STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

PORTFOLIO PROTECTION

What to do if the markets start to turn

BUMPER EDITION: FREE NATURAL RESOURCES 'SPOTLIGHT' REPORT INSIDE

BIG NEWS
IN THE BANKING SECTOR

BIFFA:
AN UNGLAMOROUS YET VERY APPEALING INVESTMENT

WHAT NEXT
FOR INVESTORS AFTER GERMAN ELECTIONS?

Are soaring stock markets a good sign?

It is great to make money; just don't assume the good times will last forever

The S&P index in the US is up nearly 270% since March 2009, making the current bull market the second strongest since World War 2, according to analysis by LPL Research.

Stock markets in other parts of the world are also thriving. The DAX Xetra in Germany is up by more than 200% since 1 March 2009, according to SharePad.

Over the same time period, India's BSE 100 has risen by 160%; Hong Kong's Hang Seng is 115% ahead; and The Russian Trading System index is up 107%. In the UK, the FTSE 100 has appreciated by more than 90% over those eight and a half years.

Against that positive backdrop, some professional investors are increasingly worried about the sustainability of the market, saying we are long overdue a market pullback.

The bull run is central to this week's edition of *Shares*. While we aren't calling the top of the market, we are highlighting the importance of re-evaluating your portfolio so as to be fully prepared once the market correction does happen.

> ONLY SAVVY INVESTORS WILL EMERGE VICTORIOUS

DON'T SIT BACK AND RELAX

Markets don't stay in an upwards direction forever. History tells us they move up and down.

There are plenty of reasons to suggest the market could eventually run out of steam. Monetary stimulus is being withdrawn (albeit slowly); consumer debt is high in the UK and US; and equity valuations are high.

Monetary stimulus boosted asset valuations so taking it away might lead to lower asset values including stocks and shares. High levels of debt raise the risk of economic weakness if consumers cannot repay their borrowings; which in turn dampens prospects for a wide range of businesses.

On the third point, high equity values imply lower returns in the future. Only savvy investors will emerge victorious. They are the ones who sell their highly rates stocks to others who may not realise they are over-paying. The savvy investor will then sit and wait for the market to become cheaper.

Your current focus should be on protecting the wealth you've accumulated during the bull run. However, it is important to stress this does NOT involve selling ALL your investments.

It is impossible to accurately time the market. Some of the best returns have typically come in the late stages of a bull market. You not only need to stay invested during this period; you also need to maintain equity exposure during bad times as you won't want to miss the recovery which can be rapid and rewarding.

Regular investing during market downturns allows you to buy assets at a cheaper price. We'd focus on companies with strong levels of free cash flow and high return on the money they reinvest back in their business.

BUILD UP A CASH PILE

Now might be a good time to trim profits in the highest valued stocks in your portfolio. You would crystallise some of your gains and generate cash to go bargain hunting should markets start to pull back in the near future.

In 20 July issue of *Shares* we warned some fund managers had started to get out of many high-growth, high-value stocks – and it seems the wider market has now begun to do the same. Just look at share price weakness among the likes of **Fevertree Drinks (FEVR:AIM)**, **Purplebricks (PURP:AIM)** and **Keywords Studios (KWS:AIM)** in recent weeks. (DC)

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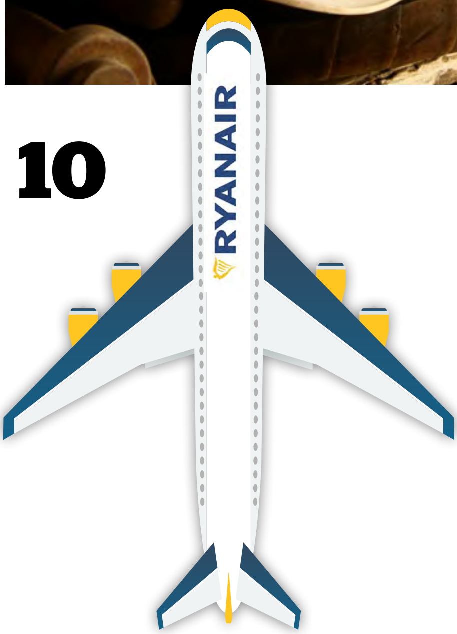

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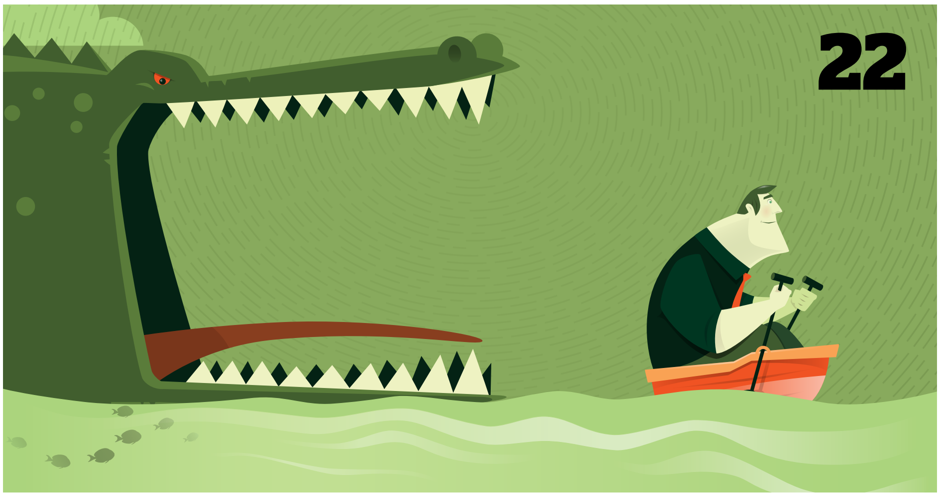
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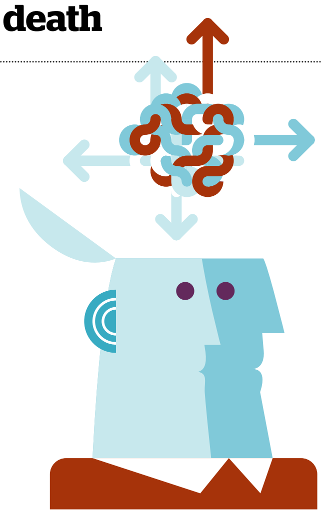

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BROKER RATINGS EXPLAINED:

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.

What next for investors after German elections?

Uncertain fall-out despite Merkel win plus eyes on elections in Japan and Catalonia

German chancellor Angela Merkel is still in charge following federal elections (24 Sep) but now faces a difficult task in building a government. So what does this mean for investors with exposure to Europe?

The surge in support for the anti-immigrant AfD party and an underwhelming performance for mainstream parties, including Merkel's own CDU party and its partner CSU, means cobbling a coalition together may take some time. Any resulting weakness in German equities could be short-lived.

Invesco Perpetual's head of European equities Jeff Taylor reckons the potential presence of the libertarian FDP party in a coalition could result in material tax cuts 'that could well be positive for European growth at the margin', he adds.

In the immediate aftermath of the election the euro suffered as the result was interpreted as making necessary reform in the eurozone more difficult. This could be a positive for German exporters, making their goods and services relatively cheaper for overseas buyers.

Investors looking for exposure to German stocks could consider exchange-traded fund **Db X-trackers DAX UCITS ETF (XDDX)** which tracks a basket of the 30 largest and most actively traded firms on the Frankfurt Stock Exchange.

WHAT IS COMING NEXT?

There are two other political events on the horizon which could have implications for the markets. In Spain, despite the best efforts of the government in Madrid, the Catalan region plans to hold an illegal independence referendum on 1 October.

Planned vote on Catalan independence on 1 October

If the poll goes ahead any result would not be legally binding but a vote to go it alone could put pressure to offer the region a legal referendum in the future.

The resulting uncertainty and the risk of a break up of Spain could put further pressure on the single currency.

In Japan, prime minister Shinzo Abe has called a snap election with Japanese media reporting it will take place on 22 October. After sinking in the opinion polls, Abe has seen his popularity improve on rising tensions with North Korea.

Japanese snap election expected on 22 October

Jesper Koll, who runs the Japanese arm of ETF provider WisdomTree, says there is now an increased chance of a tax hike being announced next year. He says that risks a recession in the world's third largest economy because previous tax hikes prompted forced recessions and equity bear markets. (TS)

Big news in the banking sector

Mortgage data and Financial Policy Committee report put spotlight on the sector

Recent data presents differing views on the health of the UK's high street banks. The Bank of England's Financial Policy Committee (FPC) released a report on 25 September suggesting that growing consumer debt could pose a major threat to the capital positions of Britain's biggest banks if there was an economic downturn.

Shares in some of the largest high street banks took a small hit when the report was published. **Barclays (BARC)** fell 1.1% to 189.4p and **Lloyds (LLOY)** shed 0.8% to 66.41p.

Secured lending is also hitting the headlines. Figures released by banking trade body UK Finance on 26 September said mortgage lending in August rose to its second highest level since April 2008.

The last time mortgage lending went above £24bn in a month was in March 2016, when property buyers rushed to avoid a hike in stamp duty.

There are growing fears about consumer debt levels

Lloyds is the largest mortgage lender by capital yet has also been growing its consumer credit division through the acquisition of MBNA's credit card business. This theoretically puts the bank at a greater risk if, as the FPC warns, a market downturn does occurs.

We prefer **Virgin Money (VM.)** as an investment. It has an estimated 3% UK market share in mortgages. Investec analyst Ian Gordon says the FPC statement 'indicates a primary focus on higher risk lending and/or any loosening of underwriting standards. This is not Virgin'.

On a valuation view, Gordon says Virgin trading on 5.3-times forecast 2019 earnings of 50.2p is 'absurd'. His 395p target implies upside of nearly 50% versus the 267.4p price at the time of writing. (DS)

Cobham appoints former Airbus UK chief

AEROSPACE AND DEFENCE firm **Cobham (COB)** has appointed the former head of Airbus UK Paul Kahn to head up its communications and connectivity arm.

Kahn joins on 2 October and will be looking to support chief executive David Lockwood's planned turnaround of the firm.

A series of financial and operational disappointments means the company is valued at a little over a third of what it was in early 2015. (TS)

UK hotel growth to decline in 2018

PROFESSIONAL SERVICES firm PriceWaterhouseCoopers (PwC) believes that earnings growth in UK hotels will be lower in 2018. The company predicts a stronger than anticipated second half of the year thanks to a recovery in Europe and a weaker pound, but argues this is not sustainable.

Canaccord Genuity reckons Airbnb is a growing threat to the hotel sector as it gains more traction with leisure travellers. (LMJ)

Gambling stocks in focus ahead of Government review

KEEP A CLOSE eye on gambling companies as a Government review on the industry is due next month.

Reports suggest it will get tough on fixed-odds betting terminals in bookmakers' shops. They are a key source of income for **Ladbrokes Coral (LCL)**. The company continues to be the subject of takeover rumours with **GVC (GVC)** seen to be the likely suitor. (DC)

Central Asia Metals' zinc move makes the stock higher risk

Company insists it will keep paying generous dividends despite shift to become underground mining operator

Anyone used to owning shares in **Central Asia Metals (CAML:AIM)** as a low-risk, high-yield stock should brace themselves for a change in risk profile and potentially more volatile share price movement.

The miner has struck a deal to buy Lynx Resources, the owner of the Sasa underground zinc and lead mine and processing operation in Macedonia, for $402.5m.

Historically Central Asia Metals has been a waste reprocessing business without the risks of operating an actual mine. It has produced copper cathode at a higher profit margin than a traditional copper miner and generated a lot of cash to expand reprocessing interests in Kazakhstan and pay large dividends to shareholders.

It now has the added risk of running a mine, plus there are questions over whether it is buying Lynx right at the top of the current rally in the zinc price, thus paying a high price for the asset.

Zinc is presently trading around $1.40 per pound, having moved up from $1.18 per pound in the second quarter of 2017. Investment bank Macquarie forecasts the base metal will average $1.41 per pound in the fourth quarter of this year before averaging $1.37 per pound in 2018 and $1.17 in 2019.

Nick Clarke, executive chairman of Central Asia Metals, tells *Shares*: 'The zinc rally won't last forever, but the project will still make a good profit.'

Lynx achieved a 61% EBITDA (earnings before interest, tax, depreciation and amortisation) margin in the first six months of 2017. Clarke says historically it has earned a 40% to 50% margin.

The Sasa mine's costs are presently at the lower end of the second quartile of the zinc industry. Clarke is confident that Central Asia Metals can get the mine in the lowest cost quartile next year.

We note that Lynx is building a new tailings storage facility as the existing one reaches full capacity next month. A delay to finishing the tailings facility could have material impact on operations and profit of Lynx, warns Central Asia Metals in the acquisition admission document.

Lynx is being bought from an Orion investment fund and investor Fusion Capital. The Orion fund is due to wind up in three years' time, according to Clarke, and so the private equity owner had started to offload assets.

Central Asia Metals may consider a move from AIM to London's Main Market, hints Clarke. He says this would be something to debate in six months' time.

Trading at 231.5p, Central Asia Metals will be valued at £407m once all the shares associated with the acquisition are issued. That's still too small to get the stock in the FTSE 250 index, should it move to the Main Market. The smallest stock in the FTSE 250 is presently worth just over £600m. (DC)

MJ Gleeson is one of our top picks among housebuilders

Shareholders are being rewarded with a big hike in the dividend

Results from small cap housebuilder **MJ Gleeson (GLE)** demonstrate the same positive trend as its larger rivals and its unique model provides reassurance on future growth prospects.

There is growing concern that housebuilders may be reaching their high-water mark as market conditions become gradually less favourable for the sector. But Gleeson is different in that it builds affordable low-cost homes in the North of England – its average selling price is £122,700.

Having achieved its target of building 1,000 homes a year, the company now plans to double that target to 2,000 within five years.

Chief executive Jolyon Harrison says: 'Our chosen segment of the market is large, mostly untapped and not really affected by the vagaries of politics or the general economy.

'This is because the outgoings relating to the purchase of one of our homes are significantly less than renting a council or housing association house.'

One potential risk to the business is a scaling back or cancellation of the Government's 'Help to Buy' scheme which is used by two thirds of its customers, although management have previously commented they are not reliant on this giveaway.

Pre-tax profit for the 12 months to 30 June was up 17% and the dividend was hiked 66%. The housebuilding arm was supported by a strategic land sales operation in the South of England.

The shares trade on 2.1 times historic book value against an average for its peer group of 1.87 times. (TS)

23.7%

DIGITAL INFORMATION EXCHANGE GETTING BIGGER AND FASTER

GLOBAL DATA DEMAND is predicted to jump by 23.7% per year through to 2021 as consumers and businesses demand increasingly high-quality connectivity and on-demand entertainment.

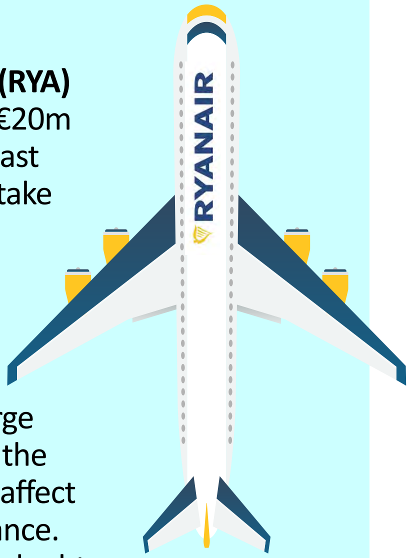
According to Cisco research, the 1.2bn terabytes of data generated in 2016 will soar to 3.3bn by 2021. In other words, that's 3.3 zettabytes.

Interestingly, US/Norwegian company Kolos has plans to build the world's biggest data centre inside the Arctic Circle. Early estimates suggest it will cover 600,000 square metres, or about eight Buckingham Palaces stuck together.

2.4% RETAIL SALES SURPRISE

THE YEAR-ON-YEAR GROWTH in UK retail sales in August, as reported (20 Sep) by the Office for National Statistics (ONS), came in at a surprisingly strong 2.4% despite a backcloth of rising inflation and falling real wages. Well ahead of expectations, the data shows the UK consumer is still very much alive and kicking and lessened fears of an economic slowdown. Sales grew 1% from July, against expectations for a muted 0.2% rise. Increased spending in non-food shops like department stores and DIY shops were behind the dramatic improvement.

RYANAIR'S €20M COMPENSATION 'WON'T HURT' 2017 EARNINGS



Budget airline **Ryanair (RYA)** is expected to pay out €20m after cancelling flights last minute so pilots could take their annual leave.

Investment bank Berenberg is confident this compensation payment and an additional €5m charge that may emerge from the cancelled flights won't affect full year earnings guidance.

However, there is no doubt Ryanair has suffered severe reputation damage which could impact earnings longer term.

Engineer Molins is swimming in cash

Can it convince investors to focus on operations and not fret about its pension?

