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ZPG bid highlights appeal of digital platform businesses

Look for companies embracing technology to make customers' lives easier

Zoopla's parent company **ZPG (ZPG)** was an obvious takeover target and we aren't surprised to see it receive a 490p per share bid from US private equity firm Silver Lake.

Congratulations if you owned its shares before the takeover news was announced. And hopefully you did own them, given that ZPG was one of the six quality stocks we said to buy in the 15 February 2018 issue of *Shares* following the global market sell-off. We said to snap up the shares at 328.4p, meaning you could have made nearly 50% profit in three months if you followed our suggestion.

Even if you aren't celebrating, there are still important lessons to be learned from the takeover situation and the importance of other companies with similar characteristics.

MAKING LIFE EASIER

ZPG will be the latest company in Silver Lake's portfolio that uses technology to make customers' lives easier.

Over the past three years ZPG has expanded into the utilities switching market through the purchase of uSwitch and also developed broader propositions in the property and financial services market.

Everything was linked by its goal to help consumers make smarter property and household decisions.

It's no wonder that ZPG tried to buy **GoCompare (GOCO)** late last year as that would have strengthened its position in financial services, particularly insurance. Although that bid was rejected, there is now speculation that Silver Lake could acquire GoCompare itself and bolt it on to ZPG.

EMBRACING THE DIGITAL CHANNEL

ZPG has been expanding its product lines, holding up well against increased competition in the



property portal market and executing its growth plan with considerable success.

Key to its achievements is the use of digital channels to easily reach consumers. That's also been a real driving force for many other companies on the stock market including **Just Eat (JE.)**, **Purplebricks (PURP:AIM)** and **Rightmove (RMV)**.

'The tech platform model is a special kind of beast: utilising the network

effect, automation, and operational leverage to push towards the winner taking all in the long run, a process that can be accelerated by M&A,' says stockbroker Peel Hunt.

'In the CMA's decision regarding Just Eat's acquisition of Hungryhouse, it described how the platforms: "offer consumers the convenience of choosing from a large range of takeaway providers in one place". Just replace "takeaway" with car dealers, insurance brokers or jobs.'

Peel Hunt says that when you are tapping the same broad set of consumer needs via a marketplace model, scale efficiencies in tech and marketing can easily be made.

Asset manager Lindsell Train believes its best portfolio performers will be companies making a success of a digital transition or where digital is 'clearly a friend' to the company. Relevant examples include **Euromoney (ERM)** and **RELX (REL)**.

SELECTIVE INVESTING

Many investors have been put off online platform businesses due to high equity ratings. And we think it is right that there is some scepticism about some of the companies in this market as not everyone will be a long-term winner. For example, Purplebricks is arguably trying to do too much at once and has considerable execution risk.

Yet there is a good argument to suggest some of digital players deserve a premium rating if they have an edge over rivals and the potential to outperform. (DC)

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17 May 2018

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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.

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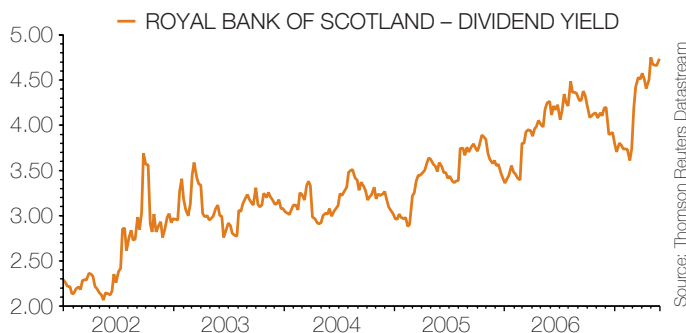
Could you get 6% yield from Royal Bank of Scotland?

The bank is expected to pay its first dividend since 2008

There is growing speculation that **Royal Bank of Scotland (RBS)** will soon pay its first dividend since 2008 and rejoin its UK-quoted banking peers as an income stock.

A \$4.9bn settlement with the US Department of Justice (DoJ) over mis-selling mortgage-backed securities from 2005 to 2007 effectively signals the end of a nasty period of fines. The amount is also less than expected, prompting analysts to consider the potential for generous capital returns to shareholders.

RBS used to be a 3% to 4% yielding stock, as illustrated by the accompanying chart which shows its yield in the five years before the credit crunch.



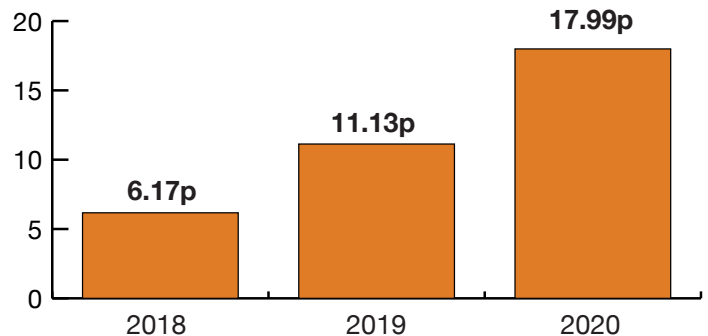
Consensus forecasts published on Reuters show that analysts expect a 6.17p dividend in 2018, rising to 11.13p in 2019 and 17.99p in 2020. On the latter basis, the shares are currently trading on a 6.1% prospective yield.

We don't believe that RBS will become a 6% yielding stock long-term; instead we believe the share price could trade higher by 2020 and so it would have a lower yield based on the market price in two years' time, potentially at the 4% level.

Phil Hoffman, head of the UK, Middle East and Africa for Pzena Investments, invested in RBS before any resolution of the aforementioned misconduct issue was on the cards. His reasoning was that beyond the potentially large fine, fundamentally RBS was a good business.

He does warn that RBS has a 'long way to go'; for instance, it's still largely state owned with the

DIVIDEND PER SHARE



Source: Reuters

Government having around a 71% stake in the bank. Chancellor Philip Hammond intends to sell a £3bn stake in the bank this financial year and further stake sales could weigh on the share price near-term.

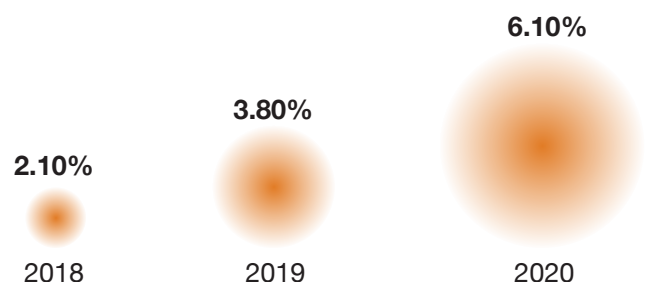
Hoffman adds that RBS still has to put through a lot of restructuring which 'needs to happen'. The bank is aiming to focus on its retail and commercial offering which will involve asset disposals as well as a cost reduction plan.

INSTITUTIONAL INTEREST

With RBS looking set to start paying dividends after a 10-year hiatus, equity income fund managers may now be interested in the stock.

For a bank that has clocked up almost £21bn in fines since 2011, the removal of the looming fine from the DoJ is a positive for investors. Indeed, its chief executive Ross McEwan says the move makes the investment case for the bank 'much clearer'. (DS)

DIVIDEND YIELD



Source: Reuters, Consensus forecasts based on latest share price

Investors exit emerging markets funds

Outflows driven by ETFs with Russia out in the cold

Data from investment bank UBS shows emerging markets funds saw the second-biggest weekly outflow since 2016 in the week to 9 May.

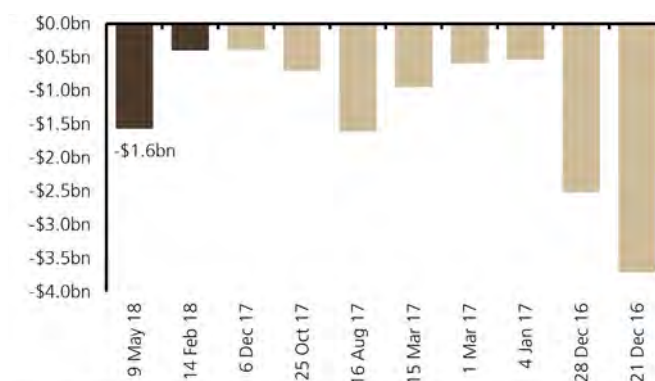
This breaks a run of 11 weeks of inflows which has attracted \$26.6bn into emerging market equities in the wake of the global market correction in February.

Around 97% of the outflows were linked to exchange-traded funds. UBS notes 'this fund type has been the major driver of inflows into emerging market equity funds through the current market cycle'.

There were particularly significant outflows for Russia which saw its biggest weekly outflow in 14 months at \$224m.

Russia is being hit by US sanctions amid rising political tensions with the West. For the first time the US is directly targeting companies and

LATEST WEEKLY OUTFLOWS FROM EM EQUITY FUNDS



Source: EPFR Global, UBS

individuals which are seen as being tied to Russian president Vladimir Putin.

This has left Russia a less 'crowded' trade according to UBS. This might interest contrarian investors given the country is a potential beneficiary of the recent surge in oil prices.

CYBG refuses to elaborate on Virgin Money approach

Mixed opinion on whether it is offering enough

THE CHIEF financial officer of **CYBG (CYBG)** has refused to comment on the bank's takeover approach for **Virgin Money (VM.)**, revealed on 7 May.

Speaking to *Shares* at its half year results on 15 May, Ian Smith wouldn't be drawn into discussion on any element of the approach.

Virgin has yet to formally respond to takeover interest but some analysts reckon CYBG will have to pay significantly more than the current proposal

of 1.1297 new CYBG shares for each Virgin Money share. That works out as a 15% bid premium to the closing price before the announcement.

Investment bank Berenberg believes the proposed terms are attractive, saying Virgin needs to do a deal of some sorts because its growth opportunities are limited as a standalone business due to its costly deposit base.

Jefferies, another investment bank, says the current proposal implies a 1.2-times takeout

multiple on a price to tangible book value metric. This is much less than the 2.3-times book value rating enjoyed by Shawbrook and 1.8-times for Aldermore when they were acquired.

CYBG has until 5pm on 4 June to say if it intends to make a firm offer or not. The two companies are seen as a good fit as they have complementary products. CYBG previously tried to buy **Royal Bank of Scotland (RBS)** subsidiary Williams & Glyn. (DC/DS)

Is investor excitement over US gambling breakthrough premature?

Taxes, regulatory requirements and competition could all be obstacles for UK firms looking to capitalise on stateside opportunity

Shares in several UK betting stocks are enjoying a rare moment in the sun as a court ruling opens the door for sports betting to be legalised in multiple US states.

However, some observers are warning the market not to get carried away with the news. Broker Davy cautions against 'assuming too big a prize too soon'.

'The shape of a regulated landscape is yet to be determined, with many undecided variables ultimately dictating the size of the opportunity,' it adds.

UBS points out several concerns over competition, the possible burdensome requirements facing operators and the level of taxation.

Nevertheless **William Hill (WMH), 888 (888),**

Sportech (SPO), GVC (GVC), Paddy Power Betfair (PPB) and Webis (WEB:AIM) all enjoyed healthy share price gains in the immediate aftermath of the news on 14 May.

The landmark ruling from the US Supreme Court could lead to US states legalising betting on college and professional sports.

The court ruling struck down a federal law that required states to ban gambling on sports events. It could pave the way for legal sports betting in numerous states rather than in select places such as Nevada. Allowing sports betting could be a lucrative source of tax income for states.

