STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

HOW DO SOME INCOME FUNDS ACHIEVE VERY HIGH YIELDS?

5 WAYS to play the stronger oil price

NOW IS THE PERFECT TIME TO ADD SECTOR EXPOSURE TO YOUR PORTFOLIO

*WHY MANY **INVESTMENT TRUSTS** ARE ABOLISHING PERFORMANCE FEES*

Uncertainty isn't the only driver of the gold price

There are many other factors influencing the direction of the precious metal

You would have thought a backdrop this year of a trade war, a missile strike on Syria and the return of cold war tensions would have driven up the gold price, given it is seen as an asset to own during times of strife and uncertainty. In reality gold has only moved up 1.6% in value so far in 2018.

So why isn't the precious metal behaving as expected? You could argue that the trade war isn't a surprise given the way Trump has behaved since being elected in November 2016. The Syria tensions have been rumbling on for some time, so too the fragile relationship between Russia and the West.

WHAT DRIVES THE PRICE?

The World Gold Council (WGC) says there is no one single driver of the price of gold. Instead, it suggests the price drivers can be put into four categories including wealth and economic expansion; and market risk and uncertainty.

It cites opportunity cost which refers to the price of competing assets such as bonds and currencies influencing investor attitudes towards gold. It also flags momentum and positioning which relates to capital flows and price trends igniting or dampening gold's performance.

'Drivers related to wealth and economic expansion are generally more relevant for gold's long-term trend,' says the WGC. 'Drivers linked to the other three categories play a significant role in gold's countercyclical behaviour'.

The World Gold Council makes an interesting point that the correlation between gold and US rates is waning and that the US dollar is becoming, once again, a stronger indicator of the price.

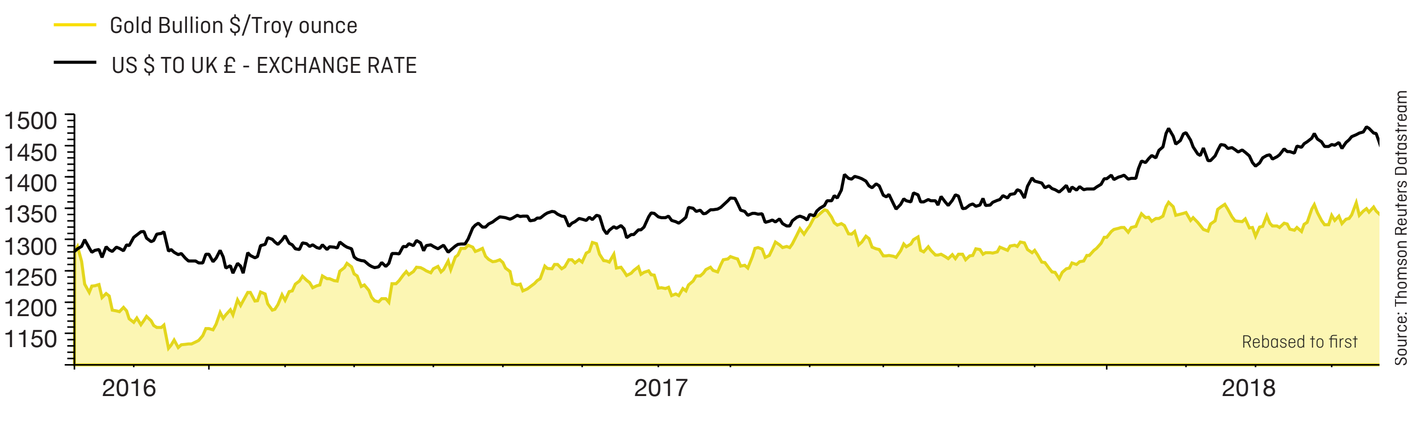
WHERE NEXT FOR GOLD?

So how high can gold go in the near-term? It's one of those commodities where you're guaranteed to find commentators on websites or the TV predicting with great confidence that it will soar in value. In reality, no one knows.

Instead, we would look for guidance from specialist consultants with a solid understanding of market dynamics and the metal industry such as Metal Focus. It recently suggested gold could stay range-bound in the current quarter but potentially hit $1,450 before the end of the year.

It says the latter movement could be influenced by slower than expected growth in the US; a weaker US dollar; real short-term interest rates staying negative for longer; and a correction in equity prices in the US and other parts of the world.

A move to $1,450, while not guaranteed, would imply a near-10% gain on the current price and boost profit margins for many gold miners. It certainly suggests it would be worth looking at the gold mining equity space. Our top UK-quoted pick is **Centamin (CEY)**. (DC)



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BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: 4 2 1 means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

Online isn't necessarily the ticket to retail success

New report highlights the potential winners and losers in retail

Analysts at investment bank Liberum see a widening gap between winners and losers in the retail industry. Importantly this isn't just divided between traditional bricks and mortar outfits and their online rivals, as has been the case in the recent past.

They see some online names as vulnerable and think more traditional players operating in the value segment of the market like Primark-owner **Associated British Foods (ABF)** and **B&M (BME)** are better positioned.

They write: 'Putting it simply, it seems to us that these new world, disruptive players, including pure online and high quality, branded multi-channel operators, talk and most importantly act differently.

'They put product and customers at the centre of every decision they make, strengthening and protecting the longevity of their brands. They have an unwavering focus on strategic investment, growing a loyal customer base and gaining a deep understanding of its behaviour.'

Bricks and mortar retailers Marks & Spencer, Next and Debenhams generate five times the earnings of pure online rivals ASOS, Boohoo and their German counterpart Zalando but have around half the market value

Winners according to Liberum include **ASOS (ASC:AIM)**, **Ted Baker (TED)**, **Majestic Wine (WINE:AIM)** and wellies seller **Joules (JOUL:AIM)**.

Caution is expressed on the prospects for **Marks & Spencer (MKS)**, **Debenhams (DEB)**, **Pets at Home (PETS)** and **SuperDry (SDRY)**. (TS)

Eurozone relief... but for how long?

PMI reading comes in flat despite expectations for a decline

THE LATEST composite purchasing managers index (PMI) for the Eurozone came in slightly better than expected, helping to ease fears of a slowdown in the economic bloc.

The reading, from IHS Markit, of 55.2 for April was unchanged on the March figure but came in better than the decline to 54.2 forecast by economists.

The release follows a string of negative data on the Eurozone which has led to some speculation the European Central Bank might step back from an expected winding down of financial stimulus by the end of 2018.

IHS Markit chief business economist Chris Williamson says a decline in the PMI from January's highs is 'neither surprising nor alarming'.

'However, it's also clear that underlying demand has weakened, in part due to exports being hit by the stronger euro,' he says. 'With companies' future optimism having slipped to the lowest since last year, it looks likely that growth may well slow further in the coming months.' (TS)

Good week for the markets but setbacks for Reckitt and Clarkson

Elsewhere GB Group bounces ahead while D4T4 and RWS trouble investors

A few disappointments regarding growth levels and profit warnings failed to sour what was otherwise a decent week on the markets with the FTSE 100 having risen by 2.7% and the FTSE All-Share up by 2.6% in the seven days to 24 April.

ID management company **GB Group (GBG:AIM)** outstripped full year adjusted operating profit expectations by 14%.

Organic revenue jumped 17% to £119.7m and net cash of £13.4m was up significantly on £5.2m a year earlier.

Analysts raised forecasts across the board with stockbroker Peel Hunt saying 'it is clear that directionally, momentum is biased towards medium-term outperformance'.

Small analytics business **D4T4 Solutions (D4T4:AIM)** managed a modest beat on profits for the year to 31 March 2018 despite a miss on revenue (£20m versus £23.2m expected).

More subscription income rather than licences (which are paid in full upfront) was the cause although that bodes well for improving earnings quality in the future because they are typically more sticky.

RECKITT SHARES UNDER PRESSURE

Investors punished **Reckitt Benckiser (RB.)** for missing first quarter sales targets. It reported 2% organic sales growth which was below consensus expectations for 2.6%. Investment bank Liberum reckons Reckitt can get the organic sales growth rate to 4% in the long-term.

A stronger US dollar has created a headwind for support services group **RWS (RWS:AIM)**. That, together with a disappointing performance from recent acquisition Moravia, weighed on investor sentiment towards the stock.

In essence, RWS has laid the foundations for a potential profit warning as it says earnings would miss expectations if current foreign exchange rates persist in the second half of its financial year.

CLARKSON BATTLING ROUGH SEAS

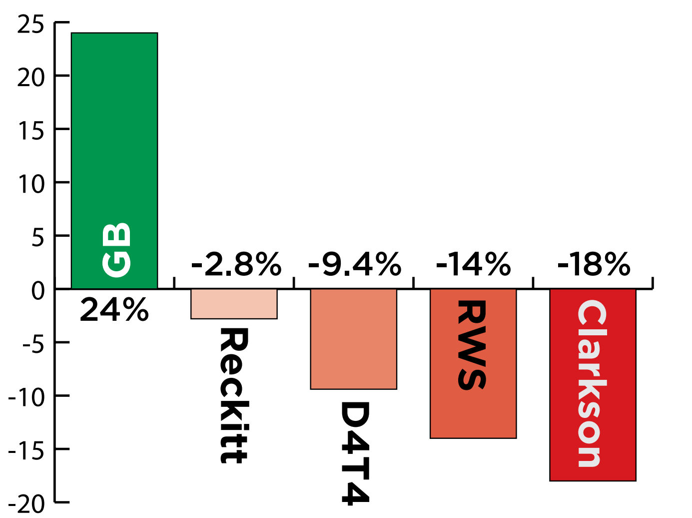
Volatile global markets hit shipping services provider **Clarkson (CKN)** as several clients delayed signing new business deals due to difficulties raising funds.

Lower freight rates in the tanker market and the weaker dollar also played a role in a profit warning on 23 April.

Panmure Gordon analyst Colin Smith forecasts that underlying pre-tax profit for the year to 31 December 2018 will fall to £45.1m, down from £50.2m in 2017.

Smith is confident Clarkson's performance will stabilise after 2018, leaving his forecasts unchanged in 2019 and beyond. (DC/SF/LMJ)

ONE DAY SHARE PRICE MOVEMENT FOLLOWING LATEST RESULTS OR TRADING UPDATE



Source: SharePad, London Stock Exchange. Relates to announcements 18 to 24 April 2018

Fast growth vaping firm Supreme to float on the stock market

The company also distributes batteries and lighting products

Investors looking to play the growth in demand for e-cigarettes may be interested in the forthcoming stock market listing of **Supreme** on AIM. The business, expected to be valued between £110m and £130m, hopes to float in early May.

Supreme has three business lines serving low-cost retailers, supermarkets and wholesalers.

It claims to be one of the largest producers of vaping e-liquids in the UK by volume, having manufactured an average of over 130,000 bottles per working day at its facility in Manchester in March 2018.

On the distribution side, it sold approximately 690,000 hardware kits (the hardware is imported from China) and circa 4m items of vaping hardware in 2017.

It supplied approximately 200m batteries in its financial year to 31 March 2017 including products under the *Energizer*, *Philips* and *Eveready* brands via licensing agreements.

It subcontracts production of lighting products like LED lamps to third parties in China and in its 2017 financial year distributed approximately 35m lighting products.

Chief executive Sandy Chadha tells *Shares* that Supreme will pay 50% of post-tax profit in dividends and the shares will yield circa 3% based on the expected IPO (initial public offering) price.

'The company has limited capital expenditure requirements apart from a planned investment in a factory,' he reveals.

Supreme is a family-run business and Chadha is the second generation in charge.

It hopes to raise £10m at the IPO. From that money, £4m will clear its debt and the rest will fund growth plans including the aforementioned factory investment and to provide a war chest to make acquisitions in the £1m to £5m range for vaping. 'We want to buy companies with known brands and take over their manufacturing,' says Chadha.

Supreme manufactures over 130,000 bottles per working day

Earnings growth is expected to be driven by the vaping side of operations in the UK and international gains for batteries and lighting. It also has aspirations to enter into new markets such as sports nutrition.

The business enjoyed 29% compound annual growth in sales between 2015 and 2017, the latter period making £70.7m. In the same year pre-tax profit grew by 15% to £6.9m.

Chadha says he will still own more than 50% of the business post-listing and wants to grow Supreme 'to a high valuation' over the next three to five years.

SHARES SAYS:

On one hand the business is making a decent amount of profit compared to sales and vaping is a growth market.

However, we note that liquids, lighting and batteries are all commoditised markets so we have some reservations about the investment case ahead of listing.

There is also the risk of tighter legislation regarding the sale of e-cigarettes which could have a negative impact on Supreme's sales.

We suggest you watch from the sidelines when it floats and read the admission document thoroughly to understand the business before considering an investment. (DC)

Should shareholders get involved with Capita's £701m rights issue?

A lot of work and money is needed to change its fortunes

For long suffering investors in outsourcer **Capita (CPI)**, being asked to buy more shares in the company may not be music to their ears.

However, the banks acting as joint bookrunners on a planned rights issue, Citigroup and Goldman Sachs, are both fully underwriting the fundraise.

This means that even if investors aren't tempted by the heavily discounted price of 70p a share (the current share price is 180p) the banks will buy any outstanding shares.

This in effect guarantees Capita its money which works out as £662m after costs.

The rights issue will provide £220m to fund the company's transformation plan, including £150m which is earmarked to achieve annualised cost savings of £175m by 2020.

Capita is using £150m for pre-payment of US private placement notes and the remaining balance will be used to support its investment programme.

