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VOL 20 / ISSUE 11 / 22 MARCH 2018 / £4.49

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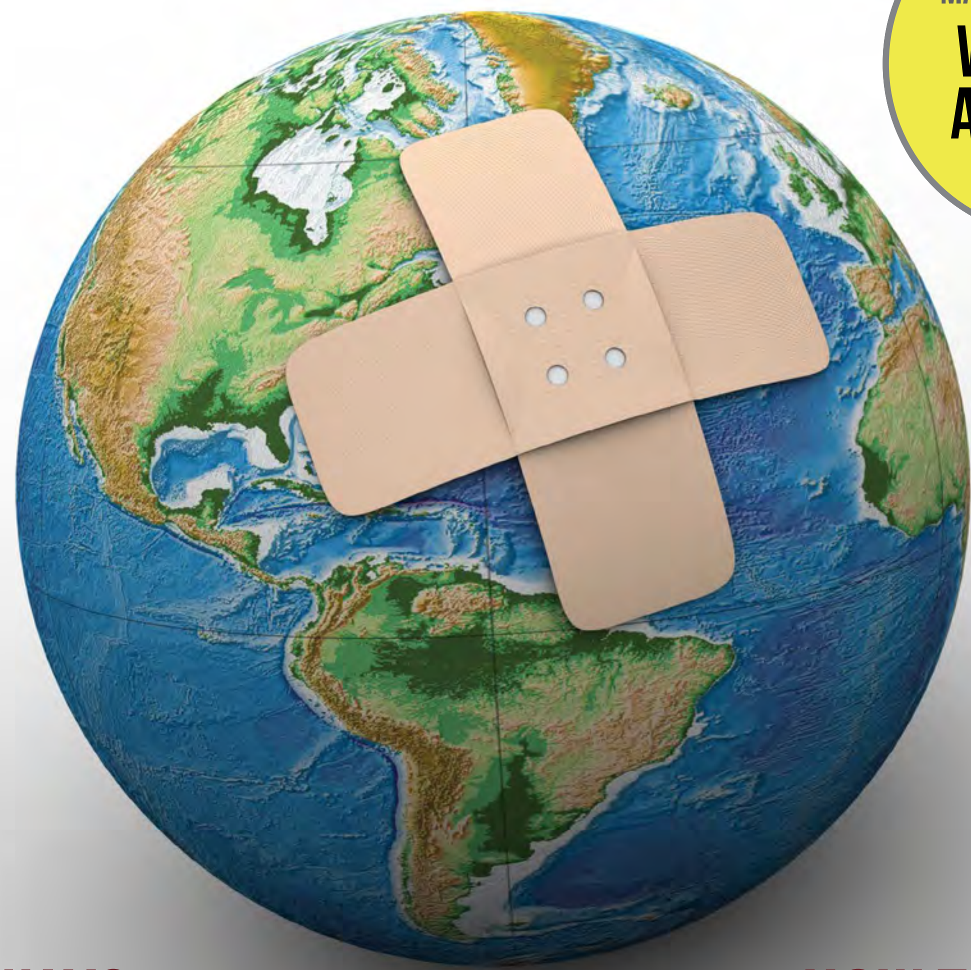

MULTI-MANAGER BATTLE: **WITAN VS ALLIANCE TRUST**

THREE WAYS TO SMOOTH YOUR INVESTMENT RETURNS

HOW TO EARN £10,000 A YEAR FROM YOUR INVESTMENTS

WHY MOVING AVERAGES CAN HELP YOU PIN DOWN THE FTSE 100

Is the stock market over-reacting to bad news with large share price declines?

It feels like companies are being punished on the slightest bit of bad news

The UK stock market is being very edgy with extreme reactions to negative news. More than 230 companies have seen their share price fall by more than 20% year-to-date.

That's approximately 12% of the entire market and nearly twice as many as the number of companies which fell by more than a fifth in value in the same period last year.

It feels like there is at least one stock falling by a large amount, say 30% or more, every day at the moment. And the share price decline isn't restricted to a single day. There are numerous examples of stocks that continue to fall in value for days or weeks after reporting bad news.

IRRATIONAL MARKET BEHAVIOUR

Contrarian investors would normally welcome such market dynamics as it provides potential opportunities to pick up stocks that have been 'oversold'. This refers to a decline in the price of a company to a level below where its true values resides.

However, the market doesn't appear to be working in a rational manner. Stocks are continuing to decline in value despite analysts quantifying the impact of the bad news. Therefore taking a position off the back of bad news would require patience and a strong stomach.

One would expect the market to eventually reprice each affected stock back to fair value in time – the unknown is when the re-rating events will happen.

FROM EXPENSIVE TO STILL EXPENSIVE

Markets can overshoot in both directions. Stocks can actually be priced too high in the good times. You must not assume the price before the negative news is the level at which a stock will eventually return.

Alfa Financial Software (ALFA) was arguably trading at too high a valuation before it spooked the market in early March on the timing of contracts and currency headwinds.

Its share price has subsequently fallen by 27% even though analysts only downgraded earnings forecasts by just 4.8%.

Alfa was trading on 39 times forecast earnings for 2018 prior to the warning. Now it is trading on 29.2-times. That is still too high for a company with elevated risks to earnings, even though it is fundamentally a good business.

FROM CHEAP TO EVEN CHEAPER

In contrast, waste management group **Biffa (BIFF)** looks to have been significantly oversold. Its shares weren't expensive before negative news triggered a share price decline. They now look really cheap.

Biffa was trading on 11.9-times forecast earnings for the year to 31 March 2019 on the eve of its disappointing trading update earlier this month. Ongoing restrictions for exporting paper recyclates to China prompted an 8% downgrade to the March 2019 financial year's earnings per share (EPS) estimates.

The shares have fallen by more than twice the EPS downgrade, down 19% to 200.5p. They now trade on 10.4 times earnings which seems unjustified given its core business is still trading well and earnings forecasts now assume zero financial contribution from exports to China for at least the next two years.

While there are some opportunities among sold-off stocks, you must approach them with an open mind and not assume everything will revert back to 'normal' again.

The current state of the market also suggests you should look at existing holdings and ask whether they are worth their current rating. (DC)

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852.

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.

Pound see-saws on Brexit progress and softer price growth

Volatility in sterling after transition terms agreed and inflation drops

The pound is going through another volatile period after two major pieces of news served to push and pull the currency. It went up after the European Union and UK agreed terms for a Brexit transition period (19 Mar), before falling after inflation numbers came in lower than expected (20 Mar).

Business group CBI welcomes the progress on Brexit. Director general Carolyn Fairburn says: 'Agreeing transition is a critical milestone that will provide many hundreds of businesses with the confidence to put their contingency planning on hold and keep investing in the UK.'

The transition phase will last for 21 months through to December 2020. However, the deal is contingent on remaining areas of contention around issues like Northern Ireland being resolved by the time the final withdrawal agreement goes to the UK and EU parliaments for approval in the autumn.

Agreeing transition is a critical milestone

It is therefore debatable whether the corporate world will have genuine certainty until then.

The bigger than expected drop in UK inflation from 3% in January to just 2.7% in February subsequently put sterling under some pressure as it is perceived as reducing the likelihood of an interest rate increase from the Bank of England at its May meeting. (TS)

Barclays now in Edward Bramson's cross-hairs

Activist investors have a history of improving share price performance and total returns for shareholders; will Barclays' new stakeholder do the same?

THERE COULD BE changes afoot at **Barclays (BARC)** as famed activist investor Edward Bramson takes a 5.2% holding in the company.

Bramson's investment vehicle **Sherborne Investors (SIGC)** paid around £580m for the stake.

Previously he has been involved with private equity firms **3i (III)**, fund manager F&C Asset Management and **Electra Private Equity (ELTA)**. He managed to realise £1.5bn in cash for shareholders of the latter, although Barclays represents a significant step up in terms of the scale of the business.

Given that the bank's shares are trading on approximately 0.79 times price to book, a discount to the majority of the peer group, Bramson is likely spying an opportunity to close the gap.

Chief executive Jes Staley, who had a stellar reputation at best in class investment bank JP Morgan, was brought in to restore the fortunes of Barclays.

A recently announced doubling of its ordinary dividend per share payout to 6.5p may have helped appease shareholders but the continuing underperformance of its investment banking division, Staley's specialism, is still a concern for the market.

Barclays' shares rallied on news of Bramson's involvement in the bank although it is worth noting certain issues like the fraud investigation into its funding deal with Qatar in 2008 and a fight with the US Department of Justice over the mis-selling of mortgage-backed securities are largely beyond its control. (DS)

Impressive earnings 'beats' from service companies and engineers

But watch the margins on some companies as costs are rising

Support services and engineering sectors stand out from the recent corporate earnings season with a large number of companies beating forecasts.

UBS says more than half of stocks in its European support services coverage beat earnings expectations. It says on average the stocks beating expectations went up by 1.3% and those missing expectations fell by 6.4%.

Its most preferred UK-listed support services stocks includes security firm **G4S (GFS)** which it believes should benefit from innovation. UBS says a de-rating in distribution group **DCC (DCC)** providers a good entry point to a 'best-in-class compounder'. It also likes credit reporting agency **Experian (EXPN)**.

Eight out of nine UK-listed engineers covered by UBS beat its revenue forecasts yet forward year earnings upgrades were only a modest 1%. Rising costs are an issue and seven out of the nine engineers reported lower than expected profit margins.

G4S is included in UBS's preferred UK-listed support services stocks

It only has three 'buy' ratings on UK engineers, being **Bodycote (BOY)**, **Vesuvius (VSVS)** and **Rotork (ROR)**. It has 'sell' ratings on **Halma (HLMA)**, **Renishaw (RSW)** and **Spectris (SXS)** based on a mixture of valuation and growth risks.

We note that **Fenner (FENR)**, another UK-listed engineer, received a £1.3bn takeover bid from Michelin on 19 March. (DC)

Is there more to come from Burford Capital?

After an exceptional 2017 the signs are positive but results can be hard to predict

LITIGATION FINANCE PROVIDER **Burford Capital (BUR:AIM)** has reported 2017 results significantly ahead of analysts' forecasts (14 Mar), prompting Liberum to upgrade its 2018 and 2019 earnings per share estimates by an astonishing 100%.

At more than £15, the shares are up 15-fold on its 100p stock market listing in October 2009, and up nearly 40% since we flagged their attractions in February this year.

The better-than-expected performance reflects the fact that, as chief executive Chris Bogart tells *Shares*, the company does not provide guidance to analysts.

The company helps fund legal cases in return for a share in any compensation awards, but the timing of these awards can be hard to predict. For this reason, Bogart says it makes more sense to consider Burford on a three or four-year view rather than just a single year's performance.

Investment bank Berenberg reckons the medium-term outlook is positive. 'Ultimately, we think that while Burford will be a significantly larger business over the longer term, it is difficult to accurately predict the journey.

'What is obvious from the 2017 results is that all metrics, from investment performance to returns on equity, are moving in the right direction and we think that the business will continue to perform well'. (TS)

FTSE 100 in a spin amid takeovers, restructures and spin-offs

There is an unusually large amount of corporate action involving the UK's largest listed companies

The FTSE 100 is going through an unprecedented period of change with a variety of corporate restructurings, spin-offs and takeovers.

Life insurer **Prudential (PRU)** is to break into two separately-listed companies, potentially by the end of 2019.

Shareholders will receive free shares in M&G Prudential which is the UK and European operations. The remaining business (essentially US and Asian operations) will continue to be listed as Prudential.

There is uncertainty over whether **Unilever (ULVR)** will remain in the FTSE 100 after the food and drink giant picked Rotterdam as its new headquarters, a move that could have implications for its qualification in the UK's blue chip stock index.

RELX (REL) recently simplified its corporate structure and opted for London as its sole headquarters.

GKN (GKN) may find itself either taken over or broken up this year. We'll have a better idea on 29 March which is the deadline to accept **Melrose's (MRO)** takeover offer. GKN's board would prefer to merge its automotive business with US peer Dana.

BHP Billiton (BLT) is thinking about spinning off its US shale oil and gas business as a separately-listed entity, subject to reviewing trade bids later this year.

Comcast last month kicked off a bidding war for **Sky (SKY)** which was already subject to a takeover by 21st Century Fox. **Smurfit Kappa (SKG)** earlier this month rejected an offer from International Paper. (DC)

What does Putin's win mean for Russia-focused investments?

Investment bank UBS remains positive on the region after election results

AS WIDELY PREDICTED Russian president Vladimir Putin is back for another six-year term having secured a landslide victory on a decent turnout.

Putting to one side question marks over the validity of the poll and the current deterioration in relations with the West, investment bank UBS remains positive on Russian equities.

It notes the MSCI Russia index is trading on 6.1 times forecast earnings against a long-term average of 6.9 times and sees support from higher oil prices.

It also points to 'scope for selective higher fiscal spending, a possible tax reform program and, longer term, even pension reform'. It says these would be positive for equity markets if they become reality.

However, the election result has done little to alleviate pressure on UK stocks and funds with exposure to Russia amid the diplomatic spat between the UK and the Kremlin.

Russian property investor **Raven Russia (RUS)** and investment trust **JP Morgan Russian Securities (JRS)** are down 3% and 7% respectively since the beginning of March. (TS)

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Eurozone inflation revised down

INFLATION IN the eurozone is cooling. The year-on-year inflation figure for February was revised down from 1.2% to 1.1%; that compares with 1.3% in January and is the lowest level since December 2016.