The news represents a dramatic turnaround for many UK-quoted gambling stocks which had previously experienced setbacks with the opening up of the US gambling sector. (DC/TS)

Angling Direct is a good catch in the retail sector

Flourishing fishing tackle specialist represents a rare retail success story

FISHING TACKLE RETAILER

Angling Direct (ANG:AIM) has reported better than expected sales in the year to 31 January 2018 at £30.2m, a 44% increase year-on-year.

This was driven by new store openings and acquisitions, robust like-for-like store sales growth of 9% and the benefits of e-commerce investment. Online sales were also very

strong, up 54% to £16.1m.

Stockbroker Cenkos has upgraded its year to 31 January 2019 revenue estimate by 3% to £41.3m. Analyst Tom Callan predicts 22% growth in adjusted pre-tax profit to £1.1m in the new financial year, rising to £1.4m in the following year.

Angling Direct still has but a minimal share of the UK fishing tackle market, meaning there is

scope for significant organic and acquisitive gains in the future.

Excitingly, Angling Direct is looking to grow online in Germany, where it has just launched a dedicated website, as well as France and the Benelux, all of which have large angling markets. Management also believe Russia offers compelling opportunities too. (JC)

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BT

PAYOUTS TALLY WITH PENSION FUNDING GAP GROWTH

THE FUNDING GAP of **BT's (BT.A)** pension scheme soared during its latest three-year assessment period.

Between June 2014 and June 2017 liabilities shot up from £47.2bn to £60.4bn, or a £13.2bn increase. That compares with growth in assets of £8.9bn (from £40.2bn to £49.1bn).

Interestingly, the £4.3bn difference between asset and liabilities growth during the period tallies almost exactly with the £4.2bn of dividends BT paid out to shareholders during the same spell.

BT has frozen dividends at 15.4p per share for the foreseeable future. (SF)



MELROSE TO ADDRESS EXCESSIVE PAY CONCERNS

ITS HOSTILE TAKEOVER of high profile business **GKN (GKN)** is shining a harsher light on corporate governance and executive pay at industrial buyout firm **Melrose Industries (MRO)**.

Ahead of its AGM on 10 May the company had pledged to review executive pay but the £42m doled out to its four top executives for 2017 prompted a

significant shareholder revolt, with more than 20% of shareholders voting against the remuneration report.



Walmart flips out over Flipkart

US RETAIL BEHEMOTH Walmart is paying \$16bn for an initial 77% stake in Indian e-commerce company Flipkart, its largest ever deal as it looks to battle Jeff Bezos' Amazon in one of the world's largest and fastest growing economies.

Flipkart, which sells everything from electronics and smartphones to clothing, gives Walmart a partner in one of the world's most attractive retail markets.

The remainder of Flipkart will be held by existing shareholders including co-founder Binny Bansal, Tencent, Microsoft and Tiger Global Management, which Walmart sees as 'key strategic and technology partners'.

Flipkart offers over 80m products across more than 80 categories. Little wonder then that Amazon expressed interest in making a competing offer.



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Buy Auto Trader as the market has completely misunderstood its situation

Its shares trade at an unjustified discount to other internet-based businesses

Weak sentiment towards the car market should not obscure the strength of vehicle listings website **Auto Trader (AUTO)**.

Enjoying the low costs of being a purely internet-based business and the pricing power associated with its status as the runaway leader in the UK market, we think investors should take advantage of recent share price weakness before the market reappraises the investment case.

A near-term catalyst is on the horizon in the form of a 7 June results announcement for the 12 months to 31 March 2018. Alongside the numbers themselves, guidance is likely to be given for the 2019 financial year.

VALUATION ANOMALY

The recent takeover offer for Zoopla-owner **ZPG (ZPG)** shines a light on the valuation disparity between Auto Trader and other online businesses.

ZPG's deal was struck at an EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) multiple of just over 20-times based on Berenberg's forecast EBITDA for the September 2018 financial year.

This is not out of step with valuations for internet-based

AUTO TRADER BUY

(AUTO) 377.7p

Stop loss: 300p

Market value: £3.6bn

businesses in the US. It is also roughly in line with the consensus 2018 EV/EBITDA multiple for Zoopla's main rival and UK property site market leader **Rightmove (RMV)** at around 23-times. By contrast Auto Trader currently trades on an EV/EBITDA of 15.85-times.

WHY ARE THE SHARES WEAK?

The company revealed in March that used car stock for the current financial year could be flat or even down. Auto Trader is reliant on the used car market (around 85% of the stock

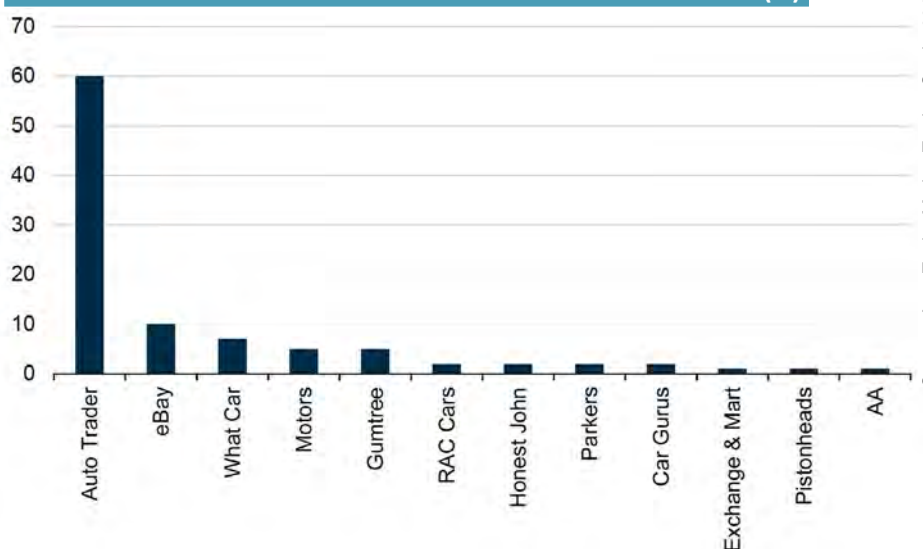
on its website). This therefore spooked the investment community and prompted weakness in the share price.

There are two points to consider here. First the company has other levers it can pull to grow average revenue per retailer (ARPR). Second it is worth noting the aforementioned higher rated property portals serve a housing market which also has slightly uneven and uncertain prospects.

Property market volatility has not stopped Rightmove's shares trading at record levels and, like Rightmove, Auto Trader benefits from a market share upwards of 70%.

Auto Trader's website is the one most visited by prospective car buyers because it has the most listings. Car retailers are

MOST INFLUENTIAL WEBSITE FOR USED VEHICLE SHOPPING (%)



Source: Auto Trader Market Tracker Study, 2017

therefore compelled to use its products, reinforcing its position.

WHAT DOES THE COMPANY DO?

Auto Trader's main area of business is Trade Services which sells subscriptions to retailers on a contracted basis. The remainder is largely accounted by private sellers, advertising agreements with partners in areas like insurance, car finance and vehicle checking, and standard display ads on the site.

There are four key areas of operation – selling, buying, marketing and managing – and each one is broken up into different levels with price points moving progressively higher.

DIDN'T IT USED TO BE A PRINT MAG?

Launched in 1977 the print product was discontinued in 2013 leaving the company 100% digital. More than 70% of visits to its sites now come through smartphones and tablets. The company joined the stock market in March 2015 at a price of 235p per share.

Numis analyst Paul Richards notes that organic revenue has advanced at a compound annual



growth rate of 9% since IPO (initial public offering) and says this growth has been delivered in equal measure by increases in underlying price, more stock carried on the site and new product development.

In other words, by cross-selling and upselling to existing clients, the company can increase ARPR and further bolster its returns even if the level of stock remains flat.

In the longer term the business sees opportunities to increase its penetration in the new car market and to enable transactions to be carried out online.

KEY POINTS TO WATCH

Numis' Richards says in several ways Auto Trader will address the opportunities. 'First, it will seek to maintain its leadership with used (and increasingly) new

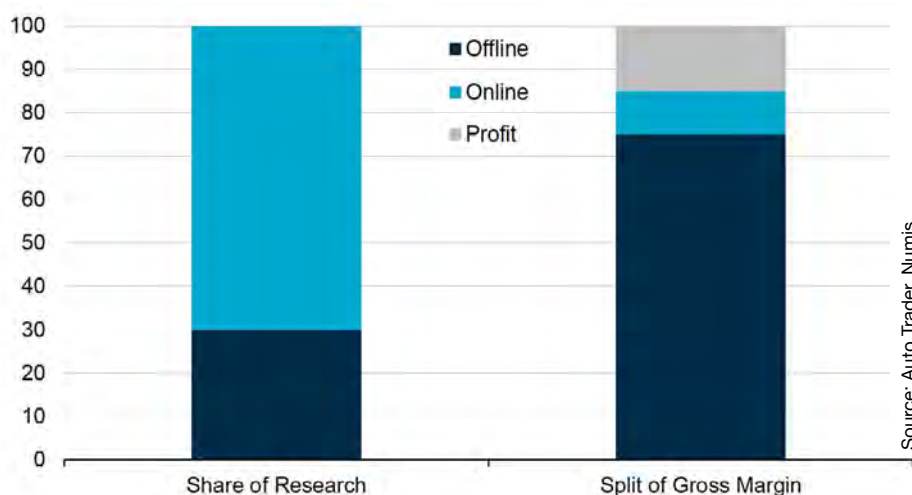
car buyers.

'Second, from this position it will seek to move as much of the car buying process online as is practicable. Finally, the group will continue to develop products, data and services that deliver a higher return on investment to retailers than the offline products currently available.'

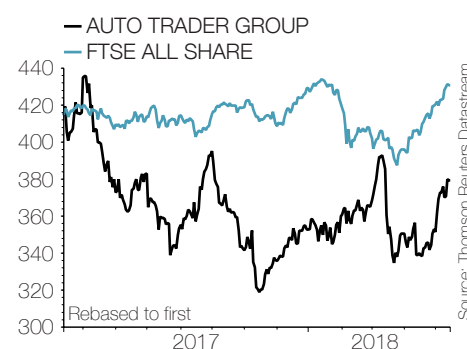
Like many companies which move from private equity ownership to the public markets, the company came to the market with a lot of debt. Fortunately strong cash generation has enabled the company to reduce its net debt to earnings ratio from 3.4-times to 1.6-times while still paying out a third of its earnings in dividends.

A potential risk is competition from other online platforms like Gumtree and Ebay but these more generic sites lack the brand awareness and capabilities Auto Trader enjoys in the car market. (TS)

MISMATCH BETWEEN RESEARCH AND RETAILER COSTS



BROKER SAYS: 11 4 4



Red tape is no barrier for Ideagen's growth ambitions

Management are aiming for 200p share price which looks achievable

The net of regulation red tape and compliance accountability is getting ever tighter around industries and organisations across the world. The next big one is EU-wide General Data Protection Regulation (GDPR) which comes into force on 25 May and is the latest in a long list of rules designed to keep us better protected.


All this puts UK software supplier **Ideagen (IDEA:AIM)** in a sweet spot thanks to its wide range of off-the-shelf specialised tools.

The Midlands-based company concentrates on what it calls the governance, risk and compliance (GRC) space, providing information management solutions to highly regulated industries. Think healthcare, aviation, banking/finance, complex manufacturing, defence and energy.

COMPELLING STORY

Ideagen supplies an integrated system that combines information from multiple operational sources on top of the typical internal audit and compliance functions. This provides clients with a detailed overview of corporate risk, controls and consequence mitigation analysis.