Already on board with Lewis's vision for Capita are shareholders Woodford and Investec. These plans include achieving £200m of free cash flow and double digit profit margins by 2020.

Chief executive Jon Lewis is also looking to streamline the business which he had previously complained was 'too complex'. (DS)

Stadium purchase to accelerate TT Electronic's profits scale

Electronics firm eyes opportunities including connected cars and machine learning

ELECTRONIC COMPONENTS manufacturer **TT Electronics (TTG)** has completed the £58m acquisition of smaller peer Stadium, accelerating profit improvement plans.

Stadium designs and makes a series of connectivity, power supply and human-machine interface technologies and assemblies.

This will increase TT's access into fast growth markets such as connected cars, internet of things, automation and machine learning. Analysts believe this could have a significant effect on the share price over time.

TT has been in the grip of a three-year turnaround plan designed to transform the company into a higher growth, higher margin electronics supplier.

The 2015 acquisition of rugged electromagnetic components specialist Aero Stanrew opened a new route to market for TT, and it has since sold off its low margin transportation business in a £118.8m deal.

Analysts predict profit margins could increase over the new few years. Operating profit margins of 6.2% in 2016 increased last year to 6.8%. Numis reckons 8% is likely by 2019 or 2020, implying rapid growth in earnings.

At 221p, TT shares are currently trading on a 2018 price-to-earnings (PE) multiple of 13.6, versus 17.5 for its peer group, according to Reuters data.

Narrowing that valuation gap could help the stock move towards Numis' 280p target over the next year. The potential underlying value within TT could also attract takeover interest down the line, assuming it can improve margins. (SF)

JUPITER TOPS THE LIST OF WORST SHARE PERFORMANCE OF UK-QUOTED ASSET MANAGERS

JUPITER FUND MANAGEMENT'S (JUP) share price is down 28.2% since the start of the year to 453.6p.

This is in stark contrast to many of its quoted peer group.

For example, **Miton (MGR:AIM)** has seen its shares appreciate by 26.8% to 48p year-to-date. **Liontrust (LIO)** is up by 19.2% in value over the same period.

Jupiter suffered a £3.3bn decline in assets under management in the three months to 31 March 2018. It was particularly hurt by clients taking money out of its Dynamic Bond fund.

Shares in the largest UK-listed asset manager **Standard Life Aberdeen (SLA)** are down 16.1% since the start of the year; and **Schroders (SDR)** is down 7%.

JUPITER'S SHARE PRICE

Asset manager	Share price gain/loss since start of year
Jupiter	-28.2%
Standard Life Aberdeen	-16.1%
Schroders	-7.0%
Polar Capital	-3.6%
Liontrust	19.2%
Miton	26.8%

Source: SharePad

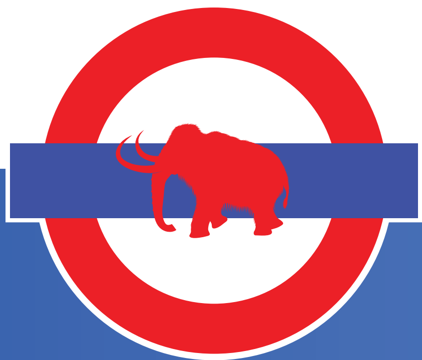
WEIR DEAL HAILED AS A 'STEAL'

Glasgow engineer **Weir's (WEIR)** acquisition of US mining tools business ESCO is flagged as a steal by analysts at Liberum.

They describe it as 'an excellent acquisition at a good price' citing the 12.6 times forecast earnings before interest, tax, depreciation and amortisation multiple.

However, with the sale of its Flow Control business to follow this transaction, the company will be almost 100% exposed to the cyclical mining and oil and gas industries.

MIND THE PENSIONS FUNDING GAP



The UK is facing a mammoth pensions funding gap that could balloon to $33tn by 2050, up from an estimated $8tn shortfall in 2015.

This is one of the many forecasts made by the World Economic Forum (WEF).

The research anticipates that around a third of average retirement income will come from workplace pension schemes, with another quarter from individual savings and investments. But that still implies 42% of retirement income coming from state pensions.

'The anticipated increase in longevity and resulting ageing populations is the financial equivalent of climate change,' says Michael Drexler of the WEF.

Investors should flick the switch on Strix

Kettle controls leader capable growing from firm foundations

Many investors will already be customers of **Strix (KETL:AIM)** without necessarily knowing it. The company makes kettle controls and safety devices on 70m kettles sold worldwide each year.

Whether yours is a posh Bosch or a discount Russell Hobbs, chances are that it automatically switches off when the water boils thanks to Strix gadgetry.

Strix joined the stock market at 100p, a price thought of as cheap at the time because its private equity owner wanted out as part of its winding down process and Strix was its last asset to sell.

The company predominantly sells to 180-odd Chinese kettle manufacturers and has long-term relationships with over 400 brands and retailers. It claims about 40% of global market share.

Which begs the question, where's the growth?

Global electric kettle demand is on the rise, largely thanks to China. Between 2012 and 2017 the market averaged 5.6% growth a year but this pace is expected to increase to beyond 7% annually through to 2020.

Analysts believe Strix can outstrip that global growth pace, going closer to 10% a year, as it increases penetration of less regulated end-markets through new lower-cost products, such as the U9-Series.

It is based on a common design which allows for simple regional

STRIX ↗ BUY
(KETL:AIM) 140p
Stop loss: 112p

Market cap: £266m

safety modifications. That means economies of manufacturing scale without complex and expensive production retooling. This should allow Strix to increasingly compete on price while maintaining its quality advantages.

DEFENDING ITS PATCH

There is copycat competition but most brand name kettle makers would rather play safe and use trusted suppliers like Strix than risk expensive and damaging product recalls. This will help defend operating profit margins running in the 30% to 33% range. Other barriers to entry include Strix's scale, established relationships, intellectual property and safety standards.

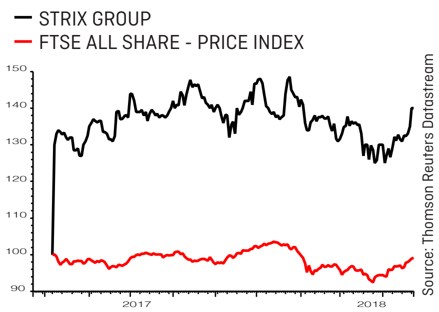
The company also produces the Aqua Optima product line, the number two water filter brand in the UK, supplementing kettle controls opportunities.

Strix has generated over £30m of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) in each of the last 10 years. The business is very cash generative with an EBITDA conversion rate greater than 90% and limited capex requirement.

Having used most of its £190m float proceeds to pay down debt Strix is expected to trade on a modest 0.9-times net debt to EBITDA by the end of 2018.

This means much of the cash it throws off each year can be paid out to shareholders. The current share price implies a 5% dividend yield this year to 31 December, rising to 5.5% in 2019. Add in the discounted 2019 price to earnings multiple of 9.3 and Strix looks a super income and growth investment. (SF)

BROKER SAYS: 1 0 0



Self-storage expert Lok'n Store 'could double in value'

The company is expanding in an under-supplied market

There is a clear route for self-storage play **Lok'n Store (LOK:AIM)** to double in value if it can execute on its growth plans.

The company provides low cost, secure storage space for households and businesses. Demand for these services has increased due to smaller homes, a more mobile population and people accumulating and then hoarding more stuff.

Businesses, often online retailers, sometimes start in self-storage units and many even become long-term customers of the likes of Lok'n Store.

The self-storage market in the UK looks particularly strong. The latest annual survey by commercial real estate firm Cushman Wakefield and the Self Storage Association UK revealed growth in both occupancy rates and rental rates.

It also showed UK residents rent four times as much space as their counterparts in France and 10 times as much as those in Germany.

SUCCESSFUL STRATEGY

Lok'n Store's success has been in finding and securing sites to serve this undersupplied market. The current pipeline of seven new stores could be expanded near-term with four further opportunities identified and in the hands of lawyers.

Margins should improve as the number of sites ramps up while the central cost platform remains for the most part unchanged. The company both owns stores, which is the case for around two thirds of the portfolio, as well as developing and operating them on a management contract.

LOK'N STORE BUY
(LOK:AIM) 405p
Stop loss: 324p

Market value: £118m

Cash available for distribution – basically how much cash can be paid in dividends minus any capital expenditure – and earnings before interest, tax, depreciation and amortisation (EBITDA) are more relevant metrics for Lok'n Store than pre-tax profit as the profit figure is impacted by the depreciation of its self-storage sites.

On both these measures recent interim results looked strong with EBITDA up 16.3% and cash available for distribution up 13% and implying an annualised total of 20.5p up from 18p for the July 2017 financial year.

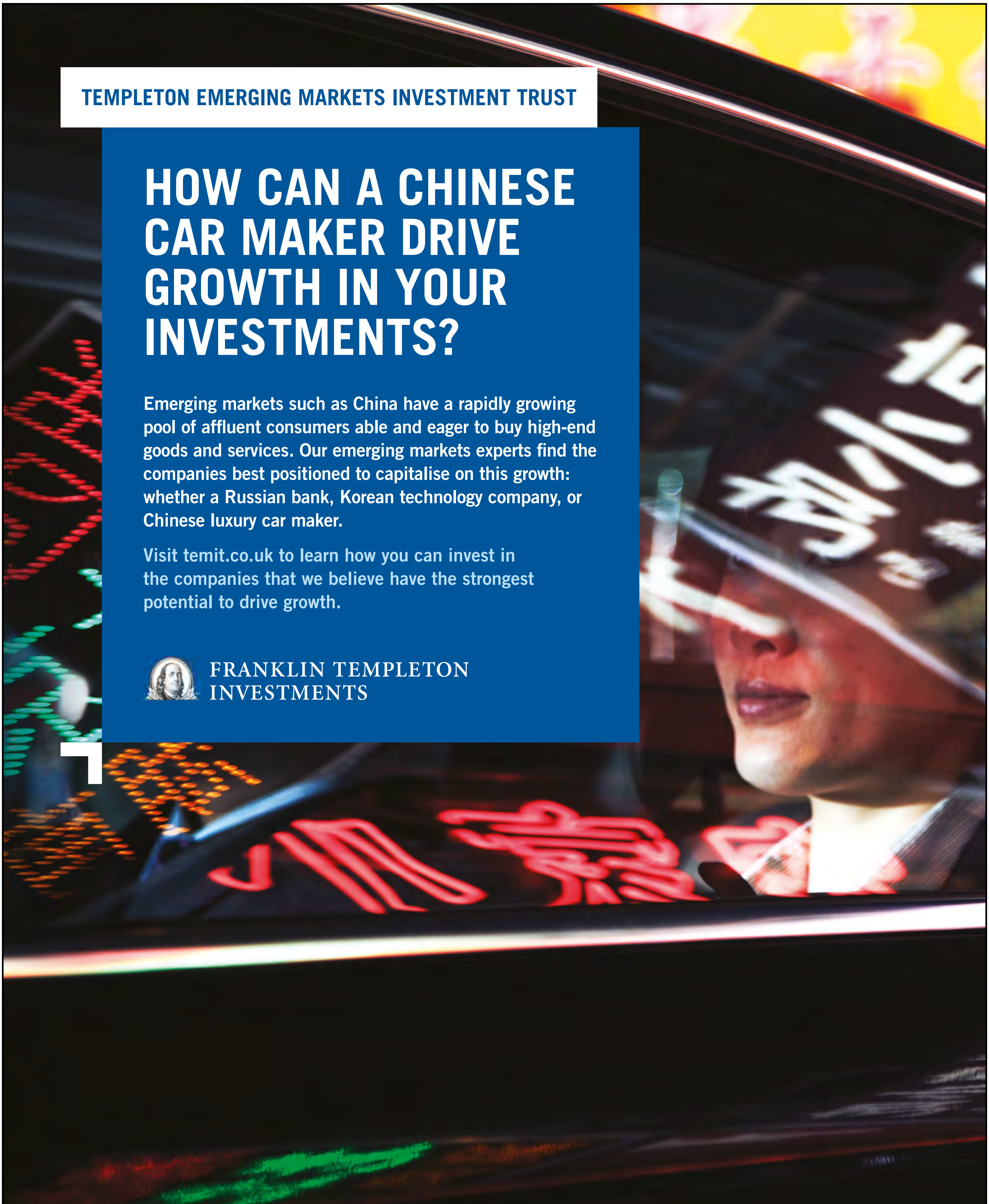
ALL LOCKED UP

Chief executive Andrew Jacobs is comfortable with forecasts from stockbroker FinnCap, based on 'simple arithmetic' in Jacobs' view, which suggest cash available for distribution could increase to 51p in the next decade.

Based on a 5% yield this implies a share price of more than £10. As the long-term potential comes to be appreciated by the market, we would expect the shares to trade higher. The shares currently offer a dividend yield of around 3%.

