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SHARES

WE MAKE INVESTING EASIER

YOUR TICKET TO VALUE CREATION

Four ways investment trusts can deliver decent returns

THIS WEEK:
SAINSBURY'S, AVAST, BOKU, INTERTEK
& MORE

PLUS

THE TAX IMPLICATIONS OF **GIFTING SHARES** TO CHILDREN AND GRANDCHILDREN

FREE SPOTLIGHT REPORT ON GROWTH COMPANIES

INSIDE:
ULTIMATE GUIDE TO THE FTSE 250

How much cash have you got to buy on a market dip?

Being prepared for a market wobble means you can act quickly and buy assets on cheaper valuations

Wall Street last week broke the record for the longest bull run in history with the S&P 500's current rally now beating the previous bull run in the 1990s.

While this is exciting, it also acts as a reminder that the current vibrant stock market conditions globally could be well overdue a correction. If that correction happened, would you have enough cash at hand to go bargain hunting?

Increasingly I'm hearing about fund and portfolio managers positioning themselves for a prolonged period of uncertainty by retaining higher than normal cash levels. And this is also clear in Bank of America Merrill Lynch's closely-followed global fund manager survey which found cash levels among money managers rose to 5% in August versus 4.7% in the previous month. The 10-year average is 4.5%.

Among the group of financial experts boosting their cash position is Mike Coop, head of multi asset portfolio management (EMEA) at Morningstar. 'We get excited when prices plummet,' he says. You may think that sounds odd when the end-game is to make money, but what Coop really means is that a stock market sell-off provides the opportunity to pick up good businesses on cheaper ratings.

CONTRARIAN APPROACH

His investment style is one of a contrarian nature and Coop insists the rewards can be very good if you are patient and the investment ideas were correct.

For example, he prospered after buying Japanese equities in the aftermath of 2011's fierce earthquake which hurt the local stock market; and a decision to buy European oil stocks when commodity prices slumped has also delivered strong returns.

Having a strong nerve to buy at the height of any crisis is the ticket to success and is one trait that many fund managers lack, according to Coop. 'Uncertainty in the timing of any payoff is the key factor – the potential time period is too long for many fund managers,' he says.

Essentially many investment industry decision makers are often incentivised on a short-term basis so they don't want to take a bet which may not play out for a long time.

Retail investors – i.e. the general public – may have more flexibility to take long-term decisions, assuming they don't need to access the money for a specific purpose in the short-term.

Therefore it might be prudent to review your portfolio now and check your available cash should an opportunity arise to buy low.

Coop says it is presently 'tough to find any market offering normal returns for the risk on offer', however he says the UK market does look more attractive on a relative basis. He is convinced the degree of profit growth is underestimated by the market.

Perhaps now is a perfect time to start drawing up a list of good companies that you would want to own should their valuation become more attractive. We've got one example in this week's *Under The Bonnet* section, being **Intertek (ITRK)**.

The flipside of having a higher cash weighting in your portfolio is that you'd have less exposure to any further gains if the market kept rising.

As ever you need to determine the correct course of action depending on your risk appetite and own financial goals as everyone's circumstances are different. (DC)

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Is a 'no deal' risk rising for Sainsbury's?

CMA says it will consider the supply chain impact of supermarkets' mega-merger

In a development giving **J Sainsbury's (SBRY)** shareholders food for thought, the UK Competition & Markets Authority (CMA) has announced (23 Aug) the formal launch of its investigation into the grocer's proposed mega-merger with Asda with a broader than anticipated remit.

The regulator will consider the supply chain and the impact upon shoppers of the Sainsbury's/Asda merger, looking at whether the enlarged supermarket giant could use its beefed-up buying power to squeeze suppliers and whether this will have a knock-on effect on the consumer; suppliers might be less able to innovate or might have to charge higher prices to competing stores.

Shore Capital analyst Clive Black says: 'That it has decided to do so may be a disappointment, if not a surprise, to the deal team. We sense that doing so does heighten the risk of an undesirable outcome for them but by how much is hard to say.'

Black points out the CMA 'is also looking beyond grocery – clothing, electrical items, fuel and toys – which again brings scope, complexity and time to mind'.

Even if the deal gets through the clearance stage, management would face the herculean task of integrating two very different chains. The sector, save for Sainsbury's, is also trading well.