The latest figure is a long way short of the European Central Bank's (ECB) target of 2% and suggests any exit from the current quantitative easing (QE) programme is likely to be gradual, as ECB chief Mario Draghi recently implied.

In October 2017 the ECB extended QE from the end of that year through to September 2018.

COBALT PRICE RALLY 'COULD LAST FOR ANOTHER TWO YEARS'

$40

COBALT PRICES are expected to enjoy a considerable uplift over the next two years as end-users race to secure future supplies. The rise of the electric vehicle industry is a key driver behind increased cobalt demand.

Canaccord Genuity forecasts $40 per pound in 2018 and $50.44 per pound in 2019. Those estimates represent a 32% and 61% increase respectively on forecasts only made four months ago.

More than half of all cobalt demand comes from battery chemical products. Canaccord says it is becoming increasingly evident that key customers will look to provide financing or direct equity investment to help develop new sources of mine supply.

Co

FURTHER VALUE WIPED OFF TOILET ROLL PROVIDER ACCROL

SHARES IN toilet roll specialist **Accrol (ACRL:AIM)** have collapsed by 88.25% in value since the company joined the stock market in June 2016.

Having last year blamed rising costs for a major profit warning, the business has now issued another warning for the same reason.

Accrol says the challenges facing the group are 'resolvable, given time and experienced handling'. However, it adds that fixing the issues will be a demanding task and one not without execution risk.

The company buys paper feeds from overseas and turns them into toilet rolls, kitchen rolls and facial tissues.

Demand is soaring for chemicals firm Synthomer

Its products are used in many ways and earnings should keep growing

SYNTHOMER BUY
(SYNT) 488.6p
Stop loss: 390p

Market value: £1.66bn

Chemicals business **Synthomer (SYNT)** looks really interesting as it executes significant expansion to deal with rising demand. Although it is spending money to expand, we believe the benefits will far outweigh the costs over the long term.

Synthomer supplies aqueous polymers to aid the creation of new products and boost the performance of existing ones in various sectors including construction, paper and textiles.

In plain English, its products are used in many different places such as footwear insoles, condoms, packaging tapes, carpets and waterproofing products.

MULTIPLE DEMAND DRIVERS

Demand is growing for speciality chemicals and an enhanced product portfolio due to urbanisation, ageing demographics and more stringent environmental legislation, according to the company.

The £1.66bn business is planning to expand its nitrile latex site in Malaysia by late 2018 to address a burgeoning market, which is growing 8% to 10% every year.

Higher output levels of styrene-butadiene rubber SBR latex are being targeted in its Marl, Germany site to take advantage of opportunities in the foam market.

Its Finland site is being upgraded to focus on the growing speciality paper and packaging markets, instead of graphic paper.

And in the US and Germany, Synthomer is expanding its acrylic lines capacity via new speciality acrylic lines by early next year.

Canaccord Genuity analyst Alex Brooks estimates group volumes will increase by 30% between 2016 and 2020, driven by the capacity expansion, bolt-on deals, as well as new formulations and products.

He estimates that additional acrylic capacity in the US and Germany and extra nitrile capacity in Malaysia will account for approximately £15m more pre-tax profit going into 2019.

Additional capacity in various parts of the world will help Synthomer cope with a downturn in its Asian nitrile market as a result of its largest single competitor expanding in that part of the world.

ACQUISITIONS...BUT NOT TRANSFORMATIONAL ONES

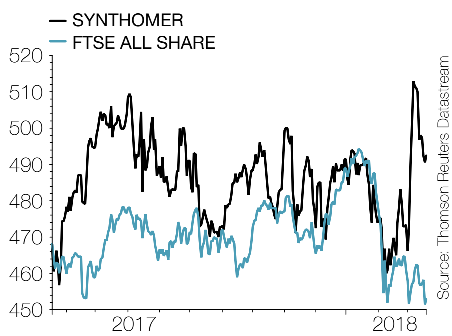
Another lever for growth for Synthomer is through bolt-on acquisitions. Numis analyst Kevin Fogarty says it has the ability to complete up to two bolt-on deals a year as the business isn't heavily indebted. Net debt-to-EBITDA is currently 1.0-times.

Fogarty is impressed that Synthomer is building a 'track record' and says a 'transformational deal has remained elusive' due to management's disciplined strategy for M&A. We like that approach.

Underlying pre-tax profit is expected to rise from £130m in 2017 to £139.2m in 2018, before increasing to £150.4m in 2019 according to Reuters data.

The shares currently trade on 14.6 times forecast earnings for 2018 and offer a 2.7% prospective dividend yield. (LMJ)

BROKER SAYS: 8 4 2



We are big fans of Volution which is trading on a bargain rating

Ventilation products outfit trades at a discount to its peer group

Regulatory-driven growth at ventilation products firm **Volution (FAN)** is not reflected in the current valuation as the company completes the largest acquisition in its history.

The £38m purchase of New Zealand peer Simx increases its exposure beyond UK markets from around 43% to more than 48%, and is expected to be immediately earnings enhancing.

Volution's ventilation business represents nearly 90% of group sales. It designs, assembles and markets ventilation fans, systems and ducting for domestic and commercial buildings. It has leading market positions in the UK, Scandinavia, Germany and now New Zealand.

The remainder of group sales come from the Torin-Sifan business which supplies motors and fans for the global heating, ventilation and air conditioning industries.

Demand for ventilation products is being driven by tighter regulations on air quality. Principally operating as a designer, supplier and assembler rather than an asset-intensive manufacturer of products, Volution generates strong margins and cash flow.

It has a good track record of reinvesting cash into bolt-on acquisitions in what remains a highly fragmented market. Volution has previously estimated the seven acquisitions made between 2012 and 2016 generated average returns on capital of 24%.

VOLUTION ↗ BUY
(FAN) 200p
Stop loss: 160p

Market value: £400m

M&A HELPS BOOST GROWTH

Acquisitions have helped supplement organic growth of between 3% and 5%. The company aims to enhance the margin performance of acquired businesses by boosting selling prices, redesigning products to reduce the cost of assembly, improving procurement and switching to in-house components.

This latest deal is not cheap at an enterprise value to earnings before interest, tax, depreciation and amortisation (EV/EBITDA) ratio of more than 10-times. Yet it provides exposure to a relatively strong economy and its integration should be smoothed by Simx's status as a long-standing customer of Volution.

The group as a whole trades on a price-to-earnings (PE) ratio of 12.2-times for the financial year to 31 July 2019, compared with an average forward PE of 18.3-times for a Liberum-compiled list of its peer group.

So why is Volution trading at a discount? Margins are under a bit of pressure, falling from 19.4% to 18.5% in the six months to 31 January 2018, thanks to the loss of some higher return work in the UK and the initially more modest profitability of acquired businesses.

First half cash flow performance was disappointing. This reflects increased working capital demands as the company looks to maintain customer service in the UK during the completion of a consolidation of its facilities in Slough and Reading.

These factors look short-term in nature to us and do not justify the current gap between Volution's valuation and that of its peers. (TS)

BROKER SAYS: 3 2 0

We got it wrong with Micro Focus and Greencore

Two of our Great Ideas don't go to plan

Investing is never easy and we've certainly had some setbacks with our stock selections amid bouts of negative news. As a result, we will include stronger risk warnings on investment ideas from now on.

While many of our investment ideas have gone on to deliver superior returns, we have also had a few selections go wrong over the last six months and we aren't alone.

Even professionals get it wrong with fund managers, analysts and other experts sometimes caught out when certain companies produce negative news. It's a stark reminder of the risks involved with investing in the stock market.

Our articles are based on information known at the time of writing. When we're buying into a company that's already flagged negative issues, we're making a judgement that those issues can be quickly fixed.

Sometimes they take longer than expected to be resolved and trigger profit warnings. The latter can also happen when a company admits it's been keeping problems under wraps in the hope that they could be fixed (and ultimately they haven't been).

If you feel there are still major risks to an investment case, steer clear until events change.

WHERE DID WE GO WRONG?

Quite frankly, our timing on **Micro Focus (MCRO)** wasn't good. Our 'buy' rating earlier this month was based on the view that the shares had been oversold following disappointing figures in January.

We called it wrong as the stock fell a further 60% upon a profit warning on 19 March. The issues mainly stemmed from the $8.8bn acquisition of HPE's software assets.

As AJ Bell investment director Russ Mould notes: 'Large acquisitions are inherently risky as they come with integration challenges. Micro Focus appears to have underestimated these challenges and is now suffering.'

An elephant in Micro Focus's room

Until there are signs the company is getting on top of this situation it makes sense to avoid the stock.

Shares in convenience foods manufacturer **Greencore (GNC)** slumped on 13 March after management downgraded 2018 earnings guidance. We originally said to buy the shares last October.

Greencore blamed increased losses in its legacy US factories and a delay in new business wins across the pond, as well as a currency headwind from the sterling/US dollar exchange rate.

While Greencore now looks cheap, margins and cash flows have come under pressure over the past three years. Investor confidence in the US opportunity and management's ability to deliver a positive result is waning. (TS/DC)

Book closes on or before 29 March 2018

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Lead Manager: Peel Hunt LLP

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MIDWICH
(MIDW) 550p

Gain to date: 47%
Original entry point:
Buy at 374p, 24 August 2017

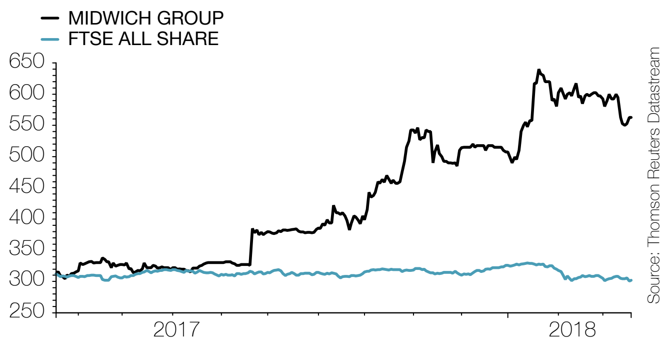
AUDIO VISUAL EQUIPMENT supplier **Midwich (MIDW:AIM)** rewarded shareholders with a 36.2% hike in its dividend for its 2017 year, paying 13.8p per share. Its 2017 results were pleasing across the board, with pre-tax profit up 56.2% to £18.9m on revenue that increased 27.5% to £471.9m.

Managing director Stephen Fenby tells *Shares* that the company's acquisition policy is to grow capabilities and expand geographies.

The company last year bought Earpro, a professional audio systems distributer based in Spain and Portugal as well as a majority stake in Gebroeders van Domburg, a Netherlands-based mainstream audio visual solutions provider.

Midwich now has offerings across Europe as well as businesses in New Zealand and Australia which trade under the Midwich name.

Its acquisitions attributed 6.8% of the 27.5% revenue growth in 2017 although it is also enjoying strong organic growth as well. The company estimates that over the last five years, one third of its profit growth has been derived from acquiring businesses.



SHARES SAYS: ↗

We like this company as it evolves with changing technologies. From its humble beginnings supplying overhead projectors in the 1970s, the business now supplies the latest in LCD screens to customers including department stores, universities and banks. Keep buying. (DS)

BROKER SAYS: 1 1 0

SOMERO ENTERPRISES
(SOM:AIM) 376.5p

Gain to date: 31.8%
Original entry point:
Buy at 285.62p, 23 March 2017

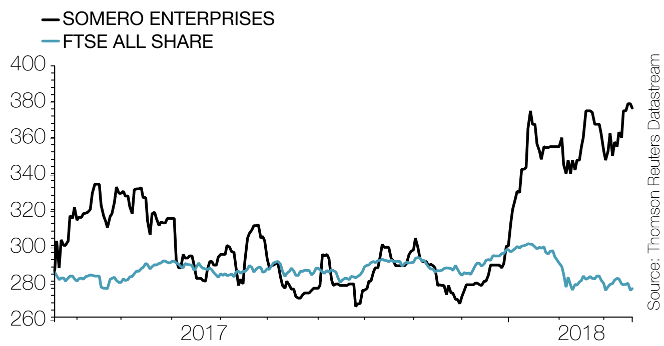
SHARES IN CONCRETE levelling specialist **Somero Enterprises (SOM:AIM)** hit an all-time high of 379p following the publication of its full year results on 14 March.

The 2017 numbers were very impressive with pre-tax profit up 21% to $25.7m, a 40% increase in the ordinary dividend, the declaration of a special dividend and the continuation of a debt-free balance sheet.

The company tells *Shares* that the performance was down to the sales team capturing business opportunities, good execution and positive market conditions.

As well as winning new business, existing customers are either buying more equipment from Somero to expand their fleet or upgrading old kit with new technology – the latter particularly the case in Europe. Approximately 15% of revenue comes from sales of spare parts and components.

Product development continues to be very important. For example, it is looking to engineer solutions to place concentrate on multiple stories of high-rise properties.