That's an increasingly compelling sale once an organisation begins to grasp

IDEAGEN  **BUY**
(IDEA:AIM) 122.5p
Stop loss: 98p
Market value: **£245m**

the significant financial and reputational damage potential of not having adequate systems in place. Blue-chip clients include **BAE Systems (BA.)**, Emirates, **Royal Dutch Shell (RDSB)** and the European Central Bank, plus more than 150 hospitals in the UK and US.

This is a \$7bn-a-year GRC market yet it remains highly fragmented. Ideagen, which has been around since 1993, wants to act as an industry consolidator as well as driving consistent organic growth.

DOUBLE EVERY THREE YEARS

It aims to double revenue and profit every three years and has met or beaten those targets in the past. For example, in 2015 it reported revenue of £14.4m and £3.6m pre-tax profit. The year to 30 April 2018 is expected to show £36.1m of sales and £9.7m of pre-tax profit. Throughout this growth the company has remained highly cash generative and paid modest dividends.

The US is now its number

one growth market, as it is the world's single biggest place for GRC spending. That means accelerating acquisitions growth, such as April's \$8.7m purchase of Medforce, a healthcare compliance business.

Investors are being asked to pay a premium for this high quality stock, hence the current year price-to-earnings multiple of 25.5. But there is scope to outstrip current 4.8p earnings per share forecasts by a wide margin. Management have an internal target of 200p for the share price. Ideagen will have to work hard to hit this level but it does look possible if the business can continue its long streak of success. (SF)

BROKER SAYS: 1 0 0



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4 Unique, ripe and silky red



5 Zesty South African classic



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8 Seductive Chilean Carmenère



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10 Retro French delight



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12 Great Portuguese discovery

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XP POWER

(XPP) £35.90

Gain to date: 48.9%

Original entry point:

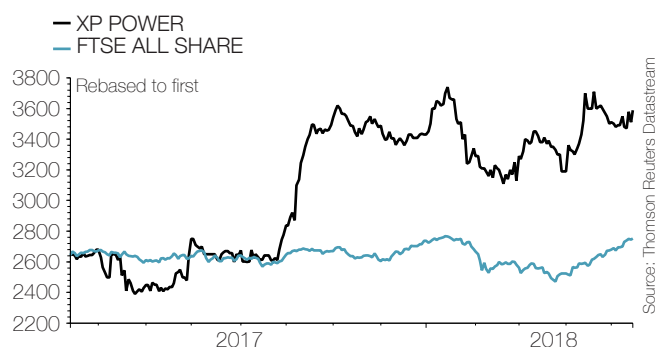
Buy at £24.11, 6 July 2017

WE SENSED A new acquisition was incoming at **XP Power (XPP)** and sure enough it arrived on 10 May. The power switching technology designer is using bolstered £125m debt facilities in paying £31.8m to buy Glassman High Voltage, expanding the product range into specialised high voltage and high powered products.

This should help the enlarged XP engage with new customers but equally important, supply a broader range of technology solutions to existing accounts.

Importantly, analyst research suggests that Glassman has cleverly positioned itself away from pockets where competition, and presumably price pressure, is most intense. Researchers at investment bank Stifel also believe underlying gross margins run at roughly similar levels to XP's 46.5%.

Using debt instead of equity to fund the deal means no dilution for existing shareholders. It also sees earnings per share estimates raised 4% for 2018 and by 9% in 2019, implying a price to earnings multiple of 20.3, falling to 18.4 next year.



SHARES SAYS: ↗

XP continues to shine as a high quality technology design business. Investors should continue to support management's combined organic and M&A growth push. (SF)

BROKER SAYS: 3 1 0

AVESORO RESOURCES

(ASO:AIM) 272.5p

Gain to date: 0.9%

Original entry point: Buy at 270p

(adjusted for consolidation), 8 June 2017

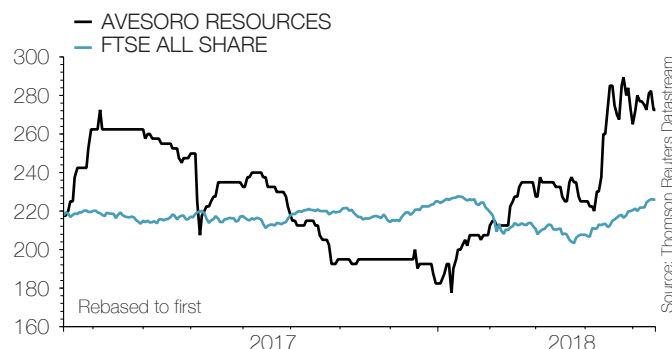
OUR TRADE ON the West African gold miner is back in the money after a disappointing period last year. The latest quarterly update confirms our original view that the business could be put back on an attractive growth path.

First quarter gold production of 68,088 ounces is considerably ahead of the run-rate to hit full year guidance of 220,000-240,000 ounces. Operating cash costs of \$624 per ounce sold are near the bottom end of full-year guidance. And AISC (all-in sustaining costs) of \$914 per ounce sold is well below full-year guidance of \$960-\$1,000 per ounce.

Chief financial officer Geoff Eyre admits that Q1 is likely to be the strongest quarter this year as it was driven by high-grade sections at its Balogo mine.

Its New Liberty mine is continuing to improve following a restructuring plan. Eyre says all-in sustaining costs should come down significantly once Avesoro has finished additional waste stripping at New Liberty in 2019.

As a business it is generating plenty of cash to pay down debt and to fund exploration on numerous targets, plus in-fill drilling to increase confidence over existing discoveries and extend mine life.



SHARES SAYS: ↗

Avesoro is one of the most interesting growth stocks in the gold mining space. Keep buying. (DC)

BROKER SAYS: 1 0 0



We're investing in ugly ducklings...

At the Scottish, we take a contrarian approach to global stock markets.

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Exploiting irrational markets

By the time everyone realises that a great company is great it may no longer be the best investment. It becomes difficult to see the storm on the horizon when everyone is toasting past success.

Similarly, when a company has hit rock bottom, it can be hard to see that there will ever be good times again.

Investment markets are driven by cycles of emotion, rather than dispassionate calculation, and this leads stocks to be priced too highly in the good times and undervalued when times are bad.

This inefficiency is driven by human nature - people feel comfortable sticking with the crowd. But the herding instinct that ensured human survival in the past may not serve our best interests in financial markets. We believe it pays to ignore these instincts when it comes to making investment decisions.

By looking for positive signs of change in the out-of-favour areas of the market, and avoiding the unsustainable bubbles, we see a better balance of risk and reward.

We have the conviction to back our ideas

We are patient investors. When we see that positive change is afoot we have the conviction to back our ideas. But we know it can take time for the changes we see to be recognised by investment markets. That's why we take a long-term view.

Our high conviction contrarian approach means that when the market reassesses the out-of-favour investments we prefer, our best ideas really count.

Stand out from the crowd

Our investment approach is truly differentiated in a world awash with index trackers. We don't want to own the overpriced areas of the market so the investment portfolio is constructed without the constraints of a benchmark. This means we expect our performance to be differentiated too.

Built for uncertain times

When the market mood turns, we believe it is important to have a keen eye on risk and reward. That's particularly pertinent when markets have soared through successive highs. The recent wobbles in equity markets hint at a reassessment of the more speculative areas of the market.

In contrast, the out-of-favour areas we prefer are ripe for recognition. That's why we believe it pays to invest in ugly ducklings that can turn into beautiful swans.

For more information visit www.thescottish.co.uk

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10 FUNDS THAT OUTPERFORM AGAIN AND AGAIN



We use the information ratio to spot investment products that have consistently done well

BY DANIEL COATSWORTH & DAVID STEVENSON

One of the best ways to pick funds is to look at the long-term track record and to see how a product has performed through different economic cycles. You should try and find out if a fund has been able to deliver again and again, and hasn't merely had a few spectacular years to help lift the long-term average figure.

A good way to help filter the market is to use something called 'the information ratio'. This is a measure of consistency in outperformance.

'The information ratio is an interesting way of looking at fund manager returns as it indicates whether a manager is being rewarded for investing away from the benchmark,' explains Ryan Hughes, head of active portfolios at AJ Bell.

'Put another way, it is an assessment as to whether the active bets in the portfolio have paid off.'

Hughes says it can be a good way of separating two funds that have similar absolute performance but which have been achieved in very different ways.

'While it is possible to be lucky over the short term, those fund managers that can have a good information ratio over the long term arguably have been able to evidence skill in stock selection as it is far harder to be lucky over long periods.'

HOW DO YOU KNOW IF A RATIO IS GOOD OR BAD?

In a nutshell, an information ratio above 0.5 is considered to be good. A figure above 1.0 is considered to be excellent.

Our research finds that 13 funds have scored above 1.0 based on the past 10 years; and 78 funds score above 0.5 over the same time period.

We acknowledge the information is based on

past performance which isn't always a guide to future performance. However, the ratio can be a useful tool as part of your wider investment research process.

Later in this article we'll look at 10 collectives that have superior information ratio scores based on data for the past 10 years. They've all achieved an information ratio in excess of 1.0.

The list of funds includes some well-known products such as **LF Lindsell Train UK Equity Acc (GB00B18B9X76)** as well as other funds such as **BlackRock European Dynamic D Acc (GB00B5W2QB11)** and **Liontrust Special Situations I Inc (GB00B57H4F11)**.

WE'VE HAD THE PROS.... WHAT ABOUT THE CONS?

Before we profile the 10 funds, it is important to understand the potential downsides of using the information ratio.

'Investors should be aware that the information ratio is highly dependent on the time period under measurement and the chosen benchmark index,' wrote Deborah Kidd from Boyd Watterson Asset Management in 2011.

For example, research by Thomas Goodwin in 2009 found that managers benchmarked against the S&P 500 index as a proxy for the market had lower information ratios than those benchmarked against the Russell 1000 Index. The latter is a much broader index than the S&P 500 although both are considered to be large cap stock benchmarks.

Similarly, managers who used the Russell 2500 index as a proxy for the small-cap universe had notably poorer information ratios than managers measured against the Russell 2000.

'Favourable information ratios can be generated by manipulating the measurement period to include or exclude certain performance periods,' said Kidd.

'Market conditions during the time period under evaluation should also be considered. Were market returns dominated by a value or growth style or by cap size? Does the investor believe the style – and the manager's strategy in relation to it – will continue?'

HAVE THERE BEEN ANY CHANGES?

Another point to consider when using the information ratio to find superior funds is whether a fund's strategy has changed during

the period under review, or indeed the fund manager.

'While it is a good method of identifying consistency, especially when used over a long period, not all fund managers are able to deliver consistent performance,' comments Hughes at AJ Bell.

'Some managers have a strong investment style which will come in and out of favour. We expect such managers to have periods of underperformance and outperformance but when their style is in favour, we expect them to outperform strongly. This return profile is not conducive to having a good information ratio but it doesn't make these managers bad fund managers.'

Hughes says those managers who have an excellent information ratio in the data for this article have clearly been able to deliver consistently good performance over a long period of time but it won't make them suitable investments for everybody.

'That said; managers such as Anthony Cross at Liontrust, Nick Train at Lindsell Train or Alister Hibbert at BlackRock (whose funds appear on *Shares*' list in this article) are clearly talented fund managers who have stood the test of time over very differing market conditions.

'Their work is to be commended and they are quite rightly lauded as some of the best in the business. The information ratio is an excellent method of identifying these characteristics.'

HOW DOES THE INFORMATION RATIO DIFFER TO THE SHARPE RATIO?

The information ratio is a risk-adjusted performance measure. It is a special version of the Sharpe Ratio. It differs in the sense that the benchmark doesn't have to be the risk-free rate.

The Sharpe ratio is calculated using standard deviation and excess return to determine reward per unit of risk.