According to the latest grocery market share figures (21 Aug) from Kantar Worldpanel, covering the 12 weeks to 12 August, **Morrisons (MRW)** has regained its position as the fastest growing 'Big Four' supermarket, Aldi and Lidl continue to grow while Sainsbury's market share declined by 0.4% to 15.5%. (JC)

Electra takes down 'for sale' sign

The news is a blow to activist investor Edward Bramson

PRIVATE EQUITY investment trust **Electra Private Equity (ELTA)** is no longer up for sale after failing to attract any credible suitors during a formal sales process.

The development denies a clean exit for activist investor Edward Bramson who first targeted Electra in 2013 through his Sherborne Investors vehicle, and subsequently led the disposal of the bulk of the trust's assets and the return of the best part of £2bn in cash to investors.

Remaining assets in the portfolio include restaurant chain TGI Fridays and shoe specialist Hotter.

Electra, which trades at a 17% discount to net asset value, says discussions are continuing on the sale of individual assets and adds it will announce the result of an ongoing strategic review before the end of October.

Numis comments: 'Hotter and TGI Fridays operate in competitive retail markets, whilst the company does not have full control over the exit strategy for the remaining investments. It remains to be seen whether a sale of the remaining assets can be achieved within the next few months, and at what level.' (TS)

What do Wonga's woes mean for UK listed subprime lenders?

Expect to see heightened regulatory pressure on the sector

One of the most well-known payday loan companies, Wonga, is understood to be in financial trouble following a surge in customer compensation claims relating to loans taken out before 2014.

The situation is likely to result in increased regulatory pressure on the sector which includes several listed companies.

Wonga's problems are 'very company specific', relating to historically mis-sold payday loans according to Gary Greenwood, analyst at broker Shore Capital.

Doorstep lender **Provident Financial (PFG)** had its own annus horribilis last year when changes to its home credit business and other issues saw two thirds of its value wiped off in a day last August.

Provident has already been under investigation by the Financial Conduct Authority, with the regulator scrutinising if the company's Moneybarn division was giving finance to those unable to afford it.

The FCA also fined the company nearly £2m due to its credit card division Vanquis failing to explain the full cost of a repayment option plan.

Despite these negative factors, subprime lending is a growing sector.

Recently-floated guarantor loan company **Amigo (AMGO)** releases its maiden results as a listed company on 30 August. **Non-Standard Finance (NSF)** earlier this month reported a 62% rise in revenue to £75m for the six months to 30 June. (DS)

Clarkson directors sell shares worth £3.6m

The lock-in period for the executives ended in February

AT SHIPPING services specialist **Clarkson (CKN)** executive director Peter Anker and non-executive director Birger Nergaard collectively sold £3.65m of shares in a single day.

Approximately 131,000 shares were sold on 23 August at £27.50. These deals could provide a potential insight into Clarkson's prospects.

However, investors should also note the lock-in period for Nergaard and Anker, who used to work at Platou before it was acquired by Clarkson, ended in February. They may simply be taking advantage of the opportunity to crystalise some value in their stock.

In April, Clarkson revealed a shock profit warning, blaming a 'challenging environment' in shipping and offshore capital markets after several clients delayed signing new business deals.

Shares in Clarkson have bounced back 21% from one-year lows in June at £23 to £27.81 as investors look towards a return to profit growth in 2019. (LMJ)

Solid reasons why Headlam still looks attractive despite recent profit warning

Continental Europe is a medium-term catalyst for the carpets, laminate and commercial flooring specialist

Don't be put off by a recent profit warning from floor coverings distributor **Headlam (HEAD)** as the business still has attractive qualities. Stockbroker Panmure Gordon argues the European operation, 'mentally written off' by many investors, is likely to provide 'a strong positive catalyst for improved investor sentiment'.

Europe remains small at 15% of group revenue and generated EBIT (earnings before interest and tax) margins of 1.1% in the six months to 30 June 2018 versus 6.6% for the UK, yet the unit is seeing strength in the residential sector and the Continental European market is ripe for consolidation.

Headlam's management has scope to raise the operation's return on sales towards that of the core UK business, which accounts for the remaining 85% of group revenue.

Alongside first half results (22 Aug), Headlam, an organic and acquisitive market share gains story, warned full year profits will be 'towards the lower end of current market expectations' due to persistent softness in the UK floor coverings market, although pointedly, profits will still be ahead of 2017.