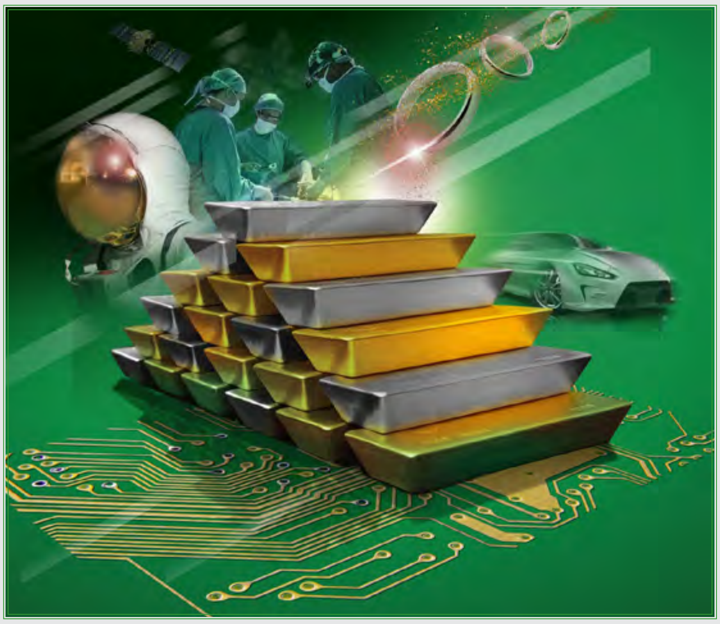


SHARES SAYS: ↗

This is a well-run business generating significant value for shareholders. China is the only weak part of Somero where operations have been below the board's expectations. It continues to believe there is a bigger opportunity in this part of Asia. We remain fans of the business and still rate the shares as a 'buy' despite recent share price strength. (DC)

BROKER SAYS: n/a

COMMODITY INVESTORS: HOW TO HEDGE YOUR US DOLLAR EXPOSURE



For quite some time now, low interest rates have prompted investors to look for investments with the potential to deliver decent levels of growth. If anything, this desire has intensified in the past year or so as inflation in the UK has picked up. Annual Consumer Price Inflation (CPI) – the measure of price growth favoured by the Bank of England – has risen to 3.0%[1]. This means that, currently, investments must deliver a net return of at least 3% for investors to stand still and maintain their current purchasing power. Any less, and *real* returns will be negative. Investors' wealth and purchasing power will diminish over time, even though their investments might be making steady positive returns.

Against this background, it seems more important than ever for British savers to identify investments that can generate returns above inflation. And with this goal in mind, investors might consider asset classes that have historically performed well during periods of rising inflation.

COMMODITIES AND WHY TO INVEST IN THEM

The term 'commodities' describes a large and diverse group of products. Fossil fuels such as oil and natural gas are included, as are industrial metals – aluminium, nickel and copper, for example – and precious metals. A wide range of agricultural produce is also included under the 'commodities' umbrella; wheat, corn, soybeans, sugar, coffee and cocoa, etc. All of these products have their own unique price drivers, many of which are unrelated to one another. This makes commodities particularly interesting from a diversification perspective.

Indeed, given potential volatility in other asset classes, the merits of including an allocation to commodities within a well-diversified investment portfolio have become increasingly apparent. While commodity prices can be cyclical in nature, they typically have low or negative correlations with traditional asset classes. For example, the correlation of monthly returns on the S&P 500 Index and the Bloomberg Commodity Index was just 0.22 between 2013 and 2017. Some commodities, such as gold, have a negative correlation with equities (the correlation between gold and S&P 500 Index monthly returns between 2013 and 2017 was -0.05).[2] Adding an exposure to commodities can therefore be an effective way of diversifying existing investment strategies and can help reduce overall portfolio volatility.

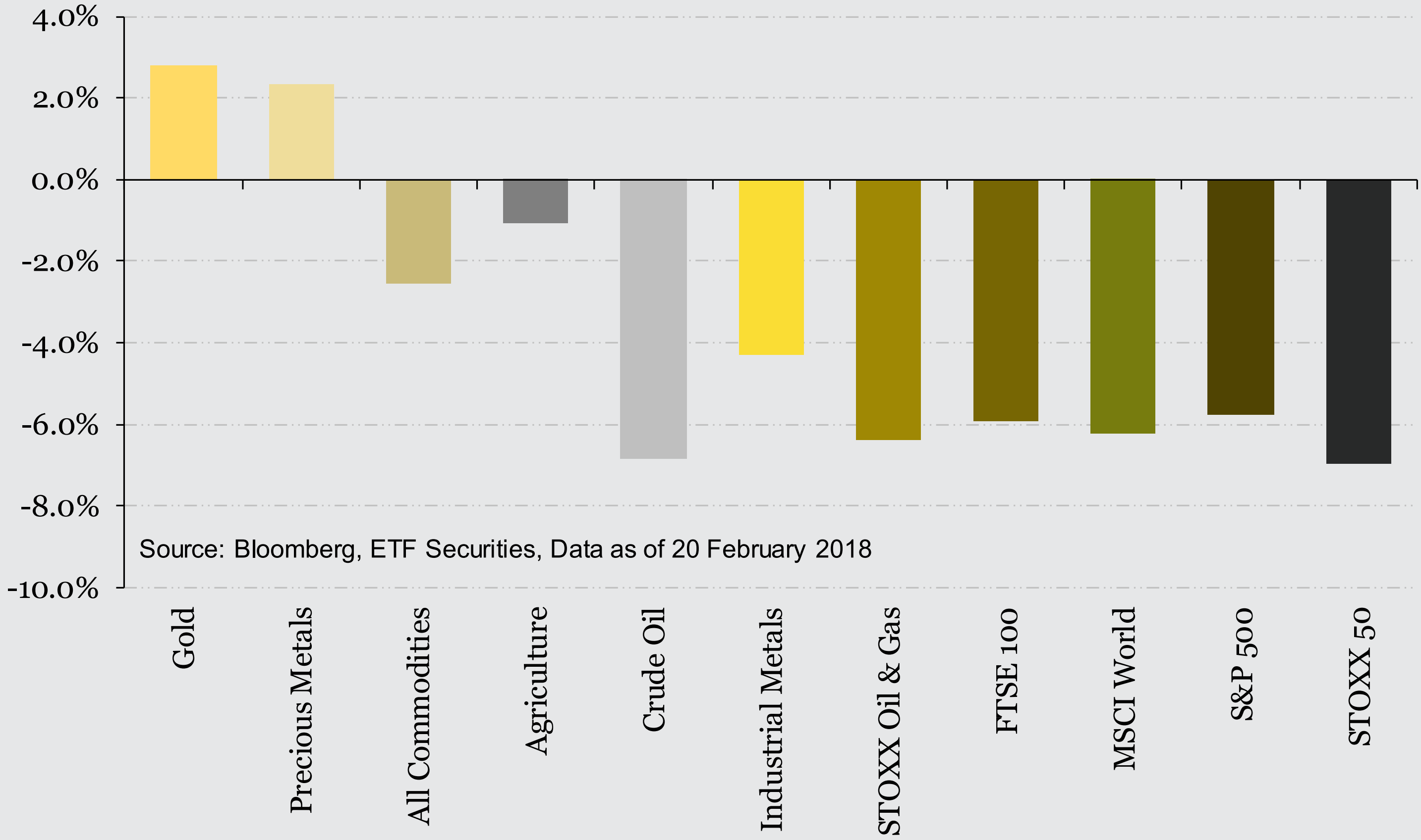
Separately, commodity prices tend to have a positive correlation with inflation, suggesting returns should be reasonable during inflationary periods. Precious metals considered to have intrinsic value due to finite supplies – such as gold, platinum and silver – have, at times, performed well when inflation has picked up. In fact, during periods of high inflation and equity market downturns, commodities have historically outperformed most other major asset classes. For example, looking over the past 10 years, during the worst 24 months of performance in the S&P 500 (where on average the Index fell 5.8%), gold returned 2.8% on average.

Historical performance is not an indication of future performance and any investments may go down in value.

[1]Office for National Statistics, January 2018
[2]Bloomberg; ETF Securities, February 2018

Return during S&P 500 worst 20%

Monthly Data, From December 31, 2007 to January 31, 2018



Historical performance is not an indication of future performance and any investments may go down in value.

HOW INVESTORS CAN ACCESS COMMODITIES

Due to the significant costs involved and storage impracticalities, only the largest international investors buy physical quantities of commodities. Some use financial derivatives, such as futures contracts, whose value fluctuates according to underlying commodity prices. Others buy shares in energy and mining companies, whose performance may be linked to the prices of oil, metals, or other commodity types.

For everyday investors, exchange traded products (ETPs) arguably provide an easy and cost-effective way of obtaining desired exposure to commodities. An extensive range of commodity-based ETPs is available. For convenience, some provide broad exposure to a diversified range of commodity types within a single vehicle. Other products focus on individual commodity types, suiting investors with insights into particular areas of the market.

HEDGING YOUR COMMODITY EXPOSURE

Given commodity prices are almost always quoted in US dollars, currency movements can have a significant influence on returns from commodity-based ETPs. The sterling exchange rate is a particularly important consideration for UK-based investors, because returns from investments priced in other currencies are diluted when the pound strengthens.

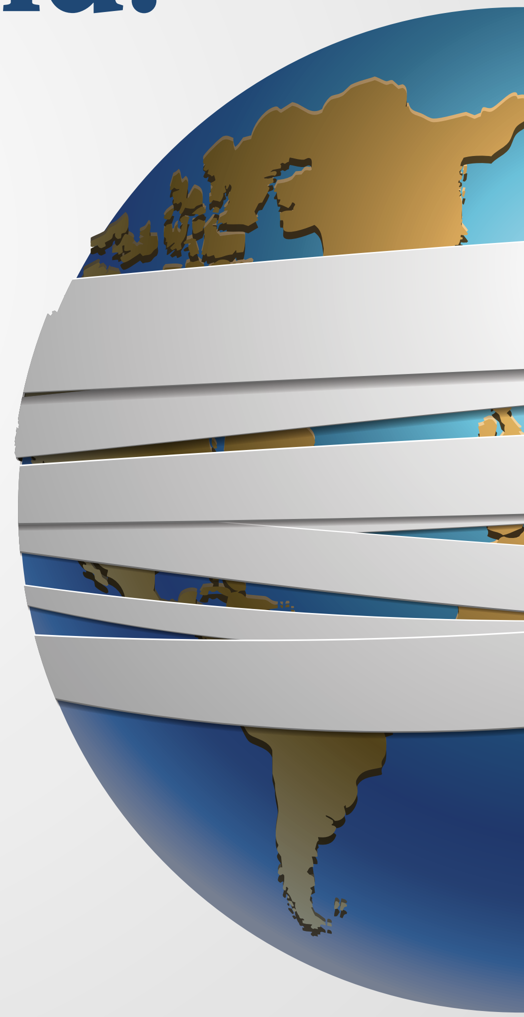
As a hypothetical example, let's consider a UK-based saver who decided to invest in a US dollar-denominated platinum ETP. A year after doing so, the platinum price had risen 10%. Even after transaction costs and management charges, the investor was happy with their foresight and decision to invest. Over the same period, however, let's assume the pound had increased in value by 15% against the US dollar. The impact of this exchange rate movement would have more than offset the appreciation in the platinum price and resulted in a financial loss for the investor.

Nobody can accurately predict how sterling will fare going forward. What we do know is that the pound continues to be affected by a number of uncertainties; many of them Brexit-related. With negotiations between the UK and other EU member states expected to continue for some time yet, there appears to be a fair chance that currency volatility will persist for the foreseeable future.

Volatility in currency markets is also linked to inter-relationships between macroeconomic activity levels globally. Economic conditions – and investor sentiment more broadly – can change quickly, often resulting in significant exchange rate movements. Ideally, investors need to consider ways of protecting their investments from these potential fluctuations.

Thankfully, many commodity-based ETPs in the UK are now available in hedged versions. These products reduce currency risk, effectively providing insurance against a stronger pound and its ability to erode, or even eliminate, increases in underlying commodity prices. All of the currency hedging is managed by the ETP provider and the cost is included in standard management charges. With hedged products, investors can rest assured that currency movements will have no bearing on their investment and that returns will be driven purely by movements in underlying commodity prices.

Saving the world: the companies trying to fight major diseases



THERE ARE PLENTY OF INVESTMENT OPTIONS... BUT CAN YOU MAKE ANY MONEY FROM THEM?

One of the most unfortunate certainties of life is that it ends. Fortunately pharmaceutical firms are working on life-saving treatments to improve our quality of life and hopefully extend it.

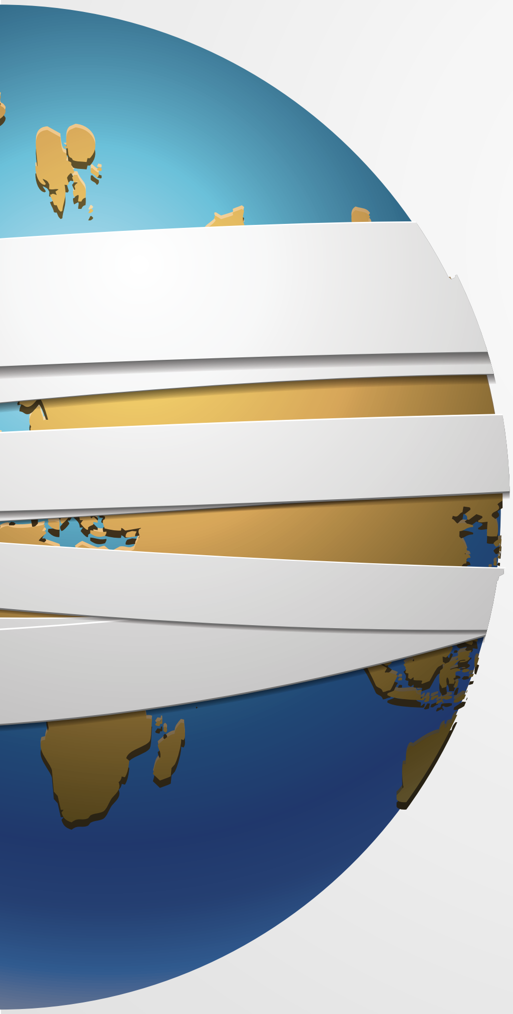
Investing in the pharma sector can be rewarding if a company develops the next big blockbuster drug but this journey is filled with risks, as we explain later.

