25%.

The headline base rate last increased in July 2007, going from 5.5% to 5.75%. The global financial crisis a year later saw the Bank of England slash rates to 0.5% where they stayed until August 2016, before being cut to the current historic low of 0.25%. (SF)

DECADE OF BANK OF ENGLAND POLICY

Sep 2007
PROVISION OF ADDITIONAL RESERVES
Following the run on Northern Rock, the BoE supplied additional reserves in open market operations.

Dec 2007
FIRST EXTENDED LONG-TERM REPO OPERATION
The bank held the first "extended collateral" three-month long-term repo operation

Dec 2007
FIRST BANK RATE CUT
Members of the Monetary Policy Committee voted unanimously in favour of cutting the Bank Rate by 25bp to 5.5%

Jan 2008
GILTS PURCHASED IN THE OPEN MARKET
The bank purchased gilts in an Open Market Operation for the first time

Apr 2008
SPECIAL LIQUIDITY SCHEME ANNOUNCED
The Bank announced the launch of the Special LiquidityScheme allowing banks to swap temporarily their high-quality, but illiquid, mortgage-backed and other securities for UK treasury bills

Oct 2008
BoE BILLS INTRODUCED
In response to the large provision of reserves through the increased size of short-term repo operations, the bank issued own name sterling bills for the first time

Feb 2009
COMMERCIAL PAPER FACILITY INTRODUCED
The bank began to purchase commercial paper to channel funds directly to parts of the corporate sector

Mar 2009
FIRST ROUND OF QE INITIATED
The bank announced a programme of asset purchases with the initial target of purchasing £75bn of assets over the course of three months. The total budget for asset purchases was set to £150bn, but was subsequently expanded to £200bn

Aug 2009
SECURED COMMERCIAL PAPER FACILITY LAUNCHED
The bank launched a secured commercial paper facility tosupport the provision of working capital to non-investment grade companies that were ineligible for the bank's commercial paper facility

Oct 2011 - May 2012
RESUMPTION OF QE
The MPC (Monetary Policy Committee) announced that a further £75bn of gilt purchases would be undertaken, taking the total to £275bn. A total of £125bn in asset purchases was carried out

Jul 2012
FUNDING FOR LENDING SCHEME IMPLEMENTED
The bank and HM Treasury launched the Funding for Lending scheme designed to incentivise banks and building societies to boost their lending to UK households and non-financial companies

Jul 2012
THIRD ROUND OF QE INTRODUCED
The BoE committed to a further £50bn in asset purchases until November 2012

Apr 2013
FUNDING FOR LENDING EXTENDED
HM Treasury and the BoE announced an extension of one year to the Funding for Lending Scheme

Aug 2016
FORTH QE AND TERM FUNDING SCHEME ANNOUNCEDRESERVES
Following the UK's vote to leave the EU, the BoE announced a further £60bn in government bond purchases and £10bn in corporate bond purchases. The bank also pledged £100bn of new funding to banks to help them pass on the base rate cut of 25bp through a term funding scheme

New float to target last-mile logistics

New real estate investment trust coming to AIM

The shift from high street to online shopping is driving demand for so-called last mile urban logistics and upcoming AIM IPO **Warehouse REIT** is the latest vehicle looking to tap into this trend.

There are several reasons why the shares could be attractive once trading commences on 20 September (the shares are being offered through intermediaries until 15 September).

Effectively a spin-off from existing industrial property specialist Tilstone, the plan is to raise an initial £150m. The bulk of the funds will be used to buy a seed portfolio of 27 assets valued at £109m from Tilstone, let to companies such as Amazon and Boots. The plan is to pay a yield of 5.5% based on the 100p issue price in its first full year as a public entity running to March 2019.

The bulk of the funds will be used to buy a seed portfolio of 27 assets valued at £109m

Peers in the logistics space which are already quoted trade at premiums to net asset value. **Tritax Big Box REIT (BBOX)**, for example, trades at a premium of 9.7%. On this basis Warehouse REIT could look relatively inexpensive.

The identity of its property manager **Savills (SVS)** is also a plus. The real estate firm, a leading player in the UK industrial market, has strong links with Tilstone where Savills director Simon Hope serves as non-executive chairman. The new vehicle is expected to 'maximise this relationship'.

Hope has been given scope to give 30% of his time to this new venture and says over time it could grow to £750m to £1bn. (TS)

Diageo's potent Chinese brew

CHINA DAILY reports (29 Aug) that drinks giant **Diageo (DGE)** has appointed beer behemoth AB InBev as the exclusive distributor for *Guinness* in mainland China under a five year deal covering on-trade and off-trade alike.

Positive for one of our running *Great Ideas* selections, the tie-up could see Guinness volumes in mainland China doubling from one million to two million litres within a year, helping Diageo capture share in the high-growth Chinese premium imported beer market. (JC)

BT payout 'not' threatened

NUMIS HAS ruled out any threat to **BT's (BT.A)** dividends and has crunched the numbers to prove the point.

'BT's underlying free cash flow is much more substantial than some assert, so the dividend is not under threat,' states John Karidis.

His calculations based on pension obligations, one-offs and capital expenditure suggest free cash flow will cover 2019 and 2020 income by 1.7 and 1.8-times. (SF)

Redrow's earnings and dividend boost

HOUSEBUILDER **Redrow (RDW)** continues to defy any concerns over the sector as it raises guidance for profit and dividends in the June 2020 financial year. Alongside record results (5 Sep) for the 12 months to 30 June 2017, the company says it expects to post a pre-tax profit of £430m and pay a dividend of 32p compared with £315m and 17p in the year just ended. Year-to-date the shares are up 50% at 645.5p. (TS)

Uranium miners in hot demand after financial breakthrough

Berkeley Energia and Aura Energy move step closer to both start production in 2019

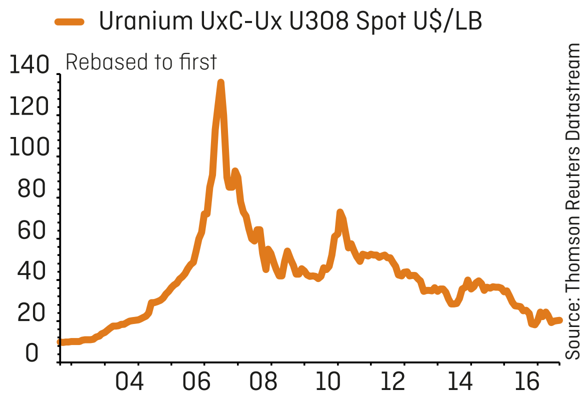
Two important developments among junior uranium miners are worth closer inspection as they put the companies in a stronger position to bring their respective mines into production. However, a weak uranium price may weigh on market sentiment towards their share prices near-term.

Berkeley Energia (BKY:AIM) has secured the necessary funding to build its Salamanca mine in Spain. **Aura Energy (AURA:AIM)** has reduced the expected operating costs for its Tiris mine in Mauritania, meaning the project could make a profit at today's very low uranium price.

Both events reduce the risks involved with owning the shares although they are by no means risk-free investments. Mining shares can be extremely volatile even when companies are generating revenue, profit and cash. As such, we only believe stocks in this sector are suitable for people who already have a diversified portfolio and have money they can afford to lose.

WHAT'S HAPPENED TO THE PRICE OF URANIUM?

The uranium price has been one of the worst performing commodities for the past decade. The spot price fell from a high of $136 per pound in June 2007 to a low of $18 per pound in December 2016, according to data from Thomson Reuters. It now trades at $20.5 per pound.



Most utility companies buy uranium on a contract basis which is typically priced higher than the spot price. We're told $35 per pound is the typical level at present.

Paul Atherley, managing director of Berkeley Energia, attributes the current price weakness to utility companies having huge stockpiles of uranium, thus depressing demand from miners. He believes these supplies will be run down over the next five years which should push the uranium price back up as utilities re-engage with miners and sign new long-term supply contracts.

That's why Atherley says decided Berkeley won't seek new offtake deals until at least late 2018, in the hope that prices will have started to move up by then. Salamanca is scheduled to start production in 2019.

Berkeley's $120m financing deal with Oman's sovereign wealth fund provides enough money to start the Retortillo section of the project. The higher-quality part of the mine is called Zona 7 and which is due to start production a year after Retortillo. However, it hasn't yet got the permit for this section.

Stockbroker Numis flags Zona 7's location as a key risk to the investment case as the deposit is next door to a village which may prove problematic in terms of getting the mining permit.

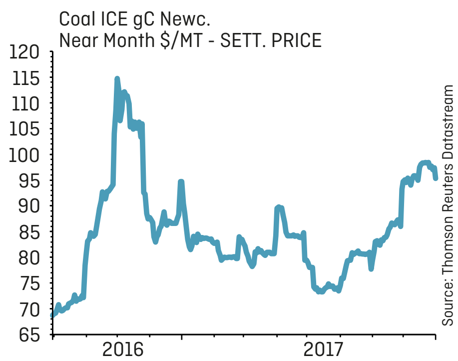
Aura Energy believes it can produce uranium for $19.40 per pound which is below the current market price. Chairman Peter Reeve believes the Tiris mine could be operational by early 2019, costing $45m to build. (DC)

OPG

BURNED BY COAL PRICES

INDIAN POWER SUPPLIER **OPG Power Ventures (OPG:AIM)** has come a cropper as volatile coal prices continue to wreak havoc. The AIM-listed £111m company saw its share price slammed 28% lower after management admitted that expectations for the year to 31 March 2018 will be 'impacted by coal prices being significantly higher than consensus expectations.'

'The gross margin for the current year is now anticipated to see a material negative impact,' chimed in Shore Capital. Analysts at the broker have slashed earnings per share from 7p to just 1p, and cut March 2019 estimates from 8p to 4.5p.



$2

GASOLINE PRICES SURGE AFTER HURRICANE HARVEY

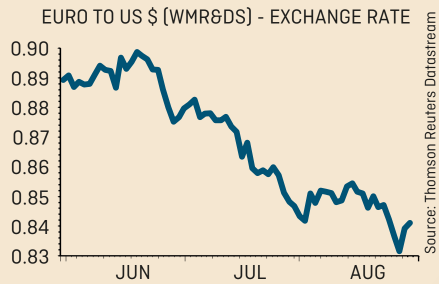
THE PRICE US motorists pay at the pump crept above $2 for the first time since mid-2015 in the wake of Hurricane Harvey. The massive storm led to the shut down of several large refineries on the Gulf Coast. UK road users are also expected to feel some impact with the RAC warning of a 4p increase per litre - taking the total to 121p or the highest since December 2014.