A potential constraint on growth is securing land for new sites, which Jacobs concedes is a challenge. Yet as a founder and significant shareholder (18.8%) in the business Jacobs says he will not overpay for real estate. (TS)

BROKER SAYS: n/a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AB DYNAMICS
(ABDP:AIM) £10.19

Gain to date: 8.6%
Original entry point:
Buy at 937.5p, 21 Dec 2017

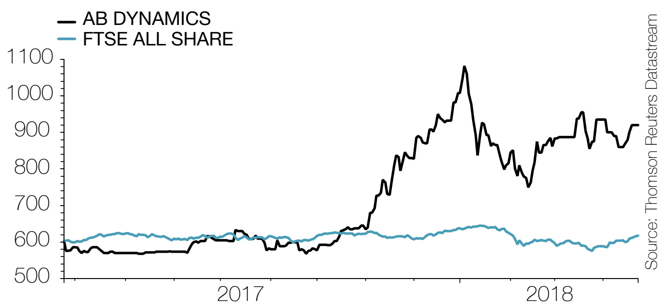
AUTOMOTIVE TESTING SPECIALIST **AB Dynamics (ABDP:AIM)** is rewarding our faith with very strong trading. A robust first half period puts the company on course to hit expectations for the August 2018 financial year.

We originally highlighted the company's potential to benefit from a state of significant change in the automotive industry, led by the electric vehicle revolution. It is clearly seeing strong demand for advanced driving robots and other products, as illustrated by half year pre-tax profit rising by 77.8% to £2.9m and the dividend hiked 10% to 1.465p.

Cantor Fitzgerald analyst Robin Byde has lifted his pre-tax profit forecasts by circa 3% each year for the 2018-2020 financial years and by 6% for revenue. The profit growth rate is lower due to Byde's cautious stance on costs. He continues to assume dividends will increased by 10% each year.

Chief executive Tim Rogers left in February, stepping aside to let someone with more experience of corporate development run the business. His replacement is expected to be announced in the summer.

Byde says: 'AB Dynamics has a healthy net cash position providing plenty of financial headroom for further product development, organic expansion and acquisitions.'



SHARES SAYS: ↗

A really strong set of numbers adds to our confidence in the business. (TS)

BROKER SAYS: 2 0 0

FOCUSRITE
(TUNE:AIM) 437.5p

Gain to date: 35%
Original entry point:
Buy at 324p, 30 Nov 2017

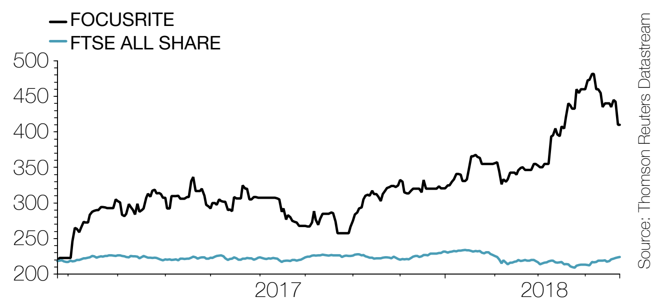
HAVING LOST A bit of momentum in recent weeks music and audio products firm **Focusrite (TUNE:AIM)** is back on the front foot as it unveils stellar first half results for the six months to 28 February 2018.

Revenue growth of 26% at constant currencies is double the pace achieved in the August 2017 financial year and operating profit is up 36%. The company is generating plenty of cash, with its net cash position advancing to £19.7m from £9.4m a year earlier.

This helps underpin a 33% year-on-year increase in the dividend to 1p and also leaves management well positioned for future growth.

This is a genuinely international business, generating 85% of its revenue outside the UK. Investors need to take a view on whether this has simply been an exceptionally strong first half, encompassing the important Christmas period, or whether it is a sustainable trend and can be replicated in the second half of the year.

Chief executive Tim Carroll cautions that while revenue and cash have continued to grow since the half year end, they have done so at a slower rate.



SHARES SAYS: ↗

Keep buying; these figures only increase our confidence in the story. (TS)

BROKER SAYS: 1 0 0

NON-STANDARD FINANCE

(NSF) 65.4p

Loss to date: -2%

Original entry point:

Buy at 66.75p, 17 August 2017

WHILE SUB-PRIME LENDER **Non Standard Finance (NSF)** has not yet lived up to our expectations, we continue to believe that this company can deliver over time.

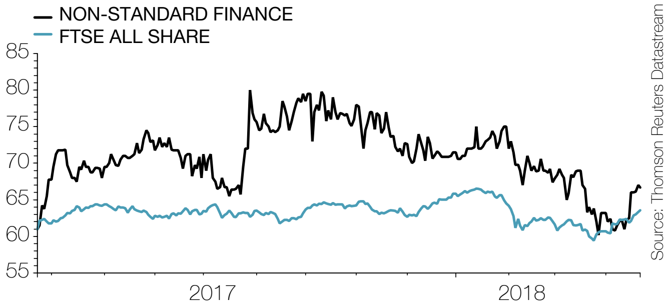
We see the business as a beneficiary of the pressures being felt by larger peer **Provident Financial (PFG)**.

One reason the share price may have been held back is the large discrepancy between its underlying profit, stripped of exceptional one-off items and its reported losses, and the statutory number in its full year results (13 Mar).

On an underlying basis, the company increased its underlying pre-tax profit by 35% in 2017 to £16.4m. On a reported basis, it made a pre-tax loss of £13m.

Portia Patel, analyst at Liberum, is still positive on the company despite cutting the price target to 83p from 94p and trimming earnings forecasts to reflect new accounting standards.

Patel has cut earnings per share by 28% and 16% for 2018 and 2019 respectively, now at 4.1p and 7.1p. This is largely due to the company adopting IFRS 9 accounting standards although higher costs for its Loans at Home business have also impacted earnings forecasts.



SHARES SAYS:

Despite some wrinkles in the full year numbers and the impact of new accounting rules we remain fans. (DS)

BROKER SAYS: 4 0 0

RECORD

(REC) 43p

Loss to date: -6.8%

Original entry point:

Buy at 46.12p, 22 June 2017

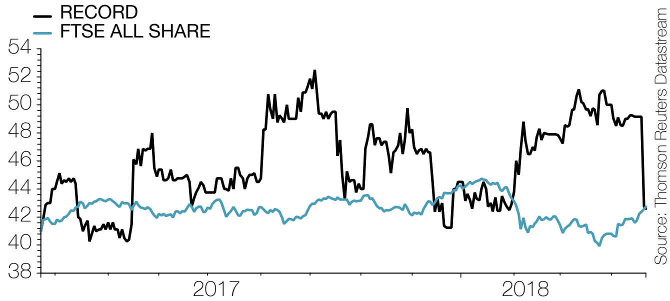
Currency manager **Record's (REC)** recent quarter to 31 March update led to a 10% decline in its share price, erasing the gains the company had made since we highlighted it.

Record helps large institutional investors such as pension funds reduce the risk of losing money due to changes in the values of currencies.

The company revealed that its assets under management equivalents had declined by $1.7bn due in part to clients making redemptions from its passive and dynamic hedging strategy.

Most concerning for us are changes to the fee structure. Record says that some of its passive hedging clients have changed from a management-only fee to a low management fee with a performance related fee.

The company did not generate any performance fees during the fourth quarter and this was not the first quarterly period to disappoint in this way.



SHARES SAYS:

Continuing volatility in currency markets should benefit the company but we are concerned about the change to the fee arrangement as defensive passive hedging strategies may be hard to gain performance fees from. For this reason investors should cut their losses and sell now. (DS)

BROKER SAYS: 1 0 0

How to adjust price-to-earnings ratios for debt and cash

We show you the process for applying a simple but more balanced valuation comparison tool

Experienced investors should be familiar with the price-to-earnings (PE) ratio. For the less experienced, it is the most popular way of valuing companies and their share prices, certainly among retail investors.

Even fund managers, equity analysts and other investment professionals commonly use it to help spot investment opportunities.

Very easy to calculate and apply; the simplicity of PE makes it such a powerful investment tool. This article will show you how it works in practice and its pros and cons.

Let's say Company X trades at 180p and its latest set of full year results show 15p of earnings per share (EPS). Its PE would be 180/15 = 12.

How to calculate a PE ratio:

Share price divided by earnings per share.

Many investors prefer to use forecast data, as the stock market is forward looking and prices in expectations for earnings rather than historical information.

Company X is forecast to make 16p EPS in the current financial year. Therefore with its 180p share price, the stock trades on a forward PE of 11.25.

PE ratios are not flawless and they can be a bit of a blunt instrument. Earnings forecasts aren't always accurate and they can occasionally fail to take into account hefty risks and industry-specific factors.

You also have to consider that low PE ratios – say anything below 10-times – don't necessarily point to a stock that is cheap. There could be a good reason as to why the stock is trading on a low rating, such as major financial problems.

For example, in 2015 outsourcing company Carillion looked cheap at 300p on a PE of around 10. Three years later it was bust.

An important lesson from Carillion's collapse is that simple PEs mask debt, and cash.

HOW DO YOU GET ROUND THIS ISSUE?

There is some very sensible valuation analysis that takes the amount of net debt or cash on the balance sheet into account.

Banks and credit rating agencies will typically assess a company's net debt-to-earnings before interest, tax, depreciation and amortisation (EBITDA), to do just that.

As a rule of thumb, a net debt/EBITDA above 3-times for any company (barring finance or utility firms) would be considered high and an uncomfortable ratio.

Mr Kipling baker **Premier Foods (PFD)** is a good example.

PREMIER FOODS - NOT AS CHEAP AS THE PE MIGHT SUGGEST

SHARE PRICE	EPS*	PE	Net debt / EBITDA**
38p	6.88p	5.5	3.9

Premier Food's net debt figure should be considered when looking at its PE ratio

As you can see from the table, Premier Foods' shares look very cheap trading on a PE ratio of 5.5-times. But the picture looks quite different when the company's £535.3m of net debt (half year figure) is put into the mix.

Its net debt/EBITDA ratio is 3.9 which is above the 3-times level at which many investors start to get nervous.

Its shares are clearly a much more risky investment because of the debt, which largely explains why the PE is so low.

PE: ADJUSTED FOR DEBT AND CASH

EBITDA is not every investor's cup of tea. Criticisms include the measure making companies look more profitable by excluding the D and A bits (depreciation and amortisation).

That can have the effect of making share prices appear less expensive than they otherwise might, and it can also skew interest cover, something that is important for companies carrying a decent amount of debt.

Complaints about EBITDA go deeper and are more complex than the scope of this article, but investors can make a fairly simple adjustment directly to a PE ratio to reflect debt/cash, making it a more useful comparison tool between stocks.

Let's look at a real life example.

Both **Next (NXT)** and **JD Sports (JD.)** have a visible presence in shopping malls and on high streets across the UK.

The pair generates more than £4bn and £3.2bn in annual sales respectively, and they rack up hundreds of millions of pounds a year in profit.

They are members of the FTSE 100 and FTSE 250 respectively and command market valuations of about £7.5bn and £3.7bn respectively.

NEXT VS JD SPORTS

	NEXT	JD SPORTS
Market cap	£7.46bn	£3.72bn
Share price	£52.14	382.6p
Revenue*	£4.06bn	£3.16bn
Pre-tax profit*	£726.1m	£294.5m
EPS*	415.7p	23.8p
(Net debt)/cash	(£1bn)	£309.7m
Number of shares in issue	141.870m	973.233m
Next FY forecast EPS	417.7p	26.0p
Vanilla PE	12.5	14.7
Adjusted PE	14.3	13.4

*Last FY reported. Source: Shares, company reports

At face value using the vanilla PE ratio, Next appears to be trading at a near-15% discount to JD Sports (12.5 versus 14.7).

The underlying debt/cash adjusted reality is the opposite; Next is actually trading on a near-7% premium to JD Sports.

RUNNING THE DEBT/CASH PE ADJUSTMENT

To calculate the debt/cash adjusted PE you need four bits of financial data, all readily available in half or full year results, and from many investment websites:

- Market cap
- Net debt or net cash figure
- Number of shares in issue
- Forecast EPS for the current financial year

STEP 1

Just like working out enterprise value, you add net debt to the market cap, or subtract net cash from the market cap

STEP 2

Divide the resulting figure by the number of shares in issue, to give you an adjusted share price

STEP 3

Divide the adjusted share price by the forecast EPS, just like working out a normal PE

Next is more expensive than JD Sports on an adjusted PE basis

Let's use Next as a working example:

STEP 1

Add £7.46bn (market cap) to £1bn (net debt) = **£8.46bn**

STEP 2

Divide £8.46bn by 141,870,483 shares in issue (19 April) = **£59.63** (adjusted share price)

STEP 3

Divide £59.63 by 417.7p (Jan 2019 forecast EPS) = **14.3**

As you can see from the accompanying table, Next is more expensive than JD Sports on an adjusted PE basis.

There are many other factors to consider from an investment perspective with these two retailers including currency issues for input and output costs, and the length of shop leases (ie. flexibility to relocate or close sites if necessary without incurring major costs).

However, the PE will certainly give you a good starting position when trying to get an idea for whether the shares are cheap or expensive. (SF)

5 WAYS to play the stronger oil price

NOW IS THE PERFECT TIME TO ADD SECTOR EXPOSURE TO YOUR PORTFOLIO

Oil prices are marking new multi-year highs as we write, supported by a larger than expected draw on crude stocks in the US and bullish comments from Saudi Arabia.

Geopolitical tensions impacting major oil producing regions such as the Middle East and Russia have also contributed to the strength in prices.

Like most markets, oil is driven by supply and demand factors. Conflict and tension in major producing areas has implications for supply and falling US inventories are indicative of strong demand.

> The Brent crude benchmark has been above $60 per barrel for around six months and has rarely traded below $50 per barrel in the last two years.

For industry and investor sentiment, the relative stability of prices is probably more relevant. We'll reveal five investment ideas later in the article; first it is important to understand the context behind recent oil price movement.

There are several key factors impacting on supply: disruption thanks to geopolitical issues; industry spending; US shale output; and the actions of producers' cartel OPEC.