In this article we explore how investors can gain exposure to companies that are battling some of the biggest diseases we currently face and the emerging threats that could impact our health.

TOP 10 CAUSES OF DEATH

CAUSE	WHICH UK-LISTED COMPANIES ARE WORKING ON A TREATMENT?
Alzheimer's disease and other dementias	PureTech, Bioventix
Chronic obstructive pulmonary disease	Circassia, Verona Pharma, Vectura, Synairgen, GlaxoSmithKline, Hikma
Diabetes	PureTech, AstraZeneca, OptiBiotix Health
Diarrhoeal diseases	
Ischaemic heart disease	
Lower respiratory infections	Vectura, PureTech, AstraZeneca
Lung, trachea and bronchus cancers	AstraZeneca
Road injury	
Stroke	Evgen Pharma (for uncommon stroke subarachnoid haemorrhage)
Tuberculosis	Genedrive (testing kit)

Source: World Health Organisation, 2015 / Shares



WHAT ARE THE BIGGEST HEALTH THREATS?

In 2015, coronary heart disease and stroke remained the world's biggest killers, accounting for a combined 15m deaths according to the World Health Organisation (WHO).

Coronary heart disease occurs when the heart's blood supply is blocked by built-up fatty substances in the coronary arteries, which can cause heart attacks. Strokes happen when the blood supply to part of the brain is cut off, according to the NHS.

Other top causes of death include chronic obstructive pulmonary disease (COPD), lung cancer and diabetes, the latter of which can be caused by obesity. COPD is a progressive, life-threatening lung disease that is caused by tobacco smoke and air pollution.

CHOICES FOR INVESTORS

Investors have several options with regards to companies on the stock market, or funds investing in relevant companies, which are trying to battle the world's biggest health risks.

These companies may all be trying to do positive things yet that doesn't mean they will all make you money.

It is important to stress that pharmaceutical and biotechnology stocks are extremely high risk, particularly small cap stocks which may have to keep raising new money to fund their development work. Outcomes can be binary: treatments either work or they don't, which can result in extreme share price volatility.

For this reason we believe it is important to take a diverse approach to investing in the sector, making sure you have exposure to a wide range of stocks, or use funds to achieve diversity, and not simply pin your hopes of investment success on just one or two stocks.

DO THESE COMPANIES MAKE ANY MONEY?

COMPANY	REVENUE 2017	PRE-TAX PROFIT/LOSS 2017	REVENUE 2018	PRE-TAX PROFIT/LOSS 2018
AstraZeneca	$22.47bn	$4.65bn	$22.62bn	$4.89bn
Consort Medical	£294m	£21.9m	£309.6m	£18.8m
Destiny Pharma	none	-£4m	none	-£9.3m
GlaxoSmithKline	£30.19bn	£3.52bn	£30.06bn	£6.82bn
Hikma Pharmaceuticals	$1.94bn	-$738m	$1.93bn	$249.6m
PureTech Health	$2m	-$118.8m	$2.9m	-$135.4m
Shire	$15.16bn	$1.89bn	$15.52bn	$4.32bn
Summit Therapeutics	$26.1m	-$6.4m	$20.3m	-$28.4m
Vectura	£150.5m	£20.3m	£161.5m	£30.7m
Verona Pharma	none	-£27.7m	none	-£35.9m

Source: Reuters. *Summit data refers to financial years to Jan 2018 & 2019. Data is a mixture of actual and estimated earnings. Pre-tax profit is the reported figure.

Some companies will only be developing treatments for a single disease; others will be working on treatments for different conditions. As such, it is always worth reading company literature to fully understand the opportunities and the risks before investing.

AN EXAMPLE OF A RELEVANT FUND

Investment trust **Polar Capital Healthcare (PCGH)** seeks to generate capital growth through a global portfolio of healthcare stocks. Interestingly its portfolio contains more than just drug companies as we will explain in a minute.

Fund manager Dan Mahony says investors interested in the broader field of healthcare should look at what a company is doing and their outlook, instead of focusing on what disease they are treating.

He argues people cannot 'buy and forget' a healthcare stock and flags potential disruption to the industry as technology evolves.

The convergence of technology and healthcare, known as digital health, is becoming significant in improving a patient's quality of life by encouraging positive behaviour.

Technology is increasingly being used to detect health issues and encourage individuals to take preventative action before the situation worsens. That could boost demand for certain treatments and reduce demand for others. It is therefore important to keep on top of technological developments.

WHY DATA AND TECH SHOULD NOT BE OVERLOOKED

Research by the NHS finds that people who maintain a healthy weight with a body mass index of below 25 are less likely to become diabetic. Diabetes is linked with several fatal conditions, including strokes and coronary heart disease.

Mahony says insurers are tapping into these trends by including gym membership offers with policies.

He is excited about health insurance firm UnitedHealth, one of his top holdings, and Medicaid plan provider Centene.

These companies aim to innovate healthcare by focusing on value-based models that use data to explore health outcomes and the quality of care from medical providers to determine payments. It places more risk on hospitals, forcing them to improve quality of care and cut healthcare costs.

EXPOSURE TO US GIANTS

Among Polar Capital Healthcare's top holdings are global giants in healthcare including Johnson & Johnson, Novartis and Bayer.

Among the UK pharma large caps, **AstraZeneca (AZN)** is a favourite of the fund manager who says its best-selling lung cancer drug *Tagrisso* is underestimated by investors.

In the year to 31 December 2017, sales of *Tagrisso* soared 126% to $955m.

On a group basis, AstraZeneca is working on returning to product sales growth by a 'low to single-digit percentage increase' by the end of 2018. That would represent the first growth in

HOW HAVE THE SHARES PERFORMED?

	5 YEARS	3 YEARS	1 YEAR
AstraZeneca	57%	4%	-1%
Consort Medical	75%	41%	15%
Destiny Pharma	n/a	n/a	n/a
GlaxoSmithKline	-12%	-17%	-22%
Hikma Pharmaceuticals	10%	-51%	-50%
PureTech Health	n/a	n/a	40%
Shire	55%	-43%	-35%
Summit Therapeutics	86%	32%	-8%
Vectura	-15%	-46%	-49%
Verona Pharma	11%	18%	6%

Source: SharePad

POLAR CAPITAL HEALTHCARE TRUST: SECTOR EXPOSURE	
Pharmaceuticals	24.7%
Healthcare Equipment	19.7%
Biotechnology	15.9%
Managed Healthcare	15.1%
Life Sciences Tools & Services	11.3%
Other	5.5%
Healthcare Services	4.5%
Cash	3.4%

Source: Polar Capital

overall product sales in four years.

The company primarily specialises in development treatment of diseases in three areas: oncology, cardiovascular and renal/metabolism/respiratory.

INNOVATIVE SMALL CAPS

While the majority of Polar Capital Healthcare Trust's exposure is in favour of large US companies, there are plenty of opportunities in the UK small cap space.

Included in the fund's holdings are **Consort Medical (CSRT)**, **Summit Therapeutics (SUMM:AIM)** and **Verona Pharma (VRP:AIM)**.

The pharmaceutical sector is notoriously risky, but Mahony believes there are lower risk ways to gain exposure.

One of these is via Consort Medical, which works with global heavyweights to manufacture drug-delivery devices such as inhalers and auto injectors.

Consort Medical's partner Mylan is hoping to launch its generic version of **GlaxoSmithKline's (GSK)** blockbuster drug Advair Diskus later this year, providing potential earnings upside for Consort.

THE VALUE OF TREATING DISEASES EARLY

Over the last couple of years, there has been a bigger focus on detecting and treating diseases earlier to keep people healthier for longer.

Paul Major, fund manager at investment trust **BB Healthcare (BBH)**, argues early diagnosis is a good approach to treating various diseases, particularly cancer.

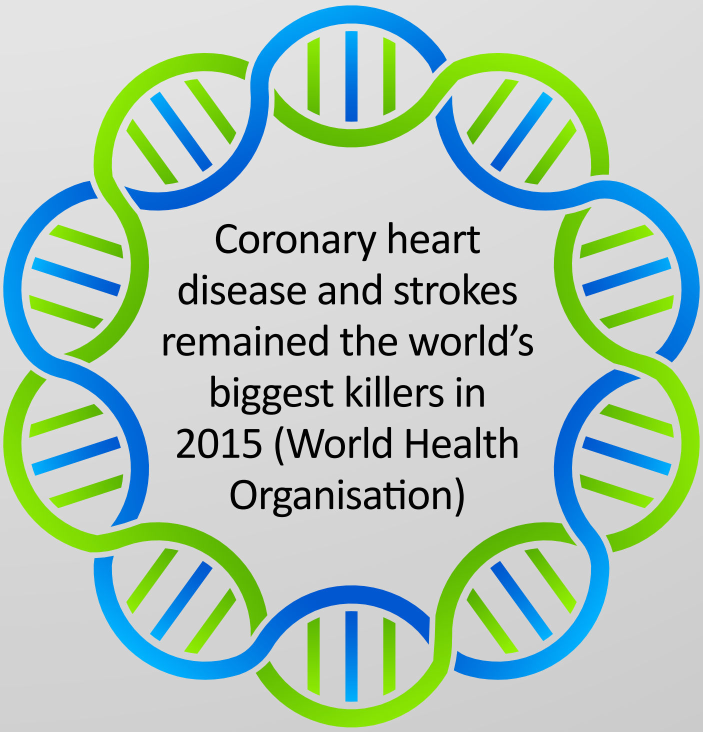
'The key to tackling cancer is not advancing treatments, but early diagnosis,' comments Major, who highlights tumours can grow, break apart and rapidly spread.

BB Healthcare aims to provide investors with long-term capital growth and income by investing in firms working to diagnose conditions early or keep existing diseases in check.

Rare diseases specialist **Shire (SHP)** is the only UK-listed company to catch Major's eye as its shares are cheap, trading on a mere 11-times forecast earnings for 2018.

Among BB Healthcare's top holdings is gene sequencing specialist Illumina. Its products enable researchers to explore DNA and create a map of gene variations associated with health, disease and drug response.

Illumina says it now has the ability to sequence at an 'unprecedented scale'. It adds: 'Collectively,



this will give us a much deeper understanding of genetics than ever before. We will begin to truly unlock the power of the genome. These advances will trigger a fundamental shift in healthcare and beyond. Medicine will continue to become more preventive and more precise.

Illumina's spin-off company Grail is working on a blood test to detect cancer early before symptoms appear.

Grail wants to achieve this goal by looking for cancer DNA that could help find tumours, which can be cut out before they spread.

Major says early diagnosis of diseases improves treatment options and cuts healthcare costs, particularly important for healthcare systems like the NHS which are seeking innovative ways to increase performance at a lower cost. For example, treating lung cancer can cost $100,000 a year and is not a guaranteed cure.

The fund manager argues high drug prices in the US are not always justified as diagnosing cancer early means a treatment can be used in smaller doses for a more powerful response.

MANAGING COMPLICATIONS OF DIABETES

US-listed Dexcom is one of BB Healthcare's top holdings; it manufactures glucose monitoring systems. These systems measure sugar levels under the skin and can predict your glucose levels, where they are going and how fast they are getting there.

A complication of diabetes is hypoglycaemia, where the level of glucose in your blood drops too low, which can be dangerous and result in hospitalisation if not treated promptly. Dexcom's device can help avoid this by keeping glucose levels under control.

One of the ways to avoid hypoglycaemia is by keeping track of your blood sugar and helping low glucose levels by drinking a small sugary drink or having a snack.

WHICH FIRMS ARE HOPING TO TACKLE ALZHEIMER'S AND DIABETES?

Clinical-stage biopharma firm **PureTech (PRTC)** has developed the Akili technology platform which is used to understand attention deficit hyperactivity disorder (ADHD); although it could also be useful in predicting early Alzheimer's to help with the symptoms.

The technology aims to improve memory and attention by helping the brain process multiple streams of information at once.

PureTech's affiliate Sonde is developing a voice-based tech platform that can identify health issues, including depression and Parkinson's disease based on vocal biomarkers. It hopes to expand the technology to detect cardiovascular and respiratory diseases to prevent people from getting ill.

Other products in the pipeline include obesity drug Gelesis and affiliate resTORbio's novel therapeutics to treat ageing-related diseases.

COPD affects over 250m people worldwide

(World Health Organisation)

WHO IS BATTLING IT OUT TO TREAT RESPIRATORY DISEASES?

In the respiratory diseases space, **Circassia (CIR)**, Verona Pharma and **Vectura (VEC)** are hard at work trying to improve people's lives.

Circassia markets COPD treatment Tudorza in the US under its collaboration with AstraZeneca, and holds US commercial rights to COPD therapy Duaklir.

The speciality pharma company is building a franchise in the COPD field by developing a novel formulation combination COPD treatment for infirm patients with severe symptoms.

Verona Pharma's RPL-554 treatment aims to be more effective due to its anti-inflammatory action. In September 2017, the company reported positive top-line data from a Phase IIa trial on RPL-554.

RPL-554 hopes to add a meaningful improvement in lung function by consistently delivering higher doses of the drug to the lungs.

Device and formulation company Vectura reformulates drugs, puts them into devices and partners with other companies to license the product.

