

SHARES

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**WARNING
SIGNS FOR
HOUSEBUILDERS?**

33

**STOCKS
IN THE FTSE 100
ARE DOWN THIS YEAR**

TIME TO BUY?

BANKS

**WE REVIEW THE LATEST
EARNINGS FROM BARCLAYS,
HSBC, LLOYDS AND RBS**

SHOULD YOU

**TRANSFER FROM A
HELP TO BUY ISA TO
A LIFETIME ISA?**

WHY YOU SHOULD ATTEND SHAREHOLDER MEETINGS

Are the housebuilders built on soft foundations?

The key issues to consider if you own shares in any of the housebuilders

A rally in the housebuilding sector on expectations of further state support in the Budget on 22 November is coming to a juddering halt amid sceptical analyst comment, a slowdown in mortgage approvals and data which reveals the perilous state of Government finances.

Investors have to decide if the housebuilders can continue to grow earnings and cash flow regardless, supported by an ongoing imbalance between supply and demand of housing stock.

If so, investors might start weighing these companies based on earnings per share and dividend yield rather than the traditional measure of price to net asset value (NAV).

The housebuilders are a case in point of why it can be a mistake to focus just on one valuation metric when considering an investment.

On a price-to-earnings basis, and despite a strong run, they continue to trade at a discount to the wider market at an average of just over 10 times (FTSE All-Share around 15 times) but based on price to NAV these shares are, for the most part, as expensive as they have been at any point since the financial crisis.

WHAT ARE THE MAIN CONCERNS?

In a report published on 30 October, Barclays Capital expressed concerns about the sector's valuation, highlighting a risk that Government schemes to encourage home buying might disappoint, as well as outlining worries about skilled labour shortages.

'One of Britain's biggest ever post-election surveys revealed support for the Government at its lowest among the young. Ahead of the Autumn Budget, we believe one key tenet ("inter-generational fairness") will be front and centre,' it says.

'Although measures could be impactful, history



suggests that they can lack teeth (solving our "broken" housing market is not easy) and we believe expectations may have run ahead of themselves.

'This, together with strong share price performance – our housebuilder index is up 46% year-to-date (versus the FTSE 250 up 10%) – leads us to downgrade **Persimmon (PSN)** and **Berkeley (BKG)** (from equal weight to underweight) and **Redrow (RDW)**,

Bellway (BWY) and **Taylor Wimpey (TW.)** (from overweight to equal weight).'

KEY CONCERNS

Investors owning housebuilders' shares should think about what Brexit may eventually mean for demand, plus consider if house prices are getting too high (and therefore out of reach) for many potential buyers, even when factoring in help from various Government schemes.

An expected first increase in interest rates in more than 10 years at today's Bank of England meeting (2 Nov) is another factor to consider, as the increased cost of mortgages could potentially reduce demand for new build properties.

A VOLATILE SECTOR

Shareholders in this sector have endured considerable volatility in the last 10 years as the financial crisis and the Brexit vote wiped billions off market valuations.

Housebuilders' balance sheets are in much better shape to survive a downturn this time round. However, earnings and cash flow remain sensitive to fluctuations in the wider property market and the ability to sustain profitability at current levels could be constrained by increasing labour and raw material costs.

History suggests it would be a mistake to expect the current favourable conditions in the sector to continue indefinitely. (TS)

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Contents

02 NOVEMBER 2017

INTERACTIVE
PAGES

CLICK ON PAGE
NUMBERS TO JUMP
TO THE RELEVANT
STORY

EDITOR'S VIEW

02 Are the housebuilders built on soft foundations?

BIG NEWS

06 What you need to know about the banks' reporting season

BIG NEWS

08 Why Fidessa may not be a takeover target

BIG NEWS

08 Bookies gain on gaming consultation

BIG NEWS

09 St James's Place overhauls fund range

STORY IN NUMBERS

10 Oil breaks through \$60



12



GREAT IDEAS

11 A chance to make 20% return by investing in Telecom Plus

GREAT IDEAS

12 Lots to love about Unilever

GREAT IDEAS UPDATE

14 We discuss Avesoro Resources and Nexus Infrastructure

WEEK AHEAD

16 Financial results and ex-dividends over the coming week



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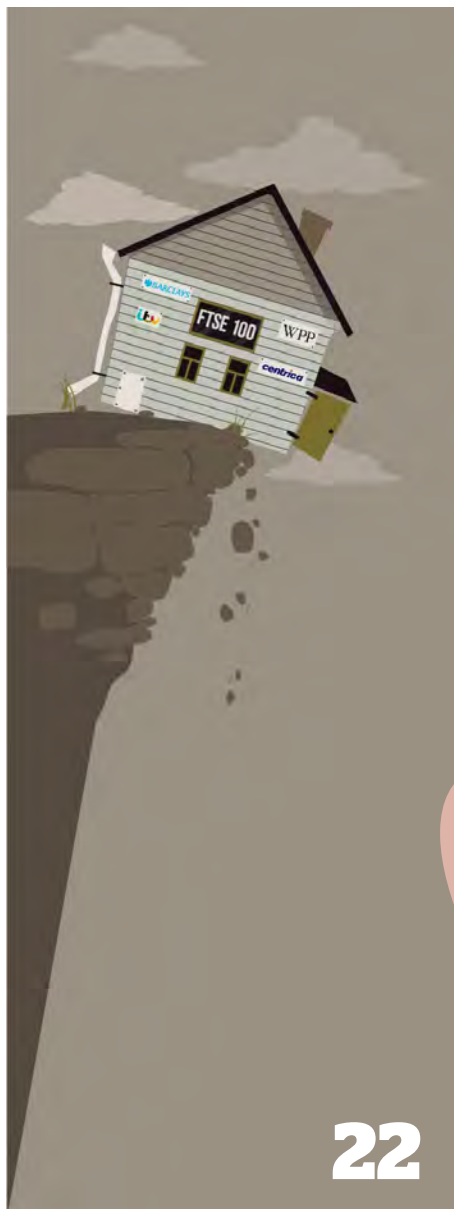
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Contents



MAIN FEATURE

22 33 stocks in the FTSE 100 are down this year. Time to buy?

FEATURE

30 Why you should attend shareholder meetings

INVESTMENT TRUSTS

32 Adventurous trusts to Putin your portfolio



FUNDS

36 What happens if a fund is too big or too small?

UNDER THE BONNET

38 What makes Ramdens special?

SMALLER COMPANIES

40 Zoo Digital is finding its growth voice

SMALLER COMPANIES

41 Phoenix confident its mine is rich in copper

INDEX

43 Index of companies and funds in this issue

WHO WE ARE

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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 you need to know about the banks' latest financial results

We provide a comprehensive review of the four main UK banks' quarterly figures

The third quarter reporting season for the banks had a mixed response from the market. **Lloyds' (LLOY)** figures were quite good but investors worried about future capital requirements, given worrying comments from the bank about pressure from the regulator.

A solid showing from **Royal Bank of Scotland (RBS)** was also overshadowed by ongoing regulatory concerns.

Both **Barclays (BARC)** and **HSBC (HSBA)** fell short of expectations to varying degrees.

LLOYDS – 25 OCTOBER



Earnings per share of 1.9p was 46% ahead of consensus estimates, reflecting a reduction in charges linked to past conduct – such as PPI compensation.

The net interest margin (NIM), the difference between income from lending and the cost of funding and a key indicator of profitability, hit 2.9% against a forecast for 2.87%.

The common equity tier one ratio, a measure of the ability of the balance sheet to withstand economic shocks, was up 0.6% to 14.1%.

BARCLAYS – 26 OCTOBER



Unsurprisingly Barclays saw the most negative reaction to its third quarter numbers as its pre-tax profit came in well short of expectations for £1.4bn at just £1.1bn.

The main culprit behind the underwhelming performance was its investment banking division which suffered from low volumes and limited volatility across fixed income, currency and commodity markets.

Similar problems have been faced by investment banking peers. Former JP Morgan boss Jes Staley was hired as CEO to fix this part of the business. Failure to do so could ultimately cost him his job.

A targeted group return on tangible equity (RoTE) of 9% in 2019 still looks some way off, with a reading of 7.1% for this three-month period.

ROYAL BANK OF SCOTLAND – 27 OCTOBER



For a third consecutive quarter the bank was profitable with adjusted operating profit of £1.25bn beating consensus forecasts by an impressive 18%.

A relatively muted share price reaction should be considered in the context of an already-strong share price performance this year and the threat from ongoing probes by regulators on both sides of the Atlantic.

The US Department of Justice continues to investigate the mis-selling of mortgage-backed securities by RBS in 2008. The \$12bn fine faced by Deutsche Bank over similar issues is somewhat larger than the \$6.6bn already set aside by RBS to cover damages.

The Financial Conduct Authority in the UK is also looking into complaints over an RBS subsidiary, the Global Restructuring Group, and its conduct towards small business clients between 2008 and 2013.

HSBC – 30 OCTOBER



Looking purely at revenue growth, HSBC's third quarter update was encouraging with \$12.98bn revenue being some \$300m ahead of forecasts.

However pre-tax profit fell short of forecasts at \$5.4bn, amounting to a 1% fall year-on-year.

The main reason behind the reduced profitability was an increase in operating costs, linked to business investment and performance-related compensation, as well as modestly higher impairments.

Ultimately this wasn't a bad set of results but as the most expensive UK bank, trading on 1.4-times tangible net asset value before this update, the company is rightly held to a higher standard. (TS)

BANKS IN NUMBERS

Bank	Net interest margin (%)	Share price performance on day of results (%)	Price to tangible net asset value 2017E	Forecast yield 2017E (%)
Barclays	3.55	-7.4	0.64	1.6
HSBC	1.63	-1.5	1.34	4.0
Lloyds	2.9	0.8	1.25	6.2
Royal Bank of Scotland	2.12	1.5	0.99	n/a

Source: Company reports, Shares Magazine, Investec, SharePad

Why Fidessa may not be a takeover target

Investors are wrong to hope for private equity bids

Investors hoping to cash in on a takeover of trading systems supplier **Fidessa (FDSA)** look likely to be disappointed.

At first glance the £884m Woking-headquartered business looks a classic target for private equity buyers yet we don't think a deal will happen.

Fidessa is a global leader in trading systems to financial institutions. It has customers all over the world and earns more than two-thirds of its revenue outside the UK.

Bristling with balance sheet strength (it is expected to have £75m to £80m of net cash by the end of the year) on which private equity could load debt, Fidessa also has super cash generation. Nearly 90% of its revenue is recurring.

So why hasn't the company fielded bid interest? There have been rumours in the past, most recently

from the US in April 2016, but a major snag is the limited scope to bolster organic growth with acquisitions.

Large financial institutions not currently Fidessa clients tend to run their own in-house built analysis and trading engines.

Fidessa remains hopeful that new financial regulations can accelerate its own growth but doubts remain.

In the meantime, low to mid-single digit revenue expansion remains on the cards.

That makes the shares at £22.86 look expensive on 23.7 times forecast earnings for 2018. (SF)

Nearly
90%
of its revenue
is recurring



Bookies gain on gaming consultation

THE DEPARTMENT for Digital, Culture, Media and Sport's (DCMS) long-awaited document (31 Oct) on gaming machines in betting shops triggered share price gains for **Ladbrokes Coral (LCL)** and **William Hill (WMH)** as proposals weren't as bad as feared.

The maximum stake for fixed-odds betting terminals (FOBTs) will be cut either to £50, £30, £20 or £2 per spin from the present maximum of £100.

Canaccord Genuity analyst Simon Davies thinks 'a £20 maximum stake is significantly the most likely outcome', rather than a damaging £2 maximum stake which would seriously dent sector earnings.

Berenberg implies Ladbrokes' shares were previously weak because the market was pricing in a worst-case scenario of £2 maximum stake. Several analysts believe Ladbrokes will be taken over if its share price doesn't improve in the near future.

DCMS is now undertaking another consultation and a final decision on the FOBT stake limits is likely to be made in the second quarter of 2018 at the earliest. (JC)

Mining sector issues put pressure on Weir's margins

FTSE 250 engineering group **Weir (WEIR)** has had to top slice operating profit expectations as mining aftermarket margins come under pressure.

The £4.42bn company provides slurry handling kit used in the mining and oil sands markets but engineering support investment and order delays have dented its earnings.