In the wake of the 2014 oil crash when prices sank from more than $100 per barrel to less than $30 within 18 months, spending on the exploration projects required to generate future production dried up. However, this has been masked by a substantial uplift in shale production in the US.

The International Energy Agency forecasts US oil output will grow by 1.4m barrels of oil per day (bopd) by 2022 at an oil price of $60 per barrel, building on current record levels of 10.4m bopd.

THE IMPACT OF SHALE PRODUCTION

In 2013 and 2014 shale production began to ramp up to material levels. At a pivotal meeting in November 2014, after oil prices had already come under pressure due to a growing supply glut, OPEC failed to curb its own output.

This was perceived as an attempt by dominant member Saudi Arabia to neutralise the competitive threat posed by US shale by pricing operators out of the market. However, improvements in technology and increased efficiency enabled many projects to remain commercial even at lower oil prices.

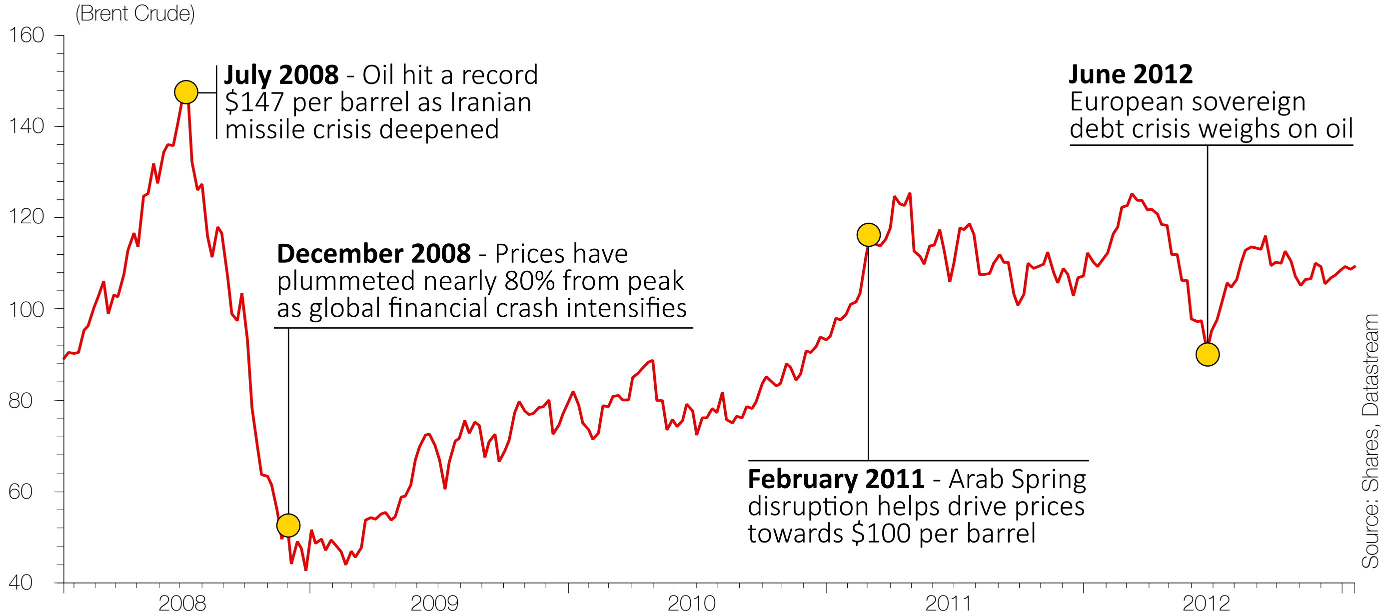
The difference between 2014 and today is that OPEC has signalled its intent to support prices. Having capitulated on its apparent price war in late 2016 by announcing curbs on output, there are recent suggestions the Saudis would be happy to see prices of $80 or even $100 per barrel.

In the longer term electric vehicle adoption might impact oil consumption but the short-term picture looks more positive as crude will remain a key engine of economic growth.

The International Monetary Fund's estimated global growth rate of 3.9% in 2018 and 2019 therefore has healthy implications for oil demand, barring an escalation of the current war of words over trade between major players US and China.

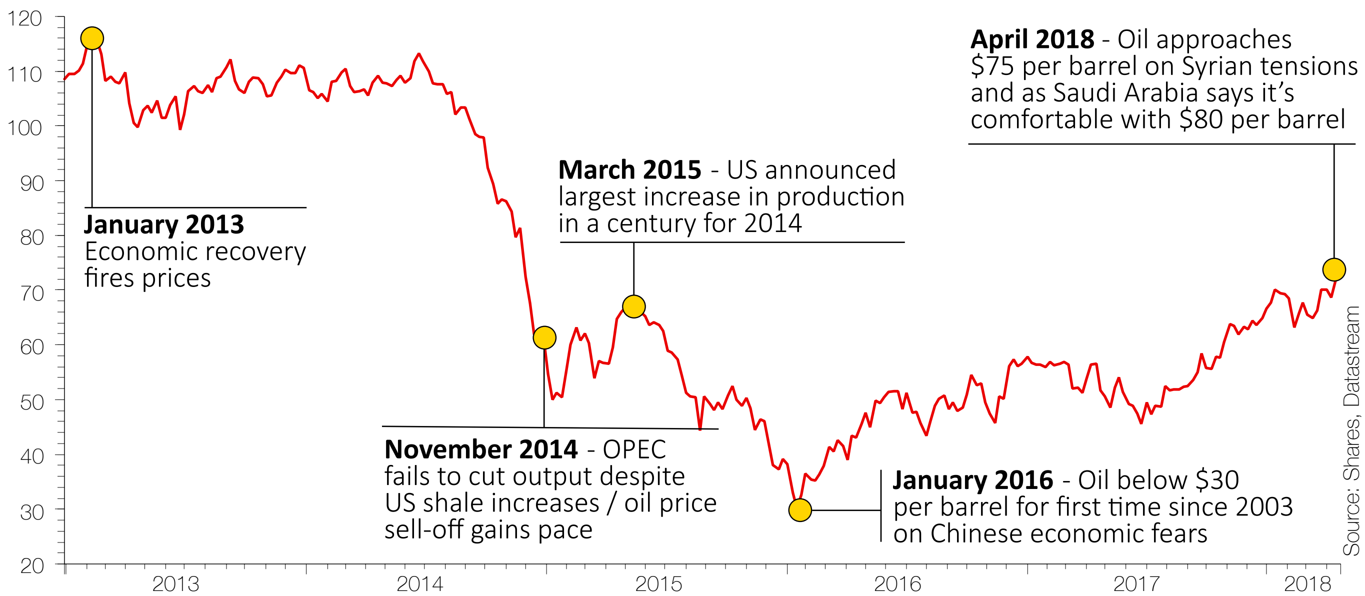
OIL PRICE 2008-2013

(Brent Crude)



OIL PRICE 2013-2018

(Brent Crude)



CAN THE E&P SECTOR BOUNCE BACK?

THE EXPLORATION AND production (E&P) sub-sector includes those companies which focus purely on the upstream part of the oil industry – in other words either seeking or producing oil and gas or a combination of both activities.

This space has endured several years of underwhelming returns, even before the collapse in the oil price. In effect investors have endured a lost decade and more with the index trading roughly where it was in January 2005.

As the chart shows the sector's performance went from mediocre to disastrous in the wake of the collapse in the oil price as companies faced substantial balance sheet pressures to the extent that some simply went bust.

Before the oil price became a factor, there were several other issues which negatively affected sentiment towards E&P companies.

Operational performance was patchy, corporate governance left plenty to be desired, there was limited M&A activity and many results from exploration drilling were poor.

This last point is important. A big reason for investing in the sector is the step change in valuation which can be achieved when a company strikes oil. Yet UK E&Ps have made far too few discoveries in recent years.

Exploration is a high-risk activity and often has a binary outcome – a commercial discovery will result in a big advance in the share price and failure to find oil or gas in commercial quantities will lead shares to crash in value.

AIM-quoted oil explorer **Jersey Oil & Gas (JOG:AIM)** is a good example. On 9 October 2017 it traded 200% higher at 170p as a well, drilled in partnership with Norwegian operator Statoil, uncovered up to 130m barrels of oil.

However, a month earlier a previous well on Verbier, in which Jersey has an 18% stake, was less successful and prompted Jersey's shares to shed more than 70% of their value in a day.

THE SECTOR'S PERFORMANCE WENT FROM MEDIOCRE TO DISASTROUS IN THE WAKE OF THE COLLAPSE IN THE OIL PRICE

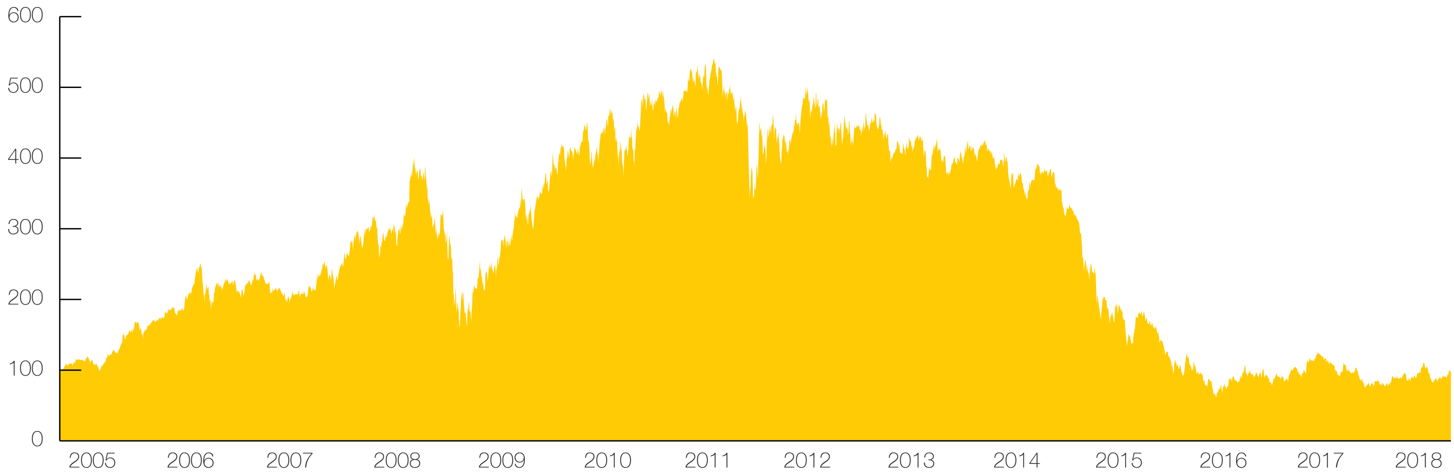
WHAT IS APPRAISAL DRILLING? IT IS DRILLING UNDERTAKEN TO ESTABLISH THE QUALITY, QUANTITY, AND OTHER CHARACTERISTICS OF OIL OR GAS IN A NEWLY DISCOVERED FIELD

TAKING ADVANTAGE OF VALUATION ANOMALY

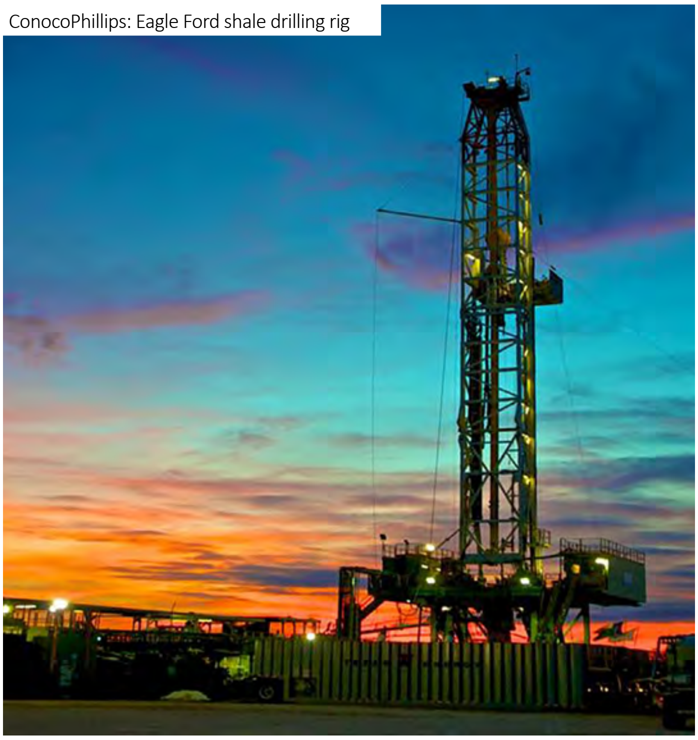
With E&Ps written off almost indiscriminately by the market, investors do not necessarily need to expose themselves to binary exploration outcomes.

Newly listed vehicle **Reabold Resources (RBD:AIM)** is focused on companies on the cusp of generating cash flow from their assets and ones which require a relatively limited amount of appraisal drilling to get them there.

UK-QUOTED E&P SECTOR PERFORMANCE 2005 TO 2018 - STOCKS HAVE LAGGED THE RECENT OIL PRICE RECOVERY



Source: Thomson Reuters Eikon, 19 April 2018


ConocoPhillips: Eagle Ford shale drilling rig

Co-chief executives Stephen Williams and Sachin Oza, former fund managers who went down this route having failed to secure sufficient funds for an oil and gas investment trust in early 2017, note many of these firms are being valued at the same level as companies in the very first stages of exploration.