This is a special situation investment and one which we believe is capable of creating substantial returns if management can successfully execute their plans.

Molins (MLIN:AIM) has a long history supplying machinery to the tobacco industry; that part of the business has now been sold for £30m.

The company is now focused on the packaging industry where it hopes to use engineering expertise and strengthened management to carve a lucrative niche.

SPENDING PLAN

Acquisitions are being considered such as buying businesses that will add specialist know-how or designed solutions. Molins is targeting the fastest growing sectors such as pharmaceuticals, healthcare, beverages and consumer goods.

Organic growth plans are equally ambitious. The company is aiming for organic compound annual growth of 10% between 2017 and 2019.

It also believes 10% operating profit margins are achievable over the medium-term, a target that led one analyst to comment: 'Clearly this is no walk in the park, especially in the context of UK engineering norms.' UK engineering sector operating margins average 5.5%.

MOLINS BUY
(MLIN:AIM) 139p
Stop loss: 97p

Market value: £27.8m

ROUTE TO RECOVERY

Product innovation, better after-sales and account management, and improved upselling will hopefully deliver on these ambitions. It wants to create better solutions for customers, potentially leading to faster growing revenues and economies of scale which could have a significant impact on profit.

Molins is anticipated to exit 2017 with around £22m on the balance sheet, and that's after costs and tax from the tobacco business sale, plus a £2.7m payment to its pension fund (with an extra £1.5m held in escrow).

It is committed to an annual £1.8m contribution to the pension scheme going forward, even though it is currently running at an £11.1m surplus.

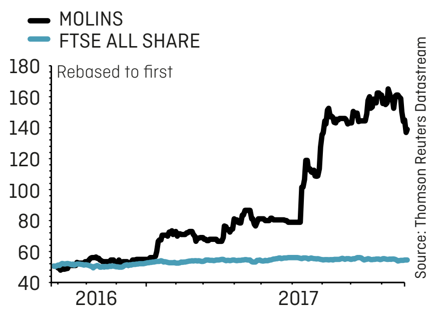
The £22m net cash position is worth 109p per share, which effectively means Molins' operating business is valued at a mere 30p per share. It is forecast to make 10.4 per earnings per share in 2018 and 14.7p in 2019, so the stock is effectively trading on less than 3 times earnings.

Why? The market is still clearly nervous about the long term ability to manage the pension scheme which had £416m of liabilities and £420.5m fair value of assets, as of 30 June 2017. Those figures tower over the value of the equity.

Pension liabilities can easily change depending on estimates for inflation, life expectancy and returns on corporate bonds.

Therefore investors should treat this stock as extremely high risk despite the cheap price to earnings ratio. (SF)

BROKER SAYS: 1 0 0



L&G is a cracking value and income play

Demographic trends should support insurance and asset management firm

Investors interested in well-known names that pay good dividends but put off by sky high valuations need look no further than **Legal & General (LGEN)**.

The company offers a 'one-stop-shop' for an ageing population in developed nations by offering pensions, insurance, investments and savings products. A part of this offering is made through the company's asset management division Legal & General Investment Management (LGIM).

BOOST FROM INCREASE IN MORTALITY RATE

Changes to the mortality rate aided Legal & General's profits in the first half to 30 June, enjoying a 27% lift to £988m. While there has historically been an upward trend of people living longer in developed nations, this has now stalled and deaths have risen perhaps due to unhealthy lifestyles and social inequality.

This spike in mortality rates caused Legal & General in August to release £126m of reserves which would have been used for customers' pensions. Barrie Cornes, analyst at Panmure Gordon, believes this will continue into the second half and beyond. Cornes expects a further £175m release in the second half of 2017 and £250m over the next two years.

The company has also been aided by a decrease in its effective tax rate which has been reduced to 18.1% from 23%.

LEGAL & GENERAL
BUY
(LGEN) 256p
Stop loss: 204p

Market value: £15.3bn

This has led Cornes to upgrade pre-tax operating profit forecast by 14% for 2017 and 2018 at £2.01bn and £2.16bn respectively.

The growth in LGIM bodes well for the future. The asset manager enjoyed a 126% increase in external inflows into its products in the first half of the year with its assets under management hitting £951.1bn.

ALL IN THE NUMBERS

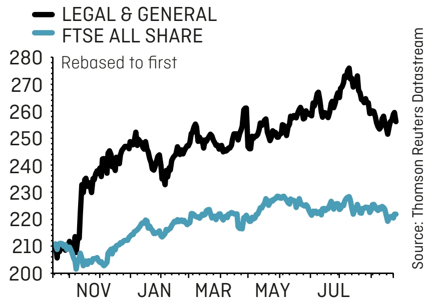
It's when you drill down into the numbers that the company starts to look interesting for income and value investors.

Based on Panmure Gordon's forecasts, Legal & General is trading on 9.3 times 2018's forecasted earnings of 28p, and has a 6.4% prospective dividend yield. This puts the company on quite a discount to its peers and looks an attractive proposition.

One major difference between Legal & General and its rivals which may account for this discount is that the company is buying up annuity books which others are keen to shift. Companies such as **Prudential (PRU)** are instead focusing on high growth markets such as Asia. Prudential trades on 11.2 times forecast earnings for 2018.

Panmure's price target of 325p for Legal & General implies 27% upside from the current share price. (DS)

BROKER SAYS: 9 9 4



CARD FACTORY
(CARD) 303.6p

Gain to date: 11.2%
Original entry point:
Buy at 273.1p, 9 March 2017

A MODEST FIRST half profit miss and a more cautious second half outlook have wiped out some of the gains we previously made on greeting cards seller **Card Factory (CARD)**. It doesn't change our view that this is a great business and should be a winning investment over the long term.

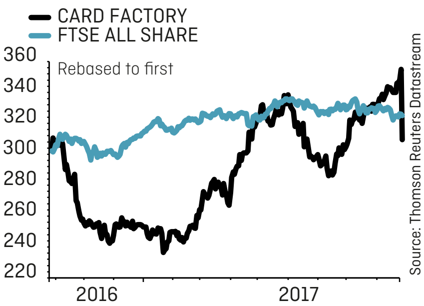
The main culprit behind the share price decline on 26 September was an increase in costs. This was driven by the impact of the National Living Wage and a currency hit as weaker sterling impacts Card Factory's buying power on products sourced in US dollars.

The company also makes reference to 'the decline in footfall seen across the high street' as context for the results.

Ultimately margins are down from 20.2% to 18.3% and this fed through to a 14% year-on-year drop in pre-tax profit to £23.2m.

These headwinds are mitigated by a 3.6% increase in the first half 'normal' dividend to 2.9p and the announcement of a 15p special dividend. This generosity reflects a strong balance sheet and continuing excellent cash flow.

Liberum stays at 'buy' with a 365p price target. It comments: 'The key positive is the £51m special dividend, which we believe gives a potential total dividend yield of c.7%, and strong cash generation.'



SHARES SAYS: ↗
We remain fans, but warn investors not to get too accustomed to having a special dividend every year. We also believe the share price could be volatile until Card Factory can prove to investors that trading isn't getting worse. (TS)

BROKER SAYS: 3 2 0

QUIXANT
(QXT:AIM) 425p

Gain to date: 49.1%
Original entry point:
Buy at 285p, 20 October 2016

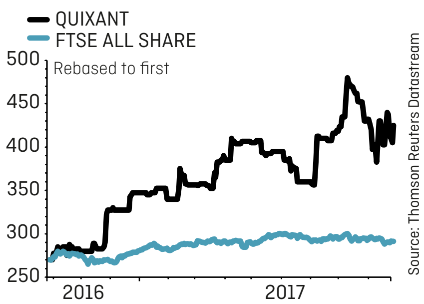
Half year results were once again excellent from gaming technology supplier **Quixant (QXT:AIM)**.

Revenue jumped 38% to $56.9m driven by a quite exceptional 78% organic jump from its core Gaming division to $37.8m. Pre-tax profit soared 98% to $8.7m.

Even management were surprised by the level of demand, which also explains the slightly weaker cash flow performance in the period (more hardware ordered and paid upfront by Quixant).

Those numbers are impressive enough but, arguably, the most positive news is the company's increasing project work with the world's five tier 1 gaming machine manufacturers (IGT, Aristocrat, Novomatic, Scientific Games and Gauselman). This is a fantastic way to gain their trust and demonstrate the quality of Quixant's products in real world situations.

Talk of a mildly quieter second half by typical standards looks to us like sensible expectation management by the company. There's also promising gaming regulation developments in Japan, where legislation has been passed for land-based casinos to operate. Another emerging growth market to add to the list.



SHARES SAYS: ↗
An exceptionally high-quality growth business, keep buying. (SF)

BROKER SAYS: 2 0 0

ACCESSO TECHNOLOGY
(ACSO:AIM) £18.33

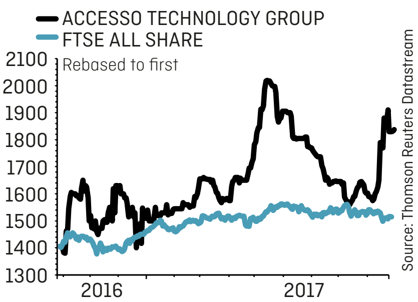
Gain to date: 11.1%

Original entry point:
Buy at £16.50, 20 July 2017

THE QUEUING AND ticketing technology solutions group continues to extend its tentacles deeper into existing markets, and find new ones to embrace. **Accesso Technology's (ACSO:AIM)** first half delivered adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) up 24% to $8.7m on revenue up 17% to $46.6m.

Organic gains accounted for an estimated 10% revenue growth. The other 7% revenue growth balance was sparked by the Ingresso and TE2 businesses, a pair of acquisitions that management believes are as 'strategically important to us as anything we have ever done,' helping expand into the wider leisure and entertainment industries.

Accesso typically does about 40% of its full year numbers in the first half, with the meat of the summer holiday park attendances coming in July and August. On that basis the company is roughly on track to hit full year forecasts of $130m revenue despite admitted modest attraction attendances in the six months to 30 June. A big positive is that management see very limited impact from recent hurricanes that have ripped through much of the Caribbean and parts of the US.



SHARES SAYS: ↗
Super technology and growth potential, we think Accesso is still firmly in its investment phase with the best returns still to come. (SF)

BROKER SAYS: 2 0 0

LUCECO
(LUCE) 237.5p

Gain to date: 58.3%

Original entry point:
Buy at 150p, 20 October 2016

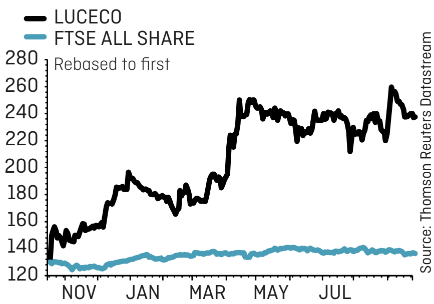
LIGHTING-TO-WIRING ACCESSORIES manufacturer **Luceco (LUCE)** has made its first acquisition since floating on the UK stock market nearly a year ago.

The £381m business has paid £9.75m in cash for Kingfisher Lighting, a UK supplier of exterior lighting products including road and street LED lighting systems and control, as well as a provider of installation and maintenance services.

Kingfisher works for UK wholesalers, contractors, specifiers and local authorities. It made £11.7m net revenue in the year to 31 March 2017 and £1.6m adjusted EBITDA (earnings before interest, tax, depreciation and amortisation).

The acquisition is expected to enhance Luceco's earnings in the first full year of ownership. Stockbroker Numis reckons it will boost earnings per share (EPS) by 5%, hence why it has lifted 2018 forecasts by roughly this amount for pre-tax profit, EPS and dividend per share.

'Combining these two businesses will permit the group to go to market with a complete offering. Kingfisher is based in Mansfield, Nottinghamshire and operates an outsourced model with product provided from third parties, primarily in China,' says Numis analyst David Larkam.



SHARES SAYS: ↗
Expect Kingfisher to be the first of many deals by Luceco as it tries to build a stronger position in several parts of the world. Keep buying. (DC)

BROKER SAYS: 2 0 0

Invest in the UK's strongest performing property sector

Property Partner

The shortage in student housing presents a unique opportunity for investors

STUDENT NUMBERS have been soaring. Back in 1990 fewer than 200,000 students enrolled at a university. Today the number is 535,200. There have been steady increases across all age brackets and income groups.

Obviously this is terrific for universities. What is less clear is where all these students are going to live. Competition for lodgings is getting out of hand.

In July, a group of postgraduates at the London School of Economics declared they were taking legal action against sub-standard accommodation. There have been demonstrations in Edinburgh, Bristol, Goldsmiths, UCL, and Durham over the need for more houses. Falmouth University is building 1,000 student rooms – it still may not be enough.

The shortfall presents an investment opportunity. James Pullan, head of student accommodation at Knight Frank, commented: "The market is still structurally undersupplied in all core university cities." Demand is expected to grow further still. The cap on undergraduate numbers is being relaxed. Savills forecasts an expansion of 6% in international students over the next three years.

WHY RENTS ARE HIGH AND RISING

Demand is rising, and squeezing supply. Rents last year rose by as much as 10%. The founder of flat listings website Uniplaces.com warned recently that, "The student housing market is in crisis...we can expect even greater strain put on current student housing stock and increased tenant competition."

The market urgently needs more stock. The sector is growing fast, particularly Purpose-Built Student Accommodation (PBSA), which has established itself as a serious investment class in recent years. International investment into PBSA has almost doubled in the last two years – but it isn't being offered to non-institutional investors in the way it should be. Technology has changed this. For the first time, access to this asset class has been opened up by a new investment service, Property Partner, which boasts more than 10,000 active investors already.

PURPOSE-BUILT STUDENT ACCOMMODATION

Property Partner was designed from scratch to be the easiest and most efficient way to engage with the property market. Investors use the website to buy shares in one or multiple properties. They earn income from the rent, and can realise capital gains if the property rises in value.

The platform recently entered the student market, focussing on Purpose-Built Student Accommodation. This is new build for the student sector. PBSA, as it's known, is comfortable and well appointed. It often offers shared social spaces, cable TV, laundry, and organised social events. Some even include gym facilities. It's a world away from the low-grade housing traditionally associated with student life.

The returns reflect the dynamics of the market: PBSA has returned 11.8% annually on average for the past five years, even outperforming residential property at 7.8% and commercial property at 7.4%. Last year, yield on PBSA was 5.4% on average. Property Partner is targeting opportunities offering 6%+. Moreover, demand has also been rising, standing at 2.3 students per bed space, up from 2.1.

Income from PBSA is stable, as students typically sign up for 48-week contracts, with the additional security of guarantors. As a result the asset class is remarkably durable. During the global financial crisis, for example, data from Lasalle Investment management shows that rental growth for PBSA continued at 3% to 4% per year, while rental values fell sharply in the wider commercial property market between 2007 and 2010.

BETTER THAN TRADITIONAL PROPERTY INVESTMENT

Property Partner makes investing straightforward. The platform takes care of all the legwork, including legal work and surveyors reports, finding and vetting tenants, building repairs and so on. This opens up the investment opportunity to investors who are either daunted by, or tired with the hassle of investing in property.

It is simple to buy shares in multiple properties through the platform. Some investors back more than 20 properties. Diversification is a golden rule in investing, and property is no different.

The model is tax efficient, holding properties in separate limited companies, making it more efficient for some investors under the new laws. And because flats tend to be bought in bulk there is a discount over the normal market rate. Acquisition is done by a team of experts led by Robert Weaver, the former Global Director of Residential Investment at RBS, and a member of the British Property Federation's Residential Committee. He also set up the Student Accommodation Investment team at Savills. Few private property investors will be able to match his knowledge and contacts.

There is also a unique level of liquidity. Investors may want to divest at any given moment. Traditional property investment makes this hard. By contrast, Property Partner offers a resale market where investors can buy, sell, and bid on shares - like a stock market. Normally, investments are held for at least five years, but the resale market means portfolios can be expanded or contracted as needed, with a current time to sell of 3.6 days, based on the last 30 days of trading. The company is fully authorised and regulated by the FCA, and audited by KPMG, so you can invest with confidence.

ALL PARTIES STAND TO BENEFIT

The backers reflect the quality of the Property Partner model. The company has received £23m of backing by some of the world's leading investors, including Index Ventures, backers of Dropbox, Octopus Ventures, backers of Zoopla, Dawn Capital, backing Mimecast, and Seedcamp, backing Transferwise.

The investment proposition is clear. British universities urgently need more accommodation, and rents are growing steadily. Purpose-Built Student Accommodation is a fast-growing sector in huge demand from investors around the world.

For non-institutional investors, Property Partner offers access to larger investments, on better terms, with the added benefits of diversification and liquidity when needed. In short, unprecedented access to one of the UK's most desirable asset classes.

To find out more go to www.propertypartner.co

Sources: CBRE student accommodation index. IPD quarterly property index. UK HPI & ONS rental growth index. Cushman & Wakefield UK Student Accommodation Report 2016/17, Spareroom, UCAS.