Analysts had anticipated approximately 19% operating profit margins from this part of the business in second half of 2017, but 17% now looks a more likely outcome. (SF)

St James's Place overhauls fund range

It will launch new funds targeting Japanese equities and global growth shares

FTSE 100 constituent **St James's Place (STJ)** is shaking up its fund offering. The changes see the launch of new vehicles offering exposure to Japanese equities and global growth stocks.

The former is set to be managed by Yoshihiko Ito of Nippon Value Investors and the latter by Magellan, EdgePoint, Sands Capital and Select Equity Group who already run money for the wealth manager.

Changes are also being made to the management and allocation of existing funds. The new funds will be available from 6 November.

In the latest edition of Bestinvest's *Spot the Dog* report, highlighting funds which have underperformed their relevant benchmark by 5% or more over three years, St James's came second to Aberdeen Asset Management (now part of **Standard Life Aberdeen (SLA)**) by assets under management in underperforming funds.

Three funds with nearly £1.7bn of assets fell foul of the criteria, namely **St James's Place Equity Income (GB0008377144)**, **St James's Place Asia Pacific (GB0007667669)** and **St James's Place Ethical (GB0006126766)**. (TS)

Three
funds fell
foul
of the
criteria

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Pottermania

Continues to fire up Bloomsbury

Illustrated versions of the famous book series keep the magic alive for quoted publishing company

33%

IT HAS BEEN more than two decades since the publication of the first book which started the worldwide *Harry Potter* franchise.

Much to many people's surprise, the spell cast by the JK Rowling-penned series is continuing to pay off for

publishing firm **Bloomsbury (BMY)**.

The company generated a 20% increase in group revenue during the six months to 31 August. Importantly, revenue from its children's division which includes the *Harry Potter* titles, jumped by 33%.

INCHCAPE'S A BREXIT BEATER

14.6%

MULTI-BRAND CAR distributor and retailer **Inchcape's (INCH)** sales sped 14.6% higher to £2.3bn in a strong third quarter, the top line boosted by weak sterling and a South American distribution acquisition made at the end of 2016. Stripping this deal out, revenues still rose 9.4% higher. Inchcape grew in all regions, notably in emerging markets.

This performance demonstrates the advantages of Inchcape's global diversification and distribution-focused business model, at a time when the UK car market is slowing and Inchcape flags 'continued margin pressures in some retail markets'.



OIL BREAKS THROUGH \$60

THE PRICE of oil is rising as traders look for an OPEC-led production cut to be extended beyond its current expiry date of next March through the whole of 2018.

The international benchmark Brent opened above \$60 per barrel on 30 October – close to its highest level since July 2015.

This could help make the dividends on offer from **BP (BP.)** and **Royal Dutch Shell (RDSB)**, currently yielding 5.9% and 6% respectively, more secure.

A chance to make 20% return by investing in Telecom Plus

Energy provider in sweet spot despite negative sentiment towards sector

Talk of tariff price caps and lots of industry uncertainty may make an energy supplier an odd pick for investors right now. Yet we believe there are good reasons why **Telecom Plus (TEP)** is uniquely placed to prosper in the coming months.

Trading as the *Utility Warehouse*, the company is Britain's biggest independent energy supplier (not one of the big six), supplying gas and electricity to more than 600,000 UK homes and businesses.

What makes it stand out from the crowd is that gas and electricity are not all it supplies. It also offers home phone, broadband and mobile into a single billing package.

CUSTOMER QUALITY

More than half (55%) of new customers last year signed up to take at least four services, called the 'Double Gold' bundle. This means that Telecom Plus can offer more customers the best all round deal which should boost customer loyalty.

The company loses about 1.1% of customers per month through switching versus the industry average of 1.36%.

Customer quality is continually improving, creating valuable cash flow visibility for the company in an industry fairly notorious for

TELECOM PLUS

BUY

(TEP) £12.11

Stop loss: 969p

Market value: £952m

running up bad debts (customers refusing to pay their bills).

This strategy will be further bolstered in the future with plans to provide car, home, pet and boiler insurance, plus water supply.

Telecom Plus reckons this strategy will help grow the number of services it offers by up to 10% this year on the 2.29m reported in the 12 months to 31 March 2017.

LEVELLING THE PLAYING FIELD

Government price caps on standard variable tariffs (SVT) will narrow the scope the big six have to use big SVT profits to subsidise promotions to new customers. Telecom Plus refuses to force its existing customers to pay for new customer discounts.

The effect will be a more even playing field in the future, easing pressure on new customer acquisition and likely returning growth to the double digits of the past.

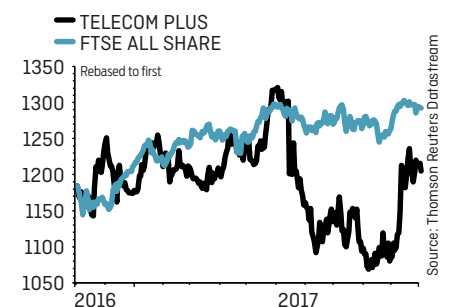
Telecom Plus is a FTSE 250



company with a strong balance sheet that throws off large amounts of cash. That is demonstrated by its promise to return 85% of earnings as shareholder dividends each year.

That implies a 50p per share payment this year, with 52p per share expected in 2019, for a 4.3% yield. Finncap's £13.90 price target puts the 12-month potential total return at 20%. (SF)

BROKER SAYS: 4 2 0



Lots to love about Unilever

Packaged consumer goods giant is a quality pick to ride out uncertainty

Investors skittish about the potential for market corrections should introduce some high quality picks into their portfolios. One corporate colossus which has sold off from peaks is packaged consumer goods goliath **Unilever (ULVR)**, the Anglo-Dutch behemoth behind brands ranging from *Persil* and *PG Tips* to *Marmite*, *Ben & Jerry's* and the high-growth *Dollar Shave Club*.

WHAT'S BEHIND RECENT WEAKNESS?

Unilever's shares soared after US rival Kraft Heinz lodged a blockbuster \$143bn bid in February. Paul Polman-led Unilever successfully batted away the bid but was effectively forced into a strategic review (6 Apr). More recently, Unilever shares were marked down on news (19 Oct) of weak third quarter organic growth of 2.6%, blamed on poorer weather in Europe, fierce competition and the hurricanes in Florida and Texas.

Some investors question if management's ambitious margin targets are detracting from its ability to deliver revenue



UNILEVER BUY

(ULVR) £42.53

Stop loss: £32.00

Market value: £52.65bn

growth, while also worrying about advertising spending cuts to support earnings. But reassuringly Unilever is compensating for muted volume growth by squeezing prices higher, a testament to the power of its brands.

FORM IS TEMPORARY, CLASS IS PERMANENT

We're staying positive on this unique asset and compounding star turn. Entrenchment in the supply chains of its retailers is the source of Unilever's wide economic moat.

Its earnings are reasonably predictable, fantastic brands confer pricing power, while strong cash flows have enabled Unilever to consistently grow its dividend in real terms for decades.

It is on track to complete its €5bn share buyback programme by the end of the year.

Furthermore, key markets including India and China are improving and Unilever is only just starting to exploit the potential of its brands in developing economies.

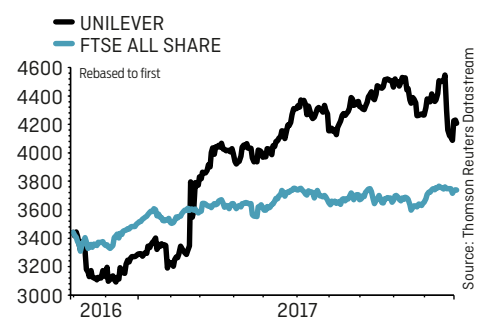
Chief executive Polman insists 'the transformation of Unilever into a more resilient, more competitive and more

profitable business continues' and flags 'good progress against the strategic objectives we have set out for 2020', which include targeting 20% underlying operating margin.

Unilever confidently reiterated full year guidance for 3%-5% organic sales growth. And as Liberum Capital explains, 'strong free cash flow, a lightly geared balance sheet and scope for more disposals provides Unilever with some scope to address growth concerns via bolt-on mergers and acquisitions (M&A) or higher shareholder returns'.

Unilever plans to sell or demerge its spreads business and private equity groups are reportedly circling, so this competitive bidding is sure to help Unilever secure a good price. Meanwhile, the £52.65bn cap remains acquisitive; recent additions including *Weis* ice cream in Australia, *Pukka Herbs* tea in the UK and *Carver* skin care in Korea. And while Kraft Heinz has yet to return with a new bid, we reckon Unilever remains its prime takeover target. (JC)

BROKER SAYS: 10 9 1





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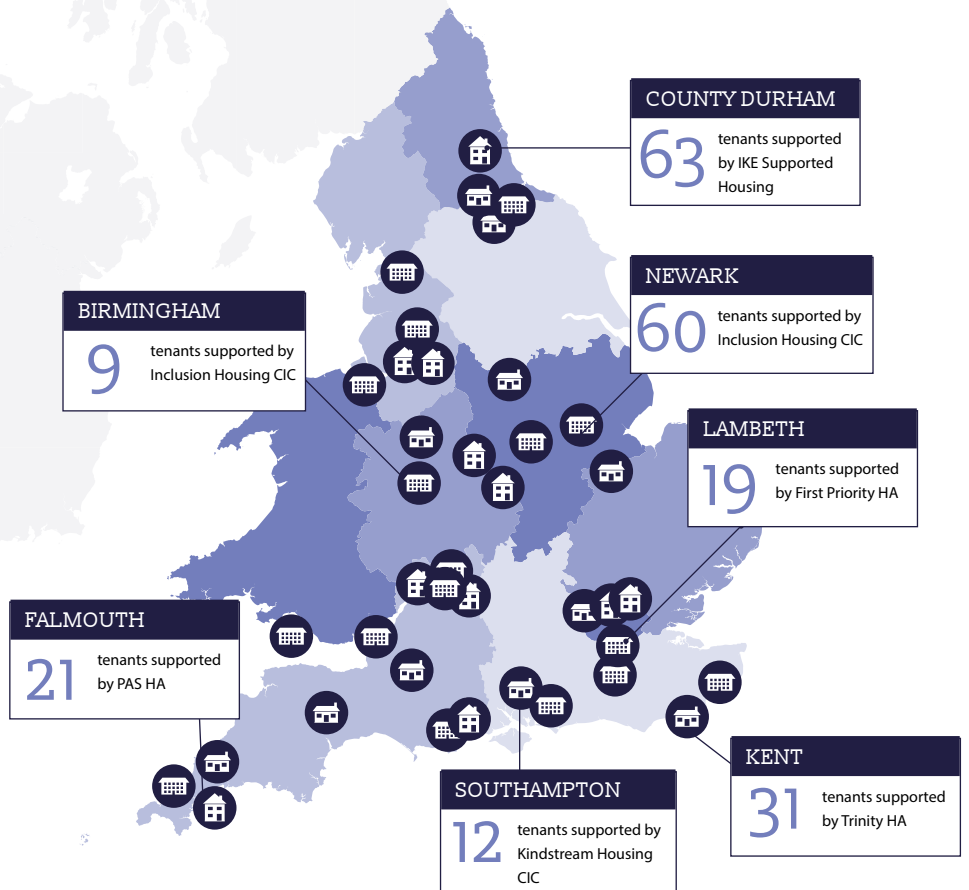
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* balance fully allocated

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(balance fully allocated)

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AVESORO RESOURCES

(ASO:AIM) 1.98p

Loss to date: 26.7%

Original entry point:

Buy at 2.7p, 8 June 2017

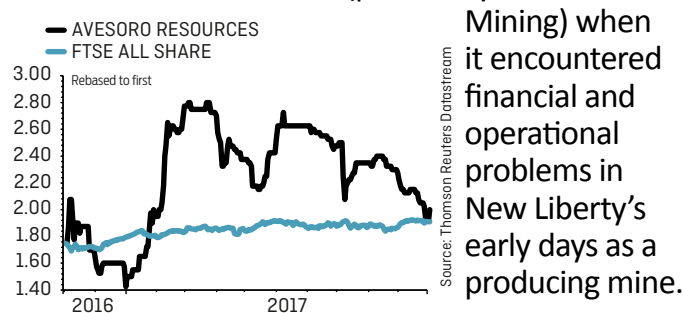
IT'S NOT BEEN the best start to our trade on gold miner **Avesoro Resources (ASO:AIM)** thanks to downgraded full year production guidance weighing on the share price.