STEWART INVESTORS ASIA PACIFIC SUSTAINABILITY B GBP ACC (GB00BOTY6V50)

This fund invests in Asia Pacific-focused companies which are positioned to benefit from, and contribute to, the sustainable development of the countries in which they operate.

Fund manager David Gait launched the fund in 2005 and still runs it today. It has achieved 248.1% return in the 10 years to 31 March 2018, nearly double that of its benchmark (133.6%).

'The portfolio will often have a high active share relative to its MSCI AC Asia Pacific ex Japan benchmark, and the biases inherent in the strategy lead to a performance profile that can differ significantly from its peers,' says Morningstar analyst Simon Dorricott.

10 year information ratio	1.30
10 years annualised returns: 13.37%	
Benchmark: 8.45%	

'It typically loses less than peers in down markets, although it can lag in certain market conditions such as low-quality or cyclical rallies.

'We continue to have faith in the consistently applied investment process and in the experienced manager and relatively stable sub-team who implement it.'

It aims to maintain a portfolio of between 60 and 80 individual stocks in which the fund manager has high conviction.

The bad news for individuals not already invested in the fund is that Stewart Investors has imposed measures to deter new money flowing into its product as it wants to avoid the fund getting too big.

Although you can still invest in the fund, you're faced with an initial 4% charge imposed by the asset manager.



Stewart Investors' fund has a stake in healthy drinks and food business Standard Foods Corporation

FIDELITY UK SMALLER COMPANIES W ACC (GB00B7VNMB18)

Fund manager Alex Wright has looked after the Fidelity UK Smaller Companies Fund since its launch in February 2008 and is highly rated as a small cap stock picker. However, Jonathan Winton has co-managed the fund since 2013 and has become increasingly influential with stock selection and portfolio construction.

'The portfolio is built from the bottom up and continues to follow a well-defined process,' says Morningstar analyst Simon Dorricott. 'The manager seeks stocks that offer strong downside protection with unrecognised growth potential, which will include internal and/or external change.

'He looks to buy into such situations at an early stage, ideally before any recognition of a change in fortunes. These positions are then held as

10 year information ratio	1.23
10 years annualised returns: n/a (5 years: 14.76% / benchmark: 13.01%)	

operational change comes through and market perception improves, resulting in a portfolio of holdings demonstrating different characteristics.'

Matthew Jennings, investment director at Fidelity International, says the fund's performance can largely be attributed to the 'bottom up' stock picking skills of Wright and Winton, 'focusing on unloved and undervalued stocks where they believe the market has overlooked the potential for recovery'.

Like the aforementioned Stewart Investors product, Fidelity UK Smaller Companies is another soft-closed fund. However, we note that AJ Bell Youinvest has an agreement with the asset manager so that it is still able to accept investments in the fund without any initial charge that usually comes with soft-closed products.

1.23
*10-year
information
ratio*

LIONTRUST SPECIAL SITUATIONS I INC (GB00B57H4F11)

This fund is managed by Anthony Cross and Julian Fosh and is very particular about the type of companies that it holds. Cross explains that companies must have 'certain intangible assets' including intellectual property, trade secrets 'know how' and large scale distribution networks.

The point of these attributes is that they are hard to copy, thus giving these companies high barriers to competition. In terms of companies with large distribution networks, Cross cites drinks company **Diageo (DGE)** and consumer staples company **Unilever (ULVR)**.

'We also like data driven distribution networks that you find in **Rightmove (RMV)**, **Fidessa (FDSA)**, or market research businesses like **YouGov (YOU:AIM)**. Data is within their clients so difficult

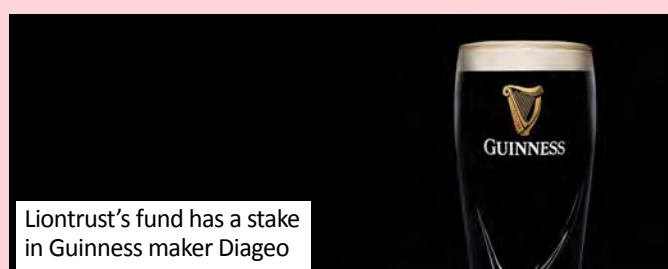
10 year information ratio	1.14
10 years annualised returns: 14.30%	
Benchmark: 6.74%	

for others to get at and replace,' says Cross.

The fund has a low portfolio turnover which Cross explains is often driven by takeovers – as evident by Fidessa and fellow holding Shire both in bid situations.

Another must for the manager is recurring revenue, targeting companies with at least 70% of income coming from established sources.

While the fund can invest in companies of any size, Cross reveals that it has around 30% of its portfolio in small caps. He says the team has a lot of small cap experience and if they find a great small company and let it compound for 10 years, investors can receive 'lovely returns'. Companies the team avoid include cyclical stocks such as housebuilders and banks.



BLACKROCK EUROPEAN DYNAMIC D ACC (GB00B5W2QB11)

Given the resources of the world's largest asset manager BlackRock, its fund managers can be assured of having a well-resourced team supporting them.

Run by Alister Hibbert, BlackRock European Dynamic seeks mispriced companies through rigorous bottom-up fundamental research.

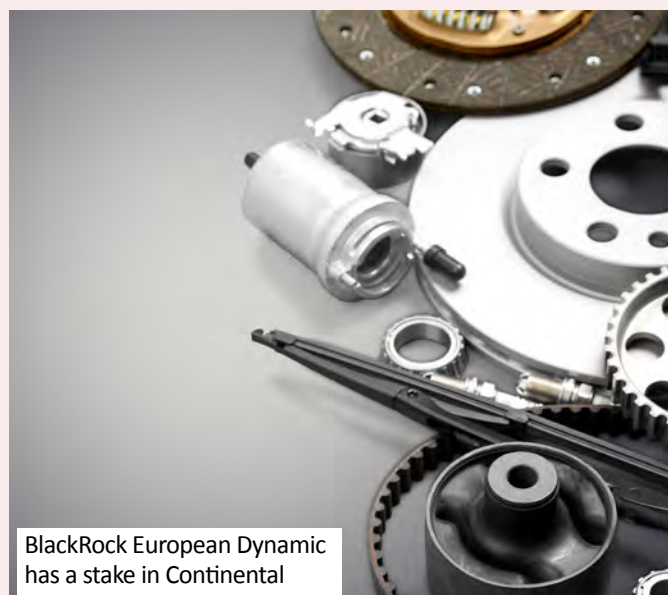
Crucial for stock selection is finding companies which have potential share price drivers that the market has yet to appreciate. For example, this could involve spotting companies which have stronger earnings potential than the market is anticipating.

Given the Europe ex-UK region is a favourite for fund managers at the moment amid reasonable valuations and decent growth indicators, there is

10 year information ratio	1.09
10 years annualised returns: 12.17%	
Benchmark: 5.60%	

a lot of competition to find different companies to those owned by rival funds. But its focus on both growth and value stocks seems to be paying when looking at its superior performance.

The portfolio currently includes stakes in aerospace group Airbus and German car-parts maker Continental.



ROYAL LONDON UK EQUITY INCOME M INC (GB00B3M9JJ78)

Run by the highly experienced Martin Cholwill, this fund invests in the type of companies often expected in a UK equity income fund such as **Royal Dutch Shell (RDSB)**, **HSBC (HSBA)** and **BP (BP.)**. It also has a selection of smaller companies which are believed to become consistent dividend payers at some point.

Cholwill has a big focus on free cash flow when choosing his holdings and for a fund targeting almost 4% yield this seems a sensible metric to use. He believes that accounting earnings can be manipulated whereas cash is more tangible and that it is cash that pays the dividend and something immune from any 'creative' accounting.

For this reason, Cholwill's use of broker

10 year information ratio	1.09
10 years annualised returns: n/a (5 years: 10.70% / Benchmark: n/a)	

research is quite selective as these tend to focus on accounting earnings rather than cash flow and his main concern is for a company's ability to maintain and grow its dividend.

Around half of the fund's holdings are FTSE 100 companies

Given the dividend focus, the fund's exposure to small caps is limited as many companies down the bottom of the market cap spectrum are unlikely to pay dividends. Around half of the fund's holdings are FTSE 100 companies although given the position sizes are based on conviction, the fund's sector allocation can look very different from the index itself.

Part of the reason for having a conviction-led approach is that Cholwill is aware that the majority of dividends are generated by a small group of mega caps so he uses this technique to avoid over-concentration in those names.

LF LINDSELL TRAIN UK EQUITY ACC (GB00B18B9X76)

This is perhaps one of the best known products in the UK funds universe, thanks to fund manager Nick Train's great reputation. It invests primarily in UK company shares and has a concentrated portfolio with low turnover. Train has run the fund since launch in 2006 but has been a well-known figure in the industry for longer thanks to his involvement in another fund called **Finsbury Growth & Income (FGT)**.

'Train's process is differentiated and has proved successful across a variety of market conditions. He looks for unique and high-quality companies that offer a high and sustainable return on equity, show low capital intensity, and are cash-generative,' says Dorricott at Morningstar.

'This remains amongst our highest-conviction

10 year information ratio	1.07
10 years annualised returns: 14.59% Benchmark: 6.74%	

funds because of its experienced manager, well-defined and consistently applied investment approach, and competitive fee structure.'

Current holdings in the fund's portfolio include consumer goods group Unilever, drinks giant **Diageo**, information and analytics firm **RELX (REL)** and investment platform provider **Hargreaves Lansdown (HL)**.

In April, Train said that companies representing 5.5% of his portfolio have received takeover bids that look likely to succeed, meaning he could get a large chunk of cash in the near future to either add new names to the portfolio or buy more of existing ones.



Current holdings include drinks giant Diageo

BAILLIE GIFFORD JAPANESE B ACC (GB0006011133)

Similar to the aforementioned Liontrust product, this fund from Baillie Gifford looks for companies with low levels of competition that are also durable and growing.

The fund also holds young companies capable of double-digit growth rates that can be sustained for years to come.

Alex Blake, client manager at Baillie Gifford, says: 'The market's preoccupation with short-term trends and themes generates exploitable opportunities for patient, bottom-up investors, not least because there is a persistent tendency for the market to undervalue sustainable earnings and cash flow growth.'

Baillie Gifford is happy to hold cyclical stocks with its largest holding being Softcorp Bank.

10 year information ratio	1.07
10 years annualised returns: 12.53%	
Benchmark: 8.39%	

The fund also likes companies in turnaround mode; those that look to be struggling but are putting through structural change to benefit the company in the long term.

The portfolio of between 45 and 60 stocks are chosen with little regard to the companies' importance to the index.

Baillie Gifford's largest holding is Softcorp Bank



MAN GLG CONTINENTAL EUROPEAN GROWTH C PROFESSIONAL (GB00B0119487)

Fund manager Rory Powe has invested in European stocks for more than 25 years including long periods at Powe Capital and Invesco before joining Man GLG in 2014.

The Man GLG European fund is reasonably concentrated, aiming for between 30 and 40 holdings. It takes a long-term approach and likes to invest in Europe's strongest companies. As a result, you'll see some holdings that have strong market positions such as airline **Ryanair (RYA)** and car maker Ferrari.

He likes companies with a sustainable competitive advantage and where they can raise prices without having a negative impact on consumer demand. He also like companies which

10 year information ratio	1.06
10 years annualised returns: 12.68%	
Benchmark: 5.6%	

can benefit from scale as they expand. Naturally these companies have to be financially strong and trading on a reasonable valuation at the time of investment.

Powe has proven to be exceedingly good at his job based on past performance figures, so we believe it is worth having his fund in your portfolio in order to benefit from exposure to Europe.