DOLLAR BOOST FOR US EXPORTS?

COULD US EXPORTERS be in for a bumper time, similar to the one currently being enjoyed by their UK counterparts. That's a possibility as the dollar slides versus the euro.

Experts reckon internal worries, such as weaker-than-expected US jobs data, waning hopes of tax reform and high costs of planned infrastructure projects are partly to blame.

Rising military tensions on the Korean Peninsula have topped things off recently, thanks to Pyongyang's controversial missile testing.



CONSUMER CONFIDENCE RISE

A DEAD-CAT BOUNCE?

GFK'S LONG-RUNNING Consumer Confidence Index rose two points to -10 in August, rebounding from a score of -12 reported in July that matched 2016's post-Brexit low; the index measuring changes in 'personal financial situation over the last 12 months' registered the biggest rise. Joe Staton, Head of Market Dynamics at GfK, explains: 'These figures must be seen against the backdrop of better news on inflation, public finances, jobs and growth prospects as the UK economy displays some signs of stability after a volatile start to the year.' Yet he cautions 'the Index has a lot of ground to regain to get back to black. So is this month's rise significant? Or could we simply be witnessing a dead-cat-bounce over the dog-days of summer?'

1st

NUMIS TAKES TOP SPOT IN STOCKBROKER TABLE

NUMIS SECURITIES (NUM:AIM) has replaced JP Morgan Cazenove as the most popular City stockbroker by notching up 195 clients, according to Adviser Rankings.

Numis has added five new clients to its roster in the current quarter, whereas JP Morgan Cazenove has dropped four since May, when it had 193.

JP Morgan still leads when it comes to the market cap of its clients, coming in second just behind UBS whereas Numis is down in 11th spot.

BEST PERFORMING UK STOCKS
LAST TEN YEARS

Company	10-yr % share price performance
ASOS	4800
Accesso Technology	4700
Hutchison China Meditech	2100
Judges Scientific	2000
JD Sports Fashion	1600
Abcam	1600
Scapa	1400
Advanced Medical Solutions	1300
GB Group	1300
Ashtead	1200

Source: SharePad, data to close 1 September 2017, only includes companies with market caps of £100m or more

WORST PERFORMING UK STOCKS
LAST TEN YEARS

Company	10-yr % share price performance
Royal Bank of Scotland	-95
Redde	-96
Premier Foods	-97
Harworth	-97
Gulf Keystone Petroleum	-97
Silence Therapeutics	-97
Firestone Diamonds	-97
Kenmare Resources	-98
Petropavlovsk	-98
Findel	-98

Source: SharePad, data to close 1 September 2017, only includes companies with market caps of £100m or more

Medica is a premium growth story

The NHS does not have enough radiologists to interpret potentially life-saving scans

Teleradiology firm **Medica (MGP)** is expected to enjoy rapid growth thanks to a surge in demand and a lack of radiologists in the UK.

Medica helps to provide early diagnosis of various diseases through its consultant radiologists who interpret computerised tomography (CT) and magnetic resonance imaging (MRI) scans. If these scans identify diseases earlier, it can improve treatment options and outcomes.

STRONG PERFORMANCE SINCE IPO

Berenberg says earnings before interest, tax, depreciation and amortisation and earnings per share are expected to grow at a compound annual growth rate of 16% and 20% respectively between 2017 and 2020.

Medica has enjoyed a strong share price performance since its IPO on 21 March 2017 when it raised £121m to pay down borrowings. Since 22 March, the stock has rallied 16.9% to 219.2p.

The company currently trades on a forecast 29.8 times earnings per share in the year to 31 December 2018, but Berenberg analyst Charles Weston thinks this premium valuation is 'justified' in light of rapid growth.

The analyst projects 8% growth per annum in the volume of CT and MRI scans handled by the company, which will be supported by a deficit of radiologists in the UK.

MEDICA ↗ BUY
(MGP) 219.2p
Stop loss: 175.4p

Market cap: £243.9m

There are 4.7 radiologists per 100,000 of the UK general population. This is materially below the Royal College of Radiologists' target of 8 per 100,000, and is pushing up waiting lists.

OUTSOURCING TRENDS AND PRICING POWER

One of the ways to tackle this issue is by outsourcing services. Weston says approximately 7% of CT/MRI scans are outsourced. Medica has a dominant position in the UK teleradiology market (50%) and this allows it to charge 5% to 10% more than its rivals.

The analyst also highlights that 80% of all clinical decisions are underpinned by imaging and new clinical guidelines for quicker diagnosis of diseases such as cancer and dementia call for scans.

Medica provides services to over 100 NHS trusts, as well as private hospitals and diagnostics imaging firms, and intends to expand its services to tackles conditions such as strokes.

There are risks associated with the business. Medica needs to ensure it continues to recruit radiologists to meet demand as otherwise growth could be constrained.

We were initially cautious on Medica's dependence on the NHS and Weston also highlights the NHS exposure as a reason for some caution as 99% of sales are derived from NHS Trusts.

Despite this nagging concern we are convinced high demand and low supply will drive Medica forward. (LMJ)

BROKER SAYS: 1 0 0

Asset-backed Marshall Motor has gas in the tank

Deal-hungry automotive retailer is a great value growth and income selection

Automotive retail and leasing group **Marshall Motor (MMH:AIM)** represents compelling value at the current price. Sentiment towards car dealerships is presently poor amid uncertain prospects for the UK car market, but Cambridge-headquartered Marshall Motor has an attractive brand mix and a copper-bottomed balance sheet that provides M&A firepower and a margin of safety.

We see scope for a higher share price as Marshall successfully executes its growth strategy and market conditions prove less gloomy than feared.

MARSHALL MOTOR
BUY
(MMH:AIM) 162p
Stop loss: 129.6p

Market value: £124.4m

STRENGTH THROUGH DIVERSITY

Steered by CEO Daksh Gupta, Marshall Motor derives strength from diversity; its businesses have 104 franchises covering 24 brands, balanced across categories such as 'volume', 'prestige' and 'alternate premium', and operating across 26 English counties.

Record first half results (15 Aug) revealed 33% growth in underlying profit before tax to £18.6m on sales up 43.7% to £1.19bn, boosted by May 2016's acquisition of Ridgeway. This multi-franchise dealer extended Marshall's reach into the affluent Home Counties and strengthened ties with brands such as *Audi*, *BMW*, *Jaguar*, *Land Rover*, *Volkswagen* and *Mercedes-Benz*.

The UK new car market has become more challenging, negatively impacted by weaker sterling and growing consumer uncertainty. Despite this backdrop Marshall reported a marginal 0.4% like-for-like decline in new car sales against a 4.8% UK new car market decline. Despite margin pressure in used cars, Marshall still delivered 5.8% like-for-like unit growth, in part reflecting its strengthened online presence.

Encouragingly, higher margin aftersales shot up more than 43% and while leasing profits declined against tough prior year comparatives, 'a number of new customer account wins' should drive growth from the second half onwards.

FIREPOWER APLENTY

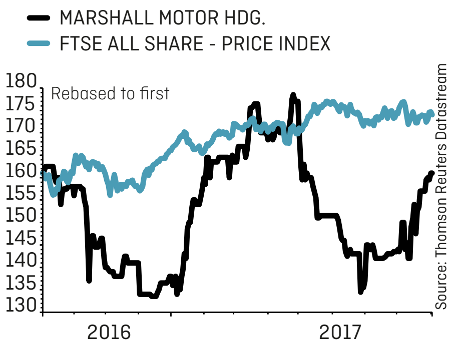
Outperforming the market on a number of measures, Marshall Motor has the balance sheet strength and cash flow necessary to invest in sprucing up dealerships and undertake acquisitions in a fragmented market. Its freehold/long lease property portfolio of £112.5m represents 145p per share or 71% of its net assets which amount to 204p in total. Adjusted net debt of £35.1m is just 0.7 times earnings, giving Marshall plenty of balance sheet firepower.

For the year to December, N+1 Singer forecasts adjusted pre-tax profit of £28.1m (2016: £25.4m) and a 6.1p dividend covered 4.5 times by estimated earnings of 27.7p, placing Marshall on a prospective PE of 5.8 times and offering a 3.8% yield.

Trades on PE of 5.8

An upwards move, even to a conservative ten times multiple, would drive the shares to 277p for 71% upside. For 2018, N+1 Singer envisages £28.9m of profit, earnings of 28.2p and dividend growth to 6.2p. (JC)

BROKER SAYS: 1 0 0



Miton Global Opportunities: Bargain hunting in the investment trust sector

Seeking embedded value in alternative areas

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

For the moment, we remain in an environment where very low interest rates are triggering rising asset prices through a lack of alternative options. We believe the high valuations on which global company shares currently trade is a direct result of the very low returns available from bonds. Should ***bond yields***[2] *rise, stockmarkets would be undermined. Moving on from a period of unconventional monetary policy would be healthy in the long term, however, share prices are likely to undergo a period of turmoil whilst investors adapt to the new reality. Under such a scenario, investors would be able to obtain measurable income from conventional sources such as bonds. They would be less inclined to own "income manufacturing" trusts which invest in aircraft leasing or infrastructure funds. The damage to the share prices would come from a change in demand patterns rather than from significant damage at a portfolio level.*

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

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

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

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

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

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

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

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

BE AWARE OF THE RISKS

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DEFINITIONS

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

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

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

ALFA FINANCIAL
(ALFA) 490p

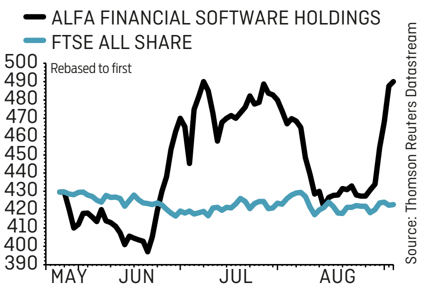
Gain to date: 1.5%
Original entry point:
Buy at 482.75p, 3 August 2017

DEBUT HALF YEAR results (31 Aug) from the enterprise software supplier to the asset and consumer finance industry were impressive. Revenue and adjusted earnings before interest and tax increased 29% and 20% respectively, and that's after stripping out currency benefits.

The scale of the opportunity is clear with so many legacy IT systems that are struggling to match digital transformation demands, not to mention navigate increasingly stiff regulatory challenges.

Alfa Financial's (ALFA) single platform cloud-based approach makes transition relatively easy for clients. Alfa's ability to roll new development across its entire platform makes its system a compelling outsourced IT proposition.