Once a company is generating cash flow it tends to get more credit from the market (and thus a higher equity valuation) and Williams and Oza hope to benefit from this anomaly.

Reabold is looking to invest around £2m to £3m in firms to allow them to meet the costs of an appraisal well.

Since Williams and Oza took over at the company in October it has made two investments – one in Corallian Energy, which is developing a near shore development in the UK; and one in Danube Petroleum, a subsidiary of ASX-listed ADX Energy operating in Romania.

US PRESIDENT DONALD TRUMP HAS TARGETED THE OIL SECTOR VIA SOCIAL MEDIA. SO FAR THIS IS JUST TALK AND NO ACTION

A POST ON TWITTER ON 20 APRIL SAID:

"LOOKS LIKE OPEC IS AT IT AGAIN. WITH RECORD AMOUNTS OF OIL ALL OVER THE PLACE, INCLUDING THE FULLY LOADED SHIPS AT SEA, OIL PRICES ARE ARTIFICIALLY VERY HIGH! NO GOOD AND WILL NOT BE ACCEPTED!"

THIS PROMPTED THE MAIN OIL PRICES, BRENT AND WEST TEXAS INTERMEDIATE, TO FALL BY AROUND 1% AFTER THE TWEET

BEST UK-QUOTED E&P PERFORMERS

Company	5-year performance
Sound Energy	470%
Serica Energy	330%
Caspian Sunrise	210%
Petro Matad	130%
Phoenix Global Resources	40%

WORST UK-QUOTED E&P PERFORMERS

Company	5-year performance
Genel Energy	-75%
Rockhopper Exploration	-82%
Ophir Energy	-85%
88 Energy	-85%
Gulf Keystone Petroleum	-99%

Source: SharePad 20 April 2018 (only includes companies with market caps of £100m or more)

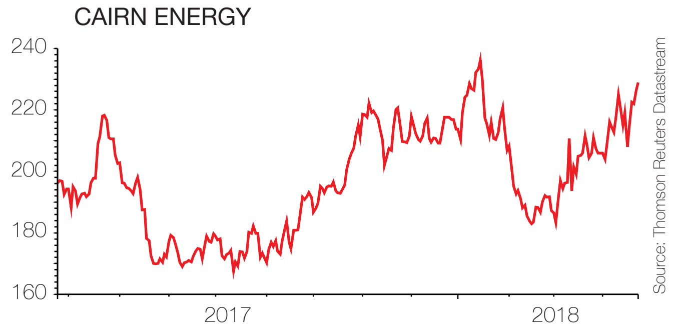
FIVE WAYS TO PLAY THE STRONGER OIL PRICE

CAIRN ENERGY (CNE)
222.8P BUY

UNLIKE SOME COMPANIES in the sector, this mid-cap has a robust balance sheet with $57bn of net cash, so you can have greater confidence it is being run in the interests of shareholders rather than creditors.

The company should benefit from a ramping-up in output from its North Sea Catcher and Kraken fields in 2018. Cairn will also focus on its SNE development offshore Senegal where a farm-out could act as a catalyst for the shares, as well as a Norwegian exploration drilling programme.

You should also look for a final resolution of an Indian tax dispute which, if it went in Cairn's favour, would allow it to realise value for its remaining interests in the country to which the market effectively ascribes zero value at present.



DIVERSIFIED GAS & OIL (DGOC:AIM)
85P BUY

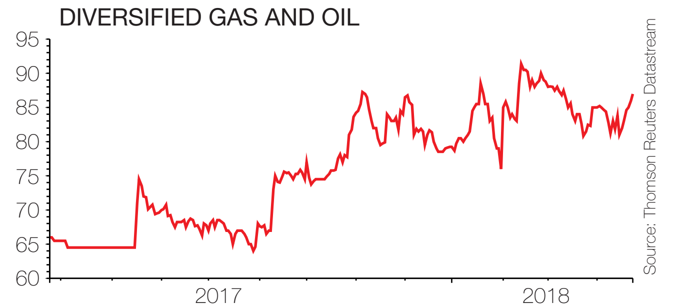
A CONSTITUENT OF our *Great Ideas* portfolio, **Diversified Gas & Oil** is the largest producer in the AIM oil and gas universe with production of 28,000 barrels of oil equivalent per day, mainly natural gas from the Appalachian basin in the US.

The growing output, boosted by two substantial acquisitions earlier this year, underpins an attractive income story in the E&P space.

Having pledged to pay out 40% of free cash flow in dividends, earlier this month the company confirmed a 5.44 cents dividend for 2017 to be paid in May. This in turn implies a yield of 4.6%.

Thanks to the consistency of its cash flow the company plans to move to quarterly dividends in 2018.

With limited debt on the balance sheet, the company has scope to acquire further assets and by doing so boost cash flow and dividends further.



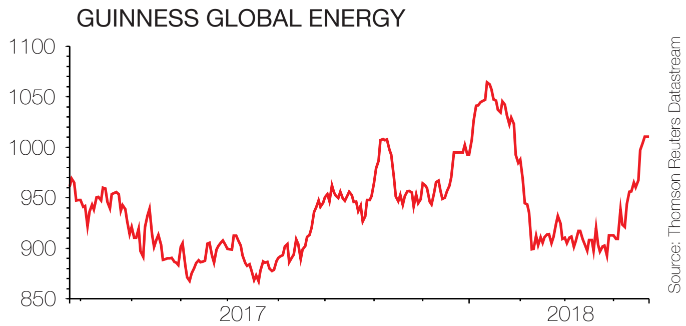
GUINNESS GLOBAL ENERGY (IE00B6XV0016)

997P BUY

LAUNCHED IN 2008 this specialist energy fund has around half of its assets in the US, 15% in Canada and a little over 10% in the UK, providing genuinely global exposure to the industry.

Among its largest holdings are the big US oil services firms Haliburton and Schlumberger alongside producers like Chinese state operator CNOOC and Canadian firm Suncor Energy.

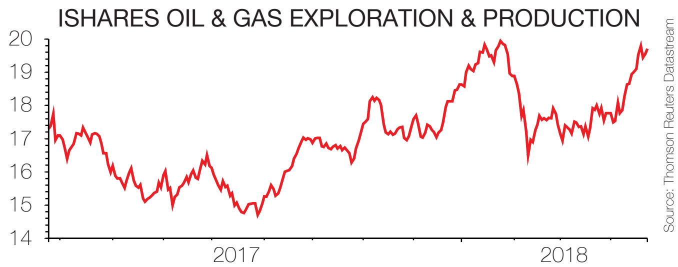
Fund managers Tim Guinness, Will Riley and Jonathan Waghorn believe improving free cash flow from the sector should see companies trade at a higher multiple of the value of their assets.



ISHARES OIL & GAS EXPLORATION & PRODUCTION (IOGP)

$19.53 BUY

THIS EXCHANGE-TRADED FUND may suit someone seeking to get diversified exposure to the oil industry with a low ongoing charge of 0.55%. The ETF tracks the performance of a global basket of companies which engage in exploration and production activities. Constituents of the index being tracked include ConocoPhilips, Woodside Petroleum and EOG Resources.



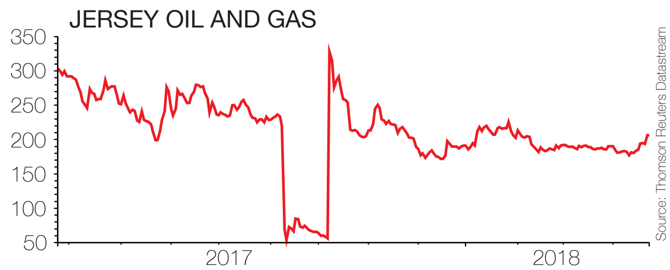
JERSEY OIL & GAS (JOG:AIM)

193P BUY

THIS STORY LOOKS lower risk than in 2017 when the company's hopes were entirely pinned on the results of exploration drilling on its Verbier prospect in the North Sea.

Jersey, in partnership with large Norwegian outfit Statoil, is drilling a lower risk appraisal well this summer which could still deliver material upside. This follows a major discovery in 2017.

A rig has been secured and having raised £23.8m last year, Jersey is fully funded for its share of the well costs. Successful appraisal drilling could prove up value of nearly £200m against a current market cap of just £45m. (TS)



Why many investment trusts are abolishing performance fees

Trend towards lower investment trust charges continues apace

Management and performance fees may not be the most important consideration when weighing up the merits of particular investment trust, but they are certainly key. The greater the costs of a fund, the harder your investments have to work to generate a positive return.

Investment companies pay a fee to fund managers for managing the portfolio. They may also pay a performance fee, *if* the manager outperforms certain targets. This can also serve to constrain investors' returns.

Active funds' fees are frequently under the microscope, as some funds are accused of overcharging investors despite delivering poor returns; in part, this explains the popularity of passive funds where many products have significantly lower fees.

RINGING-IN THE CHANGES

Investment trusts have long enjoyed a fee advantage over unit trusts, usually being cheaper investments, although this has narrowed since 2013 when regulation compelled unit trusts to issue cheaper 'clean' share classes.

Numerous trusts are now abolishing performance fees – recent examples include **Premier Global Infrastructure (PGIT)**, **Henderson Diversified Income (HDIV)**, **Aberdeen Frontier Markets (AFMC)**, **Perpetual Income & Growth (PLI)** and **F&C Commercial Property (FCPT)**.

Scrapping performance fees plays a part in a trust becoming more competitive and transparent on costs amid tough competition from the open-ended funds sector, although cynics could argue many have struggled to outperform benchmarks and trigger performance fee payments in any event.

The communications director of industry body the AIC, Annabel Brodie-Smith, tells *Shares* the move away from performance fees demonstrates the value of investment companies' independent board of directors who represent shareholders' interests.

'The AIC view is that performance fees can align the managers' interests with shareholders but they need to be carefully structured by boards to ensure they meet their purpose effectively.'

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INVESTMENT TRUSTS HAVE SCRAPPED PERFORMANCE FEES SINCE THE START OF 2011
Source: AIC

PERFORMANCE FEE ABOLITION

BlackRock Smaller Companies Trust (BRSC), currently trading on a 10.2% discount, has announced (17 Apr) new fee arrangements with manager BlackRock, effective from 1 March 2018.

Mike Prentis-steered, the trust will now have an investment management fee of 0.6% on the first £750m of total assets (less current liabilities), reducing to 0.5% thereafter, and has also shelved the performance fee.

Prior to these important changes, the trust paid a 0.65% management fee on the first £150m of assets, dropping to 0.5% thereafter, while the performance fee was based on 10% of the yearly outperformance of the benchmark in the two previous financial years, applied to the average of the total assets.

In fact, this performance fee had been capped each year (at 0.25%) due to the company's strong performance. As at 31 March 2018, BlackRock Smaller Companies had delivered one, three and five year NAV growth (without income reinvested) of 16.1%, 57% and 102.1% respectively.

This compared favourably to the 4.4%, 24.2% and 38.7% generated by the Numis ex Inv Companies + AIM index. Recent strong portfolio performers for the trust include **Avon Rubber (AVON)**, materials tech firm **Zotefoams (ZTF)** and **Dechra Pharmaceuticals (DPH)**.

BlackRock Smaller Companies' board even quantifies the saving. Had the new fee arrangements been applied for the year ended 28 February 2018, total fees payable to BlackRock would have been 'approximately 20% (£1.1m) lower; and the total operating charges ratio (inclusive of performance fees) would have been reduced from 0.93% to 0.77%'.

COST-CUTTERS

Languishing on an 11.5% discount, another fund that has materially reduced running costs is **Jupiter US Smaller Companies (JUS)**. The company has acted to ensure its charges are competitive versus sector peers and the institutional unit class of the Jupiter US Small & Mid Cap Fund, with which it shares a manager in Robert Siddles.

Jupiter US Smaller Companies has not only abolished the performance fee, but also with effect from 1 October, its management fee has reduced from 0.8% of total assets to a tiered fee amounting to 0.75% of adjusted net assets up to £150m, reducing to 0.65% for net assets over £150m and up to £250m, and reducing further to 0.55% if net assets top £250m.

Performance over the past few years has disappointed with successful stocks sold too soon, poorly performing ones held too long and the portfolio traded too quickly. Yet Siddles now intends to sell poor performing stocks promptly, and run his winners for longer, from a more concentrated portfolio.

Jupiter US Smaller Companies offers exposure to an interesting, under-researched sector with pockets of undiscovered value. Its eclectic batch of names spans speciality food distributor Chefs' Warehouse, insurance underwriter Alleghany, agrichemicals producer American Vanguard and regional bank Pacific Premier Bancorp.

Shares intends to explore the underlying portfolio and inspect the performance in detail in a future article.

ENHANCED ALLURE

In November, fund-of-funds **Aberdeen Emerging Markets (AEMC)** pared its annual management fee from 1% to 0.8% of net assets and has also discarded the performance fee.

Allied to the recently introduced dividend, these changes should enhance the fund's attractiveness to existing and potential investors. However, no performance fee has been paid since the £2.48m fee paid back in 2010, according to the AIC.

Aberdeen Emerging Markets claims to offer investors exposure to 'some of the best investment talent within the global emerging markets of Asia, Eastern Europe, Africa and Latin America'.

However, its NAV total return of 14.9% for the year to 31 October 2017 lagged the 16.6% total return of the benchmark MSCI Emerging Markets Net Total Return Index. An underweight exposure to China and the technology sector proved to be a drag on performance. (JC)

THE EXPERTS' VIEW:

'The decision of the BlackRock Smaller Companies' board to remove the performance fee reflects the trend that has seen over 45 investment companies removing performance incentives since 2012.