This fund likes to invest in Europe's leading companies such as Ferrari

INVESCO PERPETUAL GLOBAL SMALLER COMPANIES Z ACC (GB00B8N46D97)

Launched in 1984, this fund invests in smaller companies around the world. Smaller companies have historically outperformed large caps although they have also been a higher risk area in which to invest.

According to data at the end of March 2018, nearly 30% of the Invesco fund's portfolio contained US-listed stocks, circa 13.5% Japanese-listed stocks and just over 11% UK-listed stocks, among other geographical exposures.

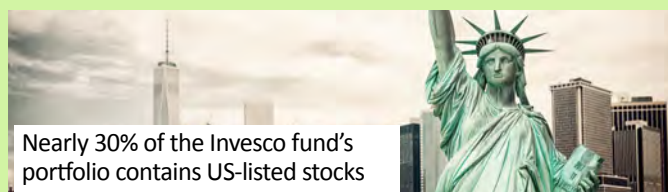
You may be unfamiliar with most of the names in its top holdings apart from Hyundai Motor, Samsonite and Philips Lighting. The portfolio currently has 380 holdings so risk is spread quite widely.

10 year information ratio	1.04
10 years annualised returns: 11.97%	
Benchmark: n/a	

We note there has been a change in fund manager over the past 10 years with current lead manager Nick Mustoe only having run the fund since July 2015. He is helped by Juan Hartsfield who started a year later on the fund.

However, these two individuals have considerable help from colleagues at Invesco. Strictly speaking, the fund is managed by Invesco's 'Global Smaller Companies Group' which contains many different fund managers, product and investment strategists, with Mustoe chairing this group (as well as being Invesco's overall chief investment officer). The fund managers also tap into the investment resources of their own regional teams.

Decisions are taken with a long-term perspective which inevitably means the portfolio turnover is kept low.



Nearly 30% of the Invesco fund's portfolio contains US-listed stocks

ROYAL LONDON UK MID-CAP GROWTH M ACC (GB00B5BRW420)

Managed by Henry Lawson, the fund seeks to achieve capital growth over the medium to long term by investing in mid cap companies.

Its top holdings include some solid mid-market names including **Dechra Pharmaceuticals (DPH)** and **BBA Aviation (BBA)**.

Lowson's approach is to choose companies which he believes can grow their profits and cash faster than the market and ultimately become large cap companies. He seeks companies where all the good news is not reflected in the share price and where there is potential upside to valuation ratings and analyst expectations for earnings.

The fund manager looks at the industry in which a company operates and then analyses its place in the sector. His checklist includes quality of

10 year information ratio	1.02
10 years annualised returns: 13.67%	
Benchmark: 10.65%	

management, pricing power and strength of the balance sheet. He will visit companies to facilitate idea generation.



Top holdings include BBA Aviation



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Three investment trusts to play the rising oil price

We look at the options for investors looking to gain exposure to crude

Oil prices are heading towards the \$80 mark as armed conflict between Iranian and Israeli forces follows hot on the heels of the US president Donald Trump's decision to exit the Iran nuclear deal.

Investors looking to benefit from the oil price surge have the option of investing in individual companies, although this does come with substantial exposure to the risk of these individual companies enduring operational failures.

It is also possible to play the oil price directly using exchange-traded products, however the long-term returns from these instruments can be affected by the quirks of the oil futures market.

An alternative is to look at the funds and investment trusts which invest in numerous energy stocks. The best example of a trust with a specific focus on the oil sector is **Riverstone Energy (RSE)**.

Founded in 2000, Riverstone completed a £760m stock market listing in 2013 with several industry heavyweights as directors.

The £1.29bn trust trades at a 16.9% discount to net asset value (NAV) at its current share price of £12.64.

The portfolio is very concentrated with 14 active investments. The focus is on Western Canada and the Permian basin which spans New Mexico and Texas. Its only listed holding is US firm Centennial.

Its NAV has increased by more than 50% since inception but weak sentiment towards the sector has seen its shares struggle to keep pace.

An alternative investment trust relevant to the oil space is **BlackRock Commodities Income (BRCI)**. However, it isn't a pure play on the black stuff as only around 40% of the portfolio is invested in the oil and gas space

with the remainder in miners.

Managed by Olivia Markham and Tom Holt, performance has been patchy with the NAV only up around 3% in the last five years.

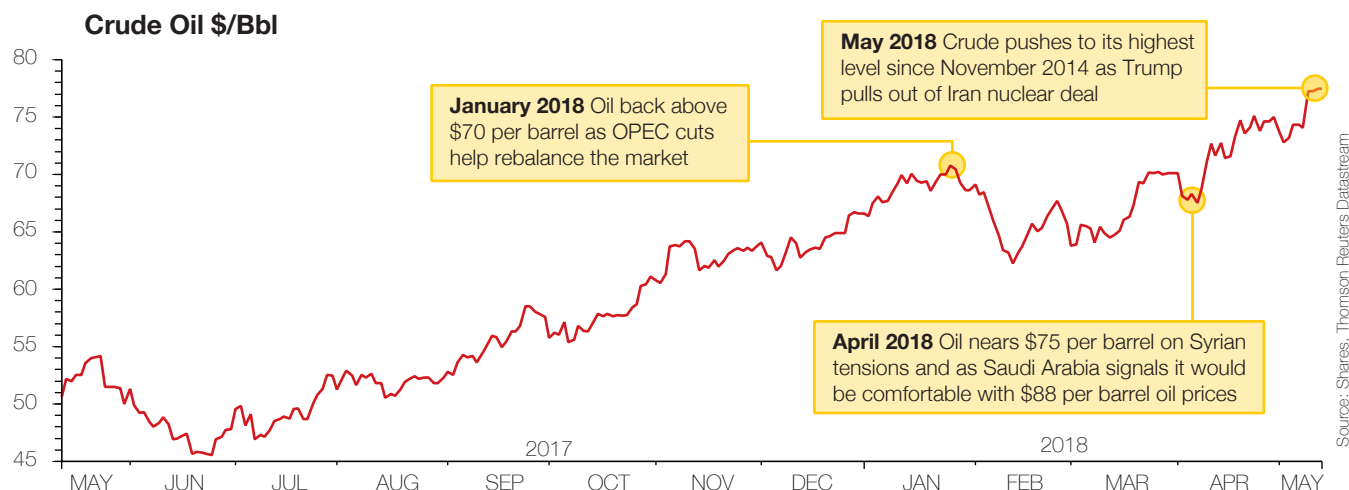
Unlike Riverstone it does, as its name implies, pay a dividend. At 81.7p the BlackRock trust trades at a 5.5% discount to net asset value and is on a trailing dividend yield of 4.9%.

BROADER FOCUS

Oil prices can be volatile and, for this reason, you might feel more comfortable considering an investment trust with a broader mandate which includes exposure to oil and gas companies as well as other sectors.

One possibility, a current constituent of our *Great Ideas* portfolio, is **Merchants Trust (MRCH)**.

The fund has 11.9% of the portfolio in oil and gas through its holdings in **BP (BP.)** and **Royal Dutch Shell (RDSB)**. (TS)



Investment trusts exposed to Argentina's inflation, currency and interest rate problems

Certain Latin America and emerging markets trusts are facing major headwinds

Investors owning Latin America and emerging markets funds should check for any exposure to Argentina after the country lifted interest rates to a staggering 40% in a desperate attempt to prop up the peso and gain control over rampant inflation.

Three investment trusts stand out for their notable exposure to Argentina. The country accounts for 16% of **BlackRock Frontiers' (BRFI)** net asset value (NAV), including 2.6% of the fund invested in shares of Banco Macro, the nation's second largest domestically-owned private bank. **Utilico Emerging Markets (UEM)** has about 10% of its NAV in the Latin American nation. This is largely through sizeable stakes in financial services company Bolsas Y Mercados Argentinos, and energy industry operators Transportadora de Gas del Sur and Pampa Energia. And **Aberdeen Frontier Markets (AFMC)** has 9.1% of NAV in Argentina.

WHAT'S GOING ON?

'Argentina's problems are entirely self-inflicted,' says Jan Dehn, head of research at Ashmore Group, who points to the nation's botched attempt to manage inflation expectations in December.

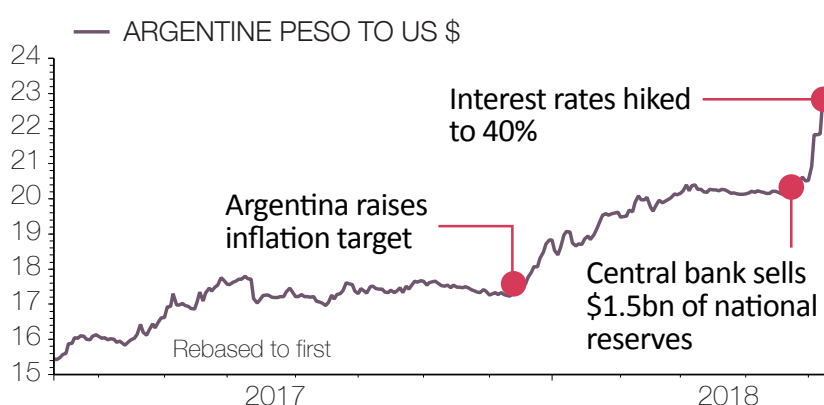
The underlying reason for the failure to control inflation lies with the fiscal authorities, says Dehn. 'They have consistently insisted

on lavish spending to avoid a recession during the monetary adjustment period.'

The government's spending spree and hefty interest rates inevitably drew 'hot money' from overseas, which is now

jumping ship.

Sadly, Argentina's high fiscal spending 'failed to stimulate real investment since the large volumes of government debt issuance crowded out the private sector,' adds Dehn. (SF)



INVESTMENT TRUSTS EXPOSED TO ARGENTINA AND LATIN AMERICA (% OF PORTFOLIO)	
	Argentina
BlackRock Frontiers (BRFI)	16.0
Utilico Emerging Markets (UEM)	10.2
Aberdeen Frontier Markets (AFMC)	9.1
BlackRock Latin America (BRLA)	4.9
Aberdeen Latin American Income (ALAI)	4.2
JPMorgan Emerging Markets (JMG)	2.3
F&C Managed Portfolio Growth (FMPG)	2.0
Murray International (MYI)	1.1
F&C Managed Portfolio Growth (FMPI)	1.0
Aberdeen Emerging Markets (AEMC)	1.0
Fundsmith Emerging Equities (FEET)	0.8
Genesis Emerging Markets (GSS)	0.3
BlackRock World Mining (BRWM)	0.2
Templeton Emerging Markets (TEM)	0.2

Source: Stifel, AIC

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The micro cap fund streets ahead of its peers

Livingbridge UK Micro Cap's focus on profitable, sensibly valued growth tiddlers is a winning formula

Anyone seeking exposure to very small companies on the UK stock market via the funds route should look at **LF Livingbridge UK Micro Cap Fund (GB00B55S9X98)** which has a great record of outperformance.

Managed by Ken Wotton, it has generated annualised trailing returns of 17.35% and 20.85% on a three year and five year basis respectively, according to Morningstar.

The brains behind the fund is asset manager Livingbridge, which looks after around £2bn of assets across its private equity funds, two UK equity funds and the Baronsmead venture capital trusts (VCTs).

'This Livingbridge platform is a key differentiator in how our public equity funds are managed,' stresses Wotton. 'Having this public equities business embedded within a private equity firm is pretty unusual and gives us lots of distinct advantages, particularly when looking at very small companies.'

PLENTY OF EXPERIENCE

Wotton benefits from the investment expertise and contact books of a team of 50 investment professionals.