It had a difficult time last year after generic asthma treatment VR315 by **Hikma (HIK)**, which contained its dry power technology, was delayed by the FDA, the US regulator. This pushed back milestone and royalty payments from sales of the drug for Vectura as the launch of VR315 is now expected to be 2020.

The company currently generates sales from respiratory disease treatments Ultibro and Flutiform, which were developed with Novartis and Mundipharma respectively.

Vectura believes its strategy of ditching higher risk early stage novel molecule development is a positive step forward. The company says future partnerships with major companies and sales from licensed products should help its performance.

UPCOMING THREAT FROM ANTIBIOTIC RESISTANCE

In 2016, economist Lord Jim O'Neill warned the number of deaths associated with antibiotic resistance by 2050 will outstrip death from cancer and diabetes combined.

is trying to develop a treatment for antibiotic-resistant superbugs such as MRSA. Its drug XF-73 is currently being tested with the aim of killing bacteria within 15 minutes. A US launch for the potential blockbuster drug has been scheduled for between 2020 and 2021.

BB HEALTHCARE: SECTOR EXPOSURE

Pharmaceuticals	35.1%
Med-Tech	13.3%
Conglomerate	12.8%
Biotech	11.1%
Managed Care	9.4%
Tools	4.1%
Specialty Pharma	3.4%
Other	10.8%

Source: BB Healthcare

WHAT ARE THE RISKS WITH INVESTING IN THIS SECTOR?

Development, financial and commercialisation risks are the biggest headwinds investors should consider before investing in any pharma company.

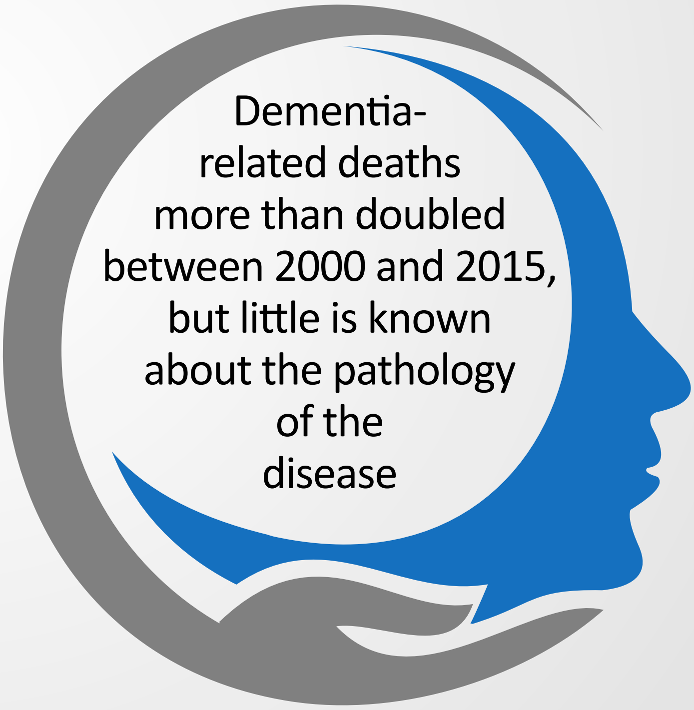
Investors need to look at the development risks and assess whether the treatment is likely to pass clinical trials. If a company cannot prove a drug works, it won't be approved by the relevant healthcare authority and generate sales, essentially stunting any shot at profitability.

Recent examples of failed drug trials are AstraZeneca's lung cancer trial in July 2017 and Circassia's allergy trial, leading to a complete halt in investments for related programmes.

Typically there are three main clinical trials, Phase I, II and III – and they aren't cheap. Getting a drug through clinical trials takes many years and can cost millions of dollars.

According to the US Department of Health, a Phase I trial can cost approximately $4.5m, rising to c$11m in Phase II, while Phase III trials can cost c$22m.

A key source of funding for listed companies is investors handing over cash in exchange for new shares. That dilutes existing shareholders and is a pattern that can be repeated on quite a regular basis.



WHY APPROVAL IS NOT ALWAYS GUARANTEED

Once a company has proven a drug is safe, there is still no guarantee that it will be approved. An example of this situation is the struggle by GlaxoSmithKline's rivals in replicating its asthma treatment Advair Diskus.

In 2017, the US Food and Drug Administration blocked the launch of Mylan's Wixela Inhub and Hikma's VR315 drugs. Hikma has recently been forced to conduct a further clinical study into its treatment.

This has also dragged on the performance of Vectura which is responsible for the dry power technology for Hikma's generic treatment.

It highlights the importance of understanding what a company is working on and how its partnerships can affect performance and outlook.

WHICH STOCKS OR FUNDS TO OWN?

Large companies tend to have growing sales from multiple franchises and a potentially innovative pipeline. However, they aren't guaranteed to be good investments as large cap pharma stocks can still have setbacks.

Smaller firms may be considered as higher risk but they should not be overlooked. Successful ones can make the next big blockbuster drug or be taken over by a global giant looking to bolster its pipeline further.

Ultimately investors should aim for a diversified range of companies to help minimise the impact of any particular clinical trial failure, funding struggle and approval setback. You can either build up a portfolio of stocks or buy one or two relevant fund or investment trusts.

Three of our favourite stocks and funds to play the sector at present are AstraZeneca, Destiny Pharma and Polar Capital Healthcare. (LMJ)

How to use moving averages to pin down the FTSE 100

There is a simple way to check the health of the stock market

In capital, local currency terms the UK is the worst performing country among the 23 nations classified by the MSCI as 'developed' markets year-to-date.

Investors will have their own views as to why this might be. Domestic political uncertainty, global geopolitical concerns, more hawkish central banks, sluggish economic growth and the reliance of FTSE 100 profits and dividends upon such unpredictable sectors as banks, miners and oils are all plausible explanations for the latest attack of the jitters.

The question to address now is whether the UK's premier stock market index gathers itself to 'climb the wall of worry' once more or whether it will succumb and start to 'slide down the slope of hope'.

In the long term, aggregate corporate profits, cash flow and dividends will dictate the benchmark's fate and this column would always prefer to focus on the fundamentals above all else.

The good news is that forecasts for FTSE 100 profits and dividends in 2018 and 2019 still call for healthy increases on all counts, based on our latest analysis of analysts' consensus forecasts for each individual member.

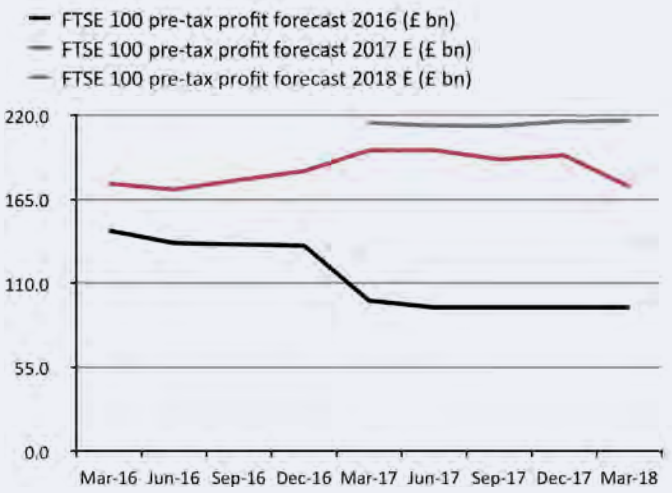
The bad news is that the forecasts have stopped going up for 2018, to leave the market rather becalmed and looking for fresh direction.

THE UK IS THE WORST PERFORMING DEVELOPED MARKET SO FAR IN 2018

Last 12 months		2018 to date *	
Hong Kong	25.6%	Hong Kong	5.6%
Austria	20.6%	Singapore	4.4%
Norway	17.4%	Italy	3.8%
Portugal	16.7%	Finland	3.5%
Japan	15.9%	USA	3.4%
New Zealand	12.8%	Norway	1.0%
Denmark	12.7%	Austria	0.8%
USA	12.6%	Portugal	0.7%
Italy	10.9%	New Zealand	0.6%
Singapore	8.1%	Sweden	0.1%
Switzerland	8.0%	Belgium	(0.2%)
Germany	7.7%	Israel	(0.2%)
Israel	6.4%	France	(1.3%)
Netherlands	6.4%	Australia	(1.5%)
France	6.3%	Netherlands	(2.2%)
Belgium	5.5%	Denmark	(3.2%)
Ireland	5.5%	Canada	(3.5%)
Australia	5.3%	Spain	(3.5%)
UK	**4.4%**	Japan	(3.5%)
Canada	4.3%	Ireland	(5.1%)
Finland	4.2%	Switzerland	(5.3%)
Spain	0.5%	Germany	(5.4%)
Sweden	(1.1%)	**UK**	**(7.1%)**

Source: Thomson Reuters Datastream

FTSE 100 PROFIT AND DIVIDEND FORECASTS HAVE STOPPED RISING



Source: Digital Look, company accounts, consensus analysts' forecasts

One way to try and judge whether the FTSE 100 is capable of making fresh gains or is primed for a further fall, at least in the near term, is to look at technical indicators, particularly market breadth and the number of index constituents that are rising or falling.

For the moment, the number of gainers outranks the number of losers to suggest the FTSE 100 is capable of holding its ground before a fresh push higher but this picture could change quickly.

MOVING AVERAGES

While this column has little ultimate faith in technical analysis and the study of charts, a little digging into what is making the stock market tick can be of use.

One way is to look at market breadth and how many stocks are rising or falling at a given time, especially with regard to their moving averages (MAs).

Moving averages can help to cut through the noise created by day-to-day price movements and look at a trend. Technical analysts can look at 10, 20, 50 or 200-day moving averages.

A simple moving average is calculated by taking the average closing price over your preferred period, such as 50 days, to create a new average for each day. The results are then plotted as a line on a chart and the trend assessed.

Chartists will argue that moving averages can act as support to a price or resistance and it is often moves through support (to suggest further downside) or resistance (to imply there could be further upside) that get them most excited.

The overall picture for the FTSE 100 currently looks mixed. The index has gone down through its 10 and 50-day moving averages, with the slowly rising 200-day indicator perhaps primed to offer support somewhere near 7,000.

FTSE 100 MAY LOOK TOWARD ITS 200-DAY MOVING AVERAGE FOR SUPPORT

Source: Bloomberg data

ANALYSTS STILL EXPECT SOLID EARNINGS AND DIVIDEND GROWTH FROM THE FTSE 100 IN 2018 AND 2019

	2013	2014	2015	2016	2017 E	2018 E	2019 E
FTSE 100 pre-tax profit (£ billion)	143.4	139.2	83.4	94.1	173.2	216.5	234.3
Year-on-year change	(5.8%)	(2.9%)	(40.1%)	12.8%	83.9%	25.0%	8.2%
FTSE 100 dividends (£ billion)	61.5	64.7	66.7	72.0	82.3	87.5	91.6
Year-on-year change	3.9%	5.2%	3.2%	7.9%	14.3%	6.3%	4.7%

Digital Look, company accounts, consensus analysts' forecasts

INDEX CONSTITUENTS

Another way to use moving averages and technical indicators is to look at the individual stocks which comprise an index – after all, it is their movements which ultimately drive the headline indicator up or down.

This is a good way of gauging market breadth and depth. If the index is rising but only a select band of constituents are gaining then breadth is narrow and the advance is not to be trusted.

Equally, a broad-based advance would suggest an index is in good health and potentially capable of broader gains, all else being equal.

The final graphic looks at the number of FTSE 100 stocks that are currently trading above their 50 and 200-day moving averages. Again, the more the merrier, although at the time of writing just 40 constituents are trading above the 50-day indicator and 54 above the 200-day one.

They are both improvements on the year-low numbers of 12 and 36 reached in mid-February but well below the highs of 81 and 69 respectively reached in January.

This technical indicator suggests the index is trying to find a floor and gather itself.

However, investors have perhaps yet to be fully convinced that profit and dividend growth momentum are sufficient to provide the necessary impetus even if the UK's dividend yield, in absolute terms and also relative to bonds, remains a key source of potential support.

Russ Mould, investment director, AJ Bell

BREADTH OF FTSE 100 PRICE ACTION SUGGESTS INDEX IS TRYING TO FIND A FLOOR

Source: Bloomberg data

A tale of two multi-manager funds: Alliance Trust vs Witan

We compare two big names in the investment trust space

Investment trusts are constantly evolving in their pursuit of income and capital appreciation. We look at two trusts that employ a multi-manager approach: **Alliance Trust (ATST)** and **Witan Investment Trust (WTAN)**.

Using multi-managers is when a trust delegates some or all of the equity portfolio to external management. Alliance Trust employed this style most recently, hiring Willis Towers Watson to appoint eight external managers to manage its entire equity portfolio last April.

WHY DO THE TRUSTS EMPLOY THIS APPROACH?

Clare Dobie, non-executive director of Alliance Trust, says the move, approved by shareholders, was due to anxiety about single managers or style and a way to 'diversify manager risk'.

Witan has been using this style far longer, adopting it in 2004 although in addition to 10 external managers it still has its own 'direct holdings' portfolio managed by CEO Andrew Bell and investment director James Hart.

One charge often laid against using this style is added costs as each external manager will charge a fee, so costs could be potentially significant. However, Witan's ongoing charges including performance fees is 0.78% whereas Alliance Trust is even cheaper, targeting 0.65% per year all-in.

While Witan's use of external managers was a gradual process prompted by the dotcom crash in 2000, Alliance Trust has had a far more dramatic journey to using this style.

The trust was involved in a fierce spat with US activist hedge fund Elliott Associates which was one of its major shareholders who had been complaining of underperformance for some time.