Capital at risk. The value of your investment can go down as well as up. The Financial Services Compensation Scheme (FSCS) protects the cash held in your Property Partner account, however, the investments that you make through Property Partner are not protected by the FSCS in the event that you do not receive back the amount that you have invested. Forecasts are not a reliable indicator of future performance. Gross rent, dividends and capital growth may be lower than estimated. 5 yearly exit protection or exit on platform subject to price & demand. Property Partner does not provide tax or investment advice and any general information is provided to help you make your own informed decisions. Customers are advised to obtain appropriate tax or investment advice where necessary.

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Biffa makes a nice profit and its shares are cheap

Financial problems are fixed and it now looks like a superb investment

In a world where many investors are obsessed with chasing fast growth stocks or quality companies with large cash flows, it can be easy to forget some of the less glamorous businesses despite many of them being very attractive investments.

We'd certainly categorise waste management group **Biffa (BIFF)** in the latter category. Now looks like a superb time to buy the shares, as we explain.

WHAT DOES IT DO?

Set up by Richard Biffa in 1912 as a haulage company providing services to coal fired power stations in London, the group now collects, processes and recycles waste, as well as producing energy.

Biffa was acquired by utility provider **Severn Trent (SVT)** in 1991 and subsequently demerged in 2006 and floated on the UK stock market. Two years later it was taken over by two private equity groups.

The period 2008 to 2012 was terrible for Biffa as it struggled under the weight of significant debt and was too reliant on landfill at a time when the government was pushing up taxes and the UK was shifting focus to recycling.

The company responded by expanding its recycling operations, restructuring its debt and making lots of small acquisitions to increase its presence in the UK.

The private equity owners then commenced the first phase of exiting their investment by putting Biffa back on the London Stock Exchange in October 2016.

IMPRESSIVE EARNINGS REVIVAL

Pre-tax profit has recovered from a mere £1m in the financial year ending 31 March 2014 to hit £45.1m three years later.

On the same time scale, net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) has gone from 5.2 to 1.9 times. To put that in context, most companies don't like to go above 3.0 times. A figure above 5.0 would be unacceptable to most investors.

Stockbroker Numis now believes pre-tax profit will increase by 53% over the next three financial years to £69.2m. Such a growth rate would be very impressive when you consider Biffa is a boring old service company.

That's where it gets very interesting. Biffa has plenty of scope to drive earnings over the coming years, according to chief executive Ian Wakelin. We often say 'boring is beautiful' at *Shares* when it comes to considering certain investments and Biffa definitely fits the bill.

The CEO is confident of Biffa trucks picking up more industrial and commercial waste per journey. 'If we're picking up waste from numbers 34 and 38 on a street; getting the waste business from number 35 as well, hypothetically speaking, doesn't cost us anything extra, meaning we enjoy operational leverage'. Essentially the extra collection in that example would be highly profitable.

To maximise what it calls 'route density', Biffa either needs to win business from rivals, buy small operators and inherit their customers, pick up business from existing customers as they move property or benefit from new property construction.

Most of the acquisitions in recent years have been done on low earnings multiples, roughly 3.0 times enterprise value to EBITDA. Bargains on that scale are rare and so the Biffa boss says future acquisitions are likely to be done on higher multiples.

THE BREAKDOWN OF EARNINGS

Industrial and commercial work accounted for 43% of EBITDA in the 2017 financial year. Picking up residential household waste is 15% of its EBITDA; contracts run for seven years and Wakelin says councils nearly always extend them for another seven years. The remainder of earnings come from energy generation (22%) and waste processing (19%).

> OUR COLLECTIONS ARE COMPLEX LOGISTICS OPERATIONS. SMALLER COMPANIES ARE FINDING IT HARDER TO COMPETE WITH US

'Our collections are complex logistics operations,' says Wakelin. 'Smaller companies are finding it harder to compete with us.'

Waste collections are sent to a variety of processing facilities where Biffa tries to recover as much value as possible. This ranges from recovering sand from road cleaning which is sold to construction companies and food waste which is used to produce bio gas and, ultimately, electricity. It also extracts gas from its landfill sites.

NEW OPPORTUNITIES

The company believes the UK is failing to capitalise on a large amount of waste that could be burned in order to create energy. That's why it is exploring the possibility of building two energy-from-waste plants in Leicestershire and Cheshire each costing £250m.

That is the type of opportunity available to Biffa now it has fixed the balance sheet; previously it wouldn't have been able to consider them, says the boss.

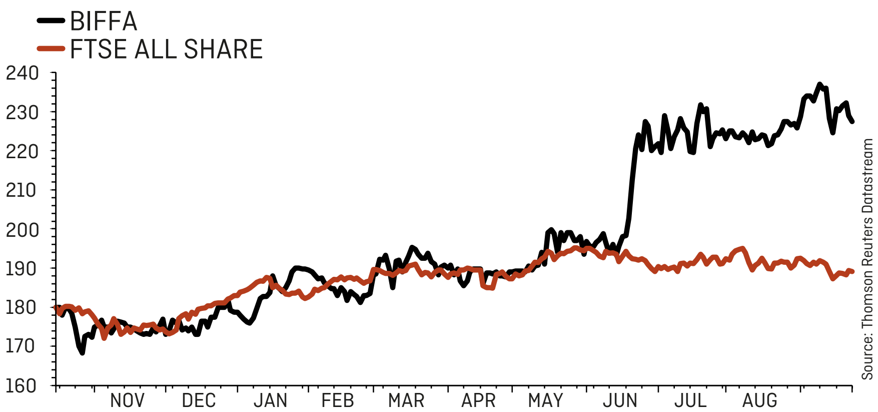
Biffa has partnered with US specialist Covanta which would be the plant operator. Assuming 65% is obtained via project finance, that suggests Biffa and Covanta will each have to find £87.5m to get the plants operational.

'We need to figure out the equity return and how it compares to other places we could invest money like more M&A or building other plants,' reveals Wakelin.

With several high profile failures in the energy-to-waste sectors, such a move may trouble Biffa's investors. Wakelin says the problematic plants were a result of using relatively unproven technology and that Biffa will only go down the tried and tested route.

He also hopes to take Biffa into the construction and demolition waste collection and processing space.

At 228.75p Biffa is trading on a mere 12.2 times forecast earnings for the year to March 2018. That's far too cheap for a company in good health, forecast to pay a rising stream of dividends and with clear potential for earnings growth. Buy now. (DC)



BROKER SAYS: 4 0 0

Tax-saving tips for higher earners

Eight ways to shield your hard-earned money from the taxman

The Government has cracked down on tax avoidance schemes but there are still plenty of legitimate ways for higher earners to reduce their tax bill.

The more tax wrappers and annual allowances you use, the more money you'll be able to save and invest for your future.

1 Maximise your ISA allowance

Under current rules you can invest £20,000 each year into ISAs, which shield your money from income tax and capital gains tax (CGT). This represents a significant tax saving for higher earners.

Large investments held outside an ISA wrapper can often become liable to CGT, which is levied at 20% on higher earners.

If you earn dividend income above £5,000 outside an ISA, the tax levied on higher earners is 32.5%, rising to 38.1% for additional rate taxpayers. The tax-free dividend income threshold is dropping from £5,000 to just £2,000 from April 2018.

ISAs have many other advantages. 'ISAs do not require the same commitment that other tax savings products do,' says James Mullarkey, report writer at financial advice firm Ascot Lloyd. 'Capital from ISAs can be withdrawn at any time which gives investors more flexibility, but it also means that they suit more liquid assets.'

2 Salary sacrifice into a pension

Most people can pay up to £40,000 into pensions each tax year. But since 6 April 2016, the annual allowance has been tapered for people with more than £150,000 of annual gross adjusted income and a threshold income of more than £110,000 in the same tax year, falling by £1 for every £2 of income between £150,000 and £210,000. This means some people have an annual allowance of just £10,000.

It's still worth contributing to your retirement savings pot. For every £1,000 that ends up in your pension, higher rate taxpayers get £400 of tax relief from the Government and additional rate taxpayers get £450.

Charles Calkin, a financial planner at James Hambro & Co, says if you can use salary sacrifice the benefits are even greater.

Salary sacrifice involves giving up part of your salary and, in return, your employer gives you a non-cash benefit such as childcare vouchers or increased pension contributions.

Once you accept a salary sacrifice, your overall pay is lower and so you pay less tax and National Insurance. Your employer will not have to pay their Employers' National Insurance contributions on the part you sacrifice – which has led to some employers passing on some or all of these savings to you.

3 Use carry forward

If you're restricted to contributing only £10,000 to your pension, you may be able to take advantage of unused allowances from the previous three tax years.

This could allow you to make contributions of up to £130,000. But Calkin says there are complexities.

'You need to have earned in this year all the money you are investing, you have to have had a pension in place for all the years you are carrying forward and you need to be careful that you are not breaching or threatening to breach the lifetime allowance, which is now down to £1m,' he explains.

4 Use your spouse

Try to avoid one partner being the sole owner of your savings because this prevents you taking advantage of all your allowances.

Each spouse has a CGT allowance of £11,300, a personal income allowance of £11,500 and a £5,000 dividend allowance (reducing to £2,000 from April 2018).

You can also earn up to £1,000 in income from selling goods or providing services and a further £1,000 allowance on income from owned property.

Spousal transfers are CGT free, which may prove useful if one partner pays a lower rate of tax than the other.

5 Invest in VCTs and EIS

Venture capital trusts (VCTs) and Enterprise Investment Scheme (EIS) funds offer generous tax breaks.

VCTs provide 30% income tax relief on annual contributions of up to £200,000, as long as you hold the VCT shares for at least five years. There is no tax on gains and no income tax on dividends.

EIS funds provide 30% income tax relief on annual investments of up to £1m. Holdings are free from inheritance tax (IHT) after two years and there is no tax on gains.

Both types of investments are relatively high risk and lack liquidity, so it can be difficult to sell your shares.

6 Plan your withdrawals

People typically think they should draw money from their pensions in retirement, but using other assets could reduce your tax bill.

You can withdraw money from ISAs without paying any tax. You can take 25% of your pension tax-free but the rest is taxed according to your income tax rate.

Your personal assets, including your ISA, are subject to IHT when you die, whereas your pension is usually held in trust outside of your estate and free of IHT in most cases.

7 Make gifts

Each individual can gift assets or cash of up to £3,000 each year without incurring IHT. This makes it an easy way to reduce your IHT bill on death.

You can carry over any leftover allowance from one tax year to the next, up to a maximum of £6,000.

You can make larger gifts but you need to live for more than seven years so your children or family don't pay IHT. There is no limit on how much money you can give to charity.

8 Set up a family investment company

A family investment company – a limited company whose shareholders are family members – can be an extremely tax-efficient way of investing money.

Profits are subject to corporation tax of 19% (or 17% from 2020) and shareholders only pay tax when the company distributes income.

It is a complex area so it's vital to consult a tax expert. (EP)

Navigating the lifetime allowance at death

How to avoid getting stung by high tax charges

Thousands of savers have already been caught by the lifetime allowance, the limit which restricts how much you can save in a pension throughout your life to £1m.

According to a Freedom of Information request submitted by *The Telegraph*, the taxman raked in £120m in lifetime allowance charges in 2016/17. This was up from £90m in 2015/16 and more than double the £50m levied by HM Revenue & Customs (HMRC) in 2014/15.

These figures only relate to 'accounting for tax' returns from pension firms, and so don't take into account self-assessment returns provided by individuals.

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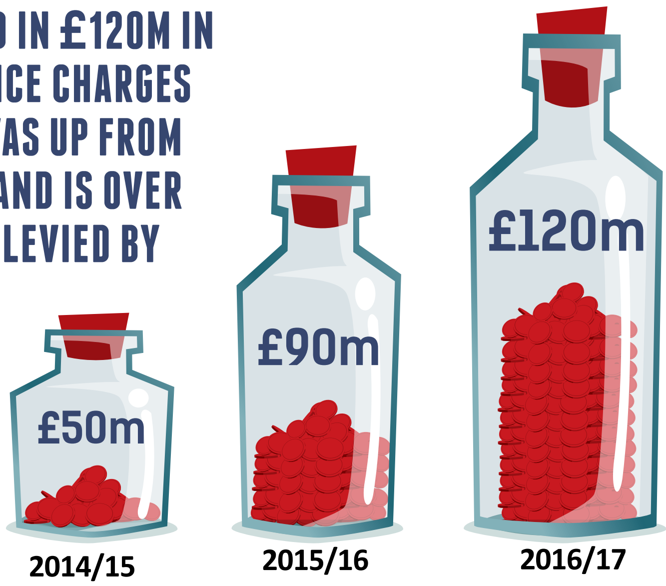


CAUSE FOR CONCERN

The fact the Government's lifetime allowance tax take has gone up should be of little surprise. The limit has been steadily reduced from £1.8m in 2010.

However, it is the way savers are incurring a ifetime allowance charge on withdrawals above the £1m cap that is potentially a cause for concern.

If you exceed the lifetime allowance you have two options – take the excess as a lump sum and pay 55% tax, or leave it within your pension and pay a 25% charge. If you keep the excess in your pension you will pay income tax as normal when you withdraw it.

It's worth noting that if you have obtained some form of 'protection' you will be able to shelter more of your pot from these tax charges.

MOST PEOPLE TOOK EXCESS AS A LUMP SUM

According to HMRC, of the 2,590 who incurred a lifetime allowance charge in 2016/17, the vast majority (1,960) took the excess as a lump sum and so faced a 55% penalty. However, generous pension death benefit rules mean for many this might not be the best option.

Pensions can be passed on tax-free if you die before age 75 and are taxed at your beneficiary's marginal rate if you die after 75.

Now anyone who takes the excess as a lump sum not only pays a 55% charge – the money also becomes subject to inheritance tax (IHT). That means when you die your family could potentially face another 40% tax bill on the money.

If the money is left in the pension the charge on the excess is only 25% and at death your recipient could pay no tax at all.

Clearly the decision of whether to take any excess as a lump sum or leave it in the pension depends on your personal circumstances, and particularly the extent to which you want to pass anything on to beneficiaries.

Pensions and IHT can be fiendishly complex, so if you're at all unsure of your options it's worth speaking to a regulated financial adviser.

Tom Selby,
Senior Analyst, AJ Bell

PORTFOLIO PROTECTION

Despite geopolitical tensions in the Korean peninsula, an unstable US President and the looming threat posed by Brexit, global markets continue to charge ahead. Earlier this month the US Dow Jones Industrial Average marked its 40th record close of 2017.

Even the UK's flagship index – the FTSE 100 – remains firmly above the psychologically important 7,000 mark.

The big question is whether the bull-run in so many stock markets around the world can keep going. Markets have historically undergone corrections (10% decline or more) fairly regularly and it seems we are long overdue another one.

In this article, we talk to market experts about whether we have reached the market peak, the potential obstacles to further market gains and what you should do to prepare for any potential correction.

> "JOSEPH P. KENNEDY, FATHER OF US PRESIDENT JOHN F. KENNEDY, SOLD ALL THE STOCKS HE OWNED JUST BEFORE THE 1929 WALL STREET CRASH AFTER A BELLBOY IN A HOTEL BEGAN OFFERING HIM STOCK TIPS"

WHAT IS THE CURRENT LEVEL OF INVESTOR SENTIMENT?

Across the Atlantic retail investors have never been more hopeful of further stock market gains. The University of Michigan survey for September showed a record 65% expected probability that stocks would rise in the next year. Its data goes back to 2002.

Famously Joseph P. Kennedy, father of US president John F. Kennedy, sold all the stocks he owned just before the 1929 Wall Street Crash after a bellboy in a hotel began offering him stock tips.

He decided if the bellboy was buying stock then it would be difficult to find someone who was below this lowly position to buy shares and keep the stock market momentum going.

At this stage in the proceedings, investors are often not focused on the possibility of losing money or the strengths and weaknesses of individual listed companies and instead fret about missing out on a potential opportunity.

We don't believe we're at this stage yet... but it might not be too far away.

ARE STOCKS EXPENSIVE OR CHEAP AT PRESENT?

The valuation of equities (also known as stocks and shares) in developed markets looks stretched. According to research published this summer by private equity firm STAR Capital they trade on an average price-to-earnings ratio of 21, significantly higher than the long-term average.

Against this backdrop, any bit of news which falls short of high expectations could act as the trigger for relevant companies to experience sharp declines in their share price.

An acceleration of this trend could start to weigh on investor sentiment and cause people to start reducing their exposure to the higher valued parts of the market.

What are the obstacles to further stock market gains?

CENTRAL BANKS

Central banks in Europe and the US are at different stages of scaling back quantitative easing (QE) and returning interest rates to more normal levels.