However, we originally said investors must be patient and that near-term results wouldn't be outstanding as the company was still making improvements to its New Liberty mine in Liberia.

We're now at a turning point. First, a new mine plan increases forecast production to an average of 149,000 ounces per year over the next four years, driving better cash flow.

Second, Avesoro has firmed up acquisition plans for two mines in Burkina Faso. The Youga and Balogo mines are forecast to produce 110,000 ounces of gold in 2017. Those mines plus New Liberty are expected to produce 230,000 ounces of gold in 2018.

Youga and Balogo are being acquired from 73.5% shareholder Avesoro Holdings, a Turkish business which used to be called MNG Gold. The latter bailed out Avesoro (previously called Aureus



Mining) when it encountered financial and operational problems in New Liberty's early days as a producing mine.

SHARES SAYS: ↗

The latest acquisition is priced at \$69.5m and equal to 0.57 times net asset value, so theoretically an attractive discounted deal. Expect further deals given AIM-quoted Avesoro has a desire to become a 500,000 ounce producer by 2019. Buy at 1.98p. (DC)

BROKER SAYS: 1 0 0

NEXUS INFRASTRUCTURE

(NEXS:AIM) 197.5p

Gain to date: 3.1%

Original entry point:

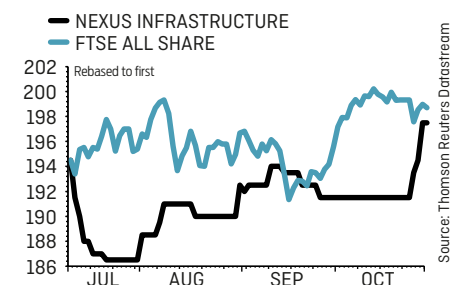
By at 191.5p, 13 July 2017

ENGINEERING SERVICES GROUP **Nexus Infrastructure (NEXS:AIM)** says its order book has progressed from circa £180m in July to now sit at £202m. The bulk of the order book relates to its core brand Tamdown which builds roads, undertakes earthworks, creates drainage systems and constructs reinforced concrete frames for housebuilders.

Chief executive Mike Morris says Nexus has recently seen a notable increase in work with smaller housebuilders; the company has historically done most of its work for the larger players in the industry.

The other part of its business involves utilities connection under the brand of TriConnex. Launched in 2011, it has historically focused on gas and electricity before adding water connections in 2015.

Last year saw TriConnex add fibre connections to its skillset and the business recently won a deal with Legal & General to install all four services (gas, electricity, water and fibre) to a new build-to-rent housing development.



SHARES SAYS: ↗

We were originally drawn to Nexus as a profitable, dividend paying business with significant growth potential on the TriConnex side. The latest trading update (25 Oct) is very reassuring. We remain bullish on the stock; keep buying. (DC)

BROKER SAYS: 1 0 0



INVESTMENT FACTS.

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FRIDAY 3 NOVEMBER

TRADING STATEMENTS

Informa	INF
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AGMS

Frontera Resources	FRR
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ECONOMICS

UK

Services PMI

US

Unemployment Rate
Non-Farm Employment Change

MONDAY 6 NOVEMBER

INTERIMS

Grafenia	GRA
Kosmos Energy	KOS

AGMS

Genesis Emerging Markets Fund	GSS
Murray Income Trust	MUT

Mid Wynd International

Investment Trust	MWY
------------------	-----

ECONOMICS

UK

Halifax HPI



LOOK FOR an update on margin performance when online second-hand car marketplace **Auto Trader (AUTO)** reports its first half results (9 Nov). In the year to 31 March 2017, the company increased its underlying operating profit margin by six percentage points to 67%. Analysts at investment bank Berenberg believe a shift to less profitable products and higher staffing costs in its Manchester base could limit margin improvement going forward.

TUESDAY 7 NOVEMBER

FINALS

Associated British Foods	ABF
Imperial Brands	IMB
UP Global Sourcing	UPGS

INTERIMS

Carclo	CAR
First Derivatives	FDP

TRADING STATEMENTS

ConvaTec	CTEC
Direct Line Insurance	DLG
Hiscox	HSX
International Consolidated Airlines	IAG
Jardine Lloyd Thompson	JLT
Tyman	TYMN

AGMS

Papillion	PPHP
-----------	------

WEDNESDAY 8 NOVEMBER

FINALS

Tracsis	TRCS
---------	------

INTERIMS

JZ Capital Partners	JZCP
Marks & Spencer	MKS
Sainsbury's	SBRY
Sophos	SOPH
SSE	SSE
Wizz Air	WIZZ
Workspace	WKP

TRADING STATEMENTS

Esure	ESUR
JD Wetherspoon	JDW



CLOTHING RETAILER SuperGroup (SGP) will publish a first quarter trading update on 9 November. This follows a recent strategy update where the Cheltenham-based firm said it was 'more excited today than we have ever been before' about the future of the business.

Shareholders should note that the stock name will change from SuperGroup to Superdry in the near future, to be in harmony with its main brand name.

Novae	NVA
OneSavings Bank	OSB
Persimmon	PSN
Tullow Oil	TLW

AGMS

Craneware	CRW
Haynes Publishing	HYNS
Macau Property	
Opportunities Fund	MPO
Picton Property Income	PCTN
Pathfinder Minerals	PFP
Ricardo	RCDO
Strategic Equity Capital	SEC

THURSDAY 9 NOVEMBER

FINALS

Gattaca	GATC
---------	------

INTERIMS

Aldermore	ALD
Arrow	ARW
Auto Trader	AUTO
AstraZeneca	AZN
Beazley	BEZ
Dairy Crest	DCG
Halfords	HFD
Inmarsat	ISAT
National Grid	NG.
Renewi	RWI
Sainsbury's	SBRY
SSE	SSE

TRADING STATEMENTS

Beazley	BEZ
Coca-Cola HBC	CCH
Derwent London	DLN
Hikma Pharmaceuticals	HIK
IMI	IMI
SuperGroup	SGP

AGMS

Primorus Investments	PRIM
Redrow	RDW
Swallowfield	SWL
Urals Energy	UEN

ECONOMICS

UK

Industrial Production
Manufacturing Production
Construction Output

EX-DIVIDEND

Card Factory	CARD	15p
Card Factory	CARD	2.9p
Clinigen	CLIN	3.4p
Craneware	CRW	11.3p
Foresight Solar Fund	FSFL	1.58p
Strix	KETL	1p
Panther Securities	PNS	5p
RTC	RTC	1.2p

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Should I transfer my Help to Buy ISA to a Lifetime ISA?

The Lifetime ISA offers generous bonuses but isn't suited to an imminent house purchase

Investors who are saving up for their first home can now choose to transfer their Help to Buy ISA to the new Lifetime ISA. Each product has pros and cons which you need to weigh up before making the switch.

Both types of ISA aim to help people get a foot on the property ladder by offering tax-free growth and Government bonuses. The Lifetime ISA also lets you save for retirement.

The Help to Buy ISA is available for first-time buyers aged 16 and over, whereas the Lifetime ISA can only be opened by people aged between 18 and 39. You can keep contributing to the Lifetime ISA until you turn 50.

Under the Help to Buy ISA you can save up to £1,200 in the first month and then £200 each month thereafter. When you buy a property, a Government bonus of 25% will be added to your ISA but this is capped at £3,000.

The Lifetime ISA, which launched in April 2017, enables you to contribute up to £4,000 a year until you turn 50. Unlike the Help to Buy ISA, there is no monthly payment limit with the Lifetime ISA so the full £4,000 could be deposited in a month, if preferred.

A Government bonus of 25% is added to each payment you make; meaning a bonus of up to £32,000 can be received.

In the first year of the Lifetime ISA, the bonus will be paid at



the end of the tax year and thereafter it will be paid monthly.

WHY MIGHT IT BE WORTH SWITCHING?

1

To grow your money

The maximum Government bonus you can receive is considerably greater for the Lifetime ISA than

the Help to Buy ISA: £32,000 versus £3,000.

'A Help to Buy ISA only allows cash savings, whereas a Lifetime ISA also allows you to invest in shares, bonds and collective funds,' says Hannah Purslow, spokesperson for AJ Bell Youinvest.

'With cash deposit rates at historical lows and interest rates unlikely to rise quickly, over the long term a Lifetime ISA can offer greater growth opportunities through investment returns from stock market investments.'

2

To better fund a property purchase

The Help to Buy ISA bonus is only available when you're ready to buy a property and have handed over account

details to your conveyancer. You can't use it to pay the upfront deposit required at exchange of contracts.

The Help to Buy ISA can be used to buy a property that costs less than £250,000 (or

£450,000 in London), whereas a Lifetime ISA can be used to buy a property of up to £450,000 anywhere in the country.

3

For greater flexibility

A Lifetime ISA has the added flexibility of being a retirement savings vehicle. If you decide

not to use the funds to buy a house, you can access your money tax-free from age 60.

4

To benefit from this year's special rules

Special rules apply to transfers made during the 2017/18

tax year. If you transfer your Help to Buy ISA into a Lifetime ISA before 6 April 2018, the money you saved into it as at 5 April 2017 won't impact on your £4,000 annual Lifetime ISA allowance. You'll get the 25% Government bonus on the entire amount saved.

Any money that you paid into



your Help to Buy ISA on or after 6 April 2017 will affect your Lifetime ISA allowance when you transfer. Not all Lifetime ISA providers will accept Help to Buy transfers due to limitations on their systems; yet those that do accept them include AJ Bell Youinvest.

WHEN MIGHT A TRANSFER NOT BE SUITABLE?

1

If you want to buy a house within a year

The main reason to stick with a Help to Buy ISA is if you're aiming to buy your first home in

the near future. The minimum annual Government bonus for a Help to Buy ISA is £400, so once you've saved £1,600, which can be done in three months, you'll be eligible for it.

The Lifetime ISA needs to be open for at least 12 months before you can use it to buy a house.

Niki Patel, consultant at investment consultancy Technical Connection, says if you're considering buying a property before 6 April 2018, a transfer is unlikely to be advisable. You won't be allowed to use your Lifetime ISA because it's less than 12 months away and you'll miss out on the Help to Buy ISA bonus.

2

If you want to access the money early

A transfer wouldn't be appropriate if you're not

intending to use the funds to buy a house and will want access to the money before age 60.

You can withdraw funds from a Help to Buy ISA whenever you like without penalty but you'll face a tax charge of 25% on the value of the withdrawal if you withdraw Lifetime ISA funds before age 60 for anything other than your first house purchase (or in cases of terminal illness).

3

If you're keeping your account in cash

It could be beneficial to delay a transfer in the 2017/18

tax year if you're keeping your account in cash.

Skipton is currently the only provider of a cash Lifetime ISA at present and offers an interest rate of 0.5%. Many Help to Buy ISAs offer better rates.

'A saver could maximise their cash savings by opening and funding a Lifetime ISA account with £1 to get the 12 month clock ticking while continuing to invest in a higher interest rate Help to Buy ISA,' says Purslow at AJ Bell Youinvest.

'If they then transfer to a Lifetime ISA before the end of the 2017/18 tax year, they would get the 25% bonus on the interest-boosted cash. (EP)



How much are you paying for your savings?

A large number of people wrongly think their stocks and shares ISA is free to use

‘When you took out your investment ISA, were any fees or charges involved?’ That is the question the Financial Conduct Authority asked over 500 investors who had made an investment in the last two years without taking regulated financial advice.

Incredibly, almost half (46%) appeared to believe their ISA was free, while 7% said they didn’t know. Only 47% of respondents thought there were any fees or charges to pay.

So let’s dispel that myth once and for all. If you are saving in an investment ISA, a pension or any other financial product, it is certainly not free.

WHY FEES MATTER

The way you are charged will vary depending on who you save with and what you do, but it’s absolutely vital you understand

and are comfortable with the price you are paying.

The effect of charges over time can be significant and reducing your costs by even a tiny amount can save thousands of pounds.

There will usually be two sets of fees you’ll pay to invest your money (assuming you aren’t taking financial advice).

The first is to the provider or platform that administers your savings. Different firms charge in different ways – some will set a fee in pounds and pence; some will charge you a percentage of the assets you invest with them; and some a combination of the two.