Panmure Gordon forecasts full year pre-tax profit of £43.5m (2017: £43.1m) and a flat 24.8p dividend, meaning investors are being paid a 5.4% dividend yield to wait for the UK to stabilise and European upside to come through. (JC)

FTSE 250 promotion could be the catalyst Avast needs

AVG internet security firm closes in on index recognition

SEPTEMBER COULD be a big month for internet security company **Avast (AVST)** which looks nailed on to be promoted into the FTSE 250 index.

The company will be hoping that this is a step in the right direction towards heating up a, so far, lukewarm investor response to its listing.

Czech Republic-based Avast is one of the world's biggest cyber security providers to consumers, with more than 435m people worldwide using its Avast and AVG firewall, anti-hacking and anti-virus toolkits.

Maiden half year results since its May flotation showed 'positive progress', according to one analyst yet the share price has remained stubbornly below the 250p level at which it joined the market. They are currently changing hands at 246.55p but have been as low as 207p in recent weeks.

That implies a market capitalisation now of £2.3bn, far above the rough £800m valuation that should guarantee it entry into the mid cap index. The hope is that this will draw the attention of new funds and retail investors. (SF)

US Fed chair ignores Trump criticism, will keep hiking rates... for now

Jerome Powell tells Jackson Hole central bankers' meeting he will do 'whatever it takes' in the event of a crisis

Addressing the annual summit of central bankers at Jackson Hole, Wyoming, the chairman of the US Federal Reserve Jerome Powell seems in no mood to bow to pressure from president Donald Trump on interest rates.

Trump had been publicly critical of Powell and his colleagues for the current pace of rate hikes which have risen steadily since the end of 2015. He wants looser monetary policy or lower rates to help support the economy and limit the surge in the dollar.

Jackson Hole has become an increasingly important date for investors' diaries in recent years thanks to a series of set piece announcements.

For now, Powell is committed to a course of gradual rate increases against the backdrop of a strong US economy. However, Powell did leave the door open for this approach to change according to the outlook, essentially promising to do 'whatever it takes' should another economic crisis loom.

Deliberate or not, this has echoes of European Central Bank chief Mario Draghi's pledge in July 2012 to do 'whatever it takes' to preserve the euro – helping to restore market calm in the wake of Europe's sovereign debt crisis.

Consultant Capital Economics reckons Powell may have to shift course in the relative short-term. 'Our view is that economic growth will slow sharply next year, which will force the FOMC (Federal Open Market Committee) to confront that dilemma sooner than they expect.'

This helps to explain why the dollar hit a four-week low in the wake of the speech. Another factor behind weakness in the US currency was a breakthrough on trade talks with Mexico and positive noises on similar talks with Canada.

The White House has been critical of the existing North American free trade agreement and had threatened to pull out.

As the dollar is often perceived as a safe haven, the recent progress on this front saw traders unwind some of their interest in the currency. In turn this reduced some of the pressure on emerging markets – particularly those countries with lots of dollar-denominated debt. (TS)

Dates for the diary – next central bank meetings

Bank of England, European Central Bank – 13 September

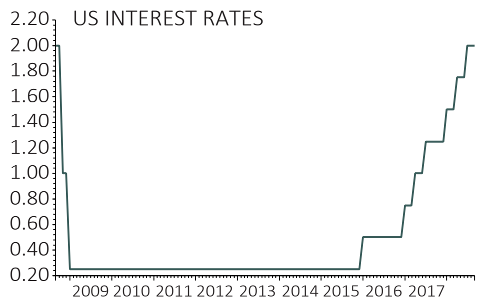
Bank of Japan – 18-19 September

US Federal Reserve – 25-26 September

PREVIOUS MARKET-MOVING PRONOUNCEMENTS AT JACKSON HOLE

In 2010 the-then chair of the Federal Reserve, Ben Bernanke, made his own commitment to so-called quantitative easing (QE) in the wake of the global financial crisis.

In 2014 the current head of the European Central Bank, Mario Draghi, gave hints of the financial stimulus he would later launch to rescue eurozone economies which had been buffeted by several sovereign debt crises.



Snap up On The Beach before its share price bounces back

We believe the market is starting to regain confidence in the stock following earlier trading blips

ON THE BEACH ↗ BUY
(OTB) 505p
Stop loss: 400p

Market value: £659m

Online beach holidays retailer **On The Beach (OTB)** is looking more attractively priced with its shares currently trading 22% below their one-year high of 650p.

The shares were hit earlier this year as the market correctly predicted that trading would be hit by the hot summer weather making people less interested in booking an overseas holiday.

Half year results in May also disappointed the market with earnings hit by the collapse of Monarch airlines which impacted seat capacity.