QE involves central banks buying assets, usually government bonds, from investors such as banks or pension funds with money they have created electronically. This increases the amount of money in the financial system, thereby enabling financial institutions to lend more to businesses and individuals and hopefully stimulate economic activity.

The US is further along in the process of taking its economy off QE 'life support'. The country halted its QE programme in October 2014 and started raising interest rates in December 2016.

In contrast, the European Central Bank (ECB) has extended its own QE programme until the end of 2017.

There is now discussion over when the US Federal Reserve will start selling back assets purchased during QE.

WHAT DOES THIS ALL MEAN?

There are several implications for financial markets but arguably the bigger impact is likely to be felt by fixed income or bond investors.

Invesco Powershares says investment returns will be lowered if central banks are not buying assets. It adds: 'There is some evidence to suggest this may be the case and we suspect those assets that have been the most distorted by QE policies (fixed income, in our opinion) will be the worst affected when QE stops or is reversed.

> **WE SUSPECT FIXED INCOME ASSETS WILL THE WORST AFFECTED WHEN QE STOPS OR IS REVERSED' – INVESCO POWERSHARES**

'This is an important factor behind our preference for equities and real estate over fixed income.

'Even the US equity market, the valuation of which worries us, tends to keep rising until the Fed stops raising rates, which usually happens around the time that unemployment bottoms out.'

As the Bank of England increases interest rates, it could have further implications due to the impact on the pound and the relationship of the UK currency with the FTSE 100.

Higher rates will typically increase the value of a country's currency. The increased return on offer attracts foreign investment, inflating demand and the value of the home country's currency.

And as JP Morgan Asset Management's global market strategist Nandini Ramakrishnan explains: 'The price of sterling affects the revenue streams of the FTSE 100 companies in the UK quite significantly.

'The lower the pound gets, the more attractive these multinational large cap companies' exports appear to the rest of the world (because large caps are selling globally rather than to UK consumers). If sterling strengthens, we would expect small and mid-cap UK stocks to outperform the FTSE 100.'

That's already in play as we speak with the FTSE 250 index up 7.5% year to date versus 1.8% gain from the FTSE 100. Sterling is currently staging a comeback against the dollar with approximately 15% appreciation so far this year.

EARNINGS THREAT

A weaker pound last year increased the relative value of earnings from outside the UK, which account for 70% of the total earnings from the FTSE 100.

The current reversal of this trend could lead to earnings downgrades as analysts adjust their currency expectations. Indeed, stalling earnings momentum is one reason why the FTSE 100 has slipped from record levels in recent weeks.

'The spring's march to a fresh record peak above 7,500 coincided with strong increases to analysts' consensus earnings expectations, themselves the result of the slide in the pound following the June 2016 EU referendum vote,' says AJ Bell investment director Russ Mould.

'While the pound inched lower over the summer, analysts have stopped nudging their forecasts higher – and actually started cutting them, at least for 2017.'

Mould notes that following increases to FTSE 100 pre-tax income forecasts for 2017 in the second, third and fourth quarter of last year and the first quarter of this year, estimates flattened out in the second quarter and then slid by 3% in the third quarter.

He adds that estimates for 2018 profit have been flat at around £213bn for the last two quarters. And that is not just due to currency.

Profit warnings from **WPP (WPP)** and **Provident Financial (PFG)** will not have helped but they represent less than 1.5% of the FTSE 100's aggregate earnings.

There appear to be three bigger factors at work:

Oil is struggling to rise beyond $55 a barrel

Mining analysts don't seem to trust the summer strength in copper, aluminium, iron ore and zinc, as they are forecasting fresh declines in miners' earnings for 2018

Profit estimates for the banks are stalling again and look stuck at around £30bn for 2017 and £36bn in 2018 (a figure which finally takes them back to the peak levels of 2007)

The accompanying table shows the dominance of banks, oil and gas companies and miners in terms of earnings delivered by the FTSE 100.

Investors in products such as exchange-traded funds which track the FTSE 100 need to ensure they are comfortable with their disproportionate exposure to these sectors.

PERCENTAGE OF FORECAST FTSE 100 PROFIT	
Financials	24%
Consumer Staples	15%
Mining	14%
Oil & Gas	11%
Consumer Discretionary	10%
Health Care	9%
Industrial goods & services	9%
Telecoms	3%
Utilities	3%
Real estate	1%
Technology	0%

PERCENTAGE OF FORECAST FTSE 100 PROFIT GROWTH	
Financials	26%
Mining	25%
Oil & Gas	20%
Health Care	12%
Consumer Staples	8%
Industrial goods & services	4%
Consumer Discretionary	3%
Telecoms	1%
Technology	0%
Real estate	0%
Utilities	-1%

Source: AJ Bell, company accounts, Digital Look, consensus analysts' estimates

DEBT WARNING

Another cause for concern regarding the health of the stock market and investor sentiment is consumer debt in the UK which has hit pre-credit crunch levels.

The head of the Financial Conduct Authority Andrew Bailey has sounded the alarm on the £200bn in unsecured consumer credit amassed by UK households. The Money Advice Service says there are now 8.3m people in the UK living with problem debts.

This has implications for consumer facing stocks if Britons feel compelled to tighten their belts – something we've discussed in *Shares* many times this year.

The risk to the wider market is from some form of contagion from these mounting debts. However, warnings on car financing personal contract plans (PCP) being comparable with the subprime housing bubble are far-fetched.

And financial institutions and the corporate sector as a whole have stronger balance sheets than they did in 2007.

More concerning is the dependence of the Chinese economy on debt. The International Monetary Fund says: 'International experience suggests that China's current credit trajectory is dangerous with increasing risks of a disruptive adjustment and/or a marked growth slowdown.' This could have a more material impact on stock markets around the world.

What the experts are saying

BEN KUMAR, INVESTMENT MANAGER, 7IM:
'We haven't seen a US-led slump for some years, and it may cause investors some concern. Ultimately, the global growth train will keep going, but we believe that now is a sensible time to be pulling back from expensive equity markets and keeping some cash ready to invest on a meaningful pullback.

'At the same time, we maintain an allocation to the high growth regions such as emerging markets. If we are wrong about a US wobble occurring, companies in the less developed regions should continue to appreciate strongly.'

RICHARD CHAMPION, DEPUTY CHIEF INVESTMENT OFFICER, CANACCORD GENUITY WEALTH MANAGEMENT:
'It's a very long lasting bull market whether you take the last time the market fell by more than 10% or the aftermath of the global financial crisis as the starting point.

'For UK-based investors, returns look like they are going over the top thanks to sterling rallying sharply in the last few weeks.

'Sterling depreciation last year gave the UK a good push up. The UK market as a whole is being impacted more than usual by currency moves. From a world stock market view, I don't see much evidence of markets topping off.'

JAMES DOWEY, CHIEF ECONOMIST AND CHIEF INVESTMENT OFFICER, NEPTUNE:
'This bull market is underpinned by a lot of support from central banks, who have bought huge amounts of financial assets. If the bull market is to continue, central banks must withdraw this support very slowly and carefully indeed.

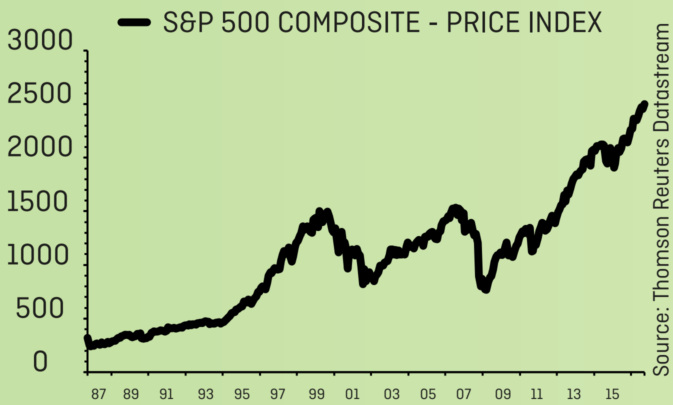
'If they do that, then corporate earnings growth can do the day-to-day work of gradually pushing up the level of the stock market over time.

'The central banks do not want a bear market, so problems will only arise if the gradual removal of support comes into conflict with higher priority concerns, i.e. if inflation picked up very strongly or if lending started to look reckless again.'

JOHN BILTON, GLOBAL HEAD OF MULTI-ASSET STRATEGY, JPMORGAN ASSET MANAGEMENT
'Investors should remember that while valuation matters a great deal over a long-term horizon (10 to 15 years), in the short term (under a year) valuation is not an especially strong determinant of returns.

'So in sum, are valuations rich? Yes, a little. Are we expressly concerned as a result? No, because although corrections can happen during equity bull markets, we see limited risk of a recession over the next 12 to 18 months and so would view any dip in markets as a potential buying opportunity.'

What happened in previous corrections?



PEAK 1 June 1990

PEAK 3 March 2000

PEAK 5 May 2015

PEAK 2 June 1998

PEAK 4 October 2007

John Lonski, chief economist at Moody's Capital Markets Research, says: 'The equity market's five other episodes of at least a 10% drop from the relevant record high followed peaks that were established in May 2015, October 2007, March 2000, June 1998, and June 1990.

'Two of the deep declines did not occur in the context of a recession, namely the most recent correction of 2015-2016 and the brief, but severe, setback of 1998's second half.

'Compared to their previous highs, the market value of common stock sank by -12.9% before bottoming in February 2016 and fell by -13.7% before bottoming in September 1998.

'In addition, 15 months passed before the equity market set a new record high in August 2016, while it took only five months for equities to establish a new high in December 1998.'

> **BE PREPARED FOR 20%+ PLUNGE IN THE VALUE OF A WELL-DIVERSIFIED PORTFOLIO OVER NEXT 18 MONTHS**

What can you do to protect your portfolio?

THE STEPS TO TAKE

By Patrick Connolly, head of communications at financial planning firm Chase de Vere

1. MULTI ASSET APPROACH

- Nobody can consistently call or time stock markets. Those who try may well have expected markets to fall following the EU referendum result or after the election of Donald Trump, but they kept going up.
- It is therefore important that investors don't try to be too clever.
- You should spread your money across different assets such as equities, fixed interest, commercial property and cash. Make sure this is in the right proportions to meet your objectives and attitude to risk. This can be achieved by investing in a diversified range of investment funds or even a single multi asset fund.

2. STAY CALM AND RATIONAL

- It is really important to stay calm and rational.
- Investors will achieve better long-term returns and ride through the difficult times by staying calm, adopting a long-term strategy and sticking to it without being distracted by all of the short-term noise.
- This means that if your investment strategy was right for you before it is probably still right for you today.

3. REGULAR PREMIUMS

- Investing money on a regular basis (rather than lump sums) is a sensible way to invest during difficult economic times or periods of stock market volatility.
- This approach negates the risk of market timing and means that if investments fall in value then units are simply bought cheaper next time, bringing down the average purchase cost.

4. REBALANCE REGULARLY

- To ensure that you don’t end up taking too much, or too little, risk, you should look to rebalance regularly. This involves selling some of your investments which have performed well and now represent a larger proportion of your portfolio and reinvesting into those which have performed poorly and are now a smaller amount of your portfolio. This will help to get you back to your starting position.
- If one year ago you had invested £10,000 in each of Chinese equities, European equities, UK equities, UK corporate bond and UK gilt funds, you would now have £12,630 invested in China, £12,280 in Europe, £11,290 in UK equities, £10,170 in corporate bonds and £9,640 in UK gilts, changing the risk profile of your portfolio.
- Not only does rebalancing ensure you don’t take too much risk, but by selling investments that have done well in favour of those that have done badly you are effectively selling at the top of the market and buying at the bottom. This is the holy grail of investing and something which very few investors consistently achieve.
- By sticking to this method you can avoid the emotional input that leads to many investors buying or selling based on sentiment and probably getting these decisions wrong more than they get them right.

FUNDS FOR CAPITAL PRESERVATION

Investors concerned about the potential for market volatility could consider investing in funds whose priority is not to lose money.

Example include **Jupiter Strategic Reserve (GB00B7KKF583)** and **JP Morgan Multi-Asset Income (GB00B4N20M25)**.

The Jupiter fund was launched in April 2012 and until recently was managed by the experienced Miles Geldard who had a track record of preserving capital through several market cycles.

Geldard is now stepping back to an advisory role with Lee Manzi taking over as manager.

The portfolio he inherits is spread across bonds, equities, convertibles, currencies and alternative assets and takes short and long positions to defend its capital position.

The JP Morgan fund aims to provide income by investing in a global portfolio of income generating securities such as shares, bonds and real estate investment trusts (REITs).

It looks to achieve the best possible risk-adjusted income, which can be taken monthly, quarterly or reinvested for growth.

The current yield is 3.6% and while income is the main objective, the fund also targets capital preservation and low volatility by investing in a diverse selection of around 1,500 underlying holdings.

THE CASE FOR REMAINING INVESTED

> **YOU COULD CASH IN SOME OF THE HIGHER RISK INVESTMENTS IN YOUR PORTFOLIO AND KEEP THESE FUNDS TO ONE SIDE TO TAKE ADVANTAGE OF ANY OPPORTUNITIES CREATED BY A MARKET CORRECTION**

It is important not to overreact to what is happening in the wider market. You could cash in some of the higher risk investments in your portfolio and keep the proceeds to one side to take advantage of any opportunities created by a correction should one happen in the near future.

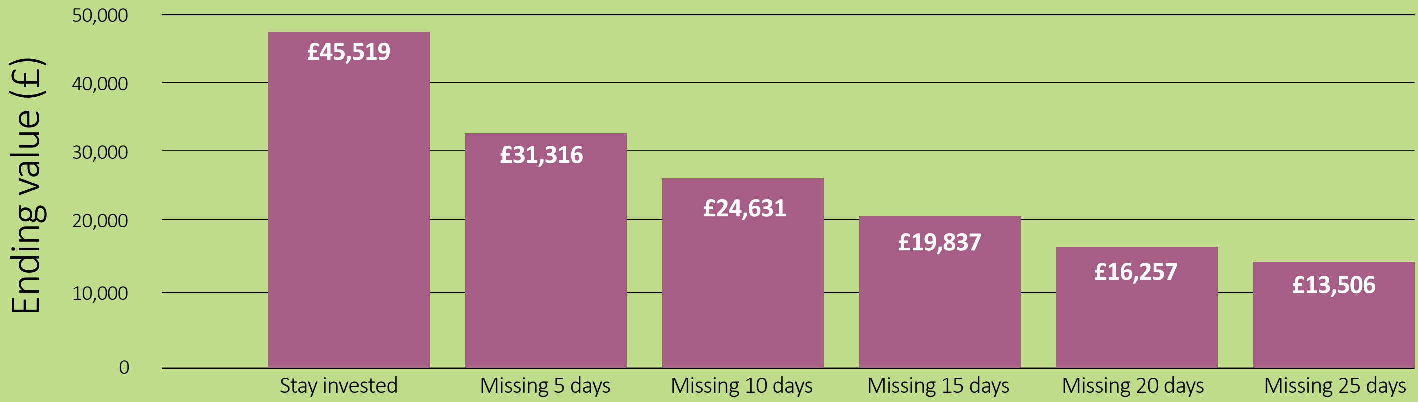
Having some cash at the ready looks a wise move, in our opinion. Just don't be tempted to trade in and out of the market on a regular basis.

JP Morgan Asset Management's global market strategist Nandini Ramakrishnan says: 'Timing the market for those perfect sunny days is especially hard, given that some of those best days occur right after the worst days. The market is volatile, and jumping in and out of it has its costs.'

Research by asset manager BlackRock shows how a hypothetical £10,000 investment in the FTSE All Share would have been affected by missing best-performing days over a 20-year period from 1995 to 2015.

Missing just the five best days would have reduced the final pot from £45,519 to £31,316. Missing the best 15 days more than halves the hypothetical return and missing 25 days leaves you with just £13,506. (TS)

BLACKROCK'S ANALYSIS OF THE FTSE ALL SHARE 1995 TO 2015



Sources: BlackRock; Thomson Reuters Datastream. FTSE All-Share index (total return)
Reference to 'days' in the bar chart relates to the best performing days on the market in the 20 year period being analysed.

Lowland plays the waiting game

Investment trust managers are finding value more difficult to come by

Run by experienced fund manager James Henderson for the best part of 30 years, **Lowland Investment Company (LWI)** has an approach of investing across the market cap spectrum on both AIM (London's junior market) and the Main Market. This allows it to pick from a universe of upwards of 1,000 stocks.

But, as his co-manager Laura Foll explains, even with this level of choice it is becoming increasingly difficult to find opportunities. Foll notes Lowland is reducing gearing – like all investment trusts Lowland can use borrowed money to invest – from around 13% down to 7% and says the direction of travel is 'gently down'.

It is achieving this by scaling back its holdings in some of the good quality mid and small cap names in its portfolio which have already rerated, i.e. moved to a higher price-to-earnings (PE) ratio. PE is a popular ratio used to value a company's shares. It is calculated by dividing the current share price by its earnings per share.