You could also pay extra fees for additional services, such as entering drawdown after age 55.

The second is to the fund manager who invests money on your behalf. Some of these will be ‘active’ managers where

you pay a premium for the fund selector’s stock picking skill, and some will be ‘passive’ where costs are lower as the fund simply tracks an index or benchmark. In this case, fees are always charged on a percentage basis.

Active managers argue they are worth the extra money because they can potentially outperform an index or benchmark, although this is not guaranteed.

WHICH IS THE MOST IMPORTANT FIGURE?

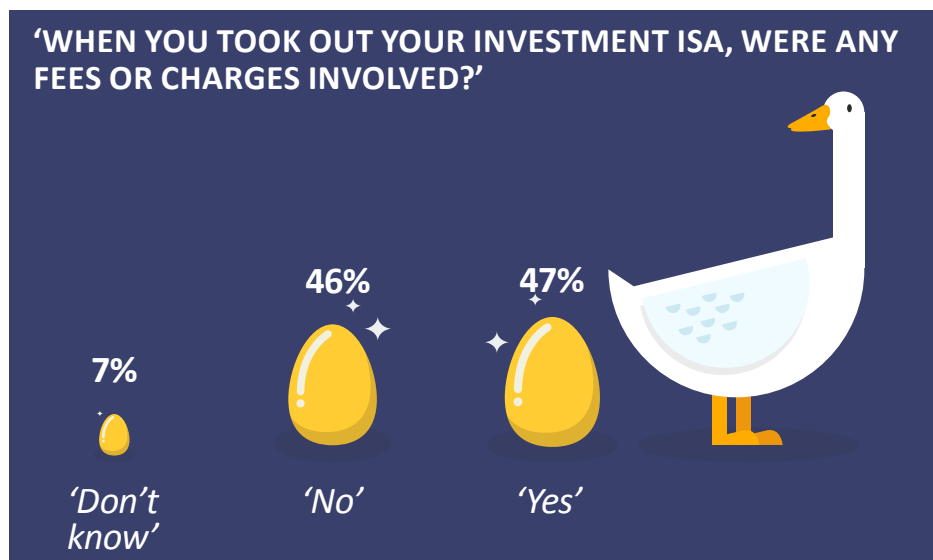
When assessing fund manager costs the Ongoing Charges Figure (OCF) is probably the most accurate and easily comparable measure currently available.

You should be able to find this figure via your provider’s website or in the Key Features Illustration (KFI) documents they send you.

While reasonably comprehensive, the OCF doesn’t cover things like the costs associated with buying and selling underlying investments (known as ‘transaction costs’).

Once you’ve got this information, you’ll be in a much better position to assess the value for money you’re getting from both your provider and your underlying investments.

Tom Selby,
Senior Analyst, AJ Bell



Source: Financial Conduct Authority

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in free
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bonuses

Capital at risk. We don't offer advice so if you're unsure please consult a financial adviser. Tax rules may change. Paying into a Lifetime ISA may affect employer pension contributions and your future entitlement to means tested benefits. You will incur a 25% government withdrawal charge on any money you withdraw before age 60 unless you are using it to buy your first home, therefore you may get back less than you paid in.

BY STEVEN FRAZER
DANIEL COATSWORTH
JAMES CRUX
DAVID STEVENSON
LISA-MARIE JANES



33

STOCKS IN THE FTSE 100 ARE DOWN THIS YEAR

TIME TO BUY?

Stock markets are rallying around the world including a good performance from the main indices in the UK. While this bull-run is exciting for investors, not everyone will be toasting big returns from their portfolio.

One third of the stocks in the FTSE 100 are now trading at a lower price than at the start of 2017. That's despite the FTSE 100 index having risen by 5% year to date. Does that shock you?

Many household names including broadcaster Sky (SKY), telecoms provider BT (BT.A) and banking group Barclays (BARC) have declined in value for a number of reasons.

The fact that 33 of the UK's largest listed companies have dropped in value during a boom time for stock markets may leave investors

scratching their heads. Yet it does provide a valuable lesson that not all stocks are able to catch a ride when markets are racing ahead.

The key question now is whether some of these large cap stocks have been oversold, thereby creating an opportunity to buy some on lower than normal valuations.

This article looks at many of the beaten-up stocks from the FTSE 100 to analyse why they've had such a bad year. We provide our thoughts on a number of companies which look like good buying opportunities as well as pointing out some that should continue to be avoided.

We also talk to some analysts to get their views on the best investment opportunities from the pack.

WHAT'S DRIVING THE FTSE 100 HIGHER?

The international nature of the FTSE 100 means global factors have imposed a greater influence on the index than compared to the rest of the UK stock market.

Some confidence remains that spending plans in the US and China will drive world economic growth while greater political stability in Europe has been encouraging.

In the US, the S&P 500 has risen more than 14% so far this year, setting new records. The same applies to the Nasdaq index which has increased by nearly 22% in 2017.

Those rallies have helped lift investor sentiment in many parts of the world and will have certainly contributed to people in the UK buying London-listed stocks.

Currency movements have also played a very important role in terms of influencing the direction of the FTSE 100. A drop in sterling last year made British goods and services look cheap to overseas buyers, hence why UK takeover activity has been very strong over the past year or so.

The large number of overseas earners on the FTSE 100 benefited from weaker sterling, particularly dollar earners like miners, as international earnings are more lucrative when translated into pounds.

Sterling this year has started to regain strength against the dollar, hence why the overseas earners' momentum has started to fade a little. Construction firms, miners and other dollar trades have in general still delivered positive returns for

investors, yet not as much as in 2016.

The top performers in the FTSE 100 this year have been industrial companies – a broad term including service providers – as well as housebuilders thanks to a robust property market and high levels of dividends attracting investors.

Other companies enjoying a good run include ones that were simply priced too cheaply last year for various reasons. Those having re-rated in 2017 include airline **International Consolidated Airlines (IAG)** and engineer **Rolls Royce (RR.)**.

As for those stocks focused on the UK, the country's economic data has been reasonably robust with unemployment at multi-decade lows which should translate into wage growth at some point. That said, there remain many headwinds including rising costs, regulatory change, a questionable consumer outlook and Brexit.

WHY SOME COMPANIES HAVE FLOPPED

As for the losers on the FTSE 100 this year, we note the market has given a harsh reaction to many bits of negative corporate news.

Single day share price movements to the tune of 15% to 20% have historically been rare among larger companies; not this year.

A mixture of profit warnings, economic concerns, political threats and balance sheet worries has resulted in severe share price declines for many FTSE 100 stocks.

We now discuss some of the worst affected, starting with five stocks rated as 'buys' at their current price, either by ourselves or by analysts.

WORST PERFORMING FTSE 100 SHARES IN 2017 SO FAR

COMPANY	SHARE PRICE DECLINE	COMPANY	SHARE PRICE DECLINE	COMPANY	SHARE PRICE DECLINE
WPP	-28%	ConvaTec	-13%	British Land	-6%
BT	-28%	GlaxoSmithKline	-13%	Severn Trent	-6%
Centrica	-28%	Pearson	-12%	Sky	-6%
Shire	-24%	SSE	-12%	GKN	-3%
Mediclinic	-23%	National Grid	-12%	BP	-3%
ITV	-21%	Kingfisher	-11%	Whitbread	-3%
Barclays	-18%	Hammerson	-10%	Sainsbury's	-3%
Merlin Entertainments	-17%	Imperial Brands	-10%	Next	-2%
Land Securities	-16%	Tesco	-10%	Reckitt Benckiser	-1%
Babcock	-14%	Old Mutual	-9%	Marks & Spencer	-1%
Paddy Power	-14%	United Utilities	-8%	MW Morrison Supermarkets	-1%

Source: Shares, SharePad. Data 1 January to 27 October 2017

FIVE TO BUY

BABCOCK INTERNATIONAL (BAB) 815.75P

SHARES IN BABCOCK have fallen by 14% this year as investors fear it will suffer the same fate as its London-listed outsourcing peers **Interserve (IRV)**, **Capita (CPI)** and **Mitie (MTO)**, all of whom have issued profit warnings in 2017 or late 2016.

Several analysts are now saying the shares look really good value and we agree. Even fund managers are getting excited including Seneca Investment Managers which has recently added the stock to a number of its portfolios, saying the market shouldn't associate Babcock with the aforementioned support services firms.

'We believe the company is fundamentally different to others in its sector. It has a very skilled workforce, and these workers are increasingly in short supply.

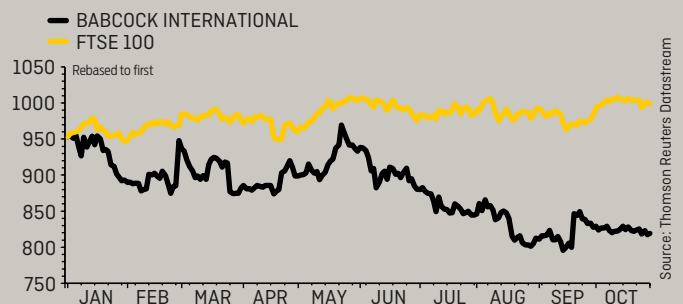
'The company operates in complex, highly regulated and often secretive industries, so the barriers to entry are high.

'Contracts are long term in nature and allow gains and pains to be shared with customers. Unlike many peers, Babcock doesn't depend on

cost-plus contracts that often rely on add-on work at high margins to earn a decent overall return.'

Examples of work undertaken by Babcock including refitting UK nuclear submarines and naval ships, maintenance of the London Fire Brigade's fire engine fleet and operating air ambulance fleet.

Nine analysts now have 'buy' ratings on Babcock versus four 'holds' and two 'sells', according to Reuters data. The median target price is £10.20, implying potential to make nearly 25% return in a year.



THE COMPANY OPERATES IN COMPLEX, HIGHLY REGULATED AND OFTEN SECRETIVE INDUSTRIES, SO THE BARRIERS TO ENTRY ARE HIGH

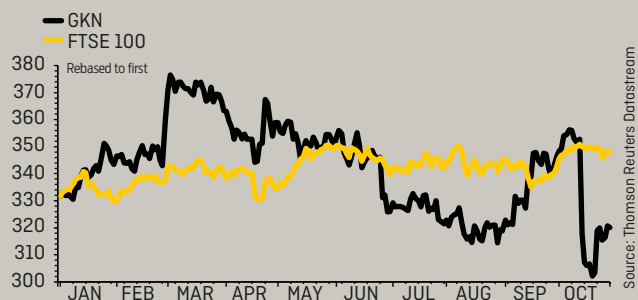
GKN (GKN) 321P

MARKET DYNAMICS SUGGEST there is a fair price even for companies struggling; and UBS analysts reckon British aerospace and automotive engineer GKN is trading below it.

The investment bank's equity experts base their claims (and a bullish 'buy' recommendation) on valuation grounds. They say the shares are trading at too large a discount to peers, suggesting that 360p is a more reasonable price at which the shares should trade.

The shares have been weak following a profit warning and news of external claims against the company potentially costing it £40m.

However, a more recent modest bounce is down to speculation the group could split itself in two. Reports suggest it may separate the automotive arm (which is facing challenges from the rise of the electric vehicle industry) from aerospace, itself up against industry pricing pressure.



ITV (ITV) 164.35P

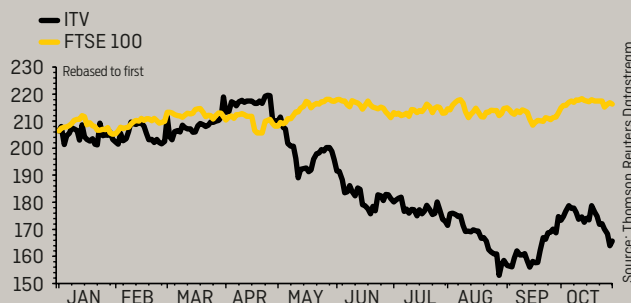
INVESTORS COULD ESSENTIALLY double their money buying shares in media group ITV at current levels, claims investment bank Liberum.

That's quite a bold statement given the shares have fallen 21% so far this year amid concerns about a decline in advertising and the impact of internet streaming on traditional TV broadcasters.

Liberum analyst Ian Whittaker says there is a misconception about ITV and other broadcasters in that they are seen merely as linear TV providers. He says that's wrong as ITV and other broadcasters 'can increasingly monetise' content across other platforms.