Alliance Trust spent £339m buying out the US fund's shareholding. The result of the buy-out and further rounds of share buybacks was a significant reduction in its discount to net asset value (NAV), which now averages around 5.4%. This is a significant narrowing from the 13% discount at which it was trading in 2016.

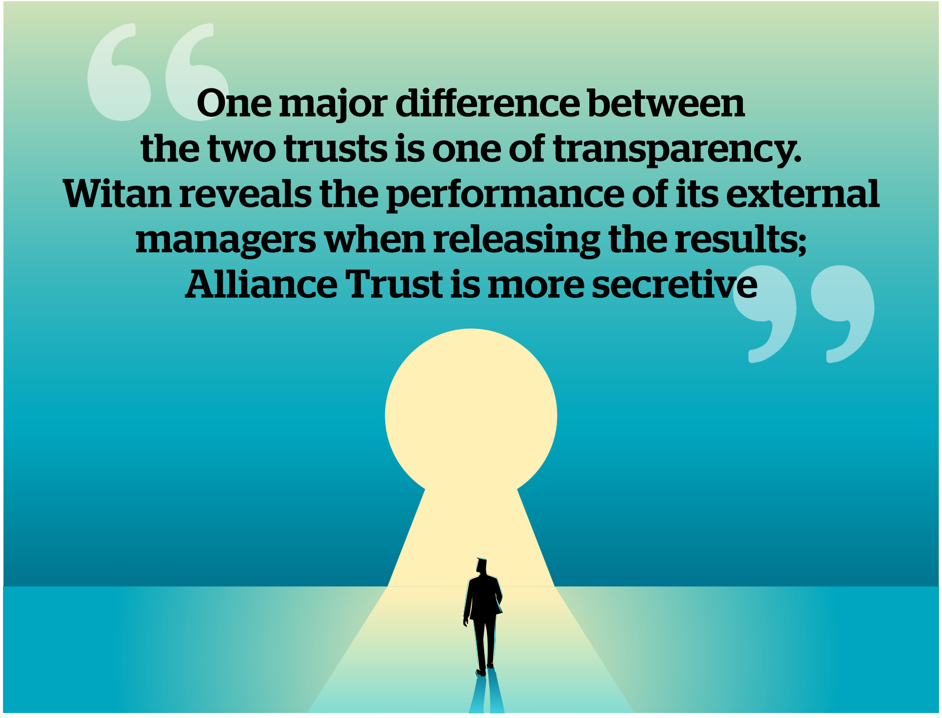
HOW HAVE THE TWO TRUSTS PERFORMED?

Witan trades at 1.4% discount to NAV, having reduced it from 4% in 2016. Its total return to shareholders in 2017 was 22.1%, ahead of the trust's benchmark, a composite of the FTSE's All-Share, North America, Europe and Asia Pacific indices which advanced 15.1%.

Alliance Trust also beat its

benchmark for 2017, the MSCI All World Index which rose 13.8% compared to the trust's total return of 19.2%.

However, for a true like-for-like comparison with Witan, Alliance Trust's equity portfolio returned 9.8% in the nine months from 1 April 2017 when it introduced its multi-manager system. Its benchmark returned 7.6% during the same period. Alliance Trust's return adds up to an outperformance of 2.2% versus Witan's 7% outperformance of its benchmark.



HIGH CONVICTION STYLE

Craig Baker, chief investment officer of Willis Towers Watson, describes the style of Alliance Trust as high conviction. Indeed, the eight managers each have a maximum of 20 holdings, apart from its emerging markets manager, Rajiv Jain of GQG Partners, who has circa 50 names.

Jain says this is due to extra risks involved at the 'country level' in emerging markets where there is much greater disparity between monetary policies for example within the regions compared to developed markets.

This high conviction portfolio contains just 189 stocks and so is far more concentrated than Witan's portfolio which approaches 400 names. Both trusts include Rajiv Jain as an external manager; he is seen by many as a rising star of emerging markets investment.

Baker at Willis Towers Watson maintains that although the portfolio is made up of each manager's top picks, there is relatively little cross-over between holdings with only 11 stocks overlapping and only one which three managers have selected.

One benefit that Baker identifies in a trust like Alliance Trust using his firm is that it gives retail investors access to the type of expertise usually reserved for institutional clients.

Alliance Trust's Dobie says that not only do Alliance's investors have access to the managers' expertise, they even have the chance to meet them when Alliance Trust performs various roadshows every year.

KEY DIFFERENCES

One major difference between the two trusts is transparency. Witan reveals the performance of its external managers when releasing the results; Alliance Trust is more secretive.

CEO Andrew Bell and investment director James Hart outperformed the external managers, with their picks returning 27.2% compared to their best performing external manager Lindsell Train in Witan's portfolio which returned 21.8% in the same period.

For now, Alliance Trust will only say the best manager had beaten the index by 7% since the change in strategy, while the worst had underperformed by 1.5%.

Witan also re-jigged its external managers during the past year, bringing in the aforementioned GQG Partners and replacing Marathon with two new Europe ex-UK managers, Crux and SW Mitchell.

Even though Alliance Trust is in the early stages of its multi-manager journey, Baker says there's 'constant debate' whether their managers are the best. He says the trust will probably employ a 'one in, one out' policy when it comes to changing its external managers.

Both trusts have high active share, Witan at 77% and Alliance Trust at 79%. This means a portfolio is distinct from its index and provides genuine active management rather than being a closet tracker. (DS)


Success in investment doesn't come easily.
It takes skill.
Conviction.
The determination to focus on your goals.
Whatever the conditions.
And the experience to find a new route when challenges arise.
As a unique investment trust, we think differently.
Like our first-ever clients, 130 years ago.
Those pioneers setting out on the Old Oregon Trail.
Today, we're pioneering a new investment style.
A high-conviction, multi-manager approach.
Delivered by eight of the world's leading equity managers.
Discovering the best opportunities.
And selecting only their best investment ideas.
Navigating risk and seeking out growth potential.
Helping investors like you aim higher with their savings.
Investing for today.
Tomorrow.
And generations to come.
When investing, your capital is at risk. The value of your investment may rise or fall as a result of market fluctuations and you might get back less than you invested.
To find out more and take advantage of this opportunity, visit youinvest.co.uk or speak to your adviser.
Alliance Trust
INVESTING FOR GENERATIONS
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Alliance Trust PLC gives no financial or investment advice.

Henderson EuroTrust prepares for debt-fueled spending spree

Investment trust is in talks to increase borrowing facility to have more firepower

Henderson EuroTrust (HNE) is in talks to increase its gearing facility, thereby giving it access to more cash to deploy in the market and potentially enhance investment returns.

The decision to increase gearing, which represents the proportion of debt to equity, normally signals that a fund manager is very bullish about the outlook from an investment perspective.

Borrowing money effectively gives an investment trust extra power to invest in the market, thus creating a bigger pool from which to earn dividends and/or generate capital gains.

Gearing is also a useful tool for the fund manager as it means they don't always have to sell holdings when they find something else in which they'd like to make an investment.

Henderson's Continental Europe-focused investment trust currently has a £20m borrowing facility which equates to about 8% of the value of its fund. Fund manager Tim Stevenson says he and the board feel it would be helpful to have the ability to be 10% geared.

He hopes to have the facility agreed by the end of March and will use it 'as and when we feel the opportunity is right'. The amount of the existing borrowing facility currently being used equates to a 5.8% gearing level.

Deutsche Post is Henderson Eurotrust's second largest holding at 3.84%

Speaking at *Shares*' investment trust event on 15 March, Tim Stevenson says borrowing in euros and swiss francs is 'extremely attractive' at the moment. His borrowing rate is effectively zero at present although there are some bank fees to pay.

Stevenson believes European equities are currently good value on a relative basis, pointing out they are trading at a 14% discount to US equities. While he believes Europe's economic strength is starting to slow, companies are enjoying earnings upgrades and the general economic environment is still favourable.

Henderson EuroTrust had no gearing earlier this year, but it used February's global market sell-off to make more investments via the gearing facility.

'We have more to spend but will do so prudently,' Stevenson recently wrote in the trust's monthly commentary. 'We believe it is important to remember that Europe is just entering the big dividend paying season (generally March to end June) and this has been a supportive period in recent years.'

The investment trust has sold its stake in beer giant Heineken and Austrian bank Bawag. It has added to some of its existing biggest positions including sanitary systems group Geberit, logistics specialist Deutsche Post and testing group SGS.

Henderson Eurotrust's strategy is to invest in companies with growing end markets, strong balance sheets, attractive valuations and good management. 'Ideally we want to own companies that have a number one or number two global position,' says the fund manager. (DC)

DISCLAIMER: The author owns shares in Henderson EuroTrust

The bull and bear case for Morrisons

Wholesale business is becoming exciting growth engine for the grocer

Recent share price weakness at **WM Morrison Supermarkets (MRW)** represents a buying opportunity.

Full year results (14 Mar) confirmed the Bradford-based grocer has become far more competitive under best-in-class CEO David Potts and the upside potential from its emerging wholesale business is underappreciated.

Results (14 Mar) for the year ended 4 February revealed 2.8% like-for-like sales growth, an 11% increase in underlying pre-tax profit to £374m and net debt reduced to £973m, below Morrisons' £1bn year-end target.

CUT-THROAT COMPETITION

Shareholders were also treated to a 4p special dividend, reflecting Potts' expectations for continued growth and taking the full year total dividend up 85.8% to 10.09p, and yet the share price declined on the day.

As AJ Bell Investment Director Russ Mould explains: 'One reason for this is that operating profit fell year-on-year, while all of the profit uplift came from lower financial charges owing to the hard work Morrisons has put in to reducing its debt pile.'

Mould acknowledges that the reduced borrowings are a positive but thinks investors are holding out for evidence of earnings growth from its core operations.

'After all, Morrison's operating margin slipped a little, from 2.9% to 2.7%, to suggest the competition remains as brutal as ever,' Mould adds.

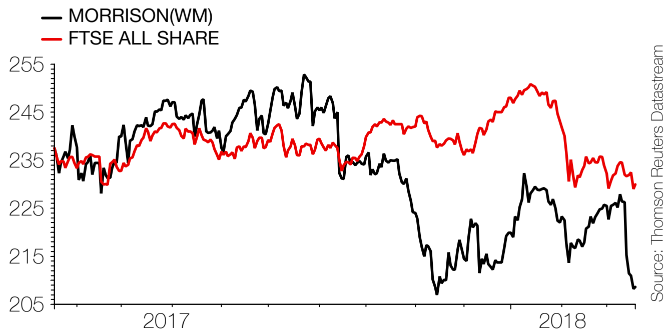
OPEN FOR BUSINESS

Morrisons has a higher customer overlap with discounters Aldi and Lidl compared with peers and a near-halving of free cash flow generation year-on-year to £350m, despite carrying less debt, provided ammunition for critics of the business.

Some might question the quality of that cash flow, with only £132m arising from retail sales with disposal proceeds and improved working capital accounting for most of the rest.

We would point to Morrisons' strong asset backing, with tangible fixed assets of £7.2bn on its balance sheet, as well as the excitement surrounding wholesale supply. This is becoming a second growth engine for the vertically integrated supermarkets operator and it is on course for £700m of annualised wholesale supply revenues by the end of 2018.

The company already has partnerships with Amazon – 'Morrisons at Amazon' is being expanded into more postcodes and cities – and forecourts play Rontec. It is building on this by supplying neighbourhood retailer **McColl's (MCLS)** with branded goods through its revived *Safeway* brand and has also inked a wholesale tie-up with Channel Islands-based Sandpiper.



SHARES SAYS:

At 208.1p, Morrisons is one for patient investors with more to come from the core business and wholesale expansion, backed by a sustainable dividend with scope for more special dividends. (JC)

BROKER SAYS: 2 8 6

EKF Diagnostics seen as a future takeover target

One analyst says the diagnostic devices specialist could be even more attractive if it gains scale

Healthcare company **EKF Diagnostics (EKF:AIM)** could become a takeover target if it successfully expands into new geographic regions with approved products, according to stock broker Panmure Gordon.

Analyst Julie Simmonds says the company has recovered from historic challenges and margins have improved sufficiently to make the business interesting.

She believes the company could eventually be acquired on a multiple of between three and four times sales, assuming it can expand product lines into new regions, particularly the US.

'The current focus on driving profitability and cash generation puts EKF in a stronger position to drive this outcome,' she comments.

'With only a limited number of profitable companies with established point of care diagnostics products EKF has some scarcity value,' adds the analyst.

EKF manufactures point-of-care devices and tests for haemoglobin, glucose and lactate levels, as well as glycated haemoglobin, also known as HbA1c.

Measuring glycated haemoglobin provides an overall picture of average blood sugar levels over a specific period.

The business is currently worth £123m which equates to three times 2017's sales (£41.6m).

We believe the shares currently trade on a fair valuation given low expectations for near-term sales growth. Sales are only forecast to increase to £43.4m in 2018 and £44.8m in 2019.