'Performance fees have fallen out of favour with retail/private wealth investors in recent years, partly because they make fee comparisons more difficult.

'We would argue that a low base fee combined with a well-structured performance fee rewards a manager for delivering outperformance rather than growing assets, which should align their interests with shareholders.

'The key is that a performance fee is not excessively generous and does not simply reward higher risk. In our view, there are also merits in a performance fee that is simple and easy for investors to understand.

'Our key criticism of the performance fee for BlackRock Smaller Companies was that it was charged based on gross assets, even though it is calculated on net assets. Similarly, we believe that base fees should be charged on net assets rather than gross assets.'

THE INVESTMENT TRUST TEAM AT NUMIS

How do some income funds achieve very high yields?

We explain the method by which some funds pay more than 5%

Low interest rates have fired appetite for income from equities and a big proportion of this demand has been satisfied by funds. So how is it that some funds can yield 7% or 8% when the Investment Association Equity Income sector average yield is 4%?

The answer is derivative trading, selling options on some of their holdings, otherwise known as an overlay of 'covered call options'.

The downside of using this technique is the fund will lose some of its capital growth potential which can impact the fund's total return.

However, for certain investors, income is the main objective of investing and they will be willing to forego total return as a trade off for receiving a regular pay out.

Toby Gibb, investment director at asset manager Fidelity, says it is a good strategy for investors who are focused on income and not bothered with capital appreciation.

Typically the covered call options are sold to investment banks. The success of this technique is highly reliant on market conditions. When there's heightened volatility and fluctuating stock prices, a bigger premium strike price can be agreed.

Rupert Rucker, head of income solutions at Schroders says: 'If the strike price isn't reached we [the fund] still get our premium but the counterparty doesn't get any upside'.

The type of company is also important. A counterparty is unlikely to enter into a contract to buy a stock whose share price has barely moved in a year.

Funds that use enhanced equity incomes are not all clones of one another; they often operate in very different ways. Some may have the derivatives strategy working alongside the fund manager to come up with strategies whereas for others that is a completely separate department.

COVERED CALL OPTIONS EXPLAINED

Covered call options are not as complex as they might sound to some investors. Essentially, a fund manager sells an option, giving the purchaser the right, but not an obligation, to buy a stock from the fund at a pre-determined 'strike' price on a specific future date.

For this service, the fund receives a premium regardless of whether the option is exercised or not. So in some respects a covered call option works rather like an insurance policy.

If the stock's price does not hit the strike price by the time the contract expires the fund keeps the premium, which is distributed to investors as a dividend.

If the strike price is reached the fund still keeps the premium, but it has to pay any additional increase in the stock's value over and above the strike price to the purchaser.

RUSS MOULD, AJ BELL INVESTMENT DIRECTOR

HIGHEST YIELDING UK EQUITY INCOME FUNDS		
Top 10 Funds	**ISIN**	**Yield (%)**
Insight Equity Income Booster GBP Inc	GB00B7XF7Y37	8.15
Premier Optimum Income A Inc	GB0006641384	7.80
Schroder Income Maximiser A Acc	GB00B0HWHK75	7.08
Fidelity Enhanced Income Acc	GB00B3KB7799	6.95
FP Miton Income A Acc	GB00B1RQR625	5.58
Santander Enhanced Income II	GB00B3RJG579	5.53
Santander Equity Income RI	GB0004909577	5.52
Santander Dividend Income RI	GB00B41BWM59	5.30
Schroder UK Alpha Income Z Inc	GB00B073JS25	5.05
Premier Income C Inc	GB0003884722	5.01

Source: Morningstar. Yield data is historic, covering the last 12 months.

THE FIDELITY PRODUCT

Fidelity Enhanced Income Fund (GB00B87HPZ94) targets a yield of 7% and is managed by Michael Clark with the derivatives strategy handled by David Jehan. The pair work closely together with Clark calling his approach SIRP (Safety of Income at a Reasonable Price).

He looks for high quality companies with simple business models, consistent cash flows and predictably sustainable dividends with plenty of cover. Fidelity's Gibb says the fund has added insurance giant **Prudential (PRU)** and airline conglomerate **International Consolidated Airlines (IAG)** as other big dividend payers such as tobacco stocks 'have a less clear future'.

THE SCHRODER PRODUCT

Schroder's Income Maximiser (GB00B0HWJ904) uses options to bolster its income. Schroder's Rucker says companies are bought when they are cheap and gives recent examples like **WPP (WPP)** and **Provident Financial (PFG)** and an older addition **Tesco (TSCO)**. The fund will buy them 'as long as they've got a robust balance sheet and we think they'll recover'.

Fund research house Square Mile says the managers Nick Kirrage and Kevin Murphy screen the market for stocks that have underperformed the market over the medium term but have interesting valuation metrics. Rucker says he uses enterprise value to net operating profit as a metric to find cheap stocks.

A DIFFERENT OPTION

Gary Potter, fund manager on **F&C Multi Manager Navigation Distribution Fund (GB00B23Y3D60)**, has Schroder's Enhanced Income Fund among its top holdings and yields 4.9%.

'Holding the enhanced funds in isolation might not be good. With maximiser products people might think they want the income but they should also want the total return,' says Potter.

It should be noted that this fund is not an equity income product, falling into the category of multi-asset with a large exposure to fixed income assets.

BMO Asset Management, which runs the F&C fund range after acquiring it in 2014, also offers enhanced equity income exchange-traded funds. These aim to deliver a yield of 3% above their respective indices but at a reduced cost relative to actively managed funds.

These products include **BMO Enhanced Income UK Equity (ZWUK)**, **BMO Enhanced Income Euro Equity (ZWEU)** and **BMO Enhanced Income USA Equity (ZWUS)**.

While these ETFs are cheaper with an annual fee of around 0.3%, they tend to sell call options indiscriminately on a proportion of an index, typically around 50%. In an actively managed enhanced income fund while a similar proportion of investments will have options sold on them, the stocks in question will usually be carefully selected. (DS)

What could happen to tech stocks if it all goes wrong?

Shareholders in many of the world's biggest companies at the turn of the millennium would have subsequently lost money

Six of the world's seven biggest companies by market capitalisation hail from the technology sector, which also offers 10 of the most valuable 25 companies. The six are Apple, Alphabet (Google's parent), Amazon, Microsoft, Tencent and Alibaba.

Investors with exposure to this sector, either directly via technology stocks or specialist funds or indirectly via markets which have a heavy weighting in tech, such as the US or Asia, may see this as a reassuring vindication of their faith.

Others may be less sanguine, in the view that these stocks' very size means they are implicitly the most popular stocks with investors right now – for this will remind many of investment legend Warren Buffett's warning that: 'You can't buy what is popular and do well.'

By Russ Mould, investment director, AJ Bell

The wisdom of Buffett's words is supported by looking at two prior episodes when one or two sectors were particularly popular and were driving stock markets higher.

And any investor who bought into them when they were at the absolute height of their popularity, at the market peaks in 1999 and 2007, would have suffered some serious portfolio pain.

BUYING THE 25 BIGGEST STOCKS AT THE 1999 PEAK WOULD HAVE LEAD TO HEFTY PORTFOLIO LOSSES, EVEN TO THIS DAY

Name	3 years	5 years	10 years	To date *
Microsoft	(55.7%)	(54.2%)	(47.8%)	59.1%
General Electric	(52.8%)	(29.2%)	(70.7%)	(74.7%)
NTT DoCoMo	(72.1%)	(76.0%)	(83.5%)	(64.3%)
Cisco	(75.5%)	(63.9%)	(55.3%)	(20.6%)
WalMart	(26.5%)	(23.6%)	(22.7%)	25.1%
Intel	(62.2%)	(43.2%)	(50.4%)	24.6%
NTT	(99.8%)	(73.7%)	(79.1%)	(34.7%)
Alcatel	(90.8%)	(74.9%)	(94.8%)	(91.9%)
Nokia	(66.3%)	(74.2%)	(80.2%)	(90.0%)
Pfizer	(5.8%)	(17.1%)	(43.9%)	10.8%
Deutsche Telekom	(82.7%)	(76.5%)	(85.4%)	(80.4%)
BP	(31.3%)	(18.4%)	(3.6%)	(18.8%)
Exxon Mobil	(13.2%)	27.3%	69.4%	91.4%
IBM	(28.2%)	(8.6%)	21.3%	44.0%

Name	3 years	5 years	10 years	To date *
Citigroup	(9.7%)	23.6%	(91.5%)	(81.9%)
Toyota Motor	(35.6%)	(15.8%)	(21.6%)	38.1%
AIG	(82.7%)	(74.4%)	(81.4%)	(35.6%)
Time Warner	(19.7%)	(8.9%)	(97.9%)	(95.6%)
AT&T	(44.4%)	(47.1%)	(42.5%)	(26.5%)
Oracle	(61.5%)	(51.0%)	(12.5%)	63.5%
Home Depot	(65.1%)	(37.8%)	(57.9%)	152.3%
BT	(81.6%)	(80.9%)	(87.3%)	(77.5%)
Merck	(15.7%)	(49.5%)	(42.5%)	(11.2%)
Vodafone	(63.1%)	(54.0%)	(53.2%)	(34.6%)
WorldCom	(99.7%)	(100.0%)	(100.0%)	(100.0%)
AVERAGE	**(53.7%)**	**(44.1%)**	**(52.6%)**	**(17.2%)**
TMT Average	**(66.9%)**	**(59.1%)**	**(63.2%)**	**(35.0%)**

Source: Bloomberg, Thomson Reuters Datastream. From 31 December 1999. *To 11 April 2018.

KING-SIZED HANGOVER

Those investors who were partying like it was 1999 as the tech, media and telecoms bubble took off will have enjoyed themselves, but only if they ultimately got out when everyone else was piling in.

On 31 December 1999, no fewer than 15 of the world's 25 biggest companies came from the technology, media and telecoms (TMT) sectors. Buying all 25 in the view that what was working then would keep working would have inflicted losses on the investor over one, three, five and 10 years as well as to date.

• Buying the only hottest stocks of all – the TMT names – would have made the losses even worse.

• In total just nine of the 25 biggest companies (in 1999) have yielded capital gains for investors since the 1999 peak and only four – Microsoft, Intel, IBM and Oracle – are TMT companies. One – WorldCom – even went spectacularly bust.

SUMMERTIME BLUES

The most popular stocks and sectors may have changed by 2007 but intrepid investors who snapped up the world's 25 biggest stocks by market value that summer may have similarly encountered issues.

This time, it was energy stocks and financial services firms, especially banks, who dominated the leaderboard, helped by a surge in oil to $147 a barrel and booms in the US housing and global financial markets.

Anyone buying all 25 names at the July 2007 high would have just about got their money back in capital terms, even if only nine of the stocks have since generated a positive return. Only three of those names hail from the list of 12 energy and financial stocks which dominated the market cap rankings just over a decade ago.

PORTFOLIO PLANNING

There are four lessons which investors can draw from this data:

• Do not assume that what is working well now will always work in the future. New rivals, new technologies and simple management incompetence (a change in strategy, a bad acquisition) can quickly unseat even the most successful company.

• Do pay attention to a company's balance sheet and cash flow, and not just its profit and loss account and share price momentum.

Microsoft is one of the few tech giants to have delivered a positive return for investors since the new millennium

BUYING THE 25 BIGGEST STOCKS AT THE 2007 PEAK WOULD MEANS INVESTORS HAVE JUST ABOUT GOT THEIR MONEY BACK

Name	3 years	5 years	10 years	To date *
Exxon Mobil	(36.7%)	(6.6%)	(12.4%)	(16.5%)
General Electric	(64.1%)	(51.4%)	(33.8%)	(67.9%)
Microsoft	(19.9%)	(2.7%)	134.4%	194.8%
Petrochina	(29.6%)	(19.2%)	(58.8%)	(55.7%)
Royal Dutch Shell	(14.8%)	10.3%	(0.4%)	16.1%
Gazprom	(46.5%)	(46.5%)	(58.9%)	(51.5%)
Citigroup	(92.2%)	(94.8%)	(83.0%)	(86.2%)
AT&T	(37.3%)	(10.5%)	(8.9%)	(9.7%)
BP	(35.9%)	(26.6%)	(31.2%)	(16.5%)
China Mobile	(15.2%)	(3.7%)	(8.9%)	(18.2%)
Industrial & Commercial Bank Of China	(22.8%)	(28.8%)	(1.3%)	14.6%
Toyota Motor	(58.4%)	(59.9%)	(18.7%)	(9.3%)
Bank of America	(72.4%)	(85.3%)	(51.2%)	(38.1%)
HSBC	(21.1%)	(30.5%)	(6.5%)	(14.7%)
Total	(38.2%)	(40.0%)	(29.0%)	(20.2%)
WalMart	1.5%	46.6%	55.5%	77.2%
Chevron	(22.6%)	17.0%	12.3%	27.8%
Procter & Gamble	(1.5%)	3.4%	40.7%	24.8%
EDF	(60.4%)	(77.4%)	(87.1%)	(83.8%)
BHP Billiton	21.2%	23.1%	(5.6%)	2.6%
Cisco	(24.1%)	(44.3%)	6.5%	42.0%
Johnson & Johnson	(4.5%)	11.4%	116.7%	108.8%
AIG	(97.5%)	(97.3%)	(94.5%)	(95.4%)
Vodafone	(10.7%)	13.1%	33.8%	23.9%
Pfizer	(41.1%)	(4.8%)	34.5%	43.9%
AVERAGE	**(33.8%)**	**(24.2%)**	**(6.2%)**	**(0.3%)**
TMT Average	**(44.2%)**	**(37.3%)**	**(34.6%)**	**(28.0%)**

Source: Bloomberg, Thomson Reuters Datastream.
From 19 July 2007. *To 11 April 2018.