He sees more than 40% of ITV's profit growth coming from digital sources. Whittaker also believes ITV has an opportunity to capture more of the fast growing £1.1bn online video display advertising market.

'The advertising weakness at ITV is down to temporary, not permanent factors,' adds the analyst who has a 330p price target on the stock. He says advertising weakness has come from consumer goods and retail companies; noting there are signs the former group is spending again.



SHIRE (SHP) £35.47P

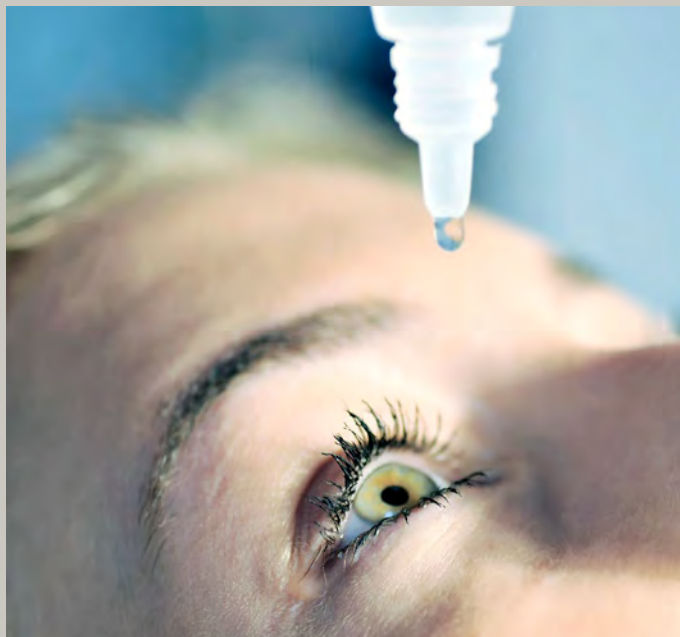
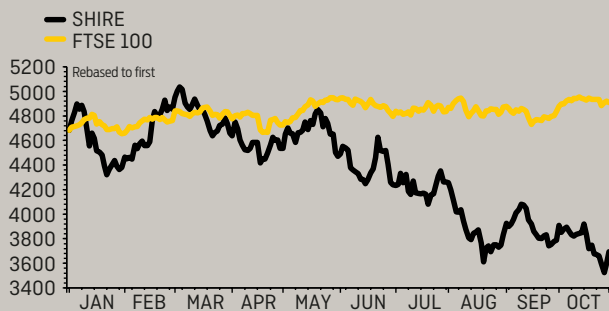
ONE OF THE key headwinds facing rare diseases specialist Shire this year is competition in its haemophilia franchise from Roche.

Shire also faced a mixed reception over its \$32bn acquisition of Baxalta last year despite its strong position in the plasma products market.

Despite these drawbacks, the company's dry eye disease treatment XIIDRA is proving to be a hit in the US.

Canaccord Genuity analyst Brian White believes Shire is trading on an undeserved discount to its peers, highlighting good cash generation and the performance of its legacy business as reasons to stay positive.

White forecasts a significant erosion of the inhibitor market and a more modest impact on the broader haemophilia market. However, he still anticipates 12% compound annual earnings growth between 2017 and 2022.



TESCO (TSCO) 185.55P

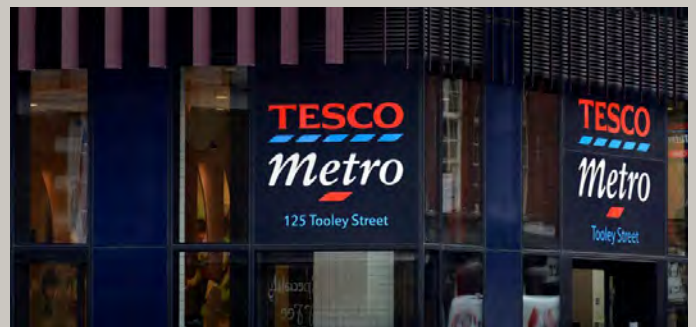
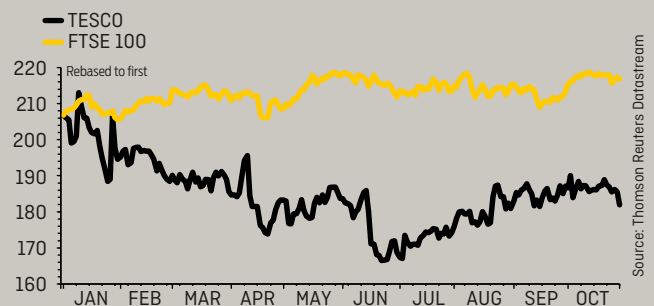
Groceries titan Tesco's positive half year results on 4 October confirmed continued positive trading momentum and a hotly-anticipated return to the dividend list after a three-year hiatus.

Its shares having been rising since the summer but still remain 10% down on the start of the year. They were particularly weak earlier in 2017 as rising inflation has pushed up food prices, causing investors to worry about consumer spending going forward.

We rate Tesco as a 'buy', seeing more to come from chief executive Dave Lewis' turnaround, although we acknowledge concerns over competition from hard discounters Aldi and Lidl and the planned £3.7bn takeover of wholesaler Booker (BOK).

Half year results proved a milestone with pre-tax profit surging from £71m to £562m. Operating margins rose to 2.7% and are on track to hit the 3.5-4% target range by 2019/20. Net debt was reduced by 25.1% to below £3.3bn.

In Tesco's core UK and Republic of Ireland business, like-for-like sales grew 2.1% for a seventh consecutive quarter of positive performance with shoppers returning in droves. We're hoping to see continued progress when Tesco reports on Christmas trading (11 Jan 2018).



2 STOCKS TO AVOID

KINGFISHER (KGF) 310.5P



HOME IMPROVEMENT POWERHOUSE

Kingfisher's soggy share price reflects a cautious outlook for the UK and France and a lack of belief in its 'One Kingfisher' transformation plan. We think the shares have further to fall.

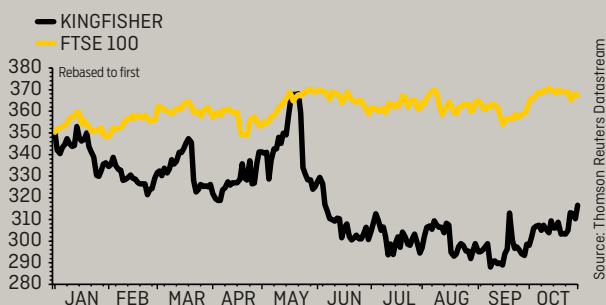
Better than expected half year results (20 Sep) revealed underlying pre-tax profit up 0.9% to £440m versus a consensus estimate of £426m thanks to solid growth at its UK chain *Screwfix* and in Polish operations.

Stockbroker Davy believes the shares are cheap and argues they are worth up to 390p.

We don't share its positive view, believing there could be further downside given the squeeze on UK consumer incomes.

We have lingering doubts about the 'One Kingfisher' strategy, given it is the latest in a long line of failed attempts to unify the group's supplier base and global sourcing teams.

Furthermore, we also believe competition will intensify in the UK thanks to rival firm Homebase having a new owner (Wesfarmers) actively reinvigorating that brand. Furthermore, we're conscious that DIY appears to be dwindling as a national pastime with people increasingly opting for the 'do it for me' route. (JC)



CONVATEC (CTEC) 202.95P



WOUNDCARE SPECIALIST CONVATEC cut its anticipated full year sales growth in October from 4% to a new range of 1% to 2% after being hit with supply issues in its advanced wound and ostomy care divisions.

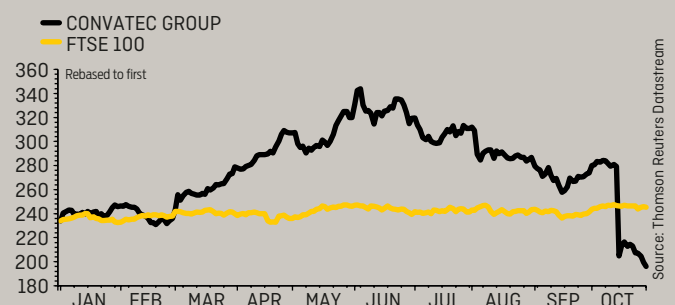
That triggered a massive share price sell-off, wiping out all its gains made year-to-date and more.

We're not confident in the company's ability to bounce back as this guidance depends on resolving supply issues, fulfilling back orders and recovering new orders with progress not expected until at least the end of 2017.

The shares are currently trading below its original IPO (initial public offering) price when ConvaTec floated just over a year ago so the woundcare business will need significant and positive updates to regain its footing.

Numis analyst Paul Cuddon says the company's key products face intense competition and pricing pressures.

He also flags under-investment compared to ConvaTec's rivals which are aiming to take market share in the US and Europe. This is a stock to avoid for now.



SOME OF THE REST

WPP (WPP) £13.03

THE WORST FTSE 100 performer this year, media agency WPP has downgraded its sales growth guidance three times in 2017 amid concerns about client spending and economic uncertainty in various parts of the world.

Analysts believe 2018 could be better for WPP, particularly as there are several major sports events stimulating the advertising and marketing industry.

CENTRICA (CNA) 169.75P

WE HAVE BEEN negative on the *British Gas*-owner for more than three years because of the weight of regulatory millstones and weak upstream dynamics. The government's energy price cap plans are another likely drag on future earnings.

A turn in investor sentiment anytime soon looks unlikely, and the shares may well fall further.



SSE (SSE) £13.69

ANOTHER OF THE energy supply big six to feel the tightening grip of watchdog Ofgem. SSE's share price has dropped 12% this year, most of it in the wake of price cap talk first emerging in the summer.

Regulatory uncertainty is running high and, for many investors, even a 6%-plus income yield is not enough to justify owning the shares at present.

NATIONAL GRID (NG.) 914.85P

A 12% SHARE price decline since May isn't as bad as it looks. The infrastructure specialist paid out £3.2bn to investors as a special dividend, so the market value of the shares was automatically reduced to account for the cash outflow.

It's roughly stayed at the same level since the payment. Recent energy price caps will barely touch the group.



IMPERIAL BRANDS (IMB) £31.78

SENTIMENT TOWARDS TOBACCO multinational Imperial Brands is currently poor. Investors are concerned over regulatory changes in the US and a relative lack of presence in certain Next Generation Product (NGP) segments.

Some analysts think the market is wrong including Investec which has a £43.60 price target for Imperial, excited by planned new NGP launches ahead.

MERLIN ENTERTAINMENTS (MERL) 373.95P

TERRORISM ATTACKS DISCOURAGING people from taking outings and deteriorating consumer confidence have dragged on *Alton Towers* and *Legoland* operator Merlin Entertainments, which recently reported a slowdown in trading in the 40 weeks to 7 October.

Overseas, Merlin delivered a 12.4% jump in sales, partially driven by favourable currency movements. Approximately 70% of its profit is generated overseas.



LAND SECURITIES (LAND) 956.25P

THE PROPERTY GROUP has done some high profile deals this year, including the sale of its 50% stake in 20 Fenchurch Street (the Walkie Talkie building) for £634m.

However, Brexit may make it harder for Land Securities to find enough tenants to fill its vast amount of commercial property, hence why the shares have been weak amid growing investor concerns.

BARCLAYS (BARC) 183.83P

BARCLAYS HAS TWO well-regarded businesses, its retail banking division and Barclaycard. However, poor performance from its investment banking arm has weighed heavily on Barclays' share price this year.

The company has lost more than a fifth of its value since a February high of 239.75p.

HAMMERSON (HMSO) 513.25P

SHOPPING CENTRE OWNER and developer Hammerson is exposed to any decline in consumer spending, hence why its shares have been weak this year amid rising inflation and growing concerns about the high levels of consumer debt.

The company has investments in around 20 retail parks in the UK and has been impacted heavily by a drop in both footfall and physical retail sales.

PEARSON (PSON) 721.25P

THE ACADEMIC PUBLISHER kicked off the year with a profit warning and subsequently slashed its dividend; causing investors to panic about the potential need for a large fundraise to shore up its balance sheet.

Its main problem is that US students are no longer buying expensive academic textbooks. That's prompted Pearson to try and create a leaner business with a focus on digital education, a strategy that will take some time to execute.