'We're all looking at small, UK growth companies and we all invest in the same four core

CUMULATIVE PERFORMANCE

	1 year	3 years	5 years
LF Livingbridge UK Micro Cap Fund	22.1%	58.1%	151.8%
IA UK Smaller Companies sector	14.5%	50.7%	97.3%

sectors,' he explains, namely TMT (tech, media, telecoms), business services, healthcare and education, and consumer markets.

These sectors are consistent across the whole firm, where it has 20 years' investing experience. 'That's a huge amount of knowledge, insight and relationships in those sectors that we can call on to generate ideas, evaluate companies and monitor investments once we've made them,' explains Wotton.

'We believe in small cap, where the market research coverage is very low and where there is pretty limited information on public market competitors and peers, having the resource internally and the network behind it is a way that we can do our own fundamental research on the companies.'

'We meet hundreds of private companies every year and we've got a database of over 20,000 companies in the UK that we've interacted with over the years.'



Student accommodation expert Watkin Jones is one of the fund's top holdings

TOP HOLDINGS IN THE FUND

Top 10 portfolio positions include an eclectic bunch of names. These span deep fat fryer cleaning specialist **Filta (FLTA:AIM)**, pensions consultant **Mattioli Woods (MTW:AIM)**, private aviation play **Gama Aviation (GMAA:AIM)** and environmentally-friendly funds specialist **Impax Asset Management (IPX:AIM)**.

Wotton describes his investment style, which enables him to whittle down a universe of some 1,200 companies in the sub-£250m market cap space to a portfolio of 43 holdings as at 30 April, as GARP (growth at a reasonable price) but with a quality overlay.

‘We’re long-term fundamental investors. We’re looking for businesses that can grow their profits materially over the life of our investment which will typically be a four-to-five year holding period and in some cases a lot longer than that.’

‘We’re looking for businesses that are either in structural growth areas or have secular growth drivers behind them, so they’re not overly affected by cyclical factors. We’re trying to find businesses that can grow their profits even if the economy isn’t helping them. And a lot of that is down to the management team and their ability to execute on a growth plan.’

WHAT’S IN AND WHAT’S OUT?

Wotton avoids mining, oil and gas, banking and insurance companies and also rules out early-stage businesses.

The fund only invests in profitable companies; and profits and cash generation are key criteria.

Launched in May 2009, the fund has performed well in good markets and poorer markets alike. ‘In 2013, which was a very strong year for small caps, we had a fantastic year,’ he explains, ‘but the portfolio also generated positive returns in 2011 and 2014, years when the small cap sector was down.’

‘In a very strong year for small caps, we’d typically perform in the middle of the pack. If mining and oil and gas have a stonking year, that’s going to be a relative performance headwind for us. But we’ll make it up in years where there’s a more challenging environment.’

‘We’re a bit more resilient and the companies we’re invested in – cash generative, sensible valuations, not too cyclical – should outperform in more difficult periods.’

EXAMPLES OF HOLDINGS

Despite the well-documented challenges facing the retail sector, LF Livingbridge UK Micro Cap invested in the November 2017 stock market flotation of **Footasylum (FOOT:AIM)**.

The fund manager calls it a market share growth story. ‘It is just a very focused and well-run business. It was founded by the original founders of **JD Sports (JD.)** and the daughter of one of the founders is the current CEO, Clare Nesbitt. We think she is a high quality CEO and on top of the business.’

‘Footasylum is a multi-channel footwear retailer; 30% of its sales are online, a pretty decent percentage for this kind of retail business and it is clear about the demographic that it is targeting and very clear about its

TOP TEN HOLDINGS (AS AT 31/03/2018)

Filta	4.36%
Mattioli Woods	3.95%
Impax Asset Management	3.94%
Restore	3.73%
Xafinity	3.63%
Inspired Energy	3.50%
Gama Aviation	3.22%
Tarsus	3.07%
Ergomed	3.04%
Watkin Jones	2.95%

positioning in the sector.’

Footasylum gets ‘early access to lines which are in demand which drive footfall and if you go into one of their stores, it doesn’t look like a Sports Direct, it looks like a cool destination for a 16-24 year old person to hang out in. Nike and Adidas are happy for them to get involved in the product positioning, the branding and the marketing.’

His patience in holding Impax Asset Management is beginning to be rewarded with the shares having nearly doubled in value since last summer.

‘Either it could attract more assets and grow profits materially over time or someone could potentially buy Impax to get its capability in-house,’ says Wotton. ‘The former has proved to be the case so far and last year Impax was re-rated, partly on asset in-flows and partly on a transformational acquisition.’ (JC)

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Four lessons to draw from the year so far

Many of the consensus calls have been wrong in the first half of 2018

The accompanying table suggests that 2018 is proving anything but straightforward, with many popular asset classes failing to deliver and some unloved ones doing relatively well.

But investors can perhaps draw four lessons from the market action in 2018 so far, as they seek to protect and grow their wealth.

Most investors are, in all likelihood, unlikely to be deflected from their strategic allocations by short-term whirls and eddies in the markets and that is a good thing. It keeps down the risk of being sucked into trying to time the markets and helps to limit unnecessary trading expenses and commissions for good measure.

But for those investors who do have a percentage of their assets set aside for tactical allocations, 2018 has so far offered four trends which should perhaps be borne in mind as portfolios are readied for the summer and then the second half of 2018 and beyond.

1. MARKETS ARE STILL ADAPTING TO QT

While it is interest rates that attract the most attention when it comes to central bank policy, the Federal Reserve's switch from quantitative easing (QE) to quantitative tightening (QT) is being overlooked.

In addition, the Bank of England has stopped adding to its £445bn programme and the European Central Bank is slowly reducing its monthly stimulus. That leaves only the Bank of Japan going all in on QE, as it continues to run its ¥80trn a year scheme.

The BoJ's stimulus equates to about \$730bn a year – but the Fed will be withdrawing QE at an annual run rate of \$600bn a year from October onwards.

That is a substantial decrease in global liquidity after a long span when cheap central bank cash drove bond yields down and equity valuations up.

US investors now need to fund a huge near-\$1trn budget deficit by buying this amount of US Treasuries and do so as liquidity is drained away,

PERFORMANCE OF LEADING ASSET CLASSES IN 2018 TO DATE

		2018 to date	Last 5 years
1	Crude Oil	12.8%	(13.4%)
2	MSCI Brazil	6.0%	13.5%
3	MSCI Information Technology	1.1%	18.3%
4	FTSE EPRA/NAREIT UK	1.0%	1.9%
5	FTSE AIM All-Share	0.7%	13.4%
6	FTSE Small Cap	0.1%	13.0%
7	MSCI China	(0.0%)	8.9%
8	Topix	(0.2%)	13.2%
9	MSCI Asia Pacific ex-Japan	(0.4%)	10.9%
10	JPM Emerging Market Diversified Bond	(0.5%)	7.2%
11	Market iBoxx Gilts 1-5 year	(0.5%)	(1.1%)
12	MSCI Russia	(0.6%)	11.3%
13	MSCI Emerging Markets	(0.8%)	9.9%
14	Market iBoxx Gilts	(0.8%)	(0.8%)
15	FTSE All-Share	(0.9%)	7.8%
16	MSCI Europe ex-UK	(1.1%)	8.9%
17	FTSE 250 ex-Inv. Trusts	(1.2%)	10.8%
18	Gold	(1.3%)	(0.3%)
19	MSCI All-World stock index	(1.8%)	11.5%
20	Barclays Global Aggregate Bond Index	(2.0%)	6.0%

Source: Morningstar Direct. Total return terms, in sterling.

perhaps putting upward pressure on yields for US Government debt.

If QE really did help stocks, as seems possible, the effects of QT may already be filtering through. After all, the US stock market seem to be providing everything the bulls expected after the Trump tax cuts – rising profits, rising dividends, bumper share buybacks – except positive returns.

US FEDERAL RESERVE IS STILL STICKING TO ITS QT SCRIPT



2. EMBRACE POLITICAL UNCERTAINTY

Most investors will run a mile when confronted by political uncertainty. Yet the UK, dogged by a tangled Brexit debate which seems to be satisfying neither Remainers nor Leavers, is performing relatively well. Brazil is doing better still, even though it is mired in an epic corruption scandal and moving toward a general election.

By contrast, nations where politics are seen as stable and helpful for markets, from India to China and Japan, are doing little to provide positive returns in 2018 – and that's before we get to the disaster that is Argentina.

Political doubts can drive a currency down, to either provide an economic lift, via exports, or make assets look cheap to overseas buyers (as the wave of mergers and acquisitions in the UK suggests).

Emerging markets may therefore be interesting here, after Malaysia's shock poll result and ahead of the ballots due in Mexico and Brazil, while this column knows of some intrepid fund managers who are dipping their toes back into Russia (compliance departments permitting) following the imposition of further economic sanctions by the US.

3. VALUATION NEVER MATTERS – UNTIL IT DOES

The battle lines remain drawn between 'value' and 'growth' investors.

The loss of absolute momentum in technology stocks (even if they are still doing relatively well) and negative returns from US, Indian and Chinese equities, coupled with the relatively solid returns from UK stocks, would suggest that 'value' may be asserting itself.

Professor Robert Shiller's cyclically adjusted price to earnings (CAPE) ratio as a benchmark would suggest that US stocks may struggle to provide positive returns on a 10-year view, should history deign to repeat itself.

This chart shows the next 10 years' compound annual returns from the S&P 500, according to the CAPE multiple paid to buy US stocks at the time – and the last three times valuations were this high since 1963 all presaged poor future returns.

US STOCKS STILL LOOK VERY EXPENSIVE BASED ON LONG-TERM EARNINGS METRICS



4. BEWARE THE CONSENSUS

So far in 2018, a lot of the consensus calls have failed to comprehensively deliver or at least offer investors positive returns (US stocks, tech stocks, India, China) while unloved assets (UK stocks, oil, UK property) have done relatively well.

Perhaps the message is to be prepared for anything and maintain an accordingly balanced portfolio that is as capable of protecting wealth as it is of growing it.

After all, the American writer and humourist Mark Twain once wrote: 'It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.'

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.



By Russ Mould, investment director, AJ Bell

RETIREMENT money show

13 June 2018
12:30 - 17:30

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ARE YOU RETIREMENT READY?

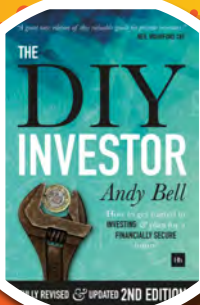
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It's no fun getting old when you're worried about running out of money, so do you have a financial plan for the possibility of living to be 100? Did you know that the current average retirement age is 64 years old and the average life expectancy is now 81 years old? To put this into perspective you might have to plan your retirement pot to last 17 years.

Come along to the **Retirement Money Show**, the London-based afternoon event run by Shares and AJ Bell Media which takes place on 13 June 2018 and features expert pension and financial speakers who will help investors better understand pensions and savings.

Register for free today and receive your **Retirement Money Show** goody bag when you arrive!

Discover more about the most important retirement issues and how best to manage your hard-earned money. The show is suitable for people still in employment and wanting to better **understand financial planning**, as well as those already in retirement looking to get the most from their pension and other assets.

Our speakers will be covering topics that are relevant to both those already in retirement and those who are still in work.

Knowing how to manage your pension pot either in preparation for later life or during retirement is one of the big challenges facing millions of people today and a central theme to the free-to-attend **Retirement Money Show**. It is one of a number of topics that we will discuss during the afternoon, so come along to the event armed with questions as there will be a wide range of people happy to talk to you.