Foll elaborates: 'It's not necessarily a top down call on the market, it's more in stock picking terms we are finding more than sell opportunities than buy opportunities.

> WE DON'T HAVE MUCH EXPOSURE TO RETAIL AND WE ARE RELUCTANT TO ADD TO OUR DOMESTIC EXPOSURE

SCALING BACK HOLDINGS

'One of the companies where we've been selling a long-held position is safety barrier specialist **Hill & Smith (HILS)** – which has caught people's imagination thanks to its exposure to roadbuilding in the UK and a potential infrastructure programme in the US. It's a good quality company with excellent management but that is reflected in a high teens (PE) multiple.'

The trust has also been selling two companies which are subject to takeover approaches in insurer **Novae (NVA)** and industrial services provider **Cape (CIU)**. Novae agreed a £468m takeover from Bermuda-based Axis Capital in July and Cape has received a £332m bid from French rival Altrad.

Foll says: 'Another one we have been reducing is **Conviviality (CVR:AIM)** – it's a good team which have managed it really well but a multiple in the mid-teens is quite high for a distributor. Ultimately, we'd be happier if we didn't have to reduce our holding.'

SIMPLE APPROACH TO VALUATION

Lowland applies quite simple valuation metrics including the PE ratio, enterprise value (encompassing a company's market value alongside any debt) to sales and price to book or net asset value (NAV). Price to book looks at the share price relative to the value of the company's assets per share.

Foll explains the investment trust also looks closely at the management teams of small and mid-cap companies but considers this to be a less important factor for large cap firms.

Although Foll says Lowland has been quite cautious on initial public offerings (IPO) of late, it did participate in the IPO of kettle safety controls specialist **Strix (KETL:AIM)**, attracted by the cash generative outfit's ability to pay generous dividends. Analyst forecasts imply a 7% dividend yield. An IPO is the first time a company sells its shares to the public market.

Another recent addition to the portfolio is a modest position in pharmaceutical giant **AstraZeneca (AZN)** after it endured the worst ever one-day share price performance (down 15%) on the failure of a key drugs trial (27 Jul).

Foll says she would happily add back some of the companies where Lowland has been reducing its holdings if their valuations were to fall from the current elevated levels.

'Investing for income isn't really working, neither is value investing – it's all about earnings momentum and that's why parts of the market are looking quite stretched,' Foll says.

CAUTIOUS ON DOMESTIC UK NAMES

The investment trust has limited exposure to the retail sector. 'There has been some debate over whether domestic UK names are undervalued but we are generally quite cautious on the domestic UK, we don't have much exposure to retail and we are reluctant to add to our domestic exposure.'

Although its portfolio includes the international-facing banks **HSBC (HSBA)** and **Standard Chartered (STAN)**, it is not invested in the likes of **Lloyds (LLOY)** and **Royal Bank of Scotland (RBS)**.

Another domestic sector it is avoiding is the housebuilders which Foll recognises look cheap based on their PEs and dividend yields but not, crucially, based on price to NAV. 'It's price to book which we find off-putting,' she adds.

Although the mandate allows 20% of the fund to be invested overseas, Foll says it is unlikely this will be fully exploited. 'There are plenty of companies with an international focus among the small and mid-caps,' she says. 'We don't want to confuse the investment mandate.' (TS)

TOP TEN HOLDINGS

5.0%	Royal Dutch Shell
3.4%	HSBC
3.0%	Phoenix
3.0%	Hiscox
2.6%	Senior
2.5%	Prudential
2.3%	Standard Chartered
2.0%	Irish Continental
1.8%	Low & Bonar
1.7%	Aviva

Using investment trusts for activist investing

We look at three trusts which are trying to extract value from portfolios of companies

Many people think of activist investors as private hedge funds who use their position as a shareholder in an individual company to enforce change in a business.

But did you know that some of these activist investors are actually on the stock market in the form of investment trusts? It means you can invest directly in the activist rather than the target, if you so wish.

Activist engagement by investments trusts is similar to a single shareholder trying to improve the performance of certain entities. What's different is that you get a portfolio of companies being targeted by the activist, thereby diversifying risks.

Patience is required as it can sometimes take a long time to fix a business or realise hidden value.

WHAT DO ACTIVISTS DO?

Activist-led investment trusts try to improve an investee company's performance. They can push for changes to the board, lobby for a company to engage in M&A activity or even encourage the target to offload underperforming parts of their business.

A good example is **Crystal Amber (CRS:AIM)**. Fund manager Richard Bernstein favours smaller cap stocks where he can take large positions and hopefully exert more influence.

The trust increased its net asset value per share by 32.9% to 204.37p in the 12 months to 30 June 2017. It claims this result makes Crystal Amber the seventh best performing investment trust from 119 products analysed by financial data group Trustnet.

One of Crystal Amber's targets this summer was food retailer Ocado

"IT MEANS YOU CAN INVEST DIRECTLY IN THE ACTIVIST RATHER THAN THE TARGET"

Crystal Amber made £6.1m gain from an investment in real estate group **Grainger (GRI)**; and £5.3m from investing in film studio operator Pinewood, to give two examples.

One of the fund's targets this summer was food retailer **Ocado (OCDO)** in which it has a 0.5% stake.

Bernstein told *The Sunday Telegraph* earlier this year that the FTSE 250 company was focusing too much on its grocery business. He feels the Ocado's growth strategy is using its robotic warehouse technology and software to run its delivery business and its efforts should be focused here.

RECENT ENTRANT TO UK STOCK MARKET

Pershing Square Holdings (PSH) listed on the London Stock Exchange in May this year, providing UK investors with a chance to get involved with the activist strategy of US hedge fund manager Bill Ackman.

He's famed for having a 'big bet' approach. Ackman, via Pershing, invests in companies he likes and trading positions are taken on those he doesn't like in an attempt to profit if their share price falls.

This two-way strategy is very high risk. You also have to consider Pershing has a very concentrated portfolio so the lack of diversity in number of holdings can result in more volatile share price movements than a broader investment trust.

Recent detractors to performance include positions in the largest US mortgage broker Fannie Mae/Freddie Mac and snacks giant Mondelez.

Pershing's latest target is payroll processing giant Automatic Data Processing. Ackman is fighting for three board seats on ADP including one for himself.

Activism is not for the faint hearted. During Ackman's recent dealings with ADP, the latter's CEO Carlos Rodriguez said Ackman reminded him of a 'spoiled brat' when trying to get through changes.

Ackman responded with his usual aplomb, saying he would 'use his ability to generate media coverage to damage Mr Rodriguez and the company'.

> **ACKMAN REMINDED HIM OF A 'SPOILED BRAT' WHEN TRYING TO GET THROUGH CHANGES**

DOUBLE DOSE OF ACTIVISM

Fondul Proprietatea (FP.) is an activist-related investment trust with a difference. Not only is it trying to extract value from a portfolio of mainly state-owned companies, but the trust's biggest shareholder is also a well-known activist investor.

Elliott Advisors, which owns 17.58% of Fondul, is perhaps better known for shaking up another investment trust, **Alliance Trust (ATST)**, and its current efforts to extract value from FTSE 100 diversified miner **BHP Billiton (BLT)**.

Investors including Elliott have been putting pressure on Fondul to find a way to make its shares trade on a lower discount to net asset value. The discount is presently 27.6%.

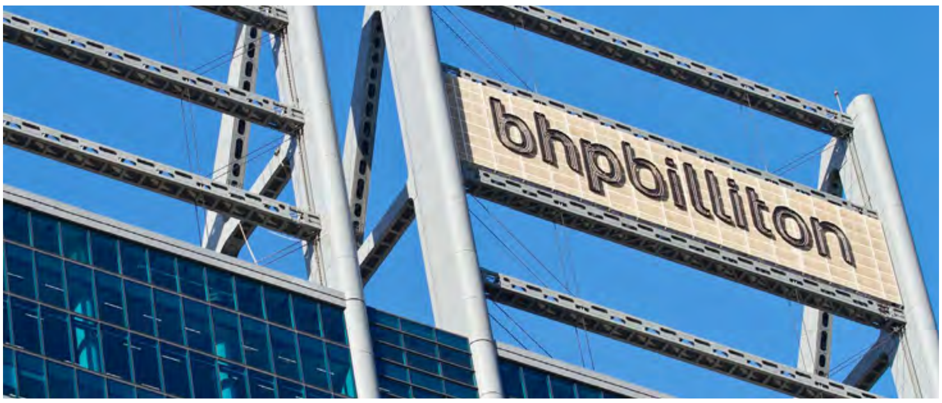
Fondul is a Romanian fund first set up to make restitution for those impacted by communist dictator Nicolae Ceausescu. Asset manager Franklin Templeton took over running Fondul in 2010.

Nearly three quarters of Foundul's investments are unlisted. A key priority is to list these companies on a stock market. An example cited by Oana Truta, investment analyst at Franklin Templeton, is Foundul's largest holding Hidroelectrica. The Romanian government plans to float 10% of the hydro power producer on the Romanian stock market.

The energy company emerged from insolvency in 2016 after years of restructuring.

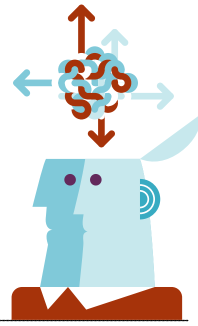
Nevertheless, there are signs that Fondul is getting frustrated with Hidroelectrica, of which it holds a near-20% stake. Earlier this month, the trust said it was reviewing strategic options regarding its ownership interest in the company. Fondul last week sold half of its stake in Romanian oil producer OMV Petrom.

Don't get carried away by Fondul's 20% dividend yield. High yields tend to represent a high risk investment. That's certainly the case with Fondul as Romania has country risks and its capital markets not being as mature as those in the developed world. (DS)



Elliott Advisors, part-owner of Fondul, shook up Alliance Trust and is now trying enforce change at BHP Billiton.

Why multi-asset funds could be the answer to confused investors



We look at three funds that provide exposure to lots of difference asset classes

Making investment decisions is fraught with difficulties as there are many factors that can impact potential returns.

Sometimes investors just want to put their money into an investment fund and let the fund manager do the hard work. Yet even picking the right fund can be a headache.

It is easy to plump for an all-round global income fund, but there is a high chance such a product is dominated by equities (individual company shares) and lacks the asset diversification required by a good portfolio.

One solution might be to invest in a multi-asset fund. That's a specific type of fund which is considered by many experts to be a 'one-stop-shop'. A single multi-asset fund can contain a vast array of asset classes such as shares, bonds, property and commodities.

While likely to be more expensive than plain equity funds, it is cheaper to build a diversified portfolio with one or two multi-asset funds than it would be to invest in a range of different funds.

To give you some ideas of the types of investment choices, we now look at products from fund houses Pictet Asset Management and Royal London as well as AJ Bell's range of multi-asset funds.

ROYAL LONDON GMAP DEFENSIVE FUND (GB00BD8RSH60)

ROYAL LONDON HAS a range of multi-asset funds to suit an investor's risk appetite, ranging from its more cautious 'defensive' fund to its 'adventurous' fund.

All of the funds are managed by Trevor Greetham, head of multi-asset at the firm. Greetham says a typical balanced portfolio of 60% equities and 40% bonds may not suit the current market even though it has been a successful strategy for decades.

The fund is more heavily weighted towards bonds with only 16.3% of the fund's holdings in equities. The fund also includes UK property (5.5%) and commodities (4.9%) as well as some income generating global high yield bonds which are sterling hedged (13.6%).

> WE DON'T INCLUDE EXPENSIVE EXOTIC THINGS LIKE HEDGE FUNDS, PEER-TO-PEER LENDING OR INFRASTRUCTURE. THEY'RE EXPENSIVE, ILLIQUID AND PEER-TO-PEER LENDING WILL GET IN TROUBLE WITH THE FIRST RECESSION

While the fund contains a plethora of asset classes, there are some Greetham won't touch. 'We don't include expensive exotic things like hedge funds, peer-to-peer lending or infrastructure. They're expensive, illiquid and peer-to-peer lending will get in trouble with the first recession,' he says.

The defensive fund has a maximum equity holding of 20% although Greetham says he will adjust the portfolio as the business cycle progresses. 'If we're heading into a recession, we'll move into gilts (UK government bonds); if we're going into a boom, we'll move into equities,' he explains.

This fund is relatively new. It only launched in March last year and has returned 3.2% to date.

PICTET ASSET MANAGEMENT'S FP MULTI ASSET PORTFOLIO (GB00BVYTTG88)

THIS FUND IS more heavily weighted towards equities which make up 47.3% of its assets. It may therefore suit an investor with a higher risk appetite. The fund has returned 5% in a year.

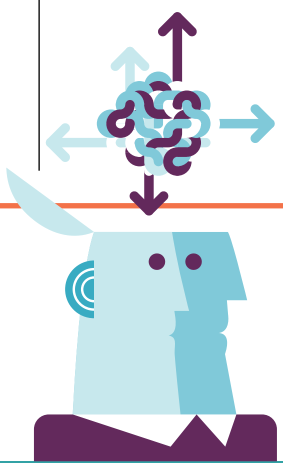
Andrew Cole, who manages the fund along with Andrew Percival, head of multi-asset at the firm, says that multi-asset strategies have become more diverse in their risk/return characteristics.

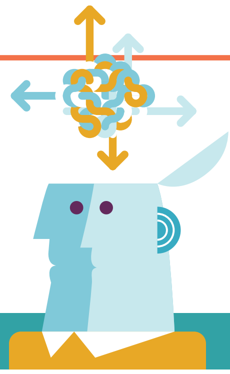
He says the attraction to multi-asset is equity-like returns with a lot less volatility. However, he adds that getting poorer slowly doesn't help anyone so investors may have to accept higher risk and volatility to get better returns.

> GETTING POORER SLOWLY DOESN'T HELP ANYONE SO INVESTORS MAY HAVE TO ACCEPT HIGHER RISK AND VOLATILITY TO GET BETTER RETURNS

The fund's second largest allocation by percentage is alternative assets at 15.8%. Typically used to reduce equity market exposure, some issues with alternative assets such as property, private equity and secured loans are that they can introduce liquidity risks into the fund.

This highlights the importance of knowing what is in a multi-asset fund as illiquidity can cause problems when trying to make redemptions from the fund.





VT AJ BELL PASSIVE CAUTIOUS (GB00BYW8RV97)

INVESTMENT PLATFORM PROVIDER AJ Bell launched five funds in April this year which fall within the multi-asset category. Similar to Royal London, these funds range from 'cautious' to 'adventurous' depending on the risk appetite of the investor.

Labels such as 'defensive', 'cautious' and 'adventurous' are useful guides as to the parameters a manager can use.

AJ Bell's cautious fund is heavily weighted towards bonds at 58.14% of assets at the time of writing. Its portfolio contains a mixture of low cost exchange-traded funds which follow the performance of various indices.

> THE AIM IS TO GIVE INVESTORS AN INSTRUMENT THAT MEETS EXPECTATIONS OVER TIME AND DOESN'T DELIVER ANY NASTY SURPRISES

The fund also contains various asset classes including stocks, property and cash, so is clearly in the multi-asset realm.

Ryan Hughes, AJ Bell's head of fund selection, says the aim is to give investors an instrument that meets expectations over time and doesn't deliver any nasty surprises.

The use of multi-asset funds show no sign of abating although one should always make sure how much scope is given for a fund manager to change the portfolio. (DS)

Kier benefits from bite-sized approach

Focus on smaller contracts could help avoid pitfalls suffered by rivals

The market is displaying a sunnier disposition to builder and civil engineer **Kier (KIE)** in the wake of its latest financial results published on 21 September.

Sentiment towards Kier had soured thanks to damaging profit warnings from sector peers **Carillion (CLLN)** and **Interserve (IRV)** such that the stock was down 20% year-to-date before the numbers were published.

The results were thankfully reassuring with underlying pre-tax profit up 8% year-on-year to £126m, covering the 12 months to 30 June 2017.

Despite a small share price recovery to £11.67 off the back of the results, the stock is still too cheap in our opinion.

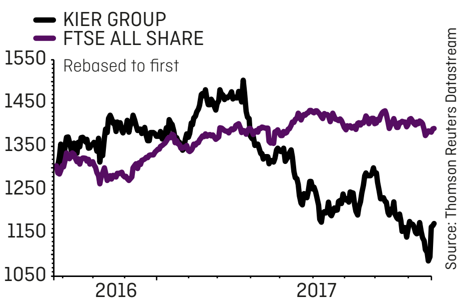
Kier trades on a price-to-earnings ratio of 9.9 times and offers a dividend yield of 6% based on consensus forecasts.

The Vision 2020 strategy remains on track, according to the company, and could deliver double-digit earnings growth over the next couple of years.

The dividend is likely to grow at a slower pace as the company rebuilds dividend cover from the current 1.6 ratio times to a more comfortable 2.0 times earnings.