If you own shares in a company you're entitled to attend its annual general meeting (AGM) where you have a chance to grill directors about issues like performance and pay. Despite this opportunity, the number of shareholders attending AGMs has fallen dramatically in recent years.

That's mainly because most investors today deal through investment platforms and don't have their names on share registers. Thus they don't receive annual reports and invitations to AGMs.

Technically the investment platforms own the shares, not you; however the voting rights are still yours.

NOMINEE ACCOUNTS

When you invest via an investment platform your shares are held in a 'nominee' account, which administers and looks after all of the investments made via the platform.

A drawback of having your shares held in a nominee account is you're not classed as the legal owner of the shares. The platform is the legal owner and you are only the beneficiary. Your name and contact details aren't visible to the investee company.

Neither the investee company nor the investment platform will tell shareholders with a nominee account about an AGM, so if you're interested in attending you'll need to find out the date yourself.

Companies are required to give shareholders 21 days' notice and they often publish the date in their annual report. You can also look at the market diary published on *Shares'* website at www.sharesmagazine.co.uk/market-diary to find the relevant information.

In order to attend you'll need to ask your investment platform for an attendance card.

For example, AJ Bell Youinvest says if a customer provides it with five days' notice it will send a 'letter of representation' so the shareholder can attend the meeting and vote. If you want to vote by proxy, you can give AJ Bell Youinvest your instruction by secure message. Both options are free, but other investment platforms might charge you.

A TYPICAL AGM

The AGM is part of a company's normal financial calendar and takes place once a year.

The format will vary, but typically involves some initial mingling time; the presentation of the annual report; a shareholder vote; and a question and answer session. If you're lucky, you might get a sandwich lunch and refreshments.

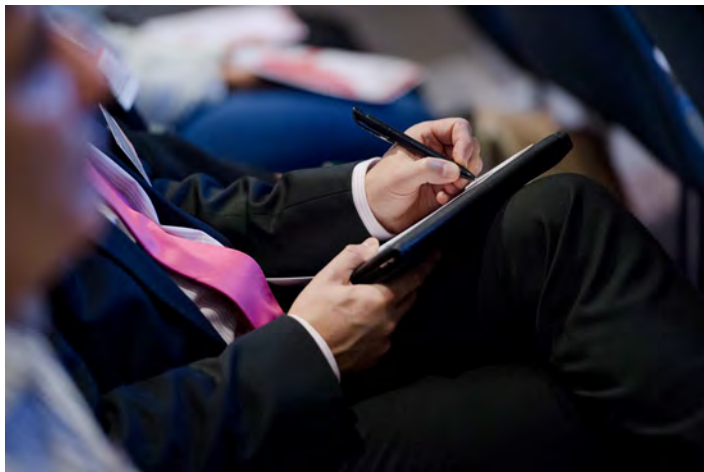
Annoyingly, some companies hold their AGM at 9am, often in London, making it incredibly difficult and expensive for people living outside the capital to attend. Other companies have taken these complaints on board and hold their meetings later in the day.

INTERACTION WITH DIRECTORS

An AGM offers a rare opportunity for shareholders to interact with executives. Cliff Weight, director at ShareSoc, suggests arriving an hour early so you can have a chat with the directors before the meeting officially starts.

‘The AGM offers you the chance to look the executives in the eye, see if they’re trustworthy and work out if they are speaking with confidence,’ he says.

You can ask the directors questions about very specific matters which aren’t clear in the company’s annual report or website. Weight recommends sending questions to the company a few days before the AGM so they can prepare a detailed answer.



CONTROVERSIAL ISSUES

Sometimes AGMs can be exciting and controversial, particularly if issues arise about executive pay or the environmental impact of the company’s actions.

Annabel Brodie-Smith, communications director at the Association of Investment Companies, says investment trust AGMs often feature a talk by a star fund manager.

These meetings can attract a large number of shareholders because they want to hear what the manager has to say, meet them and ask questions directly.

AGMs can also be good fun. Weight says the ones held by **Aviva (AV.)**, **Reckitt Benckiser (RB.)** and **Young & Co’s Brewery (YNGA:AIM)** are particularly worthwhile.

Young’s has been known to give a voucher for a free pint of beer, **Finsbury Food (FIF:AIM)** hands out cakes and bread, and Aviva has offered discounts to shareholders who take out a policy at the meeting.

SOME MEETINGS ARE TEDIOUS

Be aware that not all AGMs are the same. Some are sparsely attended and simply involve the chief executive reading out a very lengthy annual report.

Peter Parry, policy director at the UK Shareholders’ Association, says some meetings can be pretty tedious, especially if the directors get stuck answering a question on a very niche issue.

‘If the chairperson is prepared he or she will know how to answer questions properly, but in some instances they can dance around the issue,’ he adds.

EGMS

A company might decide to hold an extraordinary general meeting (EGM) if there are issues to be discussed and approved that can’t wait until the AGM.

EGMs can be about substantial changes or major threats to the company. Sometimes they involve issues that threaten shareholder value.

Because the resolutions can result in a significant change to an individual’s shareholdings, AJ Bell Youinvest says it alerts customers about EGMs and allows them to vote online. (EP)

ALTERNATIVES TO NOMINEE ACCOUNTS

1. It is still possible to hold paper share certificates, which would confirm you as the owner of the shares. This is a slow and expensive way to buy and sell securities.
2. If you open a ‘Crest’ account your name is recorded on the shareholder register and you can deal electronically. Very few stockbrokers offer Crest accounts; they tend to be more expensive than nominee accounts and they aren’t eligible for ISA and SIPP wrappers.

Adventurous trusts to Putin your portfolio

Earnings growth and re-rating scope on offer from funds with Russian exposure

A deteriorating relationship with the US and weak oil prices have weighed on the Russian market for some time. Yet Russia is adjusting to the environment it finds itself in and earnings growth is beginning to materialise.

We believe now is a good time for investors with a higher appetite for risk to consider exposure to Russia via investment trusts or funds.

As Chris Colunga, co-manager of **BlackRock Emerging Europe (BEEP)**, recently commented: 'In Russia, with the economy in good shape, improving consumer sentiment and record low inflation, there is room for interest rates to be cut, further aiding the economic recovery.

'Valuations are low, dividend yields are high and the potential remains for the market to re-rate on lower interest rates.'

“ VALUATIONS ARE LOW, DIVIDEND YIELDS ARE HIGH AND THE POTENTIAL REMAINS FOR THE MARKET TO RE-RATE ON LOWER INTEREST RATES ”

HOW DO I GET EXPOSURE?

There are various investment trusts with exposure to Russia trading on material discounts to their net asset value (NAV). The sole country specialist is **JPMorgan Russian Securities (JRS)**, currently trading on 15.1% below its NAV.

Managed by Oleg Biryulyov since 2002, the trust's objective is to provide capital growth from a diversified portfolio of investments primarily in quoted Russian companies or others which operate mainly in Russia.

It can invest up to 10% of its assets in companies operating in former Soviet Republics.

According to research group QuotedData, the JPMorgan investment trust offers investors a more balanced portfolio than an equivalent exchange-traded fund which tracks an index of Russian companies.

'With the comfort of a closed-end structure, the freedom to invest outside Russia and to hold stocks that are not constituents of the main Russian indices, the manager has the ability to make long-term stock selection decisions (turnover is typically 25%-35% per annum) and produce returns that are differentiated from index benchmarks,' says QuotedData.

With leading exposures to the

energy, financials and materials sectors, the portfolio is fairly concentrated, typically boasting 25 to 50 positions. Holdings range from steel producer Severstal and agricultural commodity and food business Ros Agro to gold miner Polyus. The trust also has exposure to energy giants Gazprom, Lukoil and Rosneft.

Fund manager Oleg Biryulyov says: 'In Russia, we believe the macro trend remains in favour of gradual recovery, and the central bank has capacity to cut rates further.'



‘On the micro side, we believe corporate behaviour in Russia will continue to become increasingly shareholder friendly and dividend payouts will surprise on the upside.’

‘August saw significant dividend payments, much of which appears to have been reinvested—an encouraging sign for the market. The broadening of sanctions has been a disappointment, but we see limited impact on the companies in our portfolio.’

PREFERRED THEMES

The investment trust has a long-standing thematic preference for private sector, non-cyclical stocks including healthcare company MD Medical and Ros Agro in the consumer staples sector.

MD Medical is a private healthcare provider for women and children while Ros Agro is a diversified, vertically integrated agricultural products producer which has a focus on sustainable long-term growth

with emphasis on increasing production in Russia’s Far East to serve the Asian markets. ‘Today, the trust has material exposure to consumer related sectors including financials and consumer staples, whilst having little or no exposure to industrials, telecoms and utilities.’

RUSSIA AND BEYOND

BlackRock Emerging Europe, managed by Sam Vecht and Christopher Colunga, seeks to achieve long term growth of capital by putting money to work with companies operating in Eastern Europe, Russia, Central Asia and Turkey.

The fund’s biggest position is Sberbank, Russia’s largest bank. It has branches throughout the country and a 46% share in the retail deposit market.

‘We have been adding to our position in the stock since March 2017 on the basis of its strong fundamentals, attractive valuation, low cost of risk and ability to continue optimising

the costs,’ say the co-managers.

‘Furthermore, as the Russian economy and consumer sector continue to recover and the central bank cuts the key policy rate, we expect the bank to see increased loan growth, in particular in mortgages.’

Baring Emerging Europe (BEE) has exposure to the Russian banking sector via such stakes as Sberbank and online financial services group Tinkoff.

It also invests in Russian freight operator Globaltrans, which has been performing strongly following an increase in freight rates and an environment of strong commodity prices, as well as oil producer Lukoil, retailer Magnit and social network Mail.ru.

OTHER RELEVANT PRODUCTS

Other investment trusts with exposure to Russia (alongside other countries) include **JPMorgan Emerging Markets (JMG)** and **JPMorgan Global Emerging Markets Income Trust (JEMI)**. (JC)

INVESTMENT TRUSTS WITH EXPOSURE TO RUSSIA

Fund	Share price	NAV	Discount / premium	5yr dividend growth p.a.
JPMorgan Russian Securities	499.5p	588.62p	-15.1%	n/a
Templeton Emerging Markets	767.5p	878.03p	-12.6%	5.7%
JPMorgan Emerging Markets	854p	965.48p	-11.6%	14.0%
Aberdeen Emerging Markets	630.5p	711.69p	-11.4%	n/a
Baring Emerging Europe	788.25p	886.68p	-11.1%	3.9%
BlackRock Emerging Europe	350p	373p	-6.2%	7.5%
JPMorgan Global Emerging Markets Income	133.63p	134.93p	-1.0%	n/a
Jupiter Emerging & Frontier Income	112p	108.53p	3.2%	n/a

Source: AIC/Data provided by Morningstar. Data taken on 25 October 2017



THE ASIAN FINANCIAL CRISIS 20 YEARS ON: SHRUGGING-OFF THE SINS OF ITS PAST

In the four years between 1993 and 1996 the tiger economies of Asia led the world in terms of gross domestic product (GDP) growth and stock market returns as foreign and local investors piled in and embraced the opportunity. But trouble was brewing and Thailand was the canary in the coal mine. Strong growth was being funded by ever increasing levels of debt and with offshore interest rates far more attractive than those available at home, US dollars became the funding currency of choice.

While currencies remained pegged to the US dollar risks were minimal but as a growing trade and current account deficit and rising inflation led to increasing overvaluation of the Thai Baht, speculation grew and short-term money started to move out of the Thai currency.

In July 1997, after a futile attempt to stem the outflow, the Thai central bank removed the peg triggering an immediate



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25% fall in the currency - by the end of the year it had lost half of its value. The impact on the economy was devastating. Interest rates initially spiked making dollar debt significantly more expensive. Loans started defaulting, peaking at almost 50% of total loans in 1999. The figures reflect the severity of the downturn: GDP took five years

to return to pre-crisis levels, consumption – the use of goods and services by households - was four years, and private sector loan growth only returned to positive territory in 2002.

Although Thailand was the trigger, the ticking time bomb of unhedged foreign currency debt¹ and a prolonged period of over-exuberance prevailed across all of South East Asia. The Philippines and Malaysia were also significantly impacted but the most significant downturn occurred in Indonesia, which, although running a current account deficit only half the size of Thailand, saw its currency go from 2000 rupiah to the US dollar to 16000, and bank loan books fill up with defaulting loans.