Those tech firms which managed to survive the 2000-03 TMT bust and even thrive generally had strong balance sheets laden with cash.

As a result, Microsoft has been able to reinvent itself and Intel has maintained its technological and scale edge in microprocessor production, for example.

The losers included the highly acquisitive and highly-indebted WorldCom, which turned into an accounting fraud; and Alcatel, whose defensive merger with American rival Lucent merely added complexity to an already difficult situation.

• Valuation matters. No matter how good the story looks, investors need to make sure that they are paying a reasonable valuation which leaves room for upside but also protects the downside if and when something goes wrong.

• It is hard to buy what is popular and do well for any sustained period of time. This is not to say that technology stocks, or markets in general, are about to implode. But it does hark back to Buffett's aversion to buying what is popular and his preference for buying securities when no-one is interested, rather than when everyone is.

While it is tempting to think that we can time markets and get out before anyone else does, the chances are probably slim. On that point, we can again turn to Buffett who once wrote: 'We have a lot of fun as the bubble blows up and we all think we are going to get out at five minutes before midnight – but there are no clocks on the wall.'

AEQUITAS

WHY IS THIS COLUMN CALLED AEQUITAS?
It is the Latin word for equity and the origin of the modern word in both senses – fairness and the value of a company's shares.

Should I prioritise repaying debts or investing?

Top tips for young adults starting their saving and investing journey

Once you start planning for your future one of the biggest decisions you'll face is whether to begin investing or pay off debts.

Both are commendable and necessary measures that will improve your chances of reaching your financial goals.

The decision will often come down to the types of debt you have and the return you hope to achieve on investments.

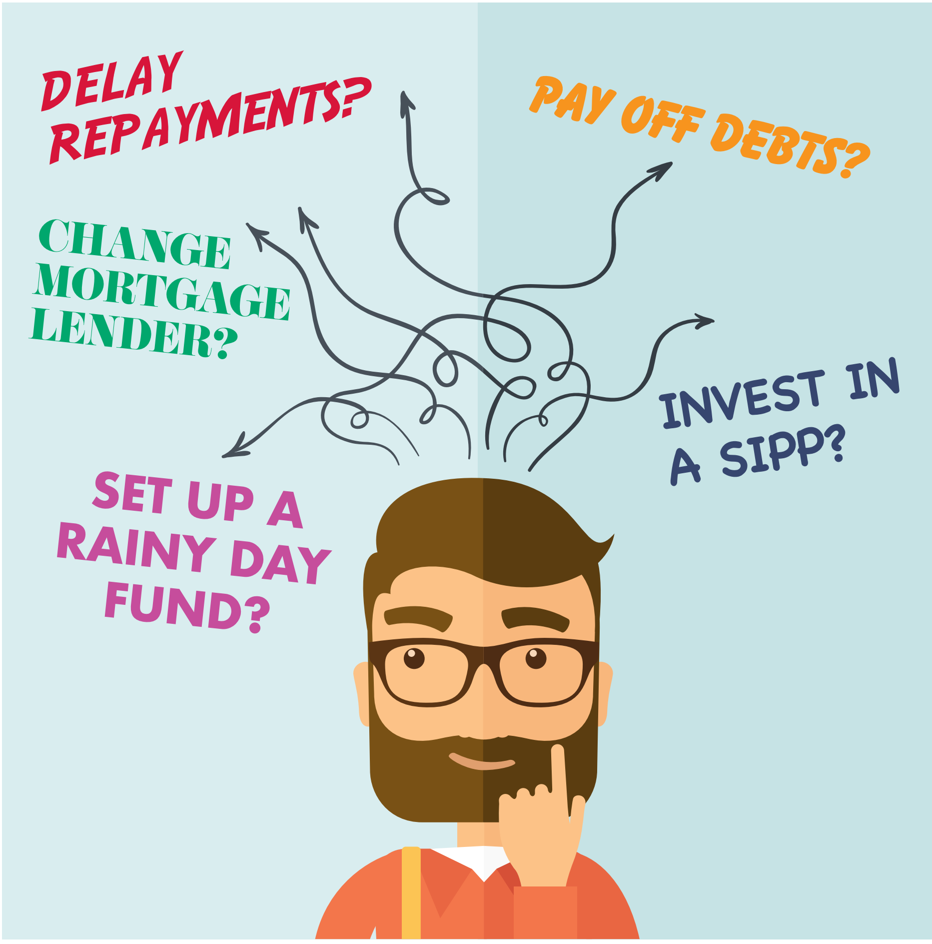
IS IT WISE TO PAY OFF DEBTS FIRST?

It is usually better to pay off debts before you start investing, especially if the interest rate on your debt is higher than the returns you could expect to gain from investments.

Imagine you've got £10,000 in credit card debts and the interest rate is 18%. This debt is not only costing you a huge £1,800 a year, but it will be a challenge to achieve this rate by investing.

'Expensive debt means that the interest rate charged by, for example, credit card providers and lenders on outstanding balances will undoubtedly be greater than the returns you can make on your investments,' says Andrew Craig, founder and author at Plain English Finance.

'It's like filling a bath with the plug hole open – the speed at which the water disappears down the plug hole exceeds the speed at which the water is filling the bath.'



The interest rate, size and lifespan of the debt and affordability are all factors you should consider when deciding the best strategy to repaying debt.

WHAT ABOUT LOW INTEREST RATE DEBTS?

In theory, if investment returns are likely to be higher than the interest you're paying on debt it may make sense to consider delaying or reducing your debt repayments until the situation changes.

The problem is that returns on investments aren't guaranteed and you can lose money.

'Deciding whether to pay off debts or invest isn't as simple a decision as it may first appear,' cautions Tom Selby, senior analyst at AJ Bell. 'This is partly because whether such a decision is proven "right" or not depends on future investment returns which, by definition, are unknown.'

If you think the debt is manageable, it might make sense to balance the debt repayment with some investment, especially if the loan has a long lifespan and interest rates are very low.

WHY IS MORTGAGE DEBT ANY DIFFERENT?

Many investors are likely to be paying off a mortgage, so it's reasonable to wonder why that type of debt should be treated any differently.

It's partly down to the way people view mortgages. 'For most people a mortgage replaces the cost of renting a property so it is seen as a simple exchange of costs,' says Adrian Lowcock, investment director at asset manager Architas. 'In addition to this, unlike many other loans, you get something in return – a property.'

Mortgages are a loan that can last decades. 'It becomes impractical to wait to invest until the mortgage has been repaid,' adds Lowcock. 'One of the strengths of investing is compounding and returns are delivered over the longer term.'

However, if you fail to keep up your interest repayments, your bank will probably sell the property to repay the loan.

> It becomes impractical to wait to invest until the mortgage has been repaid

SHOULD I PAY OFF MY STUDENT LOAN?

Student debts are slightly different to other debts because repayments only have to be paid once your salary reaches a certain level. They are wiped out altogether after 30 years, or if you die.

You pay back 9% of your income annually over the minimum amount of either £18,330 or £25,000 depending on which of the two different loan plans you are on. If you're in a good job, you may have spare cash left over each month, even after accounting for your student loan repayments.

Interest rates on student loans vary enormously, depending on factors such as the year you started your higher education and how much you're currently earning.

AJ Bell's Tom Selby says a graduate with £10,000 of student debt where the interest rate is just 1.5% might prefer to invest any spare cash in an ISA or SIPP (Self-Invested Personal Pension), assuming they've not got any additional debts incurring high levels of interest.

'For most people with any form of debt, it will be a question of balancing saving and investing with paying off any debts they have,' he explains.

'When making this decision, it's worth remembering that early money invested in the stock market can benefit from the magic of compound growth, while vehicles like ISAs and SIPPs allow you to take advantage of tax-free investment growth.'

IS IT SENSIBLE TO INVEST IN A PENSION IF I HAVE DEBTS?

Paying into a workplace pension is a sensible move even if you have debts because many employers will match your contributions. You'll also get tax relief on the contributions.

'This uplift makes pension contributions rather attractive,' says Matthew Bonney, financial planner at European Wealth.

'But younger savers should keep in mind that they're unlikely to be able to retire until they are at least 68. As such, if you have the means, a mix of pension contributions and building an accessible savings pot – via a stocks and shares ISA for instance – may well be more prudent.' (EP)

How are my savings and investments protected?

We explain the protection scheme for retail investors

The UK's financial services sector is one of the most heavily regulated in the world. While for businesses this can sometimes be burdensome, one key benefit is the protective cloak it offers to savers and investors when things go wrong.

The extent of this protection – and any compensation you might be entitled to – will depend on where your money is held.

This brief guide explains the workings of the Financial Services Compensation Scheme (FSCS) which is the protection scheme for retail investors.

The FSCS provides protection to people with money held in banks, regulated investments and insurance (including pensions). The level of compensation you are entitled to will vary depending on the product you're claiming on.

CASH IN THE BANK

If you have money saved in a UK-regulated bank or building society, you will qualify for FSCS protection up to £85,000. So if a bank or building society goes bust and you have money in a current account, savings account, cash ISA, Help to Buy ISA or cash Lifetime ISA, you will be covered up to this amount.

Stocks and shares ISAs and Lifetime ISAs are classed as investments and so qualify for a lower level of protection (more on this later).

It's worth noting that the £85,000 limit only applies per banking licence, and some banks share the same license. For example, HSBC and First Direct fall under the same umbrella and so share combined protection.

If you want to maximise your FSCS protection you should check the licensing of any institutions where you hold more than £85,000 in cash savings, and consider moving at least some of it elsewhere.

INVESTMENTS

If you've got a risk-based investment and the investment firm goes under, you will qualify for FSCS protection worth up to £50,000 if you can't get back the full value of your investment. This applies per person, per authorised firm.

So if an authorised firm gave you bad advice or was negligent in its management of your investments, you would be covered.

However, the FSCS doesn't protect you if the companies you invest in fail, or if you buy a fund and it performs poorly.

PENSIONS AND ANNUITIES

If you have bought an annuity with an insurance company, the FSCS provides 100% protection in the event the company fails. This is also the case with investment life savings products such as endowment policies or investment bonds.

If you have a SIPP, the cover you receive depends on where your money is invested (this is also the case with ISAs).

So if your money is held in cash you are normally covered by the £85,000 limit, while any stock market funds or other investment vehicles qualify for protection up to £50,000.

The FSCS also covers general insurance, home finance and credit unions – for more information on these visit www.fscs.org.uk

Tom Selby, senior analyst, AJ Bell

Irish Continental looks to sail through choppy Brexit waters

The Irish Ferries owner plans to meet capacity demands with two new ferries

Shipping and transport group **Irish Continental (ICGC)** has taken steps to accelerate future earnings growth after investing more than €300m in two new ships.

This investment is a display of confidence in the future despite the potential for disruption from Brexit.

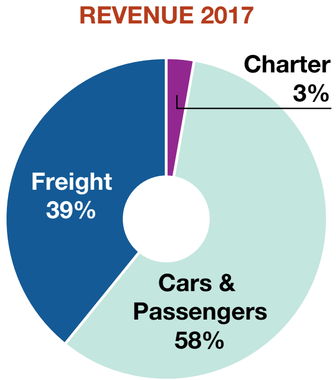
Irish Continental owns Irish Ferries, comprising five modern ferries on routes between Ireland and the UK, as well as between Ireland and France. Under this division, Irish Continental provides ship chartering activities both within the group and to third parties.

The Ferries division is a key driver of profitability, generating 61% of overall sales and 81% of operating profit in 2017.

The remainder of its revenue and profit was generated by its Container and Terminal division. Operating as Eucon, it is a leading container shipping operator between Ireland and Europe.

It operates five chartered vessels between the ports of Dublin, Cork and Belfast to Rotterdam and Antwerp.

Over the last five years, shares in Irish Continental have nearly tripled in value to €5.70 (20 April). Despite this impressive share price rally, the company trades on an undemanding 16.7 times forecast earnings per share for the year to 31 December 2019.



INVESTING TO MEET DEMAND

The funds required to buy the two new ships come from a combination of internal cash flow, lending from Allied Irish Banks and the European Investment Bank and loan notes issued by Metropolitan Life Insurance and Pricoa Capital.

The first of new vessels, christened W.B Yeats, is expected to start sailing passengers directly from Dublin to Cherbourg, France in July.

With room for 1,885 passengers and crew, W.B Yeats boasts luxury suites with private balconies, as well as a cinema, shopping mall and several restaurants.

The second vessel is expected to be delivered in April 2020 to commence operations on the Dublin-Holyhead route, according to the company.

Investment has also being poured into marketing and promotional activity in Britain, Ireland and France. In 2017, Irish Continental invested significantly in its brand by offering personalised offers, helping to generate over 6m visits to the Irish Ferries website.

Pre-tax profit jumped from €60.4m to €87.7m in the year to 31 December 2017, helped by the sale of vessel MV Kaitaki to KiwiRail, producing a €28.7m gain.

Solid sales growth is forecast, rising from €348.8m in 2018, to €365.4m in 2019 and €378.2m the year after.