UNPEEL THE FIRST LAYER

Chief executive Haydn Mursell explains to *Shares* how Kier is distinct from its rivals. 'If you look at the business in comparison to others, while we are in the same sort of spaces, if you unpeel that first layer our construction activities are quite different. We are focused on high volume of smaller contracts which often have duration of six to nine months.'



This diversity reduces the risk of Kier getting tangled up in the large unwieldy and underperforming contracts which have been so damaging for the likes of Carillion.

The fact much of its work is completed within a year also means the company is less likely to be affected by looming accounting changes which will impact the way revenue from a contract is recognised.

Management has 'simplified' the business to focus on three core areas – building, infrastructure and housing. Mursell says the building market remains very strong, particularly for the regional, modest value schemes which Kier focuses on (average selling price £220,000) and adds that in infrastructure the company has a 'huge pipeline of work'.

DEBT IS ASSET BACKED

Net debt came in at £110m and averaged £330m throughout the year but stockbroker Numis says 'neither are an issue in our view as they reflect investment in high-returning property and residential assets, which also means debt is fully asset-backed'.

SHARES SAYS:

Buy at £11.67. Investment bank Liberum believes the shares could appreciate by approximately one third in value over the next 12 months. (TS)

BROKER SAYS: 7 0 1

Online shopping Attraqt'ion

Digital display specialist on track for first ever profit

Online shopping and inventory control technology start-up **Attraqt (ATQT:AIM)** is closing in on its first ever profit this year.

The digital retail space is littered with failed e-commerce start-ups that have struggled to generate meaningful scale and cash flow, but Attraqt does not look destined to join their number.

June marked the first month of positive cash flow from operations this year, and that trend has been maintained each subsequent month. Analysts forecast pre-tax profit of £0.7m on £14.9m of revenue for the 12 months to 31 December 2017.

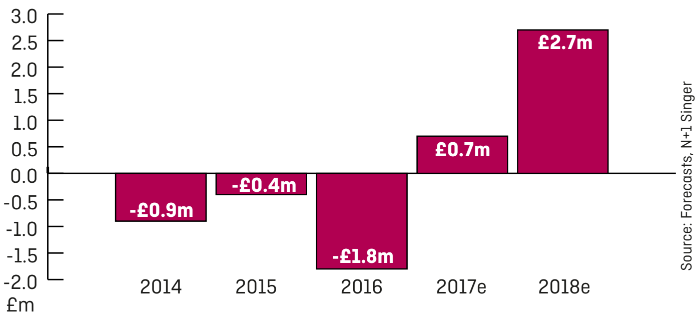
The London-based company is leveraging its *Freestyle* platform to become a trusted digital partner to many otherwise traditional retailers. Superdry, North Face, Timberland, Vans and Tesco's F&F fashion brand are clients, among others.

TRANSFORMATIONAL DEAL

Progress was accelerated earlier this year with the £25m cash acquisition of Fredhopper, a cloud-based provider of onsite search, navigation and visual merchandising solutions to online retailers. The deal completed in early March and integration has been successfully completed, from the executive team, sales and account management and product development.

Emphasising the value of the combined business, the enlarged Attraqt has won contracts with 13 new brands, including Specsavers, wellies designer and seller Hunter Boots, and The White Company, the high design fashion and home

ATTRAQT'S PRE-TAX PROFIT STORY



furnishing retailer. Attraqt also won its second biggest remit to date post its 30 June half year end, with one of the largest global sportswear manufacturers in the world.

The internet is fast becoming the destination of choice for shoppers. Online sales across the entire retail sector, excluding food, have been outpacing in-store growth for some time. They grew 18% last year (2016) and have soared by 27% over the past two years, according to figures from BDO, an accountancy firm. Bricks and mortar shop sales fell over both periods.

Attraqt's confidence in taking an increasingly substantial slice of this growth is demonstrated by further investment in its sales and marketing functions and account management. This is in the face of short-term disruption that may be caused by the takeover of a major e-commerce platform supplier. Attraqt believes that any interruption will be limited and short-lived, estimating that just 7% of potential revenue this year is at risk.

'We have been impressed with the ambition of the business and it appears to be sustaining momentum,' commented Dale Peters, analyst at the technology business website TechMarketView.

SHARES SAYS: ↗
We see Attraqt as a long-run winner from online shopping growth. (SF)

Miton can keep momentum going

Asset manager brings in some big guns and looks set to keep growing

UK investors' appetite for active management is demonstrated by asset manager **Miton (MGR:AIM)** adding over £1bn in assets under management (AUM) in a year.

The company's AUM at the end of August stood at £3.5bn and its rising profile has drawn in Jim Pettigrew as chairman subject to FCA approval.

Pettigrew was formerly chairman of RBC Capital Markets Europe and the company's chief executive David Barron says: 'Pettigrew had choices. His coming to Miton at this stage of our life is a real testament to our development.'

The arrival of Pettigrew is great news for the firm after it lost two star fund managers, George Godber and Georgina Hamilton, to rival **Polar Capital (POLR:AIM)** in 2016. One of the fallouts of this was a 15% increase in operating costs to £7.1m as the company re-jigged its fund manager compensation system.

The firm still has some impressive fund managers; for instance, David Jane who heads up the firm's multi-asset fund range. He was previously head of equity investments at M&G, which is an investment division of **Prudential (PRU)**.

Gervais Williams, executive director of Miton, is also a seasoned industry figure.

CASH IS KING

Asset management is a very cash generative business. At the half year point, Miton had a cash balance of £18.2m. The firm also executed a share buyback in the first half costing £2.6m by acquiring and cancelling over 6m shares.

The cost of buyback was largely offset by the £1.9m of net cash the firm generated in the first half.

Miton's pre-tax profit of £2.9m beat Peel Hunt's forecast of £2.6m as did its revenue figure of £10.3m.

Stuart Duncan, analyst at Peel Hunt, says: 'Miton is currently enjoying a period of positive momentum, with increased diversification of the business beneficial to the longer-term prospects'. His price target of 50p implies 23.5% upside on its current share price.

Duncan adds the 'group's valuation continues to underestimate the prospects of the business' as it trades on a forecast December 2018 enterprise value to net operating profit of 8.7 times, a significant discount to its peers.

SHARES SAYS: ↗
Miton is highly cash generative business with a strong presence in asset management. Buy at 40.5p. (DS)

BROKER SAYS: 1 0 0

Latest Domino's master franchise firm looking tasty

THE MASTER FRANCHISE owner of Domino's Pizza in Turkey and Russia, **DP Eurasia (DPEU)**, saw group revenue increase by 38.5% in the first half of 2017 thanks to better like-for-like sales and new store openings.

Unlike the UK where Domino's pizzas cost up to £20 each, DP Eurasia is selling pizzas in its territories for the equivalent of $3 and still making a good margin. Side orders are a mere 80c, says a spokesperson. (DC)

FRIDAY 29 SEPTEMBER

INTERIMS	
STYLES & WOOD	STY
ZEGONA COMMUNICATIONS	ZEG
FINALS	
CVS	CVSG
TRADING UPDATE	
PURPLEBRICKS	PURP
AGMS	
DIAGEO	DGE

IMIMOBILE	IMO
ECONOMICS	
UK	
GFK CONSUMER CONFIDENCE	

MONDAY 2 OCTOBER

FINALS	
JAMES HALSTEAD	JHD
TRADING STATEMENTS	
DAILY MAIL & GENERAL TRUST	DMGT

THE PAST YEAR has been a horror show for Blancco Technology (BLTG:AIM).

Two profit warnings, a cash flow squeeze, bad debts; no wonder the share price has collapsed by 80%. Investor confidence has been bled dry.

Full year results (3 Oct) provide an opportunity to draw a line under events, unless there is more bad news stored up, as some analysts believe.

TUESDAY 3 OCTOBER

FINALS	
BLANCCO TECHNOLOGY	BLTG
REVOLUTION BARS	RBG
SCS	SCS
ST IVES	SIV

TRADING STATEMENTS	
ELECTROCOMPONENTS	ECM
GREGGS	GRG

WEDNESDAY 4 OCTOBER

INTERIMS	
TESCO	TSCO
FINALS	
AVACTA	AVCT
CERES POWER	CWR
TRADING STATEMENTS	
TOPPS TILES	TPT
AVACTA	AVCT
INTERIMS	
WALKER GREENBANK	WGB
AGMS	
AMEDEO AIR FOUR PLUS	AA4
ADEPT TELECOM	ADT

EXPECT SOFAS-TO-FLOORING purveyor ScS (SCS) to bemoan a more challenging market for big ticket spending when it reports full year results (3 Oct). In a pre-close trading update, Sunderland-based ScS said full year trading was in-line with expectations, although like-for-like order intake fell 5% in the second half of the year against challenging comparatives and tougher market conditions.

THURSDAY 5 OCTOBER

FINALS		
DFS FURNITURE	DFS	
INTERIMS		
MORSES CLUB	MCL	
TRADING UPDATE		
MERLIN ENTERTAINMENTS	MERL	
FERREXPO	FXPO	
EX-DIVIDEND		
ABBEY	ABBY	€0.09
ALUMASC	ALU	4.3P
ANGLO PACIFIC	APF	3P
AVIVA	AV.	8.4P
BALFOUR BEATTY	BBY	1.2P
BRITISH LAND	BLND	7.52P
BODYCOTE	BOY	5.3P
CAPITAL & REGIONAL	CAL	1.73P
FISHER (JAMES) & SONS	FSJ	9.4P
HAYS	HAS	2.26P
HAYS	HAS	4.25P
HML	HMLH	0.37P
HASTINGS	HSTG	4.1P
IDOX	IDOX	0.39P
JOHNSON SERVICE	JSG	0.9P
KINGS ARMS YARD VCT	KAY	0.5P
MID WYND INTERNATIONAL INVESTMENT TRUST	MWY	0.38P
MURRAY INTERNATIONAL TRUST	MYI	11P
NEXT	NXT	45P
RIT CAPITAL PARTNERS	RCP	16P
REDDE	REDD	5.6P
RIGHTMOVE	RMV	22P

SIG	SHI	1.25P
DS SMITH	SMDS	10.6P
SMITH & NEPHEW	SN.	$0.12
STATPRO	SOG	0.85P
SYNTHOMER	SYNT	3.7P
TT ELECTRONICS	TTG	1.75P
UNITE	UTG	1.3P
UNITE	UTG	6P
WPP	WPP	22.7P

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KEY

- Main Market
- AIM
- Fund
- Investment Trust
- Exchange-Traded Fund

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OUR FREE 18 PAGE SPOTLIGHT REPORT CONTINUES ON THE NEXT PAGE

THIS WEEK: 18 PAGES OF BONUS CONTENT

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NEX
PRAIRIE
SOUND ENERGY

SHARES SPOTLIGHT

Mining, Oil & Gas

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

SEPTEMBER 2017

INTRODUCTION

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

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

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

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

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

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

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

Previous issues of Spotlight are available on our website.

DISCLAIMER

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The outlook for commodity prices

Where next for gold, copper and more?

By Martin Potts, mining analyst at stockbroker FinnCap

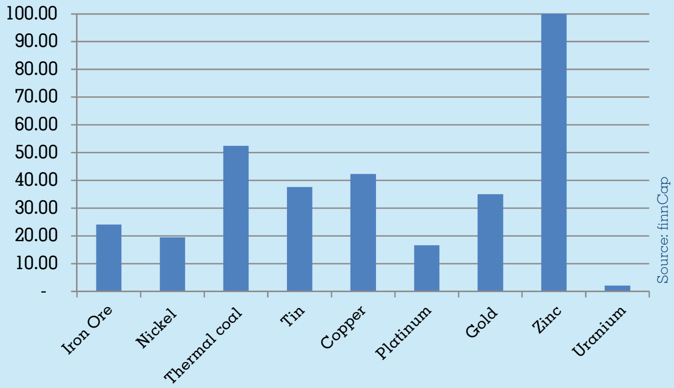
The last commodity cycle topped out between late 2010 and mid-2011,depending on the commodity (with the exception of gemstones, which held out until 2015). The price falls over the following five years were impressive.

Since the start of 2016, most commodities have shown some significant price appreciation. Indeed, zinc has already passed through the previous cycle high. Thermal coal has been a recent outperformer – an outcome that caught most of the market by surprise. The base metals show a mixed picture, with zinc, copper and tin performing strongly though nickel remains relatively weak.

The accompanying chart shows that, with the exception of zinc, there is still substantial price upside to come in the current cycle. Zinc is currently trading some 17% above the previous cycle high.

Our forecasts for selected commodities (effectively those commodities produced by companies that we have under our coverage) are summarised in the following table. In essence, we expect average prices in 2017 to be similar to or higher than those for 2016 as the sector continues to move into the positive side of the cycle.

Current commodity prices relative to the last cycle's lows and highs



SELECTED COMMODITY PRICE FORECASTS ($)

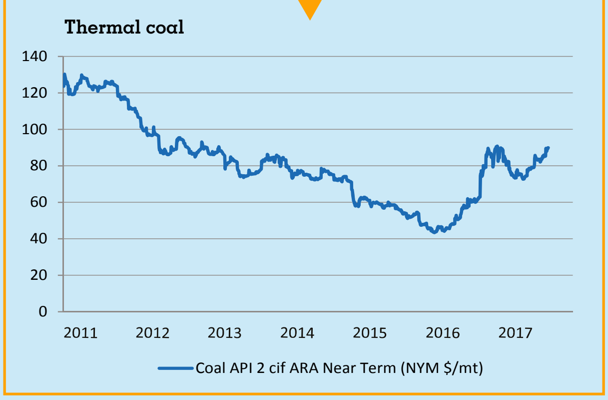
	2016A	2017YTD	2017E	2018E	Longer-term
Gold	1,250	1,246	1,250	1,300	1,300
Copper	4,862	5,900	6,129	6,283	6,283
Nickel	9,595	9,927	10,000	11,000	12,000
Tin	17,990	20,130	20,000	20,000	20,000

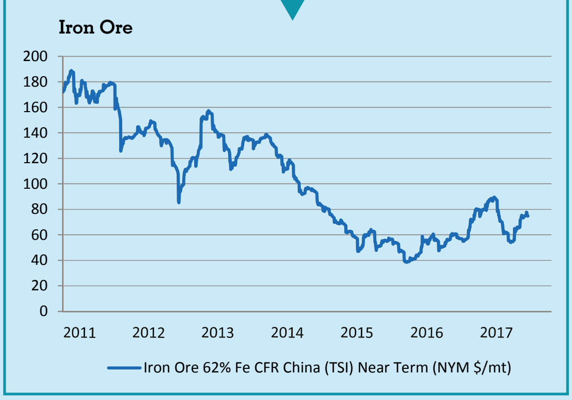
THERMAL COAL

is being progressively displaced by other sources of energy such as shale gas and renewables. However, the price has recovered strongly from the recent cycle low point. This appears to be primarily because China has been importing coal and closing down a lot of its least efficient and most polluting local mines.

IRON ORE

demand translates into demand for steel; growth in demand for steel appears to have already passed through the high point and is expected to fall to approximately the level of global GDP per capita growth. There is massive oversupply following the construction of major new mines, principally in Australia and Brazil.



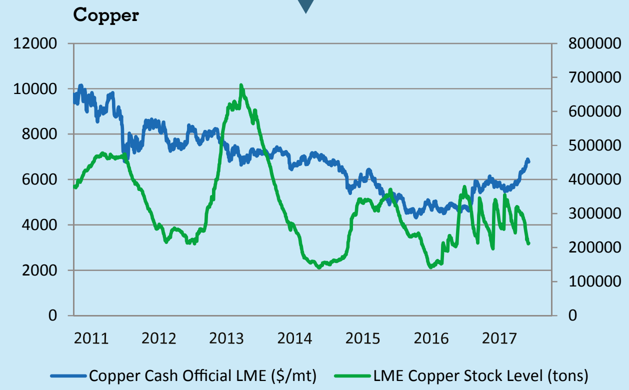


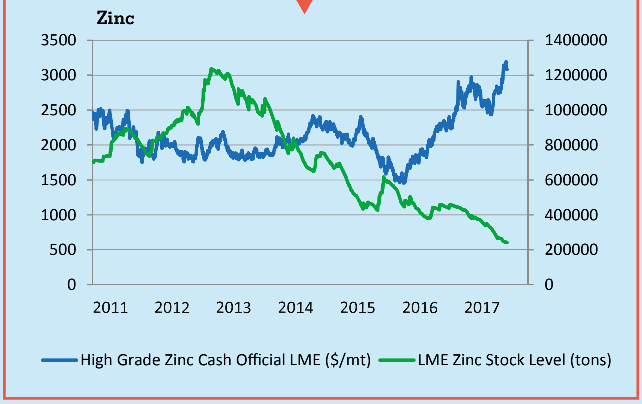
COPPER

has shown recent strength underpinned by news that China will limit imports of copper scrap. Some loss-making capacity has been closed, but in the near term this will be offset by new projects being commissioned.