Contagion and a severe lack of confidence dented the whole region and although Hong Kong managed to hold on to its peg to the US dollar, a prolonged period of high interest rates and slower growth resulted in a 40% fall in



residential property prices and a deflationary period that took many years to recover from. Even South Korea, which was the 11th largest global economy at the time, had to call in the International Monetary Fund (IMF) as interest rates ballooned and the currency weakened.

The recovery, which on average took more than 5 years, was supervised by stringent IMF requirements and has put Asian economies on a much firmer footing. With a few exceptions Asian currencies are free floating – meaning their value is determined by the foreign exchange markets through supply and demand - and as a result they have much more flexibility to reflect domestic economic cycles ensuring that pressures don't build. Current and trade accounts, with the exception of India and Indonesia, are now in surplus, with the practice of unhedged foreign borrowing all but ended. Short term foreign debt in ASEAN (the

Association of South East Asian Nations) nations has dramatically dropped from 160% to now less than 30%.

The Global Financial Crisis (GFC) in 2008 was borne out of exuberance in the West but not in the East and although Asian economies were impacted by the slowdown in global growth, Asian economic credibility was never called into question.

The only economy that is showing a slightly worrying trend is China. A credit boom following the GFC has seen debt-to-GDP balloon from 160% in 2008 to 260% in 2017. The nature of this debt however is different from that accrued by South East Asian Countries in the late 1990's. Firstly, most of the debt lies with state owned enterprises (SOEs) and is hence backed by the >\$3tn worth of foreign exchange reserves, and most of it is denominated in renminbi. Secondly, although China operates a managed exchange rate regime against a basket of

trading currencies, the capital account is closed which restricts the amount of speculative flows. Finally, a lot of the debt is owned by domestic institutions and is long term in nature which reduces the likelihood of enforced withdrawal leading to a liquidity crisis.

The impact of the Asian crisis lives long in the memory of Asian corporates. The days of rapid expansion and growth for the sake of growth have gone and been replaced by conservatism and a focus on cash flow and profitability. Corporate debt levels are at all-time lows while cashflow compares favourably to any other region of the world. Interestingly it is developed economies that are now showing the stresses Asia encountered and recovered from 20 years ago; Asia in comparison looks favourable.

¹Debt can be issued in a various currencies and because the value of these can shift around, hedging is process of protecting yourself against adverse movements, usually through the use of derivatives.

The information should not be construed as investment advice. Before entering into an investment agreement please consult a professional investment adviser.

Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

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What happens if a fund is too big or too small?

We explain why some funds no longer want to take your money

Funds are often subject to capacity constraints, meaning investors can sometimes be deterred or blocked from investing any more money once the funds have amassed a certain amount of assets.

While it may appear odd to close a fund that is successfully attracting investment, there are very good reasons to do so.

Unit trusts and Oeics are two types of open-ended funds. The fund manager has to find suitable investments each time someone puts money into these types of funds.

Some fund managers have a short list of companies or other assets that they'd be prepared to back. A stream of new money into their fund raises the risk that they keep buying the same things and paying a higher price each time they invest. Overpaying for assets can dampen future returns.

One alternative is to expand the search criteria and invest in companies or assets which weren't originally targeted by the fund managers. That raises the risk that the fund doesn't perform as expected.

Refusing to accept new money once a fund gets too big can help to protect existing investors.

It is important to stress that 'soft' or 'hard' closing a fund doesn't mean your money is handed back to you. Your money will stay invested.



HOW BIG IS TOO BIG?

There isn't a specific figure which dictates when a fund is too big. Instead, it depends on the type of assets being targeted by the fund.

For example, there are numerous funds with more than £5bn of assets such as **M&G Optimal Income (GB00B1H05601)** at

£17.17bn; and **Fundsmith Equity (GB00B41YBW71)** at £11.89bn, according to data from Morningstar. The former fund has regularly come under criticism for being too big yet still attracts more money.

In contrast, **Downing UK Micro-Cap Growth Fund (GB00B2403R79)** was soft closed earlier this year after reaching £30m in assets. You might think that's far too small to think about blocking new money, yet it only ever wanted to own 25 to 30 holdings in companies typically worth less than £150m.

Having endless amount of cash risked investing in too many stocks or owning too much of an individual company which risks having to make a full takeover offer under listing rules.

In the exchange-traded fund space, **VanEck Vectors Junior Gold Miners ETF (GDXJ)** was recently forced to invest in much larger companies than its original plan after becoming too popular. It ended up having significant-sized positions in underlying holdings, putting it at risk of violating certain Canadian and US regulatory thresholds.

HOW DOES A FUND DISCOURAGE INVESTORS?

The popular route is to 'soft close' a fund. That tends to involve imposing a high initial charge to dissuade investors from investing more cash into the fund. The exception is usually monthly savings schemes which are generally allowed to continue without the new charge, if they've already been set up prior to the soft closure.

For example, **First State**



Global Emerging Markets Focus Fund (GB00BZCCYH32)

was recently soft closed by applying a 4% initial charge to new subscriptions from 28 September.

Another route is to ask investment platforms to stop featuring a fund in their selection tables.

Sometimes a fund is 'hard closed' which means removing the product from fund platforms altogether for new investments.

CAN FUNDS REOPEN FOR NEW BUSINESS?

Closed funds can be reopened for various reasons, such as a change in valuations for a target market.

For instance, **Henderson UK Absolute Return Fund (GB00B5KKCX12)** has been reopened twice. According to Ryan Hughes, head of fund selection at AJ Bell, this was due to the fund's investible universe getting bigger and redemptions improving liquidity.

A fund investing in niche areas such as a specific emerging market may reopen if the target country's stock exchange has grown in size and stature.

WHAT HAPPENS IF A FUND IS DEEMED TO BE TOO SMALL?

Detlef Glow, head of Europe, Middle East and Africa research at Thomson Reuters' fund information provider Lipper, says small funds can be more expensive to run and may be closed if they don't attract enough money.

If a fund only has a few million pounds or dollars in assets then the costs of compliance and paying an accountant can make its total expense ratio much higher than a fund with a greater amount of assets.

For example, Henderson HF World Select's assets were liquidated earlier this year after the directors concluded the \$4.1m fund was unlikely to grow further. It was deemed too small to manage in a cost effective way.

A fund that remains small in terms of assets may be down to a lack of popularity. That could again lead to the fund being closed early. The alternative is to merge the product with another fund to gain scale. (DS)

Disclosure: Editor Daniel Coatsworth has a personal investment in Fundsmith Equity mentioned in this article

What makes Ramsdens special?

The pawnbroker has taken the stock market by storm since listing in February

There have been some spectacular failures in the dog-eat-dog world of pawnbroking including the collapse of Albemarle & Bond three years ago. That hasn't deterred investors from backing fellow pawnbroker **Ramsdens (RFX:AIM)** whose share price has doubled to 172p since it joined the stock market in February this year.

So why is Ramsdens special? It is worth a quick history lesson to answer that question.

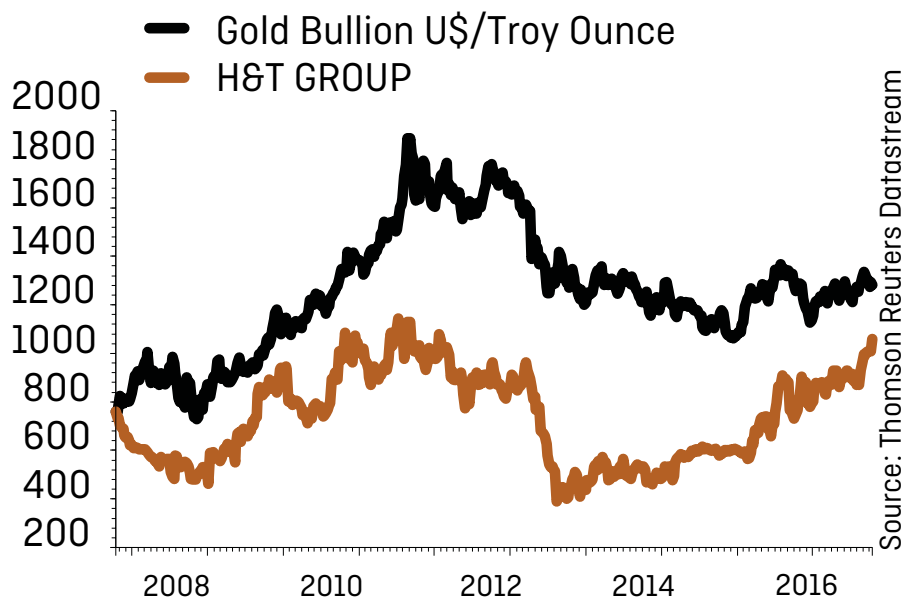
Albemarle & Bond saw its share price drop from 400p in 2011 to a mere 6.65p in 2014 when its stock was suspended, illustrating how a well-known company went from boom to bust in a short period of time.

The decline of gold prices from 2011 highs of \$1,900 per ounce to around \$1,300 per ounce in 2014 clearly didn't help Albemarle & Bond or its quoted peer **H&T (HAT:AIM)**, as you can see from the accompanying chart.

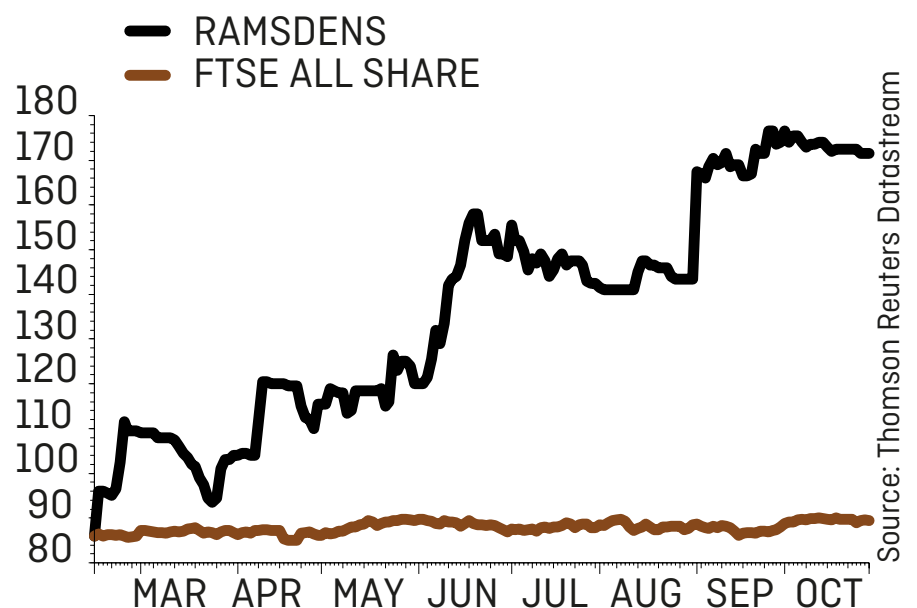
Pawnbrokers enjoyed a boom time when gold was priced high as it encouraged more people to cash in their gold jewellery.

The drop in the gold price hurt pawnbrokers' earnings. So did growing competition in the unsecured loans market; big names like Wonga were gobbling up market share.

LOOK HOW H&T'S SHARE PRICE CLOSELY MATCHED THE PRICE OF GOLD UNTIL 2013



RAMSDENS' SHARE PRICE HAS DOUBLED IN LESS THAN A YEAR



Liberum analyst Julian Bates says the falling gold price resulted in ‘decisive action’ by Ramsdens as the company shortened the length of time a pawned item could be loaned to five months from seven months.

That meant cash would be freed up if the customer had no intention of paying, as Ramsdens could sell the pledged item sooner than before.

MAKING MONEY FROM FOREIGN MONEY

Ramsdens now generates the largest chunk of earnings from foreign exchange (FX), representing 37% of gross profit in the financial year ending 31 March 2017.

The company’s move into buying and selling money for

foreign travel sets it apart from its larger rivals such as H&T which is less dominant in this area.

‘H&T does not consider [FX] a major area of focus and instead switched its focus to unsecured lending. Conversely Ramsdens has elected not to grow an unsecured lending business,’ says Bates at Liberum.

In 2006 Ramsdens started its high street currency exchange venture and by 2011 it had a wholesale business.