We said investors would continue to pay a premium for this opportunity and this was demonstrated post results. The stock rallied 13% in the wake of the figures, unwinding a short weak spell as, presumably, investors banked short-term profits. Alfa has also now officially joined the FTSE 250.



There are no firm plans for a dividend yet, but we expect that to change sooner rather than later given Alfa's strong cash generation.

SHARES SAYS: ↗
We remain committed to this high-quality technology growth opportunity. Still a buy. (SF)

BROKER SAYS: 1 1 0

RAMSDENS
(RFX:AIM) 168.5p

Gain to date: 17.3%
Original entry point:
Buy at 142p, 15 June

A BULLISH TRADING update from **Ramsdens (RFX:AIM)** on 1 September reaffirms our belief that this a great stock. It said 'we expect our interim and full year profit before tax to be significantly ahead of market expectations'.

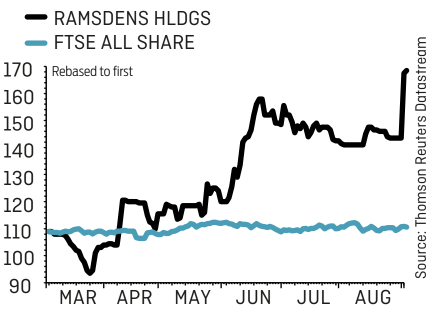
This has been helped by decent foreign exchange results through the traditional peak periods of July and August aiding its offering in this area.

The sustained strong gold price has also been a boon for the company's precious metal retail business as well as its pawnbroking activities.

Looking forward, Justin Bates, analyst at Liberum, says that Ramsdens' competitors exiting the high street bodes well for the business, both in terms of organic and acquisitive opportunities.

This has led Bates to upgrade Ramsdens' adjusted pre-tax profit for the year by 22% to £5.9m.

The shares are trading on 11 times 2018's forecasted 15.3p per share of earnings based on Liberum's estimates. The broker has also put a 190p price target on the shares, implying 12.8% upside.



SHARES SAYS: ↗
Keep buying. (DS)

BROKER SAYS: 1 0 0

THIS IS AN ADVERTISING PROMOTION

Witan Pacific investment trust

Witan's James Hart provides a summary of Witan Pacific's investment approach and his outlook for Asia Pacific for 2017/18.

Witan Pacific Investment Trust is the only investment trust with the mandate to invest across the entire Asia Pacific region, including Japan. Witan Pacific uses a multi-manager approach, choosing fund managers to run different parts of the portfolio based on their specialist experience. This plays to their individual strengths and aims to smooth out the volatility that can arise from being dependent on a single manager.

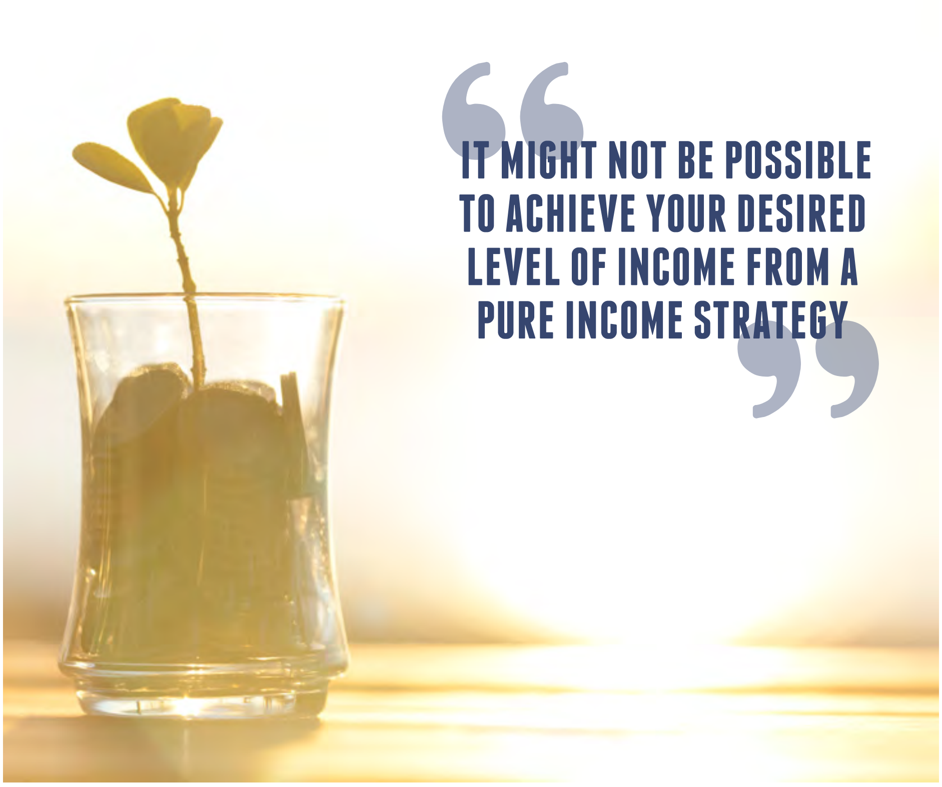
Watch the video to hear Witan Investment Services Investment Director James Hart provide a summary of Witan Pacific's investment approach and his outlook for Asia Pacific for 2017/18.

www.witanpacific.com

DISCLAIMER
Witan Pacific Investment Trust is an equity investment. Past performance is not a guide to future performance and the value of shares and the income from them can rise and fall, so investors may not get back the amount originally invested.

Why you should blend income and growth

Combining styles can result in greater diversification and better returns



> IT MIGHT NOT BE POSSIBLE TO ACHIEVE YOUR DESIRED LEVEL OF INCOME FROM A PURE INCOME STRATEGY

Income and growth are often seen as two mutually exclusive investment styles, but combining the two can sometimes yield better results.

This can be the case whether you're a young investor seeking capital growth or a retiree needing a regular income.

WHY SHOULD I BLEND STYLES?

A key reason for blending the two styles – a practice known as total return – is that it can result in a more diversified and balanced portfolio.

You'll have exposure to a greater range of business types and sectors, which should perform differently at different times of the economic cycle.

In growth phases your portfolio might not rise as much had you invested entirely in a growth strategy. But when times are tough the typically more defensive areas used by equity income strategies should protect you from some of the falls.

This is illustrated by comparing the performance of the average growth fund in the UK (the IA UK All Companies sector) with the average income fund (the IA UK Equity Income sector) over the past 20 years.

According to AJ Bell Youinvest, an initial investment of £10,000 would have risen to £29,708 in a growth fund and £25,523 in an income fund. On a total return basis (including reinvested income) the figures would be £33,028 and £39,139 respectively.

WHY IS IT RISKY TO FOCUS ON INCOME?

One risk of focusing on income is it pushes you towards a small number of high-yielding companies. Some of these companies may have temporarily elevated dividends because they have encountered short-term problems or poor market conditions.

If a company trades at 50p and pays an annual dividend of 2.5p, its yield is 5%. If the company gets into difficulty and the share price halves to 25p, the dividend yield will be 10%. This looks attractive, but it's highly likely that whatever caused the share price to crash will also result in the dividend being cut.

Laura Foll, co-manager of **Henderson UK Equity Income and Growth (GB0007494221)**, says emphasising income can put a focus on companies which are towards the mature end of their lifecycle. They offer a high dividend payout ratio because opportunities for investing in growth may be limited.

'If the focus is solely on delivering a set level of income for clients without focusing on capital, the risk is that over time this draws you to companies and industries that, while they look as if they are standing still, are in reality shrinking,' says Foll.

'Ultimately it is only by growing the capital base that income can be grown sustainably over time. This requires a focus on companies that have the capability to grow sales and earnings, and therefore dividends.'

WHAT'S WRONG WITH CONCENTRATING ON GROWTH?

Focusing on growth creates a different set of risks. Foll says the need to generate cash (in order to pay a dividend) is a good discipline for companies. The directors know they will need to answer to shareholders if they have chosen to bypass the dividend in favour of an acquisition or internal investment.

'This forces them to look very closely at the merits of these investments relative to returning cash to shareholders. Studies also show that over the long term, dividends are a substantial portion of the returns from equities,' Foll adds.

WHAT IF I'M OLD AND DON'T NEED GROWTH?

Even if you're old and think growth is irrelevant, it's still a good idea to diversify your portfolio so you're not over-reliant on a narrow group of industries.

> EVEN IF YOU'RE OLD AND THINK GROWTH IS IRRELEVANT, IT'S STILL A GOOD IDEA TO DIVERSIFY YOUR PORTFOLIO SO YOU'RE NOT OVER-RELIANT ON A NARROW GROUP OF INDUSTRIES

'Some people may think that by holding a number of income strategies they have this diversification, but a look under the bonnet very often finds they each have exposure to similar companies which are exposed to the same economic risks,' says Ryan Hughes, head of fund selection at AJ Bell Youinvest.

Longevity is increasing which means your money needs to last a very long time in retirement – possibly 30 years. Having an element of growth in your portfolio increases the chances of sustaining it over a long period, particularly when you're withdrawing money.

Another issue is that it might not be possible to achieve your desired level of income from a pure income strategy. You may need to supplement it with capital withdrawals.

Jon Wingent, head of portfolio specialists at Lloyds Wealth Investment Office, explains: 'Think of an investor who needs £5,000 a year from an investment capital of £100,000. That equates to 5% a year from the outset and that would be difficult to achieve purely from income in the current climate.

'A total return solution returning 6-8% a year, with only 3% coming from income, allows the shortfall to be made up from growth, plus this does not erode the capital.'

FUNDS THAT COMBINE THE STYLES

There are lots of funds that blend income and growth. They are typically multi-asset funds as oppose to those that follow a single strategy.

Eugene Philalithis, portfolio manager of **Fidelity Multi Asset Income & Growth (GB00BFPC0D88)**, says these funds allow investors to generate a steady income while delivering some capital growth to protect against rising inflation.

They typically hold equities and higher-risk fixed income securities like high yield bonds.

There are also some equity income funds which seek to deliver a combination of both income and growth.

Hughes likes **River & Mercantile UK Equity Income (GB00B3KQG447)**, which offers a yield greater than the FTSE All Share but also focuses on delivering capital growth over time.

There is also **TB Saracen Global Income & Growth (GB00B5B35X02)**, which focuses on companies that have revenue, profit and the ability to grow their dividends, rather than companies that offer the highest yield. (EP)

Cash ISA investing falls as savers move to boost returns

We explain why non-ISA cash savings accounts could be preferable in the current climate

The latest official statistics on ISA saving in the UK paint a fascinating picture of a nation shifting away from cash ISA products offering feeble returns.