ZINC

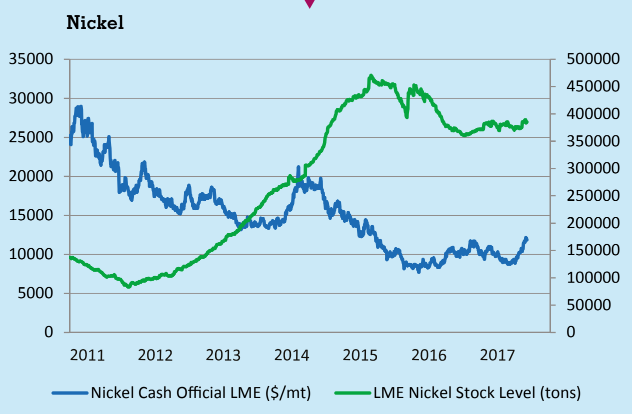
is in a particularly strong position, with currently high prices strongly supported by falling stocks following some large mine closures due to resource exhaustion. Looking further out, the necessary replacement mines have not been built, so this metal is set to perform strongly over the next few years. However, most of this is already in the price.

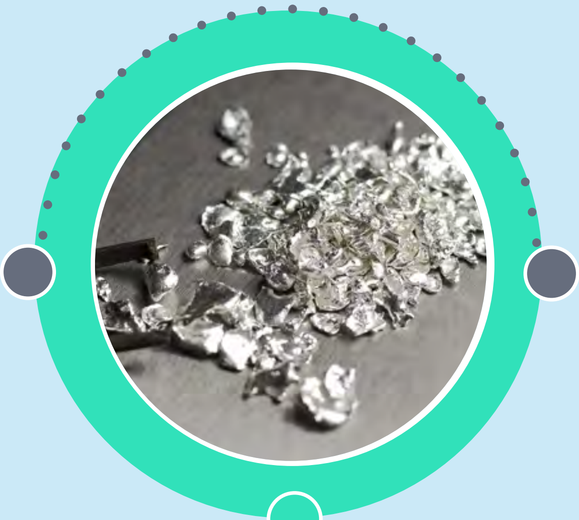




NICKEL
had been going through a period of considerable oversupply, though this is now correcting following a series of mine closures. LME stocks are sideways though the price has recently started to rise.

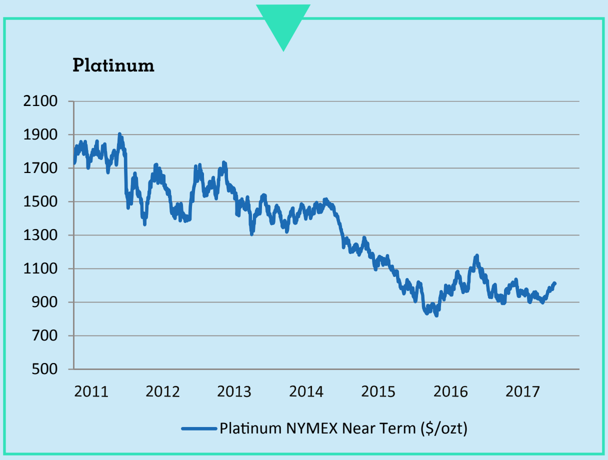
TIN
had been showing signs of recovery with increasing demand meeting a lack of near-term new supply.





GOLD
is not driven by supply and demand issues – it is allegedly driven by “fear and greed”, but in reality appears to just track the broad mining sector cycle. Current geopolitical uncertainty is supporting the price.

PLATINUM
is essentially an industrial commodity – its primary use is in vehicle exhaust catalysts. It also suffers from chronic oversupply as demand is driven only by net new non-electric vehicle growth rather than actual new vehicle numbers; most of the world’s vehicle inventory is now fitted with catalysts, and they are easily recycled.



BEST PERFORMERS

BEST PERFORMING OIL AND GAS COMPANIES

Company	YTD performace (%)
Empyrean Energy	685
Echo Energy	519
Trinity Exploration and Production	487
Falcon Oil & Gas	331
Mycelx Technologies Corp	300
Frontera Resources Corporation	270
Phoenix Global Resources	188
Angus Energy	173
Rockrose Energy	171
Powerhouse Energy Group	167

Source: SharePad, 21 September 2017

WORST PERFORMING OIL AND GAS COMPANIES

Company	YTD performace (%)
JKX Oil & Gas	-57.9
88 Energy	-59.3
Quadrise Fuels International	-61.1
San Leon Energy	-66.1
Green Dragon Gas	-66.4
Providence Resources	-66.4
Cogenpower	-71.1
Nighthawk Energy	-74.4
Igas Energy	-76
Mayan Energy	-94.7

Source: SharePad, 21 September 2017

BEST PERFORMING MINERS

Company	YTD performace (%)
Strategic Minerals	388
Bushveld Minerals	381
Bellzone Mining	334
Greatland Gold	212
Great Western Mining Corp	191
Ironridge Resources	179
Georgian Mining Corp	168
Bluejay Mining	142
Uru Metals	121
Ferrexpo	119

Source: SharePad, 21 September 2017

WORST PERFORMING MINERS

Company	YTD performace (%)
Metminco	-55.8
Stellar Diamond	-55.8
Petra Diamonds	-56.8
Avocet Mining	-57.8
Central Rand Gold	-59.3
BlueRock Diamonds	-60.9
Shanta Gold	-61.3
Ferrum Crescent	-67.5
Prospex Oil & Gas	-77.1
Nyota Minerals	-80

Source: SharePad, 21 September 2017

The 'new' alternative market for small caps

Most people are aware of the AIM market as a home for smaller growth companies but there is an alternative in London.

Now operating under a new brand, chief executive Patrick Birley sounds very confident on the future of the NEX Exchange, previously known as ISDX.

EXCHANGE RELAUNCHED

'In essence it's a rebranding but we're doing a lot of work behind the scenes. It is a better name and reflects an increasingly compelling offering for the small caps marketplace.'

The change in name came about as a result of a £1.28bn deal between financial services provider ICAP and Tullett Prebon which saw ICAP emerge as a more streamlined operation with the new moniker **NEX Group (NXG)**.

This shift is accompanied by a renewed attempt to establish the exchange as a genuine second option for smaller businesses which are looking to go public.

'We are marketing ourselves more heavily as a proper alternative venue for a company seeking access to the public markets,' Birley says.

'The current marketplace essentially offers a choice of one platform for coming to the public markets and that platform is pretty expensive as we understand it and can be difficult to deal with.'

Patrick Birley, chief executive, NEX Exchange

AIM-quoted companies can enjoy a fast-tracked admission on to the NEX Exchange and Birley clearly hopes some of these firms will eventually drop their AIM listing and make NEX their main home.

WHAT IS THE USP?

So what makes the NEX Exchange stand apart? 'First thing to say is that on a regulatory, legal and tax basis we're identical to AIM and the London Stock Exchange trading mechanism, from that aspect we are the same,' Birley says.

'But on top of that we offer a much more engaged business model and work closely with companies. It's a much more bespoke service, working with the company to achieve their ambitions, adapting our model to fit them and not the other way around.

'This reduces the execution risk of bringing a company to the market quickly and I've seen numbers quoted that we're as much as 75% cheaper and we think we can get those costs even lower. We also offer debt products, offering a reasonable coupon to investors and allowing companies to raise money at reasonable rates without giving away control.'

WELL KNOWN NAMES

Some of the more well-known names on the exchange include brewers **Adnams (ADB:NEX)**, **Daniel Thwaites (THW:NEX)** and **Shepherd Neame (SHEP:NEX)**. London football club **Arsenal (AFC:NEX)** is also on the exchange having been listed on a number of its previous iterations.

The debt of US natural gas producer, **Diversified Gas & Oil (DGOC:AIM)** was also launched through the exchange ahead of its IPO on AIM in February 2016, the biggest London float in the oil exploration and production sector since the oil price crash in 2014.

LIQUIDITY DEBATE

A key consideration for investors in small caps is how easy it is to buy and sell shares or, in other words, how liquid they are. But Birley thinks the importance of this factor may be somewhat overstated.

'We feel for many small companies the bar on liquidity is set far too high. A £50m market cap company is not going to be trading in huge volumes every day.

'We are looking to attract long-term investors. This is not a market for speculators looking to get in and out of the stocks all the time. You need to do proper due diligence on growth companies and be prepared to hold them for a reasonable length of time.

Where does Birley see the future of the exchange? 'I think in five years' time we can be *the* market for SMEs in the UK. With such a compelling new brand and the new energy behind us we can be the main venue for SME financing.'

Bluejay has major ilmenite project in Greenland

Greenland has long been known for its majestic glaciers and snow-capped fjords, but one mining company is proving that this island is made up of much more than ice. London listed miner **Bluejay Mining plc (AIM: JAY)** has now proven that Greenland is host to the highest-grade ilmenite mineral sand project globally at its Pituffik Titanium project. With low impurity levels, what appears to be a simple, low cost processing route, and a strategic location close to multiple prospective export markets, this asset certainly appears ripe for development. And development is just what Bluejay aims to achieve – with production on track to commence next year.

SYSTEMATIC WORK PROGRAMME

Since acquiring Pituffik in December 2015, Bluejay has completed systematic work programmes that have leveraged off the advantages provided by the established local infrastructure and experienced Greenlandic workforce.

This has resulted in Bluejay establishing the landmark resource at Pituffik of 23.6 million tonnes (Mt) at 8.8% ilmenite (in-situ), which includes a high-grade zone equal to 7.9Mt at 14.2% ilmenite (in-situ). This resource sits within an exploration target of between 90Mt and 130Mt with an in-situ grade of between 6.3% and 8.4% ilmenite and crucially the resource and exploration target has been defined from just 17% of the raised beach environment within the Moriusaq target area.

A shrewd opportunity

The raised beach environment is one of three types of domains within the licence area, with the other two being the active and drowned beach environments, and Moriusaq is one of two primary target areas, with the other being Itelak. Accordingly, Bluejay is confident that there is significant expansion potential. With this in mind, the company has undertaken a targeted drill programme, which is now nearing completion, that hopes to prove that Pituffik is not only the highest-grade but also one of the largest ilmenite mineral sand projects globally.

Alongside a resource increase, feasibility studies and a proof-of-concept bulk sampling programme are currently underway. The bulk sampling programme is intended to prove that Bluejay can deliver quality product based on its current production model. Current results, which are exceeding company expectations, show that its model is working.

Bluejay has already shipped 250 tonnes of bulk sample to support offtake discussions with potential customers, and the company hopes these discussions will reach a conclusion in the next three to six months. Alongside this, the levels of visible ilmenite concentrations in the bulk sampling are much greater than expected, the stockpiling of ilmenite rich sand commenced much earlier than planned. This means that it will have a ready supply of ilmenite product, to be shipped and sold as soon its exploitation licence is granted.

STRONG RELATIONSHIP WITH GOVERNMENT

In line with this, applications for the necessary exploitation licence are progressing well and the company expects this to be granted in H1 2018. Bluejay has fostered a positive working relationship with the Greenlandic government, the company was granted the first marine exploration licence for minerals by Greenlandic authorities, so the company is confident that things will continue to progress on track.

Accordingly, with an upgraded resource, exploitation application, feasibility and off-takes all expected by the year-end, it is fair to say that the remainder of 2017 will be incredibly active for the company.

It is however important to note that Pituffik is not all Bluejay has to offer. Alongside advancing the world's highest-grade ilmenite project, the company owns two further highly prospective projects in Greenland, which includes the Disko-Nuussuaq Magmatic Massive Sulphide (MMS) nickel-copper-platinum project. Thanks to historical exploration work, Disko has shown its potential to host mineralisation similar to the world's largest nickel/copper sulphide mine, Norilsk-Talnakh, in northern Russia. Seven significant MMS occurrences have been identified to-date at the licence area, with the largest being 5.9km long and 1.1km wide. This includes the discovery of a 28-tonne boulder of massive sulphide, which assayed at 7% nickel, 3% copper, 2ppm (parts per million) platinum, which is now displayed in the foyer of the Danish Geological Museum in Copenhagen, highlighting just how significant its discovery was.

DOUBLING UP

Whilst Pituffik's advancement into production is Bluejay's primary focus, the company has identified a shrewd opportunity to utilise equipment currently onsite at Pittufik to undertake low cost exploration work at Disko. Accordingly, the company intends to complete an Electromagnetic Survey later this year to identify targets for drilling in 2018. Disko is undoubtedly an exciting asset, and managing director Rod McIllree appears confident that Bluejay could soon be in a position to execute a value transaction for shareholders on this project.

With production on the horizon and further, potentially significant, upside available from its wider portfolio, the coming months and year are set to be transformational, as Bluejay transitions from explorer to miner.

SHARES SPOTLIGHT

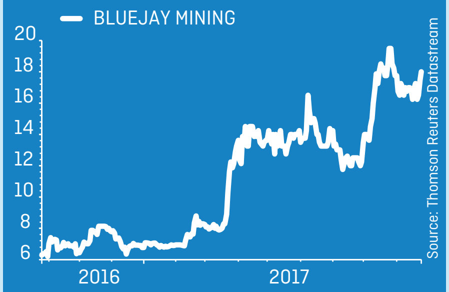
BlueJay MINING PLC

WEBSITE: WWW.BLUEJAYMINING.COM

SECTOR: INDUSTRIAL METALS & MINING

SHARE PRICE: 16.75P

MARKET CAP: £123.3M



Cadence powering the future of transportation

The age of the electric vehicle has arrived and the public increasingly knows that it is the future of road transportation, with the UK, France and China banning sales of petrol and diesel vehicles by 2040. VW has announced an $84bn investment to bring 300 EV models to the market by 2030. Other manufacturers are in hot pursuit. The electrical vehicle revolution is approaching much faster than pundits first expected.

AIM-quoted **Cadence Minerals (KDNC:AIM)** has been investing since 2013 in the key elements that will fuel this generational transformation and has, to date, deployed some £20m into early stage, highly prospective lithium, cobalt and copper exploration and development projects around the world.

The company invests across the globe, principally in lithium mining projects and its primary strategy is taking significant economic stakes in upstream exploration and development strategic metal assets. It identifies assets that have significant cost advantages that are not replicable, aiming to achieve industry lower quartile production costs.

Prioritising value opportunities with low development costs allows it to identify projects capable of achieving high rates of return. Cadence has already seen a 75% return on the partial sale of one of its more advanced assets, first invested in four years ago.

The Cadence board and management has a comprehensive blend of mining, commodity investing, fund management and deal structuring knowledge and experience, with access to key marketing, political and industry contacts.

Value opportunities with low development costs

These resources are leveraged not only in making its key investment decisions but also in providing support to investee companies, whether it be increasing market awareness of an asset, or advising on product mix or path to production.

Cadence assists the management of each asset to rapidly develop projects up the value curve, and can thereby deliver excellent returns on investment.

KEY PROJECTS

Cinovec – Cinovec, in the Czech Republic, is an advanced lithium development project and historical tin mine. It represents the largest lithium deposit in Europe. In April 2017, the operator and owner of the assets European Metals Holdings announced the completion of its Preliminary Feasibility Study.

The study showed a net present value of the project of US$540m and costs in the lower half of the cost curve. Cadence has invested some £3.1m to help fund Cinovec's development since June 2015 and now owns 21% of European Metals Holdings. As at September 2017, its unrealised return on this investment is circa 290%.

The Cadence team views the Cinovec lithium deposit as a key supply hub to support the future growth of European EV manufacturers.

Sonora – The Sonora Lithium Project is the most advanced of its investments with its Bankable Feasibility Study due for completion by the end of 2017. Bacanora Minerals,

LITHIUM, THE NEW WHITE GOLD

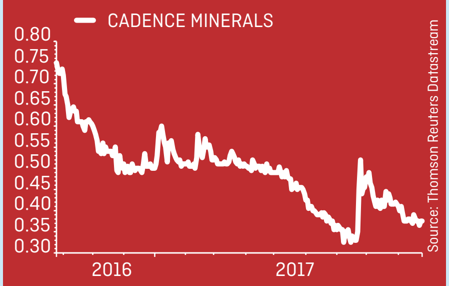
Lithium is the hottest commodity on the planet. It is the most important component of electric vehicles (EV), high-energy batteries, power storage, consumer electronics and the latest drugs. Its current spot price has risen from circa $6,000 per tonne to $12,000 per tonne over the last five years.

SHARES SPOTLIGHT

CADENCE
AIM:KDNC

WEBSITE: WWW.CADENCEMINERALS.COM

SECTOR:	MINING
SHARE PRICE:	0.38P
MARKET CAP:	£29.6M



the owner and operator of the asset, already has secured an offtake for its lithium carbonate and like Cinovec has excellent economics, with is Preliminary Feasibility Study (April 2016) estimating a net present value of $776m.