As the company buys currency wholesale, it uses hedging strategies to try and mitigate big swings in currency valuations. Chief financial officer Martin Clyburn says Brexit was a good test of its hedging policy. ‘We emerged from Brexit without scars,’ he adds.

GROWING PRESENCE

Ramsdens derives its earnings from five different sources including pawnbroking (25% of gross profit), jewellery retailing (14% of gross profit) and selling/buying back electronic items.

This diversification is helping the business to thrive. Bates at Liberum even notes that much of the company’s natural competition is exiting or significantly scaling back its high street presence. ‘We believe this presents both organic and acquisition opportunities,’ he comments.

Chief executive Peter Kenyon believes putting all of the company’s various business segments under the umbrella name Ramsdens is another distinguishing factor.

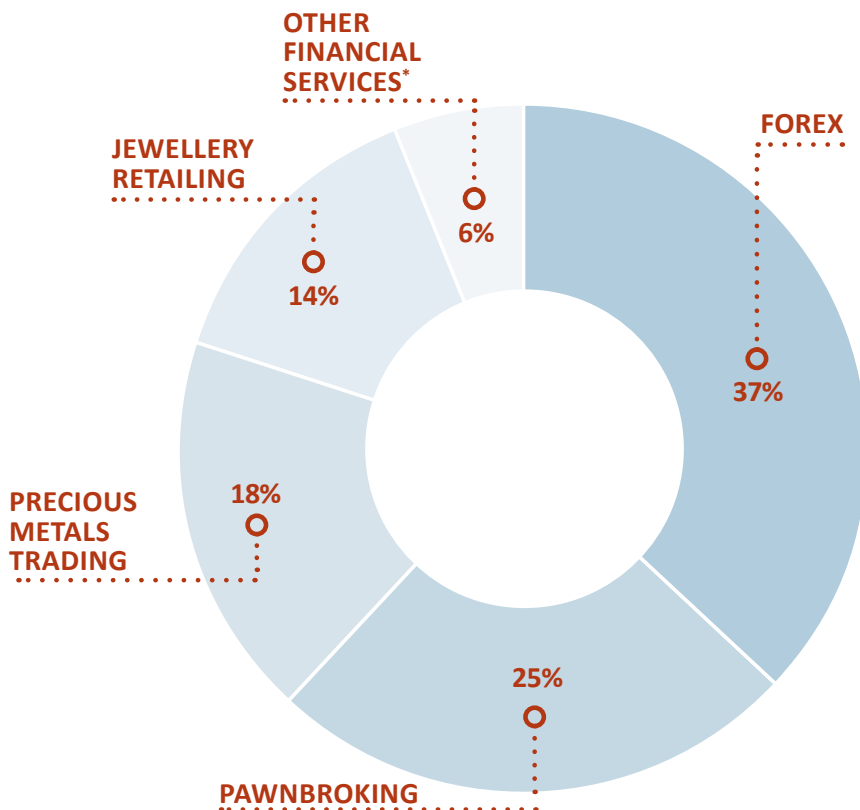
‘We trade as Ramsdens so haven’t limited ourselves to our pawnbroking. The advertising is all about Ramsdens, behind that we can appeal to different markets,’ he adds.

This is in direct contrast to H&T, which has rebranded 35 of its shops to ‘Discount Secondhand Jewellery by Est. 1897’.

Ramsdens’ performance has led analysts to upgrade earnings forecasts twice since it joined the stock market earlier this year. Investors will hope this trend is continued when the company reports half year results on 27 November.

The shares are up by 21% since we featured Ramsdens as one of *Great Ideas* on 15 June. We’ll update our view on the stock once the results are out later this month. (DS)

RAMSDENS’ EARNINGS BREAKDOWN: GROSS PROFIT IN 2017



*Includes cheque cashing, money transfer, electronics selling and buying back
Source: Ramsdens. Full year results to 31 March 2017

Zoo Digital is finding its growth voice

Streaming TV boom to spark big demand drive for Zoo Digital

TV and film broadcast services business **Zoo Digital (ZOO:AIM)** is set to make a profit breakthrough early next year.

Analysts at Finncap anticipate \$300,000 of pre-tax profit for the 12 months to 31 March 2018 on a 27% jump in revenue to \$21m. Last year Zoo reported sales of \$16.5m and a modest pre-tax loss.

The Sheffield and Los Angeles-based business has spent years trying to escape a sub-scale trap. Part of the solution is to use an in-house designed, multi-tools technology platform called *ZOO Core*.

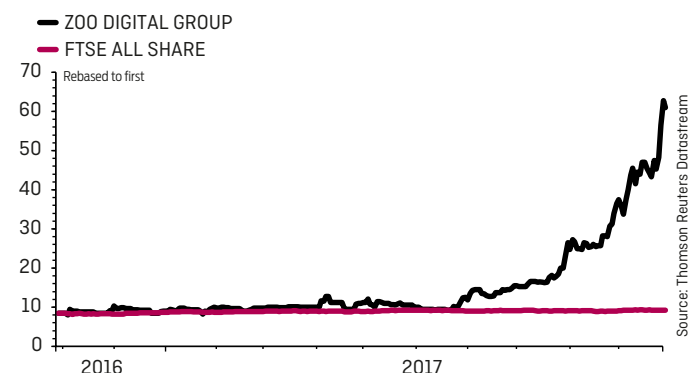
The technology platform allows the company to provide niche localisation services, effectively adapting films and TV shows for overseas markets.

The big opportunity is using actors to provide dialogue dubbing into local languages, and subtitles.

There are many other localisation services that Zoo provides to make a programme culturally and legally suitable for a particular market. These include editing out actors smoking or drinking alcohol, putting clothing on naked cast members and even changing inappropriate background scenery.

Zoo works with all six of the big Hollywood film studios (20th Century Fox, Warner Bros, Paramount, Columbia, Universal and Walt Disney) and major TV broadcasters such as BBC Worldwide, ABC, NBC, CBS and HBO.

The proliferation of subscription-based on-demand streaming services is ramping up demand. Zoo works with Netflix, the big player in the streaming market, plus Google and Apple.



Hulu, Roku, Vevo and NowTV are just some of the many other streaming broadcasters to have emerged in recent years.

Finncap estimates the potential for around 3,600 potential localisation TV episodes annually made in the US.

Zoo's challenges include access to skilled voice dubbing. Zoo believes that working closely with digital dubbing editors is one way of controlling access to acting talent.

This is a project-based operating model with unpredictable revenue. The company admits that it seldom has more than three months' forward visibility.

A last point worth considering is Zoo's heavy reliance on a single customer, which represented 44% of last year's income. Zoo hopes to cut that percentage by winning new clients which will dilute this reliance over time.

Having shot up from 16p in the summer to the current 57.1p, the stock is expensive and trades on 2.7-times this year's forecast revenue, or about 28-times expected \$2m earnings before interest, tax, depreciation and amortisation (EBITDA).

Maintaining the fast pace of growth may see those valuation metrics reduce to comfortable levels in time. (SF)

Phoenix confident its mine is rich in copper

Upgraded resource statement should be out later this month

A company hoping to reopen an old copper mine in the US will this month provide investors with an updated estimate for how much easy-to-access metal is contained in its Empire project in Idaho.

Phoenix Global Mining (PGM:AIM) is confident of boosting the current estimate of 68,200 tonnes of contained copper for a section that will be mined from above-ground.

It hopes to produce 7,000 tonnes of copper cathode material annually from 2020. That's about half as much copper as produced each year by **Central Asia Metals (CAML:AIM)**, a miner widely respected by investors and Phoenix's management. Chief financial officer Richard Wilkins says he

wants to follow CAML's business model, giving Phoenix shareholders a percentage of profit from copper production as dividends.

The bulk of any profit from Empire's open pit production will be ploughed back into the business to prove up an underground section which the miner is convinced will transform Phoenix.

There is insufficient exploration data at present on the underground material, so investors should be cautious with regards to the potential value generation from this part of the mine. However, we note Phoenix has now begun to drill this section.

Wilkins says Phoenix is considering a potential all-share deal to buy ExGen which owns 20% of the Empire mine and a 2.5% production royalty. (DC)



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Companies presenting

Ariana Resources (AAU) Kerim Sener, MD

Ariana is an exploration and development company focused on epithermal gold-silver and porphyry copper-gold deposits in Turkey. Kiziltepe Mine (Red Rabbit JV) delivered its first gold-silver pour in March 2017, with commissioning and production ramp-up continuing through the period with full commercial production declared in July 2017.

Phoenix Global Mining (PGM) Richard Wilkins, CFO

Phoenix is a US-focused base metal explorer and developer focussed on advancing the Empire Mine in Idaho into open pit copper oxide production, with additional upside available from potential underground development. The Company intends to deliver production from the Empire Mine in two phases in order to minimise upfront capital requirement and lead-time to cash flow.

ThinCats John Mould, CEO

ThinCats are one of the pioneers of the peer-to-peer business lending industry; specialising in loans with security and linking retail and institutional investors directly with established business borrowers to provide a serious alternative to high street banks.

Vast Resources (VAST) Roy Pitchford, CEO

Vast Resources plc is an AIM listed mining and resource development company focussed on the rapid advancement of high quality brownfield projects and recommencing production at previously producing mines in Romania. Vast Resources currently own and operates the Manaila Polymetallic Mine in Romania, which was commissioned in 2015.

WideCells Group (WDC) João Andrade, CEO

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KEY

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

Auto Trader (AUTO)	16
Avesoro Resources (ASO:AIM)	14
Aviva (AV.)	31
Babcock International (BAB)	24
Barclays (BARC)	6, 22, 29



Baring Emerging Europe (BEE)	33
Bellway (BWY)	2
Berkeley (BKG)	2
BlackRock Emerging Europe (BEEP)	32
Bloomsbury (BMY)	10
Booker (BOK)	26
BP (BP.)	10
BT (BT.A)	22
Capita (CPI)	24
Central Asia Metals (CAML:AIM)	41
Centrica (CNA)	28

ConvaTec (CTEC)	27
Downing UK	37
Micro-Cap Growth Fund (GB-00B2403R79)	
Fidessa (FDSA)	8
Finsbury Food (FIF:AIM)	31
First State Global Emerging Markets Focus Fund (GB00BZCCYH32)	37
Fundsmith Equity (GB00B41YBW71)	37
GKN (GKN)	25
H&T (HAT:AIM)	38
Hammerson (HMSO)	29
Henderson UK Absolute Return Fund (GB00B5KKCX12)	37
HSBC (HSBA)	6



Imperial Brands (IMB)	29
Inchcape (INCH)	10
International Consolidated Airlines (IAG)	23
Interserve (IRV)	24
ITV (ITV)	25

JPMorgan Emerging Markets (JMG)	33
JPMorgan Global Emerging Markets Income Trust (JEMI)	33
JPMorgan Russian Securities (JRS)	32
Kingfisher (KGF)	27
Ladbrokes Coral (LCL)	8
Land Securities (LAND)	29
Lloyds (LLOY)	6



M&G Optimal Income (GB00B1H05601)	36
Merlin Entertainments (MERL)	29
Mitie (MTO)	24
National Grid (NG.)	28
Nexus Infrastructure (NEXS:AIM)	14
Pearson (PSON)	29
Persimmon (PSN)	2
Phoenix Global Mining (PGM:AIM)	41
Ramsdens (RFX:AIM)	38
Reckitt Benckiser (RB.)	31
Redrow (RDW)	2
Rolls Royce (RR.)	23

Royal Bank of Scotland (RBS)	6
------------------------------	---



Royal Dutch Shell (RDSB)	10
Shire (SHP)	26
Sky (SKY)	22
SSE (SSE)	28
St James's Place (STJ)	9
St James's Place Asia Pacific (GB0007667669)	9
St James's Place Equity Income (GB0008377144)	9
St James's Place Ethical (GB0006126766)	9
Standard Life Aberdeen (SLA)	9
SuperGroup (SGP)	16
Taylor Wimpey (TW.)	2
Telecom Plus (TEP)	11
Tesco (TSCO)	26
Unilever (ULVR)	12
VanEck Vectors Junior Gold Miners ETF (GDJX)	37
Weir (WEIR)	8
William Hill (WMH)	8
WPP (WPP)	28
Young & Co's Brewery (YNGA:AIM)	31
Zoo Digital (ZOO:AIM)	40