Saving in cash ISAs fell off a cliff, with the number of accounts opened down from 10.1m in 2015/16 to 8.5m in 2016/17. The amount of money paid into ISAs – referred to in the jargon as 'subscriptions' – dropped by a whopping £19.5bn during the same period, from £58.7bn to £39.2bn.

So why exactly has this huge shift occurred? There are a couple of obvious factors.

Firstly, the interest rate set by the Bank of England continues to trundle along at 0.25%, dragging down the returns on offer through cash products.

Secondly, the introduction of the personal savings allowance in 2016/17 will, for many people, have tipped the tax balance in favour of non-ISA accounts.

To recap, the savings allowance allows basic-rate taxpayers to receive £1,000 of cash interest tax-free every year (reducing to £500 for higher rate taxpayers and £0 for additional rate taxpayers).

The market-leading* one-year cash ISA rate is currently offered by Virgin Money and stands at 1.3%. Compare this rate to the best one-year fixed rate of

1.95% paid by Atom Bank. If you're looking for a better known brand, Yorkshire Bank pays 1.5% on its one-year fixed rate account.

Savers would be better off using up their interest allowance first before stashing any spare money in a cash ISA.

Indeed, even for money over and above the savings allowance – taxable in a savings account but not in an ISA – the cash ISA can still lose out. If we take the rate offered by Atom Bank, while the gross rate of 1.95% drops to 1.56% for a basic rate taxpayer after tax, it still comfortably beats the best one-year Virgin Money cash ISA rate of 1.3%.

While demand for cash ISAs has unsurprisingly fallen, 2,589,000 people paid £22.3bn into stocks and shares ISAs during 2016/17, a marginal increase on 2015/16. With Consumer Prices Index inflation standing at 2.6%, it's no surprise investors are turning to the stock market – either by investing directly in companies or through a fund manager – in a bid to prevent rising prices eroding the real value of their money.

Clearly we can't be certain on what will happen in the future, but with interest rates unlikely to shoot up quickly and the savings allowance remaining in place it's hard to see demand for cash ISAs picking up any time soon.

*All ISA and savings accounts rates quoted from MoneySavingExpert, correct on 31/08/17

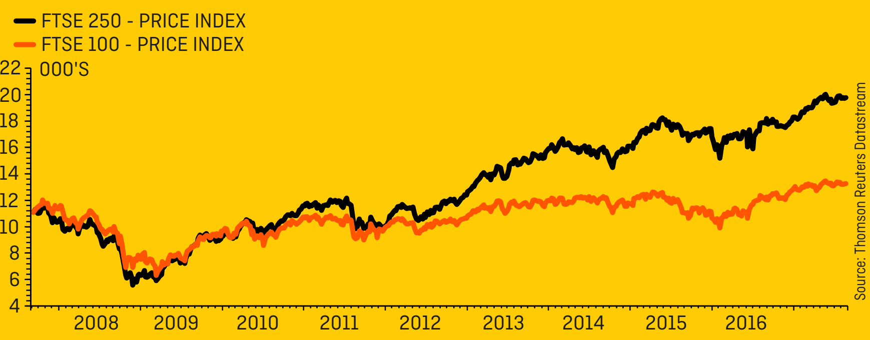
Tom Selby,
Senior Analyst, AJ Bell

GIVE YOUR ISA A SIX PACK

PUMP UP YOUR PORTFOLIO WITH OUR GROWTH AND INCOME MID-CAP PICKS

The mid cap space is home to many exciting investment opportunities. They are generally well-established businesses with revenue and profit; yet they also have plenty of room to keep growing at a much faster rate than the UK's largest quoted companies.

The mid cap space is generally represented by the FTSE 250 index – which is up 8.8% so far this year. That's more than double the 3.4% return from the FTSE 100 index. The outperformance is even clearer when you look at the chart for the past 10 years.



The recently concluded first half results season cemented this trend. Analysts at investment bank UBS note: 'Despite the ongoing uncertainty around the UK economic backdrop, the recent results season saw the FTSE 250 outperform the FTSE 100 in terms of both share price performance and net earnings upgrades, with around 60% of the 150 FTSE 250 companies which reported since 1 July seeing their share price rise on the day, and around 25% rising by more than 3%.'

25%

OF FTSE 250 STOCKS THIS YEAR HAVE SEEN THEIR SHARE PRICES RISE BY MORE THAN

3%

ON THE PUBLICATION OF THEIR FIRST HALF RESULTS

HERE ARE SOME EXAMPLES WHY MID CAP STOCKS ARE AN ATTRACTIVE ALTERNATIVE TO BIG CAPS

- **Growth potential**
  First; just by dint of being smaller, mid cap firms typically have more significant growth potential and could increase their profit at a rapid rate if things are going well.

- **Choice**
  The FTSE 250 is more diverse than the FTSE 100 with areas such as engineering and technology more widely represented.

- **Potential for earnings upgrades**
  Companies on the FTSE 250 are not as widely followed as those on the FTSE 100 so equity analysts are more likely to under-estimate (or over-estimate) earnings.

This can be both a good and a bad thing. Earnings upgrades can lead to increases in the share price although the reverse is true if a company falls short of earnings forecasts.

And although mid cap stocks are typically more volatile than the largest companies on the FTSE 100 they are unlikely to see the wild swings in share price seen in small and micro-cap companies. They are also much more likely to pay a dividend and can therefore offer a winning combination of growth and income.

CANDIDATES FOR PROMOTION

Another reason to take a good look at the FTSE 250 is that the index contains many contenders for the top tier of the UK market. In simple terms, it provides the pool from which the market giants of tomorrow are drawn.

WHICH STOCKS ARE THE MOST ATTRACTIVE?

Investment bank Berenberg has set itself the task of identifying the large caps of the future, looking not just at the FTSE 250 but also some of the larger companies on AIM.

It comments: 'Having met over 250 companies in the past four years and screened many more, we have established a framework for thinking about businesses that tries to identify which of them can become materially bigger on a multi-year view.'

Its top picks include computer games services group **Keywords Studios (KWS:AIM)**, financial services group **Sanne (SNN)**, litigation specialist **Burford Capital (BUR:AIM)**, veterinary group **CVS (CVSG)** and online travel agent **On The Beach (OTB)**.

The top 10 list is completed with food supplier **Cranswick (CWK)**, identity data firm **GB Group (GBG:AIM)**, document storage specialist **Restore (RST:AIM)**, leisure stock **Dalata Hotels (DAL)** and gaming machines technology business **Quixant (QXT:AIM)**.

Berenberg has also identified three current themes worth playing alongside these long-term preferences.

Looking to benefit from 'pockets of optimism' in the UK economy it highlights the attractions of housebuilder **MJ Gleeson (GLE)**, baker **Greggs (GRG)** and building products business **Volution (FAN)**.

It has also identified some good value, good quality names including industrial thread manufacturer **Coats (COA)**, packaging play **DS Smith (SMDS)** and temporary office space provider **IWG (IWG)**.

Furthermore, it also likes three businesses currently engaged in a restructuring process, namely electronics outfit **Laird (LRD)**, building materials firm **Low & Bonar (LWB)** and specialist retailer **Pets at Home (PETS)**.

Read on to discover the stocks picked by the journalists at *Shares*. We highlight six stocks with a mix of value and income attractions from the FTSE 250.

FTSE 250 VALUE STOCKS

THE OUTPERFORMANCE OF the FTSE 250 is longstanding. Over the last decade the mid cap index has increased in value by nearly 75% while the FTSE 100 is up 17.5%.

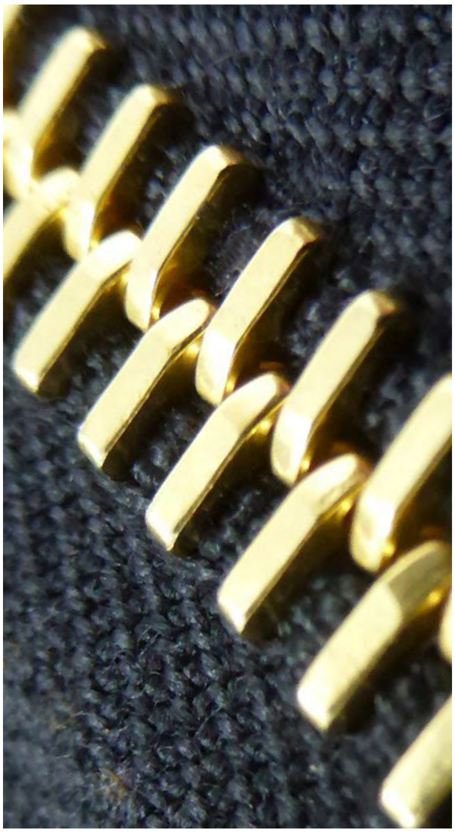
Against this backdrop it can be harder to find stocks where potentially superior growth potential is not already being factored in by investors.

But there are still some companies which, if not dirt cheap, are yet to receive full credit for the quality of their business and prospects and, as such, offer genuine value.

We now discuss three names which look attractive on several different metrics, including price to earnings and price to net asset value. We have 'buy' ratings on all three stocks.

1

COATS (COA) 79.45P



INDUSTRIAL THREADS AND consumer textile crafts firm Coats is one of those companies unfamiliar to most people yet provides essential things in everyday life.

Its products are used in a wide range of items such as stitching in trainers and threads for making tea bags, to zips on coats and tape around mattresses.

We think now is the ideal time to buy the shares despite them having increased three-fold over the past 18 months. That rally was down to fixing pension problems. With those distractions now out of the way, the investment case is purely focused on the core business, driving up margins and driving down debt.

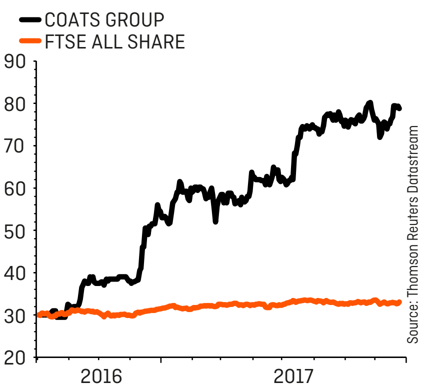
This is a superb company growing profit each year and delivering a superior return on the money it invests in the business.

'We expect the retail supply chain to change in the coming years as suppliers combat rising labour costs by placing greater emphasis on automation, localisation, product innovation, and sustainability,' says investment bank Berenberg.

'In our view, Coats is one company that is well positioned to benefit and take market share from peers.