Cadence owns 9.3% of the equity of Bacanora Minerals and 30% of part of the Sonora Lithium project, from which circa 17% of the ore will be mined.

Yangibana – Cadence has a 30% stake in the Yangibana Project in Gascoyne, Western Australia. Owned and operated by Hastings Technology Metals, the project is set to produce a neodymium rich mixed rare earth carbonate. The definitive feasibility study is due to be published in October 2017 with production due to commence in the second half of 2019.

NEAR TERM OPPORTUNITIES

Cadence's investment strategy has been to identify early stage assets and participate in the funding, de-risking and value creation as the projects develop. The company recently realised some of this return with the sale of under half of its stake in Bacanora Minerals. This realised a 75% return on a lot matching basis.

Cadence intends to deploy a large part of the profits made from this investment to continue Cadence's investment strategy in the exploration of viable lithium projects that it sees becoming part of the supply chain.

WHY INVEST IN CADENCE?

The current boom in battery materials, particularly lithium, looks set to continue for some time to come. The stated UK Government policy to ban the sale of new diesel and petrol cars by 2040, to incentivise drivers to buy electric vehicles, is focusing minds closely on this investment opportunity.

Volvo's recent landmark announcement that from 2019 onwards all its vehicles will be partially or completely battery-powered has seen new commercial imperatives materialize, not least of which will be local and regional component and resource supply solutions.

But it isn't just the EV growth market. By 2025, the battery market alone will be twice as big as today's entire lithium market. The supply of lithium, therefore, must make a step change upwards over the years ahead.

Therein, of course, lies the massive opportunity. Investors will want to identify companies and investment vehicles involved in a spread of risk – ranging from early stage resources to assets close to or in production.

These factors are central to Cadence Minerals' planning and strategy. With its exposure to key mature and early stage projects around the globe, Cadence offers investors an attractive fund of highly sought-after assets, that both spreads risk and minimizes any potential volatility.

Prairie Mining set to be Europe's next major coking coal producer

Coking Coal is critical for steel making which in itself is critical for producing everything from electric cars to wind turbines – homes to skyscrapers. In light of this importance, the European Commission has categorised coking coal as "critical" for the European economy. Currently, Europe consumes around 80Mt of coking coal a year of which over 85% is imported from as far afield as Australia, North America and Russia.

Prairie Mining Limited (PDZ:LSE/ASX/WSE) is developing not one but two tier 1 coking coal mines in Poland – the heart of Europe's steelmaking industry:

- Jan Karski Mine – which will produce what is known as a semi soft coking coal which steel makers use in their product mix
- Debiensko Project – which will produce premium hard coking coal - the best product type for producing steel

Prairie's assets are deemed to be world class projects

HIGH MARGIN PROJECTS AT CURRENTLY STRONG COKING COAL PRICES

Prairie is continuing to advance its two projects towards production. Such world class Tier-1 projects are very few and far between with most now in the hands of the majors or midcap coal producers.

IN THE HEART OF EUROPE'S STEEL MAKING INDUSTRY WHICH CURRENTLY IMPORTS 85% OF SUPPLIES

Europe is a big importer of coking coal from Australia and the US. Coking coal from Prairie's low-cost Polish projects should attract a premium price due to its quality comparable to coal produced by the majors and far lower transportation costs being on the doorstep of big European steel makers.

WORLD-CLASS PARTNER IN CHINA COAL, THE SECOND LARGEST COAL MINER IN CHINA

In November 2016 Prairie announced the signing of a landmark Strategic Cooperation Agreement with China Coal. China Coal is China's 2nd largest coal producer and one of the world's most prolific

COKING COAL PROJECTS

Coking coal project	Primary owner (*Ticker*)	Sovereign risk	High quality product	Global significant scale	Long life assett	1st quartile cash costs	Compelling economics	Major infrastructure in place
		Country	Coking coal product	Annual coking coal production >2.5mt	Mine life > 20 years	Cash costs < US$50/t	NPV / Capex > 2x	
Debiensko	Prairie Mining (PDZ)	Poland	95% premium HCC	✓	✓	✓	✓	✓
Jan Karski	Prairie Mining (PDZ)	Poland	75% SSCC	✓	✓	✓	✓	✓

underground mine developers – to advance the financing and construction of the Jan Karski Mine.

Under the terms of the agreement, China Coal and Prairie intend to complete a Bankable Feasibility Study which will provide the basis for an EPC contract and a construction-funding package for the Jan Karski Mine.

The BFS is due next month.

MANAGEMENT HAS PROVEN EXPERTISE IN PROJECT DEVELOPMENT & FINANCING

Prairie's management team has over 100 years of global coal mining experience and expertise. By introducing modern mine design, operations management and technology to deliver substantial productivity, coal quality and production cost improvements, Prairie is unlocking value within two coal basins of well known geology. CEO Ben Stoikovich is an ex-BHP coal mining engineer and banker whose skills have helped get Prairie where it is today. Heading up operations in Poland is Miroslaw Taras, the ex-CEO of the neighbouring Bogdanka coal mine which he turned into Europe's lowest cost coal producer.

THE JAN KARSKI MINE

The Jan Karski Mine is now the most advanced coking coal project in the northern hemisphere. The Project has attractive coal quality parameters, particularly within the 391 seam, with the potential to produce semi-soft coking coal, comparable to international benchmark semi-soft coking coals as well as semi-soft coking coals already produced in Poland.

DEBIENSKO

Debiensko is a world class hard coking coal project situated in the Upper Silesian Coal Basin in the south west of Poland. As a brownfields mine restart, it is fully permitted with a 50-year mining concession, established on-site facilities including rail, road and power infrastructure, comprehensive historical drilling data and all environmental consents.

Following the acquisition of Debiensko in October 2016 for an upfront consideration of €0.5m, Prairie accelerated a development program for the brownfields project which culminated in a scoping study which was completed in March 2017.

TIER ONE PROJECTS

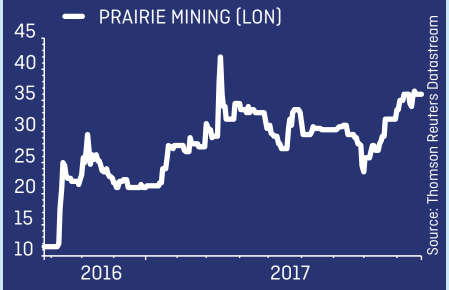
Both of Prairie's assets are deemed to be world class Tier 1 projects ideally located to supply a European steel industry made up of blue-chip names such as ArcelorMittal, US Steel and Thyssenkrupp and boast a combined NPV of US$3.3bn pre-tax and projected annual EBITDA of US$630m at coking coal prices well below spot.

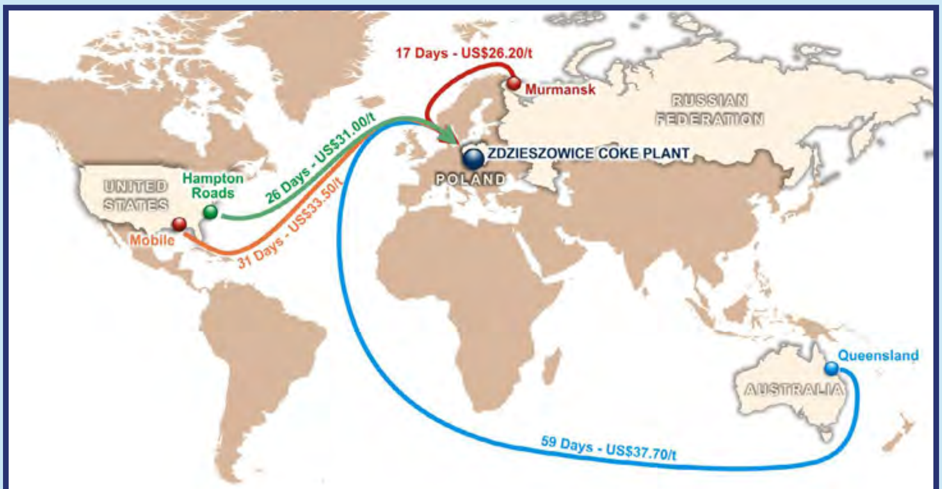
SHARES SPOTLIGHT

Prairie Mining Limited

WEBSITE:
WWW.PDZ.COM.AU

SECTOR:	MINING
SHARE PRICE:	0.36P
MARKET CAP:	£57M





WHERE MOST OF EUROPE'S COKING COAL COMES FROM

Echo to follow Sound in regional gas exploration

While at different stages of evolution and focused on different geographies, these two companies share an underpinning private investors centric philosophy and a belief in regional gas fundamentals. Formerly Independent Resources, Echo Energy is looking to repeat the successful formula employed by Sound Energy. Echo is chaired by Sound's chief executive James Parsons but has new CEO Fiona MacAulay at the helm, as well as the same cornerstone investor in the form of Continental Investment Partners.

Sound Energy (SOU:AIM) is an onshore Moroccan focused gas exploration company with a low cost existing development, a supportive Moroccan cornerstone investor and a strategic partnership with Schlumberger.

A well-funded Mediterranean exploration and production company, listed on AIM, with an institutional cornerstone investor and strong liquidity.

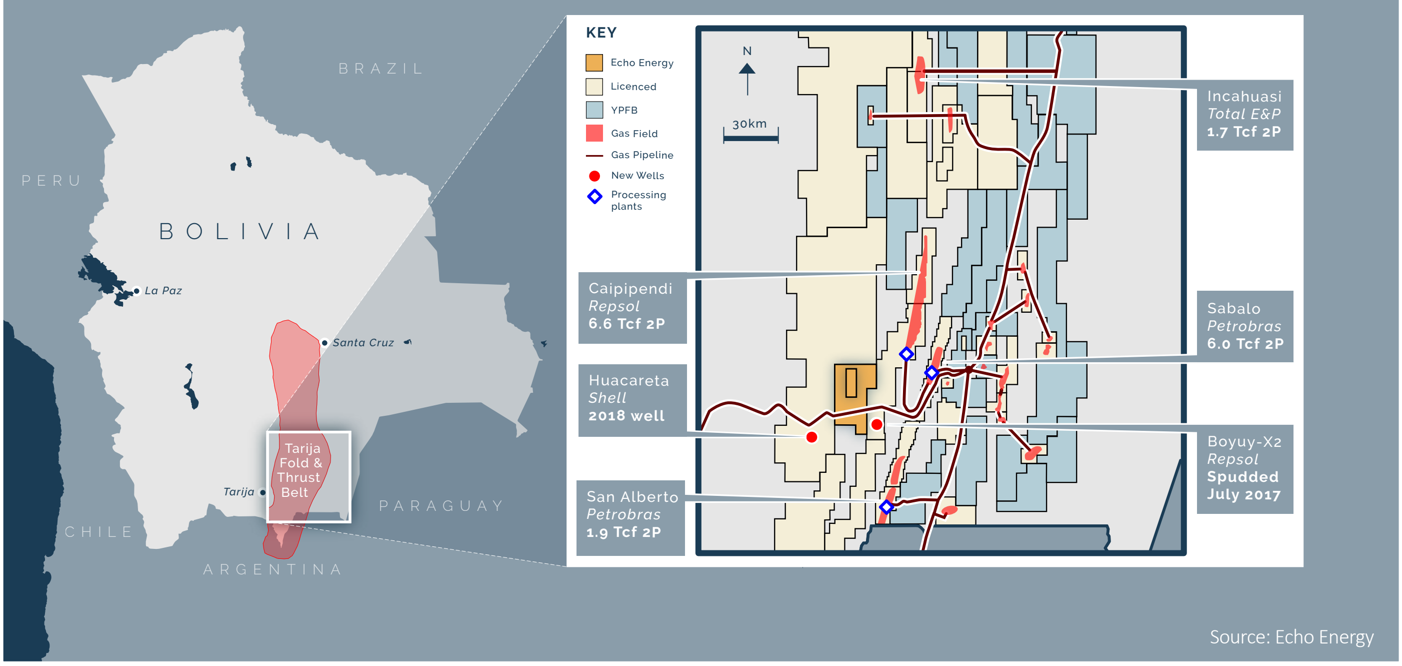
They have built a high quality, action orientated, team across Milan, Rabat and just outside of London focused on permitting, funding and then delivering a Mediterranean and gas focused drill programme which is balanced in terms of risk and reward.

Echo Energy (ECHO:AIM) is an onshore Central and South American focused gas exploration company with a rapidly evolving portfolio including an early stage Bolivian footprint.

The company is led by a team and Cornerstone Investor with strong regional connections and an indisputable track record in building mid cap AIM listed gas businesses with sustainable value growth for Private Investors.

The Echo team builds its businesses around three strategic Pillars: **Portfolio**, **People** and **Partnerships**.

THE ECHO PORTFOLIO



Source: Echo Energy

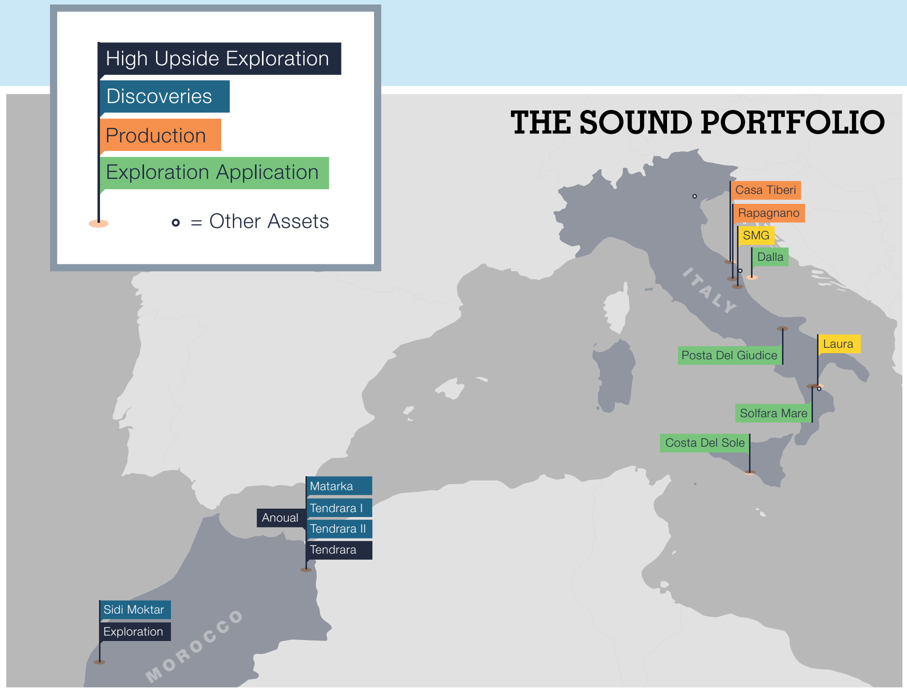
SHARES SPOTLIGHT

SOUND ENERGY: PROVEN TEAM WITH A WORLD CLASS ASSET

- Low cost tcf natural gas development in Eastern Morocco
- Significant (up to 40 tcf) exploration potential
- Supportive cornerstone investors
- Strategic partnership with Schlumberger
- Fully carried (by Schlumberger) seismic programme underway
- Approaching next phase of operations in Morocco

ECHO ENERGY: PROVEN TEAM DEVELOPING AN EXCITING EXPLORATION PORTFOLIO

- Emerging multi trillion cubic feet (tcf) Bolivian gas portfolio
- Various transformational transactions in the region in negotiation
- Supportive cornerstone investor
- Clear milestones to growth
- Growth strategy that builds on strong South American gas fundamentals underpinned by £26m cash balance
- Built on foundation of Sound DNA



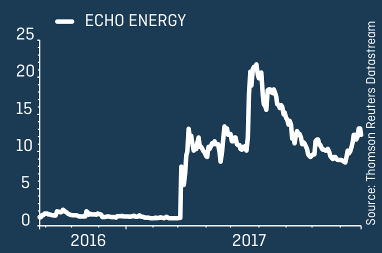
echo ENERGY PLC Exploration & Production

WEBSITE: ECHOENERGYPLC.COM

SECTOR: INDUSTRIAL METALS & MINING

SHARE PRICE: 13.00P

MARKET CAP: £45.57M



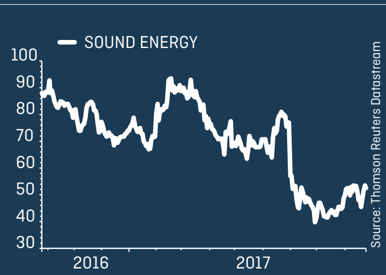
SOUND ENERGY PLC Exploration & Production

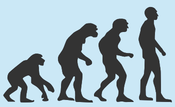
WEBSITE: SOUNDENERGYPLC.COM

SECTOR: INDUSTRIAL METALS & MINING

SHARE PRICE: 53.63P

MARKET CAP: £528.91M





0 years

5 years

ECHO ENERGY

SOUND ENERGY