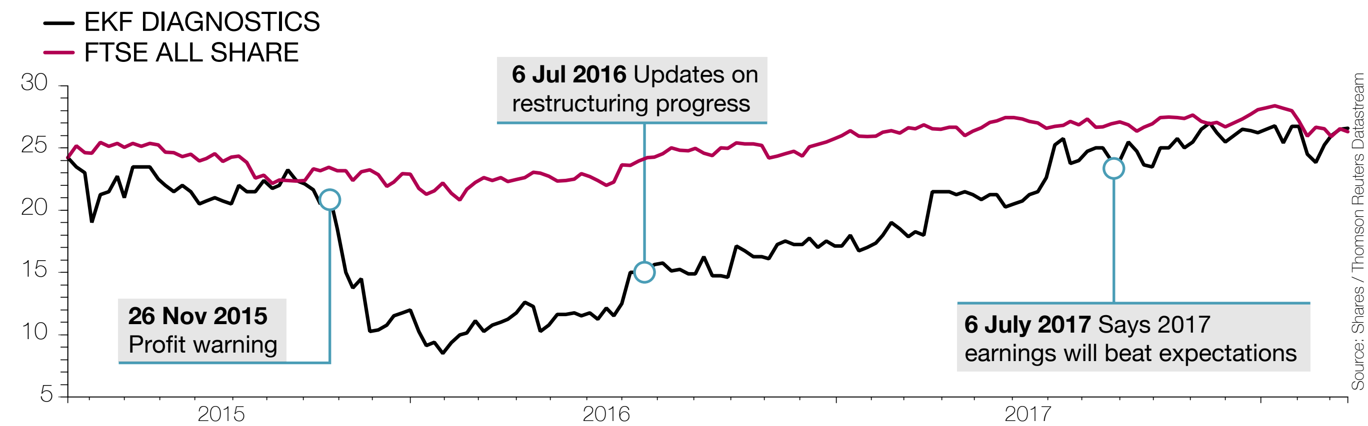
You could argue that EKF really needs to accelerate earnings in order to capture the interest of a predator.

Potential catalysts would include the US approval of HbA1c measurement device Quo-Test and handheld haemoglobin analyser DiaSpect.

N+1 Singer analyst Chris Glasper argues future growth can be supported by investing in manufacturing capacity to drive stronger margins and add revenue opportunities.

He is confident EKF can launch new product variants, highlighting a 'potentially significant opportunity in early sepsis detection' and gains from monetising sTNFR biomarker technology.

Glasper believes EKF is 'materially undervalued' compared to its peers and reckons positive momentum in the business and/or acquisitions could help the shares hit 35p to 40p over the next few years. They currently trade at 26.9p (LMJ)



XLMedia looks exciting... but is there a catch?

The popular small cap stock could face regulatory and competitive challenges

Online gaming marketing firm **XLMedia (XLM:AIM)** is fresh from announcing another set of record full year results. But is this growth stock getting the credit it deserves from the market and, if not, why not?

The Israeli company helps direct players and customers to online gambling sites through its portfolio of more than 2,300 websites and the purchase of online ads. It receives a share of the revenue this activity generates. In 2017 sales grew by a third to $137.6m and gross profit increased by 37% to $73.1m.

XLMEDIA EARNINGS PROFILE

	EBITDA
2014	$13m
2015	$28m
2016	$35m
2017	$47m

Source: Company Reports

Consistent earnings upgrades and a compound annual growth rate (CAGR) in earnings of 37.2% since 2014 have helped drive significant gains in the share price since its IPO (initial public offering) at 49p in March of that year.

Today it trades at 182.4p, but this only represents a relatively undemanding 16 times Berenberg's 2018 forecast earnings per share.

This rating compares unfavourably with another AIM growth stock – spirit mixers firm **Fevertree (FEVR:AIM)** which listed on the junior market around six months later.

Fevertree's earnings growth has been more rapid at a CAGR of 54.5% over the same timeframe but its shares are up nearly 22-fold on the 134p issue price and they trade on a forward PE of close on 70 times.

There are reasons why XLMedia doesn't have a premium rating. It is a harder business to understand than Fevertree and Israeli technology companies have not historically enjoyed the best of reputations.

WHAT IS BEHIND RECENT SHARE PRICE WEAKNESS?

Recently XLMedia's shares have drifted from the 220.5p record highs seen in December 2017. This is perhaps is a reflection of lingering scepticism towards the wider advertising tech space, a dilutive share placing in January 2018 and some concern about what barriers to entry the company enjoys.

The company recently raised £31.7m by issuing new shares to fund the acquisition of new websites. This raised some eyebrows given the company has virtually no debt and closed 2017 with cash of $43.3m, so perhaps didn't need to issue new equity.

XLMedia generates a gross margin of around 80% on its website business and this kind of return seems sure to attract competition.

Stockbroker Cenkos argues the company enjoys genuine barriers to entry. Analyst Tom Callan says: 'XLMedia's online estate (+2,300 sites) cannot be easily replicated.

'The group's top performing assets consistently rank highly across all major search engines. Proprietary technologies (Palcon, Rampix) ensure the group remains at a consistent technological advantage versus immediate peers.'

The other risk to consider is increased regulation of online gambling and digital advertising which could represent a serious threat to XLMedia's profits.

SHARES SAYS: ↗
XLMedia could be an attractive proposition for investors who understand the risks. Buy at 182.4p. (TS)

BROKER SAYS: 3 0 0

Why clarity is key when communicating strategy

Avoid management hooked on corporate jargon and focus on the best-in-class communicators

In his revered investment book *One Up on Wall Street*, US fund manager Peter Lynch wrote: 'Before buying a stock, I like to be able to give a two-minute monologue that covers the reasons I'm interested in it, what has to happen for the company to succeed, and the pitfalls that stand in its path…

'Once you're able to tell the story of a stock to your family, your friends, or the dog… so that even a child could understand it, then you have a proper grasp of the situation.'

For this reason, investors should be suspicious of management teams who over-complicate and try to baffle investors with corporate jargon and management speak. Instead, those companies whose best in class communication skills leave shareholders in no doubt as to what their business models (how they make money) and strategies (how they plan to keep on making money), could be better prospects for your stock picking research.

Clothing-to-furnishings retailer **Next (NXT)** is an excellent corporate communicator. Chief executive Simon Wolfson's pronouncements on the state of the consumer economy carry clout with investors and the board is well versed in keeping the market abreast with Next's near-term outlook for sales, profit and cash flow.

Next also routinely updates investors on the thinking behind its methodology for returning surplus cash via share buybacks and/or special dividends.

The strategic report section of the annual report & accounts, where Wolfson opines on Next's business model, retail space expansion and store profitability and addresses the special dividends/buybacks debate, is essential reading for investors and other CEOs alike.

LONG TERM PLANNING

Lower down the market cap ranks, we're fans of the clear and concise way in which high-flying **Games Workshop (GAW)**, the Nottingham-based company behind the *Warhammer* universe, explains its business model and growth strategy.

Under 'strategy and objectives' in last summer's annual results announcement, CEO Kevin Rountree explained Games Workshop's ambitions remain clear: 'to make the best fantasy miniatures in the world and sell them globally at a profit, and it intends doing so forever', adding that 'all of our decision making is focused on the long term success of Games Workshop, not short term gains.'

Helpfully, Rountree took investors through the strategy part by part – we'd encourage readers to have a thorough spin through, but the highlights include:

'The first element – we make high quality miniatures. We understand that what we make is not for everyone, so to recruit and re-recruit customers we are absolutely focused on making our models the best in the world. In order to continue to do that forever and to deliver a decent return to our owners, we sell them for the price that we believe the investment in quality is worth.

'The second element is that we make fantasy miniatures based in our imaginary worlds. This gives us control over the imagery and styles we use and ownership of the intellectual property. Aside from our core business, we are constantly looking to grow our royalty income from opportunities to use our IP in other markets.'

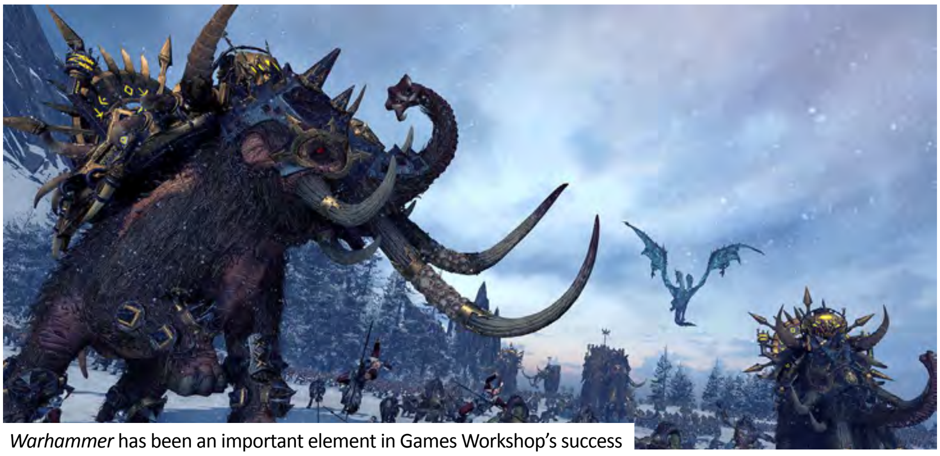
Games Workshop's third element is the global nature of its business. 'We seek out our customers all over the world. We believe that our customers carry our Hobby gene and to find them we apply our tried and tested approach of recruiting customers in our own stores, by offering a fantastic customer experience.'

The fourth element is being focused on cash. 'By delivering a good cash return every year we can continue to innovate, surprise and delight our loyal existing customers and new customers with great product. To be around forever we also need to invest in both long term capital and short-term maintenance projects every year, pay our staff what they have earned for the value they contribute and deliver surplus cash to our shareholders.'

In more recent half year results (9 Jan), Rountree said the business was in great shape, having reported record sales and profit levels in the period.

PULLING NO PUNCHES

Investors also know where they stand with Kiwi carpets king Geoff Wilding, credited with turning around flooring manufacturer **Victoria (VCP:AIM)**, now generating a heady mix of organic and acquisitive growth. Wilding's entertaining utterances from the chair are required reading. For instance, in the latest half year results announcement (28 Nov 2017), he sets out concisely one of the core tenets of Victoria's investment case, its cash generation:



Warhammer has been an important element in Games Workshop's success

'Flooring manufacturers structured like Victoria can generate large amounts of cash. Favourable supplier arrangements, rapid manufacturing matched to demand, customer payment terms, and longevity of key items of plant all contribute to a very high percentage of reported earnings turning to net cash,' says Wilding. 'This was reportedly one of the key reasons legendary investor, Warren Buffett, acquired the world's second largest flooring manufacturer, Shaw Industries.'

Last summer, Wilding outlined two incredibly valuable assets that are not tangible, but key to the AIM manufacturer's successful performance:

'First and foremost, Victoria's wider management team. Shareholders will, I'm sure, be reassured to learn we avoid hiring pure MBA-types (excepting, possibly, to make tea) and the depth of our management's industry experience and product knowledge, their motivation, enthusiasm, and desire to win, and their overall management skill is second to none.

'I have absolutely no doubt that we have the best management team in the industry, with most having a significant portion of their net worth invested in Victoria.'

BEING STRAIGHTFORWARD IS THE BEST POLICY

Another straight-shooter is Mike Allcock, chairman and joint chief executive of family-controlled lighting systems supplier **FW Thorpe (TFW:AIM)**. Half year figures (15 Mar) revealed a 3.8% revenue rise to £53.2m and pre-tax profit up 0.9% to £7.9m for the six months to December.

During the period, which saw Netherlands-based emergency lighting specialist Famostar acquired, 'order income did not reach the record highs of 2016/17, making a further record-breaking full year result a challenge'.

To his credit, Allcock said revenue and profit should be bolstered by the addition of Famostar in the second half of the year; 'however, whilst the group will endeavour to reach record levels, it seems unlikely'.

Such openness is very refreshing in a world where so many company directors are trying to dress up results and make them look much better than they actually are. (JC)

How to get your investments to pay you £10,000 per year

How much would you need to invest and for how long?

The idea of your stock market investments paying you a regular salary to cover day-to-day expenses is an attractive one – the ultimate example of getting your money to work for you.

The amount you would need to put into the markets to set yourself up for an income of £10,000 from your investments depends on several factors, including the level of risk you are prepared to take on and the amount you can invest.

Let's assume you are starting from zero. If you could find £650 per month to invest in a portfolio of funds, perhaps even between you and a partner, in a little more than 21 years you would be sitting on a pot worth £250,000. This is based on a relatively conservative annual return of 4.5% and charges of 0.75%.

You need to accumulate these funds within an ISA tax wrapper if you want to avoid tax liabilities. Fortunately, the implied annual investment in this scenario is well within the current £20,000 annual ISA limit.

With dividend-paying investments worth £250,000 you should get an annual income of £10,000 assuming a dividend yield in line with the 2018 yield on the FTSE 100 of around 4%.

HOW TO GET YOUR INVESTMENTS TO PAY YOU £10,000 PER YEAR

A £250,000 portfolio at 4% annual yield
= £10,000 income per year.

Invest £650 per month and achieve 4.5% annual return
= £250,000 after 21 years and 3 months.

Higher risk/return approach

Invest £650 per month and achieve 7.5% annual return
= £250,000 after 17 years and 4 months

Put more money into your ISA

Invest £1,000 per month and achieve 4.5% annual return
= £250,000 after 15 years and 6 months

Target higher yielding investments

A £142,900 porfolio at 7% annual yield
= £10,000 income per year

Invest £650 per month and achieve 4.5% annual return
= £142,900 after 14 years and 1 month

The sums factor in 0.75% annual investment charges

HOW TO GET THERE FASTER

There are three options if you want to get to the £10,000 goal faster. You can invest in higher risk, higher reward assets; you can look for higher yielding investments; or you can invest more each month.

If you were prepared to take on more risk to achieve a return of 7.5% you could get to £250,000 in around 17 years.