'The shares currently trade on 8.2x 2018 EV/EBITDA, and we think there is potential for upgrades through M&A, market share gains, and productivity improvements.'

Our view is that the shares are too cheap for a company forecast to generate at least 25% return on capital each year, together with 8%+ annual dividend growth. (DC)



2

VIRGIN MONEY (VM.) 265.3P

IF YOU'RE LOOKING for value in the banking sector then Virgin Money definitely fits the bill. It is trading on a mere 6.3 times forecast earnings for 2018 despite a very attractive earning profile. As a comparison, **Lloyds (LLOY)** trades on 9.9 times next year's forecast earnings.

It is also cheap on other valuation metrics. For example, the shares are trading on 0.8 times to forecast tangible net asset value for 2018, according to Investec estimates.

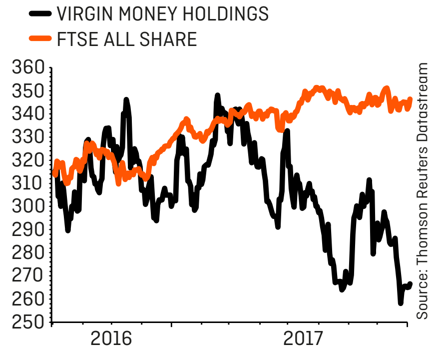
Virgin Money serves the retail market predominantly with residential mortgages, savings and credit cards. It plans to launch a digital banking service with more details to be announced in November.

Group pre-tax profit is forecast to consistently grow, advancing from £138m in 2015 to £341m by 2019 which adds up to a 147% gain.

Investec analyst Ian Gordon says the market is worried about a slowdown in UK mortgage lending, yet data shows continual growth. He is very bullish on Virgin Money as an investment with a 390p, 12-month price target – implying nearly a 50% potential gain if you buy today.

It is also worth noting market concerns about rising consumer indebtedness and fears about people not being able to keep up on credit repayments if the UK economy deteriorated. Virgin Money says its customer indebtedness is low and reducing.

'We have no concerns about the quality of our credit card book,' said chief executive Jayne-Anne Gadhia at the bank's half year results in July. (DC)



3

VESUVIUS (VSVS) 579.5P

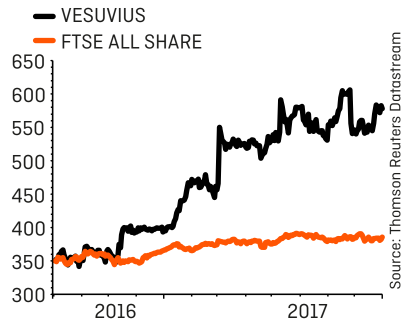
VESUVIUS IS A cyclical engineer that relies on the health of the global steel industry. We think its rating is undemanding given decent earnings growth potential and a nice dividend yield on top.

The £1.58bn company designs and manufactures specialist products that control and protect the flow of steel in foundries, plus other casting units. It also supplies efficiency modules to the industry.

The steel industry is currently in decent shape and the outlook appears fairly positive according to most analysts.

This has played well for Vesuvius, which is one of many UK heavy industry companies to have enjoyed double-digit increases to earnings forecasts thanks to positive trading, growth inspired acquisitions and streamlined operational costs.

UBS anticipates operating profit margins going from 9.5% in 2016 to 11.5% in 2018. A dividend growing in the mid-single digits and yielding 2.9% this year bolsters a modestly-rated share price trading on a 2018 price earnings multiple of 13.1. (SF)



FTSE 250 INCOME STOCKS

ONE OF THE attractions of mid-caps is that they should have reached a point of maturity where they are generating sufficient cash flow to fund dividend payments to their shareholders.

If you're looking for income, don't simply go for the stocks with the highest yield. A falling share price can result in a yield looking attractive, but a falling share price is also a warning that something might be wrong with the business and the dividend could be in danger.

Focus on companies which are generating plenty of cash flow which will allow them to pay a consistent and rising dividend over time. All three of the names which follow fall into this category.

4

PHOENIX (PHNX) 781P

Prospective dividend yield: 6.8%

THIS COMPANY SPECIALISES in buying portfolios of life insurance policies which are closed to new business and then managing them efficiently so they deliver plenty of cash flow which can be returned to shareholders.

The company boosted its assets under management through the £935m acquisition of Abbey Life Assurance last September.

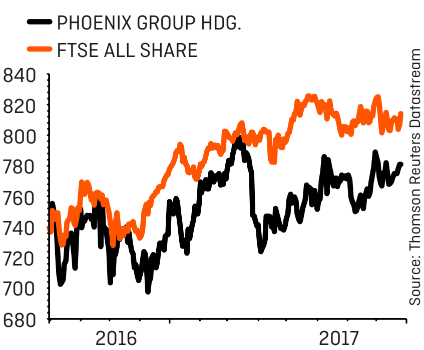
It is trying to enhance the quality of its cash stream and its duration by releasing tied up capital or doing deals to add to its book.

This strategy puts the company in a different category to stocks which are on a high yield due to justified scepticism over their ability to maintain the dividend.

Berenberg analyst Trevor Moss argues Phoenix's is 'one of the most secure and should be for many years to come'.

The dividend payment looks set to rise as the company does further deals, with management on record as saying it has firepower of £500m for M&A.

There should be plenty of opportunities to put this money to work as Moss explains. 'The industry dynamics continue to change, with companies looking to become more like asset managers, be more capital light, focus on digital models, release trapped capital or simply focus on what they are best at doing,' he says. (TS)



PENNON (PNN) 811.5P

Prospective dividend yield: 4.8%

WATER GROUP PENNON is a classic utility income stock. It has stable regulated earnings balanced with faster growth from its energy and waste business Viridor.

The two businesses split neatly for investors. Viridor provides the growth, via its 12 energy recovery facilities, effectively energy generation units from waste and recycling.

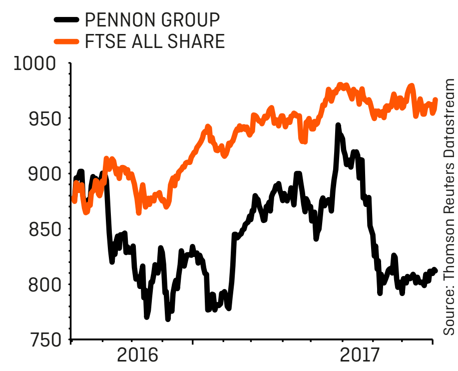
Its South West Water arm is the regulated water supply business. It provides the big cash engine to pay the vital dividend.

Both sides of the business have been ticking over nicely with full year to 31 Match 2017 results slightly ahead of analyst expectations.

The only drag comes from a renegotiated contract in Manchester, with the local authority client pleading penury thanks to the government's ongoing austerity penny pinching. It explains the recent share price weakness with the stock down 14% since late May. That issue now seems to be settled.

But Pennon has again reiterated its promise to lift the dividend by 4% over and above RPI inflation going forward, securing attractive inflation-proofed income for investors.

Analysts at UBS anticipate 7.5% dividend growth this year to 38.7p per share, implying a 4.8% income yield. (SF)



CARD FACTORY (CARD) 331.6P

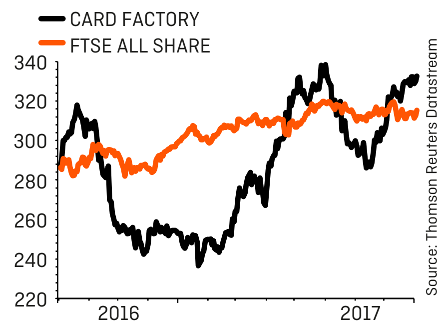
Prospective dividend yield: 7.5%

BUDGET GREETINGS CARDS-to-gifts seller Card Factory is providing a steady stream of progressive ordinary dividends and special dividends amid inclement retail conditions.

Card Factory's positive half year update (10 Aug) flagged 3.1% like-for-like sales growth, while its vertically integrated model allows the retailer to maintain strong margins, generate oodles of cash and keep prices low.

Stockbroker Peel Hunt has upgraded its 12-month price target from 400p to 430p, flagging the continuing woes at Clintons, Card Factory's main competitor, which is shuttering stores.

Card Factory yields 7.5%, based on Peel Hunt's year-to-January 2018 forecast for pre-tax profit of £87.8m (2017: £85.1m) and a 25p dividend (including an expected 15p special dividend on top of a 10p ordinary payout), rising to £96m and 26p respectively for the financial year ending January 2019. (JC)



Three global funds to strengthen your ISA or SIPP

We profile a trio of names suitable for different types of investors and times in your life

Having a broad range of assets can be very important, particularly if you are still trying to create the building blocks of your investment portfolio. Making sure they are spread across a range of geographies is equally important.

After all, it is rare that economies are performing well in every country in the world; the same applies to industries. Having exposure to lots of different areas should help to stabilise your portfolio as inevitably there will be one country or industry in your portfolio that isn't doing so well at any given time.

There are many ways in which you can create a diversified portfolio such as buying a handful of exchange-traded funds which track various indices around the world. In this article we explore actively-managed funds and delve into three products which give you exposure to lots of different countries, industries and even styles of businesses.

All three funds appear on AJ Bell's favourite funds list, a selection of products chosen in conjunction with research group Square Mile because the offer a combination of the following criteria.

They have to be low cost and great value for money. The funds must have a good performance stats compared to their benchmark and peers. And finally, they must have a high quality fund management team.

We believe all three are ideal funds to strengthen your ISA or SIPP (self-invested personal pension).

> HAVING EXPOSURE TO LOTS OF DIFFERENT AREAS SHOULD HELP TO STABILISE YOUR PORTFOLIO

FIRST STATE GLOBAL LISTED INFRASTRUCTURE (GB00B24HJL45)

Ongoing charge: 0.82%
Dividend yield: 2.5%
Annualised return over 3 years: 17.8%

Infrastructure can be a really useful asset to include in your portfolio as this area generally enjoys steady cash flow, thus making it a good source of income. As such, this fund should be of particular interest to people in retirement.

One of the easiest ways to get exposure is through an investment fund. The First State product has stakes in companies such as **National Grid (NG.)** which is in charge of gas distribution networks; and American Tower which owns mobile phone masts.

'This fund benefits from an experienced eight-person team led by Peter Meany, who has nearly two decades of experience in the infrastructure sector,' says Fatima Khizou, research analyst at financial data specialist Morningstar.

'The team takes a broader definition of infrastructure than many of its peers. The investment process aims to balance value and quality through a bottom-up approach with an emphasis on operators of infrastructure assets, primarily in developed countries. We believe it can continue to serve investors well.'