You will have the opportunity to ask questions to most of the speakers and to **interact with specialists in savings, income, funds, ISAs and pensions/SIPPs** on the exhibition stands.

If you are new to the world of investing and pensions, don't think this event is only for financially-savvy people with years of experience in buying stocks, shares and funds. We purposely created an event that will serve the needs of both amateurs and experienced investors.

The **Retirement Money Show** is free to attend; you simply need to register in advance to secure your ticket. The afternoon event is being held on 13 June 2018 between 12.30 and 17.30 at the America Square Conference Centre, 1 America Square, 17 Crosswall, London, EC3N 2LB. The venue is well served by public transport with several tube stations on its doorstep.

Learn about:

- Managing cash flow & liquidity in retirement
- Balancing competing near and long-term financial demands
- Living your life during retirement years
- Making sure you retire on the best income
- Personal pensions – your guide to managed or self-investing
- ISAs – an alternative to pensions
- Long term managed income through Funds and Investment Trusts

If these are some of the many retirement planning issues that apply to you, then you need to join us at the **Retirement Money Show**.

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Dan Brocklebank, Director – Orbis Access
John Carnegie – Monks Investment Trust
Stewart Cazier, Head of Retail – ThinCats
Nick Brind, Fund Manager – Polar Capital Financials Trust
Paul Mahoney, MD & Founder – Nova Financial
Tom Selby, Senior Analyst – AJ Bell
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Is an early retirement possible anymore?

Retiring before age 65 requires careful planning and considerable savings



“
If retiring early is your goal,
it's important to accept that
the responsibility for reaching
that goal lies solely with you
”

If you read the personal finance pages of the media you're probably under the impression that retiring early – if at all – is nigh on impossible these days.

While it's true that retiring early is trickier than it was in the past, it shouldn't be impossible.

It merely requires a lot of planning and careful saving in the early years of your career.

WHY IS IT HARDER TO RETIRE EARLY THESE DAYS?

Official figures show the number of Brits who define themselves as retired before the age of 65 has hit an all-time low of 1.1m.

A lot of people genuinely want to keep working past traditional retirement age, but for many it's a matter of necessity rather than choice.

Saving rates in the UK are at a near 50-year low and the final salary pensions that funded

many retirements in the past are in terminal decline.

On top of this, average life expectancy has risen, which means money in retirement has to last a lot longer.

Back in the 1940s, people could expect to live around five to 10 years after retiring. These days, a retirement of 20 years or more isn't uncommon.

'With less saving, less generous workplace pensions and a longer life expectancy, the challenges of funding an early retirement have increased,' says Alistair McQueen, head of savings and retirement at Aviva.

HOW BIG AN IMPACT WOULD WORKING LONGER HAVE ON MY PENSION?

The biggest risk of retiring early is that your money will run out too quickly.

According to figures from Aviva, if a 35 year-old earning £25,000

pays 5% of their salary into a pension each month, and their employer matches this amount with an additional 5%, they could amass a pension fund worth approximately £67,000 at age 55.

This could be used to fund an income of £1,200 each year in retirement, and they'd have to wait at least another 10 years to get a state pension worth approximately £8,000 a year.

But if the same individual kept working until age 65, the extra 10 years of investment growth would result in a pension fund worth approximately £120,000.

This could be used to fund an income of £3,200 each year in retirement, plus they'd get immediate access to their state pension.

'The financial rewards of working longer are clear. In short, you'll have more money to fund a shorter retirement, so you can spread your savings more

generously,' says McQueen.

SHOULD I RULE OUT AN EARLY RETIREMENT?

The stats make for grim reading, but it doesn't mean an early retirement is out of the question.

'There's nothing stopping people retiring early today, although to do so you need to save a large amount in the early years of your career or accept a lower annual retirement income,' says Tom Selby, senior analyst at AJ Bell.

If retiring early is your goal, it's important to accept that the responsibility for reaching that goal lies solely with you.

'When it comes to retirement these days people need to engage their options more than they had to in the past and they also need to prepare a bit more,' explains Robert Cochran, pensions expert at Scottish Widows.

'It's not harder to retire, it's just that there is more choice and people need to take more responsibility for their own retirement.'

How much you save has the biggest impact on how likely it is that you'll be able to retire early.

The good news is that pensions are a lot more flexible than they were in the past. You have more choice over what you invest your money into, when you retire and how you access your funds.

HOW CAN I BOOST MY PENSION POT?

The best thing you can do to prepare for retirement is to start saving early.

This is because your money will benefit from investment growth

over a longer period of time.

Figures from Scottish Widows show that even a small delay in making payments can make a huge difference. If a 20 year-old starts paying into a pension, the value of their pot at retirement could be 64% higher than if they waited until age 30 and made the same monthly payments.

'Whilst it's true that you can save higher amounts later in life to get to the same fund value, the amounts you need to save to make up for lost time are eye-watering,' says Cochran.

However, if you're in your mid-40s and haven't started planning yet, an early retirement isn't necessarily impossible.

Paul Leandro, a partner at Barnett Waddingham, points out that pensions aren't the only savings vehicle people can use. It's worth checking how much

money you've got in ISAs and other savings products.

'The key message for people in their 20s is to stay in their workplace pension. For people in their 30s to 50s, it's all about contributions,' says Leandro.

It's worth remembering that you can make large one-off pension contributions in addition to drip-feeding money in each month.

In total, you can make contributions (including tax relief) of up to £40,000 a year.

'If you have a windfall of spare cash and want to get the biggest bang for your buck, a pension remains a very attractive vehicle,' says AJ Bell's Tom Selby.

Another option to consider is working part-time in retirement, as this could help to supplement any income you receive through pensions and from the state. (EP)

“

If a 20 year-old starts paying into a pension, the value of their pot at retirement could be 64% higher than if they waited until age 30 and made the same monthly payments.

”



How young savers can bridge the intergenerational divide

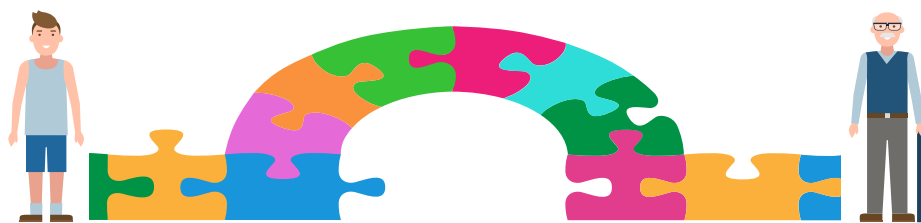
A new report calls for a £10,000 payment to over-25s and major changes to various parts of the tax system

The Resolution Foundation, a respected think-tank, has published a report on the issue of intergenerational fairness, saying that younger generations – sometimes sweepingly referred to as ‘Millennials’ – will end up financially worse off than those who went before them unless something radical is done.

The report argues younger people will struggle to own their own home or build up a retirement pot as valuable as their parents’, many of whom benefited from lower house prices and generous employer-sponsored ‘defined benefit’ (DB) pension arrangements.

The Resolution Foundation’s headline recommendation would see those aged 25 and over given £10,000 by the Government. This could be used for a limited number of things deemed to be socially ‘good’, such as saving for retirement, paying off debts or contributing towards a deposit on a first home.

Other ideas include drastically reducing the amount people can inherit without paying any tax, levying National Insurance on incomes over state pension age (with the money raised used to boost NHS funding) and radically reforming pension tax relief so everyone gets the same rate.



MILLENNIAL OPPORTUNITIES

While it is true the so-called ‘Baby Boomers’ enjoyed certain advantages that generations following are unlikely to experience, it’s important to recognise this is not a one way street – particularly when it comes to saving for retirement.

While some Baby Boomers were lucky enough to get DB pensions as part of their employment contract, historically there was no requirement on employers to offer any sort of retirement provision at all – meaning some will have saved little or nothing for old age.

Today firms are required to offer a defined contribution (DC) workplace pension and match the first 2% employees pay in. From April 2019 employers will be required to pay in 3%, with employees stumping up 4% (and another 1% coming through tax relief).

There have also been huge strides in value for money, particularly when it comes to personal pensions.

Back in the 1980s or 1990s

savers might have had to pay 3% or more to invest through a pension. Nowadays there is a huge choice of low-cost platforms that charge as little as 0.25%.

Furthermore, the rise of cheap tracker funds means you are able to invest in stocks and shares for a total cost of less than 0.5%.

The difference this could make to your retirement is enormous. Someone paying in £100 a month for 40 years who enjoyed annual investment growth of 5% and paid charges of 3% would end up with a pot worth £74,000.

If the same person paid charges of 0.5%, their fund would be a whopping £60,000 bigger (£134,000).

Then there’s technology. As well as dramatically lowering the costs associated with investing, the rise of online and now mobile tech allows you to access a diverse range of assets around the globe instantly. Older generations could barely have dreamed of such things.

Tom Selby,
senior analyst, AJ Bell

How a stock's liquidity can affect your returns

What are bid/offer spreads, what do they mean for investors and what role do market makers play?

Most investors will be familiar with the charges associated with trading stocks and shares. However, a hidden cost which sometimes isn't given sufficient prominence is the difference between the price at which you buy and sell a share, known as the bid/offer spread.

The bid price is the maximum price that a buyer is willing to pay for a share and the offer price (also called the 'ask' price) is the minimum price a seller is willing to receive.

Almost 100% of the time the bid price will be below the offer price. The size of the difference (also known as the spread) is largely a function of how liquid a stock is.

The liquidity of any asset essentially reflects how quickly an asset can be converted into ready cash and what impact this has on the price received.

CASH IN HAND

In real world terms cash in a

current account can instantly be in your hands when you need it at essentially zero cost. A house is nowhere near as liquid by comparison.

It can take several months to go through the legal process involved with selling a house and if you're looking for a quick sale this could have a materially negative impact on the price you get.

Shares as an asset class are fairly high up the liquidity scale because they are traded by thousands of other investors on the stock market.

However, there are significant variations. Most large cap stocks have a sufficient number of investors who are willing to buy and sell so liquidity isn't an issue.

This means there is typically very little difference between the price at which you can buy and sell a stock. For example, the bid/offer spread on banking giant **HSBC (HSBA)** shares is just 0.1p and would have a negligible impact on your return.

Yet not all shares are as actively traded as HSBC, particularly those in small cap companies, and this is where market makers come in.

These are banks or stockbrokers who commit to trading shares and bonds to ensure you are always able to buy or sell a stock on an exchange in normal market hours (8am-4.30pm). There are 21 registered market makers with the London Stock Exchange.

BEWARE THE SPREAD

The bid/offer spread is effectively where a market maker makes its money and if there are lots of market makers in a share then competition will likely keep a lid on the spread. However, if there are just one or two market makers in a stock the spread can be wide.

Taking micro-cap mining firm **Weatherly International (WTI:AIM)** as an example, at the time of writing the bid price on the shares was 0.25p and the offer price at 0.3p – so the spread is 16.7%.

These figures imply you would pay 0.3p to buy the shares and get 0.25p if you tried to sell them – so theoretically you would have lost money as soon as your initial buy order is placed.

You would need the bid price to increase by 20% to 0.3p just to stand a chance of breaking even should you wish to sell. (TS)



Weatherly International's bid price would have to increase by 20% just to break even should you want to sell

Why Provident Financial's shares are still erratic

We explain what's going on and reveal the views of several investment experts

When **Provident Financial (PFG)** lost 70% of its value last August, it was the biggest one day fall in FTSE 100 history.

In a strange event for the now FTSE 250 company, its value soared by 70% on 27 February 2018 when the company revealed its Financial Conduct Authority (FCA) fines were not as high as expected.