However, you would be putting your capital at greater risk and if you suffered losses as a result it could end up taking you longer to achieve your targeted income.

If you targeted a yield of 7% rather than 4% you would need to build up a portfolio worth £142,900. This would only take 14 years and one month to accumulate if you invested at the same rate of £650 per month at a 4.5% return.

Several enhanced income funds exist; essentially these sacrifice some of your capital growth in return for a higher yield. Examples include **Insight Equity Income Booster (GB00B7XF7Y37)** and **Schroder Income Maximiser (GB00B0HWJ904)**.

As a rule, a high yield can be the market telling you this source of income is potentially unreliable. If dividends are cancelled or cut, you would fall short of the £10,000 dividend target. The only sure-fire way to get there more rapidly is to invest more money each month.

> **THE ONLY SURE-FIRE WAY TO GET THERE MORE RAPIDLY IS TO INVEST MORE MONEY EACH MONTH**

Developing a healthy regular savings habit is truly one of the best ways of building up a sizeable portfolio in time.

Reinvesting your dividends during the accumulation phase of your investment plan could also help to boost your wealth thanks to compounding benefits.

Ultimately, by investing in a portfolio of reliable and lower risk dividend-paying investments you would be positioned for further capital growth and a potentially larger income over time once you had reached your initial goal. (TS)

Three ways to smooth your investment returns

We explain how to ride out the ups and downs of the stock market

Investing in equities can feel like a bit of a rollercoaster ride when stock markets are volatile.

Prices can swing wildly from one week to the next, causing even the most experienced investors to panic.

If you're worried about the impact of market volatility on your portfolio, you might want to consider a 'smoothing' technique – where you aim for long-term, predictable and stable returns.

There are three main ways to smooth investment returns.

1 DIVERSIFY YOUR PORTFOLIO

Diversifying your portfolio means investing in a variety of assets that have contrasting responses to the market.

Rather than solely investing in equities, you spread your money across a range of other assets such as bonds, property, gold and cash.

'Smoothing the combination of returns in this way reduces overall portfolio volatility without compromising on the exposure to higher risk assets,' explains Kevin Doran, chief investment officer at AJ Bell.

An easy way to diversify your portfolio is to invest in a multi-asset fund.

'Lots of people think about investment in terms of cash versus shares. They think they have a choice between the two, but funds vary enormously in terms of risk and reward,' says Justin Urquhart Stewart, co-founder of asset manager Seven Investment Management.

Multi-asset funds offer a diversified mix of equities, bonds, alternatives and other assets that can smooth investment returns. You can choose the fund that best meets your risk profile.

Multi-asset funds usually have risk labels like 'cautious' or 'adventurous', but it's always worth checking what the asset mix actually is.

'A multi-asset fund is not about picking the winners, but about ensuring that the fund is reasonably well positioned for most investment environments,' says Urquhart Stewart.

Another way of diversifying your portfolio is to invest in a ready-made portfolio that contains a range of funds or exchange-traded funds focusing on different asset classes.

2 INVEST REGULARLY

Investing a set amount of money each month can help to smooth the ups and downs of the stock market.

If you invest a large lump sum, there's always the chance that a market tumble could be just around the corner.

By drip feeding money, you stagger your investments so if the stock market does fall you'll only have invested some of your savings. Equally, your next monthly payment will benefit from the cheaper share prices available.

'Investors are less susceptible to capital risk during short-term market volatility because losses are limited to the increment invested at a weaker price, as opposed to fully exposing a lump sum investment,' says Doran.

'Systematic investing reduces the risk of impulsive behaviour and potential losses that come with factoring in market timing, though lump-sum investments benefit from maximised compound returns and are fronted with fewer transaction costs,' he adds.

Another advantage of regular investing is that even if you're paying in small amounts each month, the money can soon start to build up.

This is because you benefit from the power of compounding – when investment returns themselves generate future gains.

If you invested £200 a month from age 20 until age 65, you could build a pot worth £402,444, assuming 5% investment growth after charges.

3 CONSIDER INVESTMENT TRUSTS

Investment trusts are a useful addition to long-term portfolios because of their ability to smooth dividend payouts.

Unlike open-ended funds, investment trusts can hold back up to 15% of the income they receive from companies each year. They can use these reserves to boost dividends when times get tough in the future.

'This feature helps investment trusts produce consistently strong dividends and has contributed to their impressive dividend records,' says Annabel Brodie-Smith, communications director at the Association of Investment Companies.

There are four investment trusts that have consecutively increased their dividends for over 50 years: **Alliance Trust (ATST)**, **Bankers (BNKR)**, **Caledonia (CLDN)** and **City of London (CTY)**.

> **GEARING ENABLES MANAGERS TO MOVE MORE NIMBLY**

Brodie-Smith says investment trusts also offer a smoother ride because their closed-ended structure means managers can take a long-term view and sit out any market volatility.

'Investment company managers don't have to worry about inflows and outflows of investors' capital, unlike managers of open-ended funds,' she says.

An example of this came after the EU Referendum vote in June 2016, when many open-ended property funds had to suspend trading. Investors could not sell or buy the funds because the funds were unable to meet redemptions due to the illiquid nature of property.

Simon Edelsten from Artemis, manager of the **Mid Wynd International Investment Trust (MWY)**, suggests investors look for investment trusts that are well-diversified, as this can help to reduce volatility.

'A well-diversified global investment trust can be a useful core portfolio holding but be aware that investment trusts can trade at significant premiums and discounts in volatile times, which can help make a bumpy ride bumpier,' he says. 'Look out for those with policies in place to protect investors who want a smoother investment journey.'

It's also worth looking at whether the trust uses a process called 'gearing' to boost returns. This is when the trust borrows money to buy shares it has a strong view on – with the hope of enhancing shareholder returns.

Brodie-Smith says that when applied sensibly, gearing enables managers to move more nimbly when they see a compelling investment opportunity.

But when the trust's underlying portfolio underperforms, gearing can magnify losses. In general, the more an investment company gears, the higher the risk. (EP)

What does the change in auto-enrolment contributions mean for you?

We look at major changes to pensions savings

In less than a month's time millions of people saving in workplace pensions will see their monthly contributions increase as part of the Government's ambitious 'automatic enrolment' reform programme.

At the moment, all UK employers are legally required to enrol employees aged 22 and over who earn £10,000 or more into a company pension scheme.

Minimum total contributions are currently set at 2% of earnings between £5,876 and £45,000 (known in the jargon as 'relevant earnings'), with employees and employers both paying in 1% (including tax relief).

Participating in a workplace pension is entirely voluntary – if you want to, you can 'opt-out' of saving for retirement at any stage. However, you will miss out on the double bonus of the employer contribution and pension tax relief. To date the vast majority (about 90%) of employees have chosen to stay in their auto-enrolment scheme.

> From April 2018, minimum total contributions will rise to 5% of relevant earnings, with a further rise to 8% scheduled for April 2019

From April 2018, minimum total contributions will rise to 5% of relevant earnings, with a further rise to 8% scheduled for April 2019. Table 1 shows the split between employer contributions and personal contributions.

TABLE 1: CHANGES TO MINIMUM AUTO-ENROLMENT CONTRIBUTION LEVELS

	Employer contribution	Personal contribution	Government contribution	Total
2017/18	1.0%	0.8%	0.2%	2.0%
2018/19	2.0%	2.4%	0.6%	5.0%
2019/20	3.0%	4.0%	1.0%	8.0%

Source: AJ Bell

TABLE 2: THE CHANGES TO THE PERSONAL CONTRIBUTION ELEMENT OF MINIMUM AUTO-ENROLMENT CONTRIBUTIONS FOR THREE STARTING SALARY LEVELS (BASED ON RELEVANT EARNINGS WHICH IS SALARY MINUS £5,876)			
Starting salary, increasing by 2% per annum	**£20,000**	**£27,000**	**£45,000**
Annual personal contribution now	£113	£169	£313
Annual personal contribution post April 5 2018	£346	£517	£958
Annual personal contribution post April 5 2019	£588	£879	£1,628

Source: AJ Bell

IN NUMBERS

Table 2 gives you an idea of how much extra could go into your pension as auto-enrolment minimum contributions rise. Someone earning £27,000 – around the average UK salary – will see their personal contribution rise from £169 in 2017/18 to £517 in 2018/19. For a person earning £45,000, the amount going out of their salary will rise from £313 to £958.

While this might sound like a lot – and some will inevitably be tempted to stop saving in their workplace pension as a result – breaking it down into monthly and daily amounts makes it look a lot more manageable.

Considering the example of someone earning £27,000, their monthly personal contribution will increase from around £14 to £43 – that's an extra £29, or less than £1 a day.

It's also worth remembering that while the increased contribution might feel a bit like a pay cut, in reality your employer will likely have held back on wage rises in order to factor in the cost of auto-enrolment. So if you do opt-out, you're effectively taking a voluntary pay cut.

OVER THE COURSE OF YOUR LIFE

You should also think about where the auto-enrolment minimum will get you to over a normal working life. Even after the rise in contributions to 8%, our modelling suggests the average UK earner might end up with a fund worth about £218,000 after 40 years of saving.

While that might sound like a lot, it will only buy a healthy 65 year old a single-life, inflation-linked annuity worth about £7,800***. With the full flat-rate state pension worth just over £8,000 a year, that gets you to a total retirement income somewhere between £15,000 and £16,000.

The message? Auto-enrolment will only get you so far, and many will need to save well above 8% in order to fund the retirement they want.

TOM SELBY, senior analyst, AJ Bell

TABLE 3: THE CHANGES TO THE OVERALL LEVEL OF CONTRIBUTIONS AND THE DIFFERENCE IN FUND VALUE AFTER 40 YEARS IF CONTRIBUTIONS WERE NOT INCREASED			
Starting salary, increasing by 2% per annum	£20,000	£27,000	£45,000
Annual total contribution now*	£282	£422	£782
Annual total contribution post April 5 2018*	£720	£1,077	£1,995
Annual total contribution post April 5 2019*	£1,176	£1,758	£3,256
Fund value after 40 years without contribution increases**	£38,088	£56,965	£105,506
Fund value after 40 years with contribution increases**	£146,289	£218,791	£405,226

Including employer contributions and Government tax relief
**Assumes 4% investment growth after charges
***Source: Money Advice Service annuity calculator (quote obtained 9th March 2018)

FRIDAY 23 MARCH

FINALS	
Henry Boot	BOOT
John Laing Infrastructure Fund	JLIF
Next	NXT
INTERIMS	
Smiths	SMIN
AGMS	
Milestone	MSG

MONDAY 26 MARCH

FINALS	
Globaltrans Investment	GLTR
SpaceandPeople	SAL
Satellite Solutions Worldwide	SAT
Taptica International	TAP
TRADING STATEMENT	
Pennon	PNN

TUESDAY 27 MARCH

FINALS	
Alliance Pharma	APH
AG Barr	BAG
Churchill China	CHH
E-Therapeutics	ETX
Gulf Marine Services	GMS
INTERIMS	
Ferguson	FERG
Moss Bros	MOSB
TRADING STATEMENTS	
United Utilities	UU.

WEDNESDAY 28 MARCH

INTERIMS	
Inland Homes	INL
AGMS	
Chenavari Capital Solutions	CCSL
St Modwen Properties	SMP
YOLO Leisure and Technology	YOLO

THURSDAY 29 MARCH

FINALS		
Quarto	QRT	
TRADING STATEMENTS		
CMC Markets	CMCX	
RPC	RPC	
AGMS		
Adept4	AD4	
Stellar Diamonds	STEL	
ECONOMICS		
UK		
Final GDP		
Mortgage Approvals		
GfK Consumer Confidence		
EX-DIVIDEND		
Abbey	ABBY	€0.08
British Land	BLND	7.52p
Bovis Homes	BVS	32.5p
CLS	CLI	4.3p
Craneware	CRW	10p
Devro	DVO	6.1p
4imprint	FOUR	43.17p
4imprint	FOUR	60c
Foreign & Colonial Investment Trust	FRCL	2.7p
HG Capital Trust	HGT	30p
Idox	IDOX	0.66p
Jardine Lloyd Thompson	JLT	21.8p
Standard Life Private Equity Trust	SLPE	3.1p
Synectics	SNX	3p
Securities Trust of Scotland	STS	1.45p
Value and Income Trust	VIN	2.7p
Wynnstay	WYN	8.4p

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MOBILE ADVERTISING PLATFORM **Taptica (TAP:AIM)** is scheduled to report its 2017 full year results on 26 March.

Expectations for these results have steadily built over the course of the last 12 months – according to Berenberg the consensus earnings per share estimate has been upgraded by 110% since the start of last year.

Investors will be watching closely for an update on how the company plans to deploy its $50m acquisition war chest.

TRADING PLATFORM **CMC Markets (CMCX)** is updating the market on 29 March and all eyes will be on the impact of regulation.

In January the FCA sent out letters to companies such as CMC warning them to act on concerns it had raised regarding retail customers trading in complex financial instruments such as derivatives.

The letter sparked share price drops in CMC and its peers so investors will be keen to know the extent of any potential earnings damage.

CASH-GENERATIVE clothing-to-homewares purveyor **Next's (NXT)** full year results (23 Mar) give investors an opportunity to see how the Simon Wolfson-steered retailer is weathering the current high street storm. In January, Next reported better than feared festive sales and marginally upgraded full year profit guidance, buoyed by improved Christmas performances from its retail stores and online business Next Directory. As ever, Wolfson's comments on the outlook for the consumer economy will be closely followed.

KEY

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