First State aims to generate an income in the region of 3% to 5% per year. Once combined with capital growth, investors should expect approximately 10% annual total return over the long term.

'The fund is relevant for a number of investor outcomes,' says Square Mile. 'It offers the potential for capital accumulation, an income which should grow in real terms over time and protection from inflation over the longer term.'

NEWTON GLOBAL INCOME (GB00B8BQG486)

Ongoing charge: 0.79%
Dividend yield: 3.1%
Annualised return over 3 years: 16.6%

This is a great option for investors seeking to have stakes in big companies listed or located through the world. At the time of writing it has the bulk of investors' funds spread across four sectors: consumer defensive, consumer cyclical, technology and healthcare. There is also a notable, yet slightly smaller, exposure to utilities as well.

The aim is to give investors a rising income stream and also grow the value of capital. It looks particularly suitable for investors in their 30s to 50s who want to leave their money to grow quietly in the background while they get on with their lives.

Hopefully once you reach retirement, the value of the fund will have increased considerably, particularly if you've gone for the 'acc' version which rolls up income within the fund and boosts the capital value. You will enjoy compounding benefits by going down this path rather than the taking the income as cash. At retirement, you may wish to switch to the 'inc' version to maintain exposure and start collecting income which it pays out once a quarter.

'Asset manager Newton takes a global thematic approach to investing which focused on structural changes impacting the global economy such as demographic shifts and the growing demand for healthcare,' says Square Mile. Current holdings include tech giant Microsoft and pharmaceutical firm Novartis.

TB SARACEN GLOBAL INCOME AND GROWTH (GB00B3XPLG55)

Ongoing charge: 0.99%
Dividend yield: 2.6%
Annualised return over 3 years: 12.4%

Launched in 2011, the Saracen fund looks like it has the right ingredients to reward investors with a higher level of income year after year. That's because it has a tight focus on companies which generate sustainable revenue, profit and dividend growth – rather than chasing high yielding companies simply to make its own headline yield look attractive.

'There is a clear and understandable modus operandi in place, with the team aiming to invest in global leaders that have the propensity to continue to grow over the next five years,' says Square Mile.

For a fund with a bias towards larger sized businesses, it is refreshing to see none of the usual big names in its top holdings which you normally see in other large cap equity funds.

Instead, you've got the likes of materials group Compagnie de Saint-Gobain, tech firm IBM and investment bank UBS as key holdings.

Saracen has outperformed the MSCI World High Dividend Yield index in three out of the last five years. You wouldn't have lost money in the two 'bad years', either. (DC)

Contrarian calls from two canny trusts

Expert stockpickers show how you can gain by going against the grain

Contrarian investors look for companies whose potential for share price growth or recovery has been overlooked by the market. This style requires nerves of steel; humans have evolved to like to belong to a group or feel a part of something bigger, so taking a contrarian stance is uncomfortable and you have to be patient as the investment case unfolds.

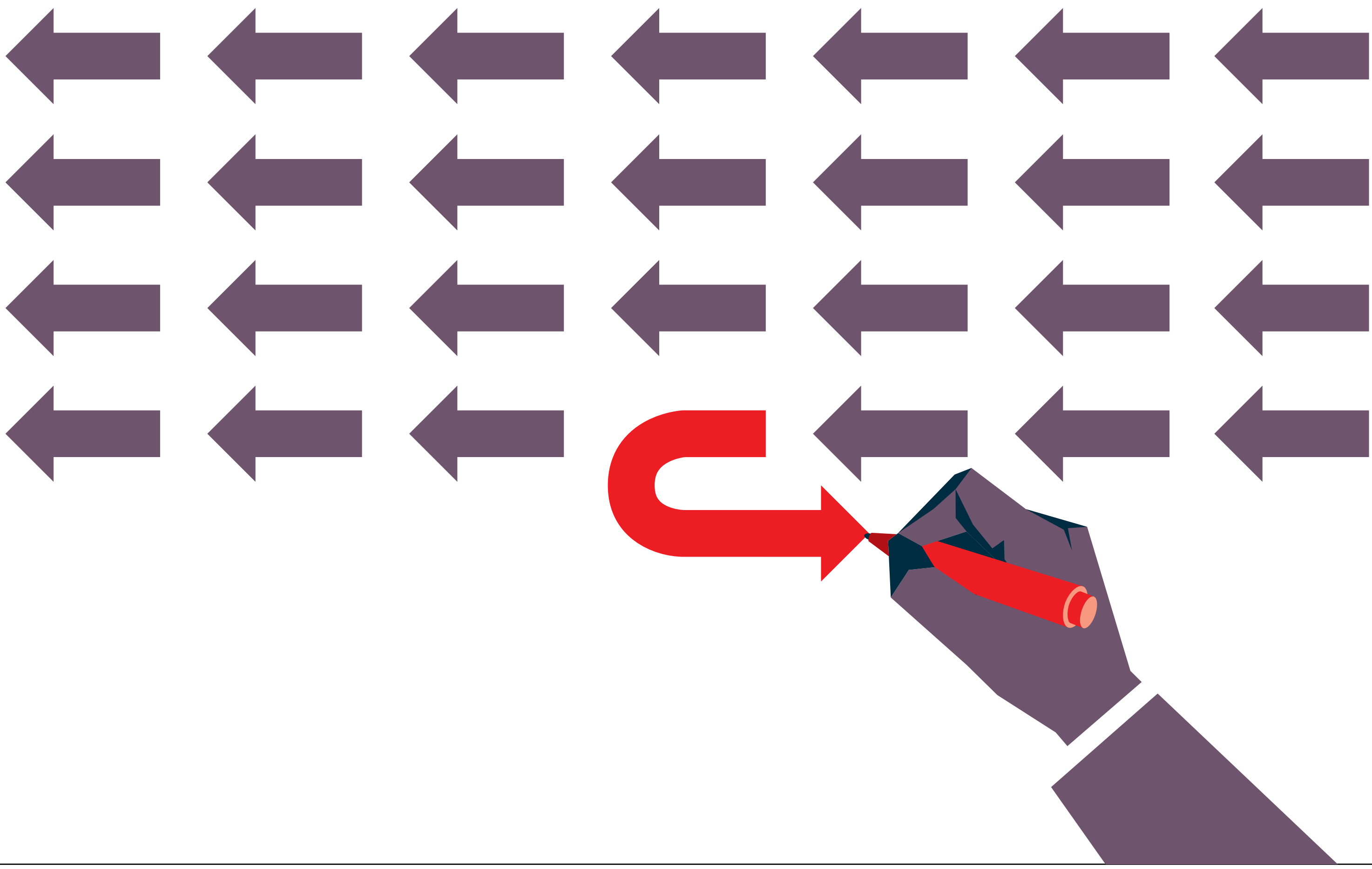
For this reason it can be better to adopt a contrarian approach through an experienced fund manager.

THE SCOTTISH GOES SHOPPING

One well-established fund with a contrarian approach is **The Scottish Investment Trust (SCIN)**, currently trading at a 9.1% discount to net asset value.

Investing globally with the aim of achieving capital appreciation and inflation-beating dividend growth, the trust's four-strong management team led by Alasdair McKinnon uses behavioural finance techniques to exploit investors' tendency to 'follow the crowd'. By focusing on stocks that are very unloved, those with operational improvements that have been overlooked, and more popular stocks that can continue to do better, the managers build in a margin of safety.

McKinnon has made two contrarian calls in the unloved retail sector, where headwinds include falling consumer spending, rising costs from sterling's weakness, a potentially reduced supply of workers post-Brexit and the impact of rapid structural change.



> WRIGHT INVESTS IN COMPANIES WITH EXCEPTIONALLY CHEAP VALUATIONS OR SOME KIND OF ASSET THAT SHOULD PREVENT THE SHARE PRICE DROPPING BELOW A CERTAIN LEVEL

'E-commerce is putting margins under pressure, and many retailers are finding that much of their floor space is redundant,' says McKinnon. 'And many traditional high-street stalwarts are coming under fire from discount chains. We shouldn't be surprised, then, that many investors prefer to look elsewhere.'

The Scottish Investment Trust doesn't see this as the right approach. 'We're contrarian to our core and believe that the best opportunities arise when the market overreacts. It's then that the "wisdom of the crowd" gives way to herd instinct and groupthink.' McKinnon believes investors are overlooking the potential for the Bank of England and the government to take some of the pressure off consumers.

The astute stockpicker adds 'it is also possible that the Brexit negotiations will be smoother than expected. Despite all noise from both sides, a pragmatic approach may well prevail once the process is in full swing. Similarly, we think that concerns about the UK consumer may be overcooked.

'Consumer spending could be curbed by some of the potential Brexit outcomes. But so far, consumers have been carrying on as normal. Following the Bank of England's interest-rate cut last summer, cheaper mortgages and loans have encouraged consumers to borrow and spend. With interest rates likely to remain low, the combination of low unemployment and higher wages would help to keep the retail sector on a steady footing as it faces up to its structural challenges.'

McKinnon sees 'the most current opportunities in UK retail as "ugly ducklings" – unloved shares that most investors shun. Because their operating performance has been poor for some time, their shares are very much out of favour. But we see potential for them to defy the market's expectations and turn their circumstances around. And while we wait for our ugly ducklings to become swans, most of them offer higher-than-average dividend yields.'

Marks & Spencer (MKS) 'is a classic "ugly duckling". Its clothing division has been struggling for some time. But under CEO Steve Rowe, it has begun to turn things round through a better pricing strategy. Meanwhile, the company's food division is still market leading, and its investments in IT and infrastructure are creating a multi-channel offering that can succeed in today's digital environment. And while we wait for its shares to reflect this, Marks & Spencer offers a sustainable dividend yield of 5.5% – and 7% with this year's special dividend.'

'Another "ugly duckling" is **Tesco (TSCO)**, where CEO Dave Lewis is aiming to rebuild profitability, restore market share and regain the trust of consumers and investors. And he is making positive progress. Lewis is focusing on growth in the core UK business and has sold off peripheral assets at home and abroad.' The acquisition of food wholesaler Booker is designed to secure Tesco's position as the UK's largest food business, better pricing and an enhanced customer offering have led to improved same-store sales. 'Meanwhile, a £1.5bn cost-cutting programme should support margins, which are currently the lowest among UK supermarkets,' adds McKinnon.