Since then, its shares have been moving wildly up and down. So why are the shares continuing to behave in an erratic fashion?

The root of Provident's spectacular fall from grace was the changes made to its home credit business. Its decision to replace self-employed debt collectors with fewer 'customer experience managers' did not go down well. Its 2017 results showed a £117m loss for the division, compared to a £115m profit for 2016.

The company's £331m rights issue announced in February 2018 was less than the £500m thought to be needed to repair the balance sheet and compensate customers over the Vanquish repayment option plan.

Provident needed £170m to compensate its customers plus a £2m fine to the FCA itself. More cash was also used to pay off its Moneybarn liabilities, a division which had also been under investigation by the FCA.

The rest of the money, about £108m, was used to shore up the company's funding gap which puts it on a much surer footing than it had been previously.

Liberum analyst Portia Patel says the group can now focus on recovery as the two risks



(FCA investigation and lack of funding) have been 'neutralised'. Provident says it will also reinstate its dividend this year after scrapping payments in 2017.

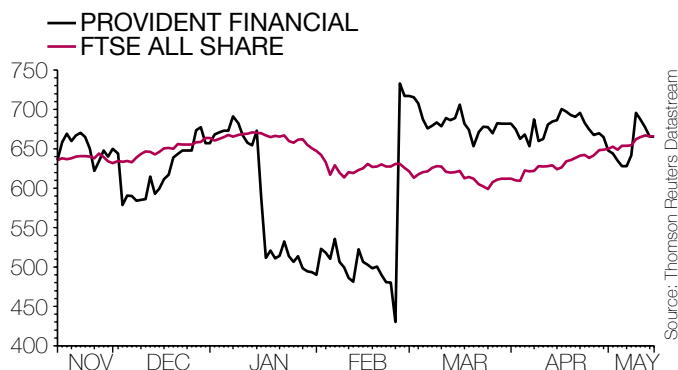
The company's recent trading update said its home credit business was recovering well but not everyone is sure that Provident Financial is out of the woods just yet.

Donald Tait, analyst at investment bank Berenberg, says there remain risks to earnings forecasts from the company's Vanquish and Moneybarn divisions. These are the company's credit card and motor finance segments respectively.

He is also concerned that growth at Vanquish may not outpace margin contraction and also sees execution risk in the home credit business.

Rupert Rucker, head of income solutions at Schroders, recently invested in Provident for **Schroder Income Maximiser Fund (GB00B0HWJ904)** saying the company has a robust balance sheet and he thinks the business will recover.

Analysts are also divided on whether the shares are worth buying at current levels. There are five 'buy' ratings, seven at 'hold' and one 'sell' rating, according to Reuters database. Three months ago the figures were the same apart from there were three 'sell' ratings, which suggests two analysts have since discontinued coverage. (DS)



Vertu's shares look really cheap given its very strong asset backing

Contrarian investors should hop behind the wheel at the UK's sixth largest car seller

We believe the market is taking too gloomy a view of franchised motor dealerships operator **Vertu Motors (VTU:AIM)** and that a 48.75p share price provides a bargain entry point for investors.

The company's single digit price-to-earnings ratio (PE) is too pessimistic a rating given the improving prospects of the UK's sixth largest car retailer.

Vertu boasts a pristine balance sheet rich in property assets. It outperformed a tough automotive retail market in March and April.

Canaccord Genuity has upgraded its price target from 57p to 66p following in-line full year results (9 May). These revealed a 9.2% underlying pre-tax profit reverse to £28.6m amid pressure on new car sales and used car margins.

Performance in new and used vehicles was down year-on-year in a difficult UK auto retail sector hurt by sterling weakness, frail consumer confidence and mixed government messages about the future of diesel vehicles.

However, Canaccord draws confidence from Vertu's more positive outlook. The £183.6m cap's board says the prospects for the UK new car market are likely to be more favourable and the outlook for used cars is strong, while aftersales prospects are positive.

Nonetheless it says new regulations in

September create short-term uncertainty over new vehicle supply.

Strongly cash generative and buying back shares which it believes are undervalued – tangible net assets per share grew almost 15% to 45.4p in the most recent financial year – Vertu upped the dividend 7.1% to 1.5p and also closed the year with a better than expected £19.3m net cash position.

One-off property profits of £3.5m struck during the year attest to the value in Vertu's freehold and long leasehold portfolio.

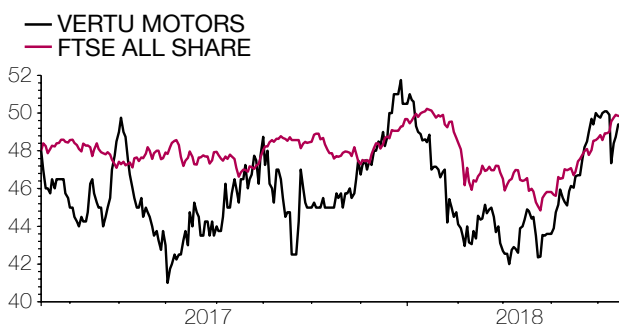
And while no acquisitions were made in the period, chief executive Robert Forrester insists the acquisition pipeline is improving with smaller dealership vendors becoming more realistic on pricing.

In his words, Vertu has 'a brilliant balance sheet', with a £40m of committed borrowing capacity and potential to add a further £30m if need be, leaving it well positioned to fund future acquisitions.

For the year to February 2019 and excluding any potential earnings accretive acquisitions, Canaccord Genuity analyst Sanjay Vidyarthi forecasts pre-tax profit to decline to £26.6m, ahead of recovery to £28.8m in 2020 and £30.8m in 2021.

Based on the current financial year's 5.5p earnings estimate, with a 1.6p dividend also forecast, Vertu trades on a low forward multiple of just 8.9-times, leaving plenty of potential re-rating scope.

3.3%
PROSPECTIVE
DIVIDEND
YIELD



SHARES SAYS: ↗

We're buyers at 48.75p. Bull points include Vertu's management and strong balance sheet and, despite the noise around Brexit challenges and UK new car sales, it is worth noting more than 70% of Vertu's gross profit is generated from used cars and recurring, high margin aftersales. (JC)

BROKER SAYS: 1 1 0

Next Fifteen's superior performance still has legs

Marketing firm should be able to ride out short-term negativity towards the tech space

Marketing firm **Next Fifteen Communications (NFC:AIM)** is one of AIM's big success stories of recent years. Despite a recent shift in sentiment towards the tech industry which it serves we believe the small cap's innovative approach could deliver further upside in the years to come.

In the last five years shares in the £374m business have delivered a total return of 460% thanks to organic growth and judicious acquisitions.

Results for the 12 months to 31 January 2018 illustrate the ongoing achievements with adjusted pre-tax profit up 21% to £29.3m. The rate of organic growth was down slightly at 5.3% but the company attributed this result to political uncertainty in the first half of its financial year.

The share price strength means it commands a premium equity valuation. At 489p it trades on a consensus forward price-to-earnings ratio of 15 against an average of 14.08 for a Thomson Reuters-compiled peer group. Next Fifteen will need to continue to deliver superior growth in order to maintain this premium rating.

The company's client base includes the likes of Amazon Facebook, Google's parent company Alphabet and IBM. More than 50% of its revenue comes from the US.



**112%
REVENUE
GROWTH BETWEEN
2013 AND 2018**

Source:
Next Fifteen

**18%
ADJUSTED
RETURN ON CAPITAL
EMPLOYED POST
TAX IN 2018**

Source:
Next Fifteen

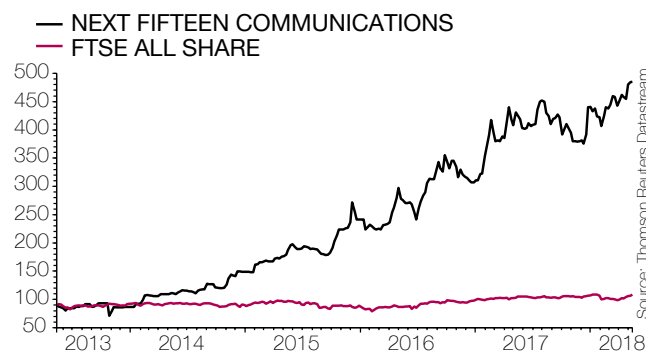
WHAT ARE THE RISKS TO GROWTH?

A potential to risk for investors to weigh is the level of customer concentration.

Its top 33 clients account for more than 40% of revenue so the loss of one of these key customers could have a material impact – against this it is worth noting the business has never lost a top-20 client since its inception. The market's attitude to the US tech sector has soured somewhat of late, largely relating to over-inflated valuations. While this is unlikely to impact on marketing spend, the same cannot be said if there is increased regulation.

Next Fifteen chief executive Tim Dyson says the company is increasingly shifting from a simple marketing role to using data and technology to improve the companies it works for, so 'rather than just putting lipstick on the pig, (we're) helping to redesign the pig itself'.

With a net debt to earnings ratio of 0.3-times and a £40m credit facility in place, Next Fifteen has plenty of scope to make further bolt-on acquisitions to continue this transition.



SHARES SAYS: ↗

We remain fans. (TS)

BROKER SAYS: 3 0 0



SHARES

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Are you looking for new companies to invest in? Come and join Shares at its evening event in London on Wednesday 6 June 2018 and meet directors from Diurnal and Midatech Pharma with more to be announced.

London – Wednesday 6 June 2018

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Companies presenting

Diurnal Martin Whitaker, CEO

Founded in 2004, Diurnal is a UK-based, globally-focused specialty pharma company developing high quality products for the life-long treatment of chronic endocrine conditions. It is committed to addressing major unmet clinical and patient needs in hormone replacement, initially by developing and marketing products for the rare orphan diseases Congenital Adrenal Hyperplasia (CAH) and Adrenal Insufficiency (AI). Diurnal's expertise and innovative research activities focus on circadian-based endocrinology (mimicking the body's natural hormone levels), which has yielded novel product candidates being trialled in patients prior to the submission of a marketing authorisation application.

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Midatech is a nanomedicine company focused on the development and commercialisation of multiple, high-value, targeted therapies for major diseases with unmet medical need. It is advancing a pipeline of novel clinical and pre-clinical product candidates based on its proprietary drug conjugate and sustained release delivery platforms with a clear focus on the key therapeutic areas of diabetes, cancer and neuroscience/ophthalmology. Midatech's strategy is to develop its products in-house in rare cancers and with partners in other indications, and to accelerate growth of its business through strategic acquisition of complementary products and technologies.

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GIVEN BLEAK high street conditions and the market share gains being secured by online pure-play retailers, expectations are subdued ahead of Marks & Spencer's (MKS) full year results (23 May). Investors will be looking to see if the changes by CEO Steve Rowe, supported by non-executive chairman Archie Norman, are improving the British retail institution's performance. Forward guidance from Marks & Spencer, which has carried out a senior management overhaul, will also be keenly watched. Ahead of the figures, broker Shore Capital calls for improved adjusted pre-tax profit of £593.2m (2017: £584.5m) and a maintained dividend of 18.7p.



ENGINEERING SUPPORT services company Babcock (BAB) buoyed its investors with an upbeat trading update in February. Will this positive sentiment be maintained when it releases full year results on 23 May? In February the company said both earnings and cash conversion would be in line with guidance and that its debt to earnings ratio would be reduced to 1.7 times.

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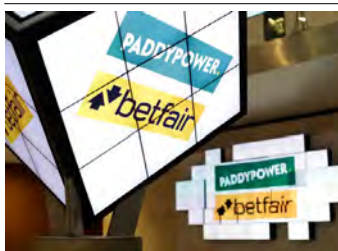
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