Pre-tax profit is expected to decline to €58.8m in 2018 according to Investec, before rising to €63.4m in 2019 and €65.7m in 2020.

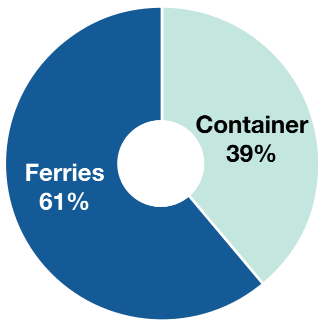
VOLUME GROWTH BOOST

Irish Continental enjoyed a resilient performance last year thanks to volume growth in passengers and cars for roll-on/roll-off (RoRo) ships.

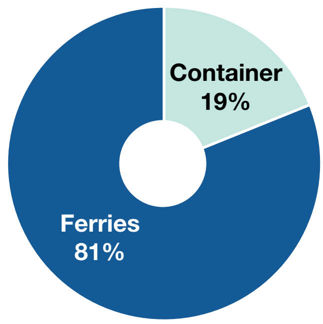
The Ferries division revealed volume growth of 1.7% for passengers, 2.4% for cars and 0.5% for RoRo freight. A 5.9% increase in shipped container volumes and 3% uplift in port lifts underpinned a decent performance in the Container and Terminal business.

Prolonged bad weather was a headwind for Irish Continental in the first two months of 2018, hitting conventional sailings by 9% year-on-year, but this is not expected to impact trading in the longer term.

REVENUE



OPERATING PROFIT



Davy Research's Stephen Furlong says accelerating car and RoRo volumes will offset the impact of higher oil prices, currency movements and the loss of chartering income from the Kaitaki sale.

'With the arrival of the new ship in the summer, we would expect ICG to outperform the market growth rates of 2% in cars and 5% in RoRo – probably in both cases above mid-single digit,' comments Furlong.

IRISH ECONOMIC RECOVERY SUPPORTS TRADING

An ongoing economic recovery in Ireland is important for Irish Continental as it should stimulate demand from passengers and for container transportation services.

Following the 2008 crash, banks in Ireland required an expensive bailout to avoid a collapse, while the country suffered from slower economic growth and higher unemployment.

Over the last couple of years, Ireland's economic picture has improved. In 2017, the country's economy grew 7.3%, which is expected to moderate to 4.4% in 2018 and 3.1% in 2019, albeit still good levels of growth.

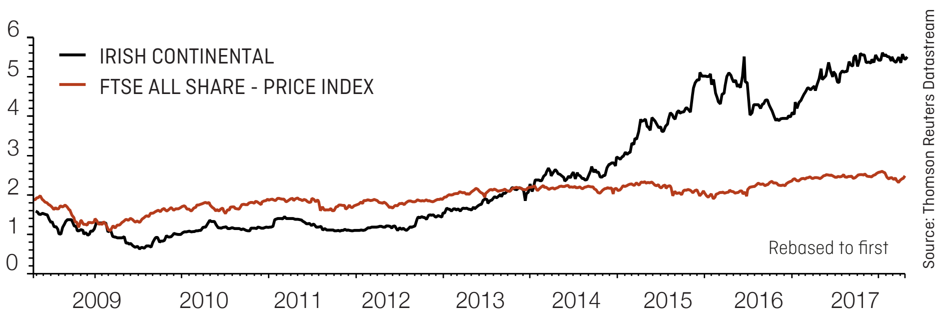
WHY BREXIT COULD BE BAD NEWS

Brexit negotiations are a risk for Ireland as current economic forecasts are based on trading relations between the EU and the UK remaining the same, which is not guaranteed.

An impact study commissioned by the Irish government suggests Ireland could be impacted more by Brexit than any other country in Europe.

The data estimates a hard Brexit and dependence on World Trade Organisation rules could cost Ireland's economy €18bn.

Airlines could also threaten Irish Continental with faster flights and low prices as the heavy competition in the sector is prompting heavy discounting. (LMJ)



Activist investor moves on Hammerson after M&A deals collapse

The property group's shares trade nearly a third below stated net asset value

It's never a dull day if you're a shareholder in shopping centre owner **Hammerson (HMSO)**. Following the rejection of a takeover offer and the collapse of a merger, the company has now attracted the attention of activist investor Elliott which has taken a 1.5% stake in the business.

We believe Elliott will put pressure on Hammerson to start selling assets, given the latter's shares at 535.4p are trading 32% below the 790p published net asset value as of 31 March 2018.

Hammerson's shares have been like a rollercoaster this year. Having declined earlier in 2018 as the market didn't like its attempt to merge with **Intu Properties (INTU)**, the shares shot up in March when French real estate investor Klepierre made a 635p takeover approach.

The shares fell back when the Klepierre offer was pulled but then started to rise when Hammerson scrapped its Intu merger plan. The stock nudged even higher on the Elliott investment news late last week.

Many observers think Hammerson has made the right call in walking away from the merger with Intu, but what will it take to drive a further re-rating of the shares? Asset sales could help this cause, but it is wise to sell assets in a depressed market?

Investment bank Liberum says it felt the execution risks regarding the Intu merger did not sufficiently justify the potential benefits or the opportunity cost of Hammerson's capital. 'As a result, we believe Hammerson's decision to walk away from its proposed acquisition is the right outcome for the shares.'

However, it is no surprise that Intu described Hammerson's rationale for withdrawing its support for the tie-up as 'unsatisfactory'. The argument that there had been deterioration in market sentiment towards retail property since the turn of the year seems faulty.

Hammerson is a European developer responsible for 37 shopping centres and retail parks across the UK, Ireland and France. Assets include Birmingham's Bullring; Brent Cross in London; Cabot Circus in Bristol; and Italie Deux in Paris.

The deal got a bad reception almost as soon as it was announced last December, and retail property has been out of favour for a lot longer than that. Perhaps the real catalyst was major shareholder APG, a Dutch pension group, explicitly stating its opposition to the deal.

Jefferies analyst Mike Prew says the position of Hammerson management 'is untenable and facing a Martin Sorrell day of reckoning'.

Shareholders may be frustrated that management did not engage with Klepierre when they had the chance.

Whoever is in charge longer term will be at the helm of a business which has 50% of its portfolio outside the UK with a bias towards premium outlets which are displaying more robust growth than the wider market.

Yet Hammerson still faces headwinds from the pressures on the UK consumer and across the entire portfolio from the structural shift towards online shopping.

Jefferies' Mike Prew sums up this latter challenge starkly: 'The retail REITs increasingly look like 19th century candle stick makers and horse and buggy coachbuilders running scared of electricity and the motor car.' (TS)

PCF enjoys big boost from recently-launched banking division

The £68m group has added firepower to its lending business as it moves up the quality spectrum

For a company that provides loans to those wanting to purchase cars or equipment to small and medium-sized enterprises (SME), it would be ideal to not have to borrow the money first from a high street bank.

This is exactly what **PCF (PCF:AIM)** has done in the past. The company provides business loans and used to have to charge higher interest rates to turn a profit as it had borrowed the funds itself.

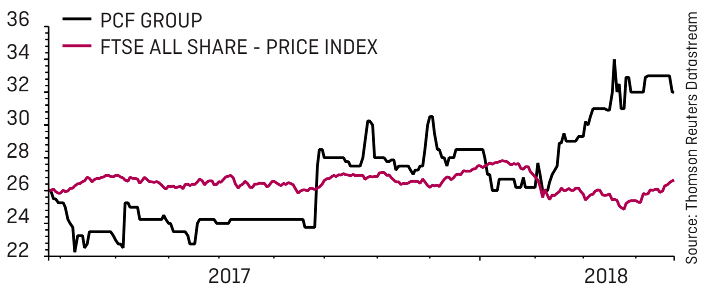
However, last year the company started its own bank, perhaps a risky thing to do in the UK given current economic conditions. But it looks to have turned out to be a masterstroke as now the company can reduce its interest charges and target a better quality lender.

This has had the result of keeping impairment rates low, i.e. no bad debts, and allowed it to grow the business.

PCF recently announced it had achieved £100m in retail deposits which is not bad going for a banking arm that only started operating in July last year.

The banking division boosted the company's new business originations by 93% in the five months to 28 February 2018 to £54.5m. This was helped by the lower cost of capital coming from the aforementioned retail deposits.

In the same period the company grew its portfolio of loan receivables by 18% to £172m. Robert Saunders, an analyst at stockbroker Stockdale, says



'we are encouraged that new business origination in consumer motor finance is picking up following enhancements to the IT platform and access to more prime customers for its brokers'.

IS IT A REAL BANK?

Yes in a word. It has to follow the same stipulations of the FTSE 100 banks such as capital adequacy and in this respect puts some of its larger peers to shame.

Its common equity tier one ratio is a very healthy 26.3%; to put that in context **Virgin Money (VM.)** targets around 12% although in fairness is a much larger operator with multiple divisions including a credit card operation.

Being in the banking business, impairment rates are crucial and PCF's rate is just 0.5%. Considering it is involved in lending to SMEs, known for having cash flow problems, this is something worthy of note.

The wider group which the bank helps finance has a very broad customer base in its consumer credit business and SME lending business. It has around 12,000 agreements in place.

While a bad Brexit and a decline in the UK's economic health could damage PCF, it is well capitalised and could make bolt-on acquisitions to reduce risks through diversification. (DS)

FRIDAY 27 APRIL

FINALS	
Harvey Nash	HVN
TRADING STATEMENTS	
Computacenter	CCC
Merlin Entertainments	MERL
Royal Bank of Scotland	RBS
Travis Perkins	TPK
AGMS	
Merlin Entertainments	MERL
TMT Investments	TMT

MONDAY 30 APRIL

FINALS	
Interserve	IRV
TRADING STATEMENTS	
WPP	WPP
AGMS	
Forbidden Technologies	FBT
Georgia Healthcare	GHG
Independent Oil & Gas	IOG
Minoan	MIN
Old Mutual	OML
Symphony International	SIHL
Greencoat UK Wind	UKW

TUESDAY 1 MAY

FINALS	
Pelatro	PTRO
AGMS	
Apax Global Alpha	APAX
Jardine Lloyd Thompson	JLT

Credit: World Economic Forum

A FIRST QUARTER update on 30 April from WPP (WPP) is likely to be overshadowed by the continuing fall-out from the resignation of chief executive and founder Martin Sorrell.

Management are likely to be quizzed both on the succession issue and the future strategy of the group, and whether this could involve asset sales.

TWO OF THE UK's largest banks, Barclays (BARC) and Royal Bank of Scotland (RBS) are releasing their first quarter results on 26 April and 27 April respectively.

Barclays is on somewhat of a roll, having restored its dividend payout after slashing it in 2016.

The bank has also settled with the Department of Justice over the mis-selling of mortgage-backed securities for a not inconsiderable $2bn.

RBS on the other hand has still to settle with the DoJ and the bank has set aside considerable sums to cover what is looking like an inevitable fine.

Investors will also be keen to see if the bank's recent return to profitability has been maintained.

WEDNESDAY 2 MAY

TRADING STATEMENTS	
PPHE Hotel	PPH
INTERIMS	
Indivior	INDV
Inmarsat	ISAT
AGMS	
Glencore	GLEN
Ocado	OCDO
Phoenix Global	PHNX
Rio Tinto	RIO
Unilever	ULVR

THURSDAY 3 MAY

FINALS	
Elektron	EKT
INTERIMS	
Apax Global Alpha	APAX
Lancashire	LRE
TRADING STATEMENTS	
Smith & Nephew	SN.

AGMS		
Equiniti	EQN	
GlaxoSmithKline	GSK	
Lighthouse	LGT	
Reckitt Benckiser	RB.	
Rolls-Royce	RR.	
Trinity Mirror	TNI	
EX-DIVIDEND		
Axiom European Financial Debt	AXI	1.5p
Card Factory	CARD	6.4p
Chenavari Capital Solutions	CCSL	1.25p
Cello Group	CLL	2.45p
Cenkos Securities	CNKS	4.5p
Dunedin Income Growth Investment Trust	DIG	4.38p
Elementis	ELM	4.35p
Empresaria	EMR	1.32p
EP Global Opportunities Trust	EPG	5.3p
G4S	GFS	6.11p
Gocompare	GOCO	0.7p
GYG	GYG	3.2p
H&T	HAT	6.2p
Highcroft	HCFT	30p
Henderson Far East Income	HINT	1.3p
Hastings	HSTG	8.5p
Harworth	HWG	0.58p
Invesco Perpetual UK Smaller Companies Trust	IPU	10.15p
JD Wetherspoon	JDW	4p
James Halstead	JHD	3.85p
Just Group	JUST	2.55p
Strix	KETL	1.9p
Kingfisher	KGF	7.49p
Lookers	LOOK	2.48p
London Stock Exchange	LSE	37.2p
Microgen	MCGN	4.25p
McCarthy Stone	MCS	1.9p
Morgan Advanced Materials	MGAM	7p
Mondi	MNDI	€0.43
Mondi	MNDI	€1
Premier Asset Management	PAM	1.65p
Playtech	PTEC	€0.24
Rightmove	RMV	36p
SafeCharge	SCH	6.58p
Senior	SNR	4.9p
Stock Spirits	STCK	€0.06
Swallowfield	SWL	2p
Total Produce	TOT	€0.02
Tribal	TRB	1p
Unilever	ULVR	33.41p

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KEY

- Main Market
- AIM
- ETF
- Fund
- Investment Trust
- IPO coming soon