THE WRIGHT STUFF

Alex Wright, manager of **Fidelity Special Values (FSV)**, follows a value-contrarian philosophy centred around buying unloved companies in out of favour sectors and holding them until their potential value is recognised by the wider market. Wright invests in companies with exceptionally cheap valuations or some kind of asset that should prevent the share price dropping below a certain level, such as inventory or intellectual property, which gives him a margin of safety.

Like McKinnon, Wright is willing to put money to work in sectors that divide opinion among investors and has increased the trust's allocation to banks with the addition of two new ideas. As Matthew Jennings, investment director for UK equities, Fidelity International, explains:

'While IPOs do not usually meet our contrarian criteria, the recent IPO of **Allied Irish Banks (AIB)** is something of an exception. AIB and Bank of Ireland (BoI) have around 60% combined market share each in the Republic of Ireland, creating a very attractive industry structure in an economy which has seen a strong recovery and could outperform other European economies for years to come. However, unlike BoI, AIB has a low quality loan book - around 16% in bad loans compared to 5% at BoI. This makes the market wary of the company, and undoubtedly makes it more exposed to the macroeconomic situation in Ireland.'

Alex Wright, manager of Fidelity Special Values

The positive news is the bank 'is extremely well capitalised, with a 16% Core Tier 1 Ratio, which gives it a good deal of protection against further write-downs. If management is able to continue reducing the bank's exposure to bad loans, it will free up large amounts of capital for distribution to shareholders.'

Another new position for Fidelity Special Values is **Royal Bank of Scotland (RBS)**. 'Up until now, Alex has avoided RBS in preference of other banks where the recovery is more advanced,' says Jennings. 'However, an attractive balance of risk and reward is now emerging. There is considerable uncertainty hanging over the company as it awaits a decision from the US Department of Justice regarding the size of the fine RBS faces, meaning most investors have preferred to invest in banks with fewer uncertainties. If the fine is at the upper end of expectations, RBS remains well capitalised - if it is at the lower end, it is *very* well capitalised, and in a strong position to begin the process of capital distribution to shareholders and resume dividend payments. RBS has been thorough and arduous process of portfolio restructuring and investment bank downsizing, but we are now beginning to glimpse the light at the end of the tunnel.' (JC)

FAST FUND FACTS:

THE SCOTTISH INVESTMENT TRUST

Ticker: SCIN
Share price: 828.5p
NAV: 911.49p
Discount: -9.1%

Source: The AIC

Top ten holdings (as at 31 July 2017)

Treasury Wine Estates	5.3%
Rentokil Initial	4.5%
Sands China	3.8%
Nintendo	3.7%
Standard Chartered	3.7%
ING	3.5%
GlaxoSmithKline	3%
Marks & Spencer	2.8%
Tesco	2.7%
Suncor Energy	2.7%

Source: The Scottish Investment Trust

Why now is the perfect time to buy BHP Billiton

Don't be put off by its shares lagging the FTSE 100 diversified mining peer group

Despite all the publicity around an activist investor trying to shake up **BHP Billiton (BLT)**, it is the worst performing stock among the FTSE 100 diversified miners this year.

That's not to say shareholders have lost money; in fact a near-50% share price gain actually makes BHP the eighth best performing stock in the FTSE 100.

We think there is merit in owning the shares on a long-term basis. Many analysts are also positive on the stock, judging by several bullish research notes since its full year results on 22 August.

WHY IS BHP BACK IN FAVOUR?

The financial results contained a few positive surprises. Investors didn't seem to mind its post-tax profit was 5% below expectations. Instead, they focused on other factors including a better than expected net debt at \$16.3bn versus \$18bn forecast by analysts.

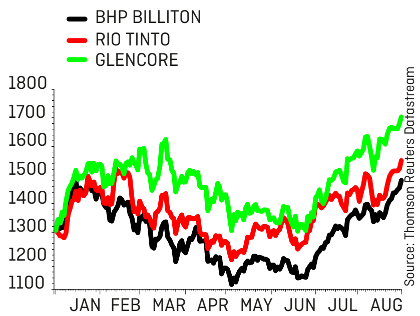
The market was relieved that BHP said it would delay a production decision on the very large Jansen potash project. There is growing speculation that BHP may now sell part of its stake in Jansen.

Also deemed good news was BHP's confirmation that it would put its onshore US shale oil and gas assets up for sale. Investment bank Investec values those assets at \$5.1bn.

WHAT DOES THAT MEAN FOR INVESTORS?

Lower debt and potential cash injection from asset sales bodes well for future returns for shareholders, be it via dividends or share buybacks.

They would enhance an already-strong situation where BHP enjoys high profit margins from low-cost assets, delivering strong cash flow that can be reinvested in the business and be used for dividends.



We note with interest that BHP's large net debt position is forecast to be eliminated within the next three years. UBS forecasts it will go from a peak of \$26.1bn in June 2016 to a net cash position of \$343m in June 2020, rising to £7.8bn net cash a year later.

The cash generation strength is evident in the bank's forecasts which include a 10.7% free cash flow yield this year, progressing to 13.9% on 2021's estimates. A figure above 10% is generally deemed to be very attractive. Free cash flow is the amount of cash generated from operations minus capital expenditure.

On paper BHP looks to be an attractive investment opportunity. The key risk to consider is that commodity prices are impossible to accurately predict. Financial models can produce wildly different results depending on commodity price assumptions.

SHARES SAYS: ↗

We like the business and believe investors will enjoy a rising stream of dividends over the coming years. BHP currently has a 4.3% prospective yield. Buy at £14.78. (DC)

BROKER SAYS: 10 9 4

Microgen buy-and-build risk worth taking

RevStream deal complicates stellar organic growth

Financial services software supplier **Microgen (MCGN)** has agreed the £9.7m purchase of RevStream. It is a California-based enterprise revenue management software designer with more than half its revenues earned on a recurring contracts basis. Microgen is paying £9.7m in a cash and shares deal.

This fits neatly for the UK company. Microgen operates two divisions; Aptitude Software and Financial Systems. The latter business largely designs and runs a suite of tools in the wealth management sphere, particularly in the trust and fund administration market (T&FA), although it provides other financial systems and application management services also.

Aptitude is a very high-throughput transaction processing engine. The platform allows financial chiefs to streamline finance functions and deliver strategic analytics, all under the umbrella of industry red tape.

RevStream will be folded into the Aptitude business, expanding its North American footprint and bolstering attempts to supply services beyond the financial space, telecoms in particular.

'The deal looks to have high strategic merit, providing another route for further geographical and vertical expansion,' says Rob Warensjo of the Megabuyte IT analysis consultancy.

NOT WITHOUT RISK

Microgen appears to be taking a calculated growth risk with RevStream. The company's Aptitude division has been growing rapidly during the past couple of years. Microgen announced a 45% jump in first half revenues this year to 30 June, with Aptitude income up 60% at constant currencies. That accelerated from the division's constant currency 48% revenue increase in 2016.

Upsetting that impressive organic progress with acquisitions 'seems daring' in the view of Megabuyte's Warensjo.

Among the immediate implied threats is to the Aptitude unit's profitability. Last year the division posted a 71% jump in operating profit to £3.8m, once foreign exchange gains were stripped out. In contrast, RevStream record a £0.8m loss before tax in 2016, on £2.7m revenue.

A profit impact this full year may be partly offset by management's confident prediction that RevStream sales are 'expected to more than double in 2017.'

Microgen shares have enjoyed a stunning run in 2017, soaring 173% in the year to date. The stock is currently changing hands at 503p, levels last witnessed in the death throes of the dot.com boom and bust nearly 20 years ago. That implies a chunky-looking 2018 price to earnings multiple of 27.8-times next year's 18.1p forecast earnings per share. (SF)

Finsbury Food's a tasty stock

Celebration cake-to-free from bread maker is coping well with challenging market

A share price pullback at diversified bakery group **Finsbury Food (FIF:AIM)** represents a buying opportunity ahead of full year results (18 Sep). Reassuring commentary despite trading amid tough industry conditions and potential for updates on new license and customer wins or even further acquisitions, are among the reasons to swoop at 109p.

Celebration cakes, artisan breads and muffins maker Finsbury Food faces a tough consumer market and rising input costs, but remains confident in its ability to maintain a market leading position and deliver profitable growth.

Shares admires Finsbury Food's diversification across the retail and 'out of home eating' foodservice channels, as well as CEO John Duffy's unwavering focus on product innovation, productivity gains and improving shareholder value. One example is the tough decision taken to close (23 Aug) Grain D'Or, Finsbury's historically loss-making, London-based maker of premium baked goods for the UK pastry sector, in a move that removes a distraction and will improve group earnings quality.

Ahead of the results, Panmure Gordon's Peter Smedley forecasts improved pre-tax profit of £17.1m (2016: £16.5m) for earnings of 9.9p (2016: 9.7p), rising to £17.7m and 10.2p respectively in 2018. On the latter estimates, Finsbury trades on 10.7 times prospective earnings, a rating which appears overly gloomy, while Finsbury offers a near-3% yield based on next year's 3.2p dividend forecast. We also note significant 38% upside towards Smedley's 150p target price.

SHARES SAYS: ↗
We're buyers of Finsbury Food at 109p. (JC)

BROKER SAYS: 4 0 0

Hill & Smith is a dividend growth hero

Dull but profitable infrastructure project play

An infrastructure engineering business might sound about as boring as you get but **Hill & Smith (HILS)** is a capital growth and income returns story worth knowing. The FTSE 250 member designs, manufactures and supplies a wide array of specialised products needed when new roads and bridges are built, or when big utility projects go up.

Perhaps best-known for its roadside crash barriers, you may have seen them hugging sharp bends in roads, or along the central reservation of motorways, for example. Other bits of kit supplied include street lighting, bridge-side fencing and pipe network support struts used by water companies. It also has a galvanising business that provides zinc corrosion coating protection against rust. This is a company that has roots as deep as pre-Victorian times, when it was called Hill's Ironworks. Then it made things like piston rods and wrought iron fencing.

DULL BUT PROFITABLE

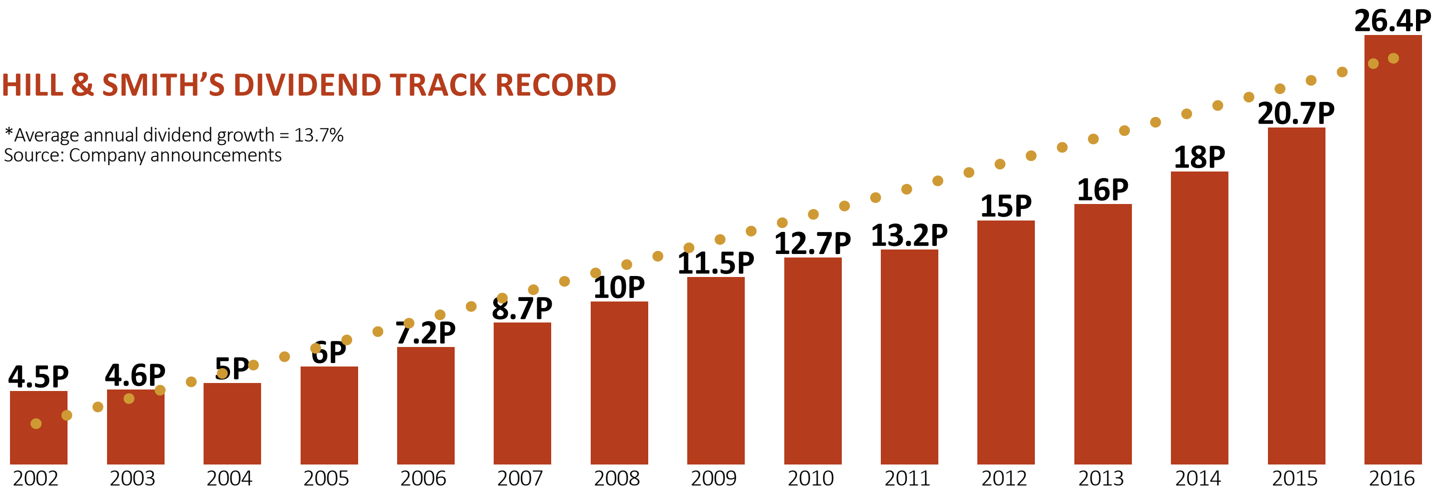
At first glance Hill & Smith may sound like a low-tech commodity kit manufacturer, but that is not the case. Its products need to meet stringent safety regulations both here and abroad, and that means they are not easily replaced by cheaper alternatives.

About 78% of sales and 86% of underlying operating profit (on 2016 full year results) comes from the UK and North American markets. The Trump administration's large infrastructure project investment plans suggests that there is plenty of scope for growth in the US, while Hill & Smith is barely scratching the surface of potential opportunities in places like the Middle East and Asia-Pacific.

Which helps explain the company's long-run appeal and

HILL & SMITH'S DIVIDEND TRACK RECORD

*Average annual dividend growth = 13.7%
Source: Company announcements



recent record-breaking operating performance metrics.

Figures for the half year to 30 June 2017 show revenue of £291.8m for the six months compared to £259.3m for the same period a year ago. Operating and pre-tax profit jumped 67% and 73% respectively, although the underlying growth (stripping out one-offs and currency impacts) came in at 21% and 22% apiece, to £38.8m and £37.4m respectively.

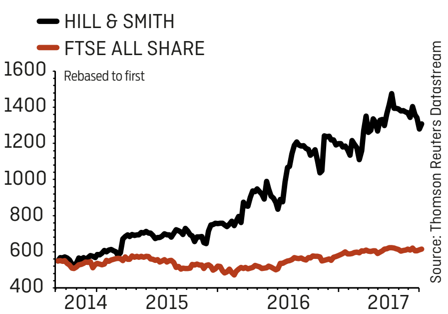
The balance sheet is also strong. Underlying operating profit covered net underlying finance costs 27.7-times, according to the company, while net debt of £109.1m is covered nearly 2.3-times by net assets.

And, while cash thrown off by operations declined from £25.6m to £18.7m, first half on first half, it comfortably covered the £10.6m of tax and interest payments for the period. That made £6.7m in dividend payments affordable too.

ENVIABLE INCOME

The payout is important. True, the 2.2% yield based on a forecast 28.5p dividend for 2017 may not stand out. This is partly down to the strong share price rally over the past 18-months or so, as investors piled in on suppliers exposed to big infrastructure spending, particularly in the US.

The underlying income attraction here is the growth rate of the dividend. Hill & Smith has increased its payout every year since 2002, typically in the high single-digits or better. The first half dividend was hiked 11% to 9.4p, which may imply analyst assumptions for the full year payout of 28.5p to 29p per share may be pitched a little on the low side.



HILL & SMITH CONTINUES TO DELIVER A STRONG PERFORMANCE, AGAIN UNDERPINNED BY OUR TRIED AND TESTED STRATEGY OF INTERNATIONAL DIVERSITY TOGETHER WITH THE LEADING POSITIONS OUR BUSINESSES HOLD IN THEIR RESPECTIVE MARKETS

– DEREK MUIR, CHIEF EXECUTIVE OFFICER

MANAGING THE CYCLE

Perhaps the biggest threat to the company is cyclicality. The company can clearly trade well during periods when national governments are willing to bankroll large infrastructure projects but what happens when the public purse strings are tightened?

Notably, 2009 full year results, which reflect a lot of the fallout from the global financial crisis, do show single-digit declines in revenue and flat underlying operating profit. But pre-tax profit rose and the dividend jumped 15%. This suggests that management know how to manage their way through difficult end markets, streamlining operations and cutting costs to meet a challenging economic backdrop.

There is little evidence of stiffening end markets for now, notwithstanding the current unknowns around Brexit negotiations. At the current £12.88, the stock is trading on a price to earnings (PE) multiple of 17.3 based on Investec's 74.6p of earnings per share next year. That may not look a screaming bargain but it compares favourably with the 18.9 forward PE of Hill & Smith's peer group, according to Reuters Eikon data.

SHARES SAYS: ↗
We believe this is a high-quality business and the dividend growth dynamics should interest longer-term income seekers. (SF)

BROKER SAYS: 6 0 0

FRIDAY 8 SEPTEMBER

AGMS	
MASAWRA	MASA
SIMIGON	SIM
SCHRODER REAL ESTATE IT	SREI
ECONOMICS	
UK	
MANUFACTURING PRODUCTION	
CONSTRUCTION OUTPUT	
INDUSTRIAL PRODUCTION	

MONDAY 11 SEPTEMBER

INTERIMS	
CLOUDCALL	CALL
CROSSRIDER	CROS
DELTEX MEDICAL	DEMG
EKF DIAGNOSTICS	EKF
JOHN LAING INFRASTRUCTURE FUND	JLIF
XLMEDIA	XLM
AGMS	
REAL ESTATE CREDIT INVESTMENTS	RECI

TUESDAY 12 SEPTEMBER

FINALS	
INNOVADERMA	IDP
INTERIMS	
APPLEGREEN	APGN
EMPIRIC STUDENT PROPERTY	ESP
FUTURA MEDICAL	FUM
GOALS SOCCER CENTRES	GOAL
HYDROGEN GROUP	HYDG
SMART METERING SYSTEMS	SMS
TP GROUP	TPG
TYRATECH	TYR
AGMS	
EMMERSON	EML
SUPERGROUP	SGP
VAN ELLE HOLDINGS	VANL
ECONOMICS	
UK	
RPI	
PPI	
CPI	
HPI	

WEDNESDAY 13 SEPTEMBER

FINALS	
WILMINGTON GROUP	WIL
INTERIMS	
ADVANCED MEDICAL SOLUTIONS	AMS
ALLIANCE PHARMA	APH
SOCO INTERNATIONAL	SIA
SQS SOFTWARE QUALITY SYSTEMS	SQS
SURGICAL INNOVATIONS	SUN
TEG GROUP	TEG
AGMS	
ARGO GROUP	ARGO
VERSARIEN	VRS
ECONOMICS	
UK	
UNEMPLOYMENT RATE	

THURSDAY 14 SEPTEMBER

FINALS	
RICARDO	RCDO
INTERIMS	
CORERO NETWORK SECURITY	CNS
GRESHAM HOUSE	GHE
GVC HOLDINGS	GVE
THE PROPERTY FRANCHISE GROUP	TPFG
TRADING STATEMENTS	
SAFESTORE	SAFE
AGMS	
ABZENA	ABZA
FALCON OIL & GAS	FOG
ECONOMICS	
UK	
RETAIL SALES	
OFFICIAL BANK RATE	

EX-DIVIDEND		
ASSURA GROUP	AGR	0.6P
BBA AVIATION	BBA	$0.04
BCA MARKETPLACE	BCA	4.55P
CARRS GROUP	CARR	0.95P
CENTAUR MEDIA	CAU	1.5P
COMPUTACENTER	CCC	7.4P
COMMUNISIS	CMS	0.89P
COSTAIN	COST	4.75P
DERWENT LONDON	DLN	17.33P
ECO ANIMAL HEALTH	EAH	4.6P
EQUINITI	EQN	1.75P
FORESIGHT TECHNOLOGY VCT	FTV	4P
GOCOMPARE.COM GROUP	GOCO	0.7P
HIGHCROFT INVESTMENTS	HCFT	16.25P
HOLDERS TECHNOLOGY	HDT	0.25P
JUPITER GREEN INVESTMENT TRUST	JGC	1.2P
JPSC MAGNIT	MGNT	$0.39
NASPERS	NPSN	$0.09
OCTOPUS SECOND AIM VCT	OSEC	2.1P
RPS GROUP	RPS	4.8P
THE RESTAURANT GROUP	RTN	6.8P
STANDARD CHARTERED	STAB	3.69P
STANDARD CHARTERED	STAC	4.13P
TOTAL PRODUCE	TOT	€0.01
TRIFAST	TRI	2.5P
TEX HOLDINGS	TXH	2.5P
XP POWER	XPP	16P
ZOTEFOAMS	ZTF	1.91P

Click here for complete diary
www.sharesmagazine.co.uk/market-diary

Five-a-side football facilities operator Goals Soccer Centres (GOAL) is set to report its first half results on 12 September.

The results are released against the backdrop of growing speculation over the group's future after Mike Ashley's Sports Direct (SPD) more than trebled its stake to 14.6%.

E-gaming operator GVC's (GVC) half year results (14 Sep) should be strong, with Berenberg looking for a 25% year-on-year EBITDA leap to €130m, driven by synergies from its bwin.party merger, operating leverage and supported by GVC's enviable geographical diversification. We share Berenberg's positive stance on GVC, rumoured to have bid for Ladbrokes Coral (LCL), given its strong balance sheet and generous dividend policy, with potential for further M&A adding extra spice.

Berenberg called Ricardo (RCDO) bang on in March, flagging a deteriorating cash profile and margin weakness. That was at 900p, and the stock has been slipping ever since – now 726p. Getting investors to believe those trends are being reversed at full year results, on 14 September, is vital to halt further stock declines.

KEY

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