We only see these issues as a temporary blip and would urge investors to look at the company's longer term track record of generating value. It has grown consistently ahead of the market, increasing its share from 9% to c22% of the beach holiday sector since 2011.

On The Beach allows customers to package their own holiday by picking their own flights, hotels and transfers via its online platform. Every year, over 1.5m customers use the company to plan their beach holiday.

One of its advantages over rivals is a lack of inventory risk as the company never speculatively pre-buys hotel beds or flight seats.

In May, Numis analyst Richard Stuber said On The Beach's business model benefits from structural growth in dynamic, short-haul package holidays, its lean cost base and its market-leading, personalised product. 'Earnings levers include greater directly-contracted beds (up to 68%), and strengthening airline distribution agreements,' he added.

Berenberg analyst Owen Shirley argues investors are giving 'virtually zero value' for the international rollout in Sweden, Denmark and Norway with positive news involving these geographies potentially acting as a share price catalyst.

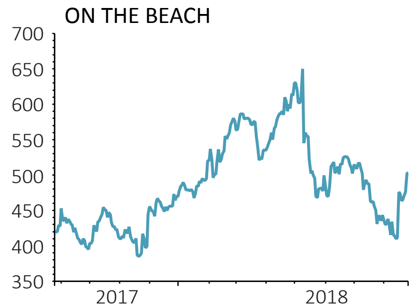
He likes the recent acquisition of Classic Collection, a business-to-business distribution network which sells premium holidays for an average £1,750 per person. Most of the holidays are sold through third party independent travel agents.

Across the industry, over 5m holidays are sold offline with 3m of these sold by independent agents, offering a new growth opportunity for On The Beach.

Classic Collection is expected to be loss-making near-term due to launch costs of putting the proposition on the acquirer's technology platform but is forecast to reach £2.5m to £3m in earnings before interest, tax, depreciation and amortisation by 2021 according to Numis.

Berenberg's Shirley believes Classic Collection has the potential to scale very quickly, which could make current assumptions look 'highly conservative'.

He currently forecasts £33.6m adjusted pre-tax profit in 2018 (2017: £28.5m), rising to £41.2m in 2019 and £49.6m in 2020. (LMJ)



AJBell Awards2018

VOTE FOR THE BEST COLLECTIVES

After a successful first year, the second iteration of AJ Bell's Fund and Investment Trust (FIT) awards opens up to voting this month. In 2018 there is a twist, as there will be active and passive winning funds for all but one of the categories.

VOTE NOW

How you can vote

To have your say on the funds which you want to win head to fitawards.ajbell.co.uk. You have until 31 August to make your voice heard.

By voting you are entered into a prize draw for a seven-course meal for two at the three Michelin starred Restaurant Gordon Ramsay.

The FIT awards, sponsored by First State Investments, Invesco, Invesco Perpetual, Pictet Asset Management and UBS, cover 15 categories. To make the voting process accessible to investors an expert panel puts forward their nominations in each category.
The panel can nominate any investment fund (including OEICs, unit trusts, investment trusts and exchange-traded funds). The panel is asked to look beyond simply investment performance, but also consider how well the fund/trust delivers what it sets out to achieve and how well positioned it is for the future.

SPONSORED BY

Boku is one of THE best growth stories on the stock market today

This is a superb way to play the surge in consumers paying for digital goods and services

BOKU ↗ BUY
(BOKU:AIM) 170p
Stop loss: 119p

Market value: £364m

Payments firm **Boku (BOKU:AIM)** is an incredibly attractive investment proposition, delivering growth on multiple metrics. It is enjoying rapid earnings growth in a market which itself is growing, plus Boku's own market share is increasing. Furthermore, its share price is also in a firm rising trend.

The £364m business is capitalising on a growing trend for consumers willing to pay for digital experiences such as games, music and films. Boku lets consumers add this cost to their mobile phone bill which can be much more convenient and frictionless than typing in a long debit or credit card number.

Its customers include large tech, media and gaming players such as Apple, Google, Microsoft, Sony, Netflix, Spotify and Activision Blizzard.

Half year results on 4 September should demonstrate to the market how the business is on the verge of a major breakthrough with its earnings.

The company has been run-rate EBITDA (earnings before interest, tax, depreciation and amortisation) positive since September 2017. Broker Peel Hunt reckons Boku will turn cash flow positive by the end of 2018.

Boku has already guided for first half revenue to be in the range of \$16.5m to \$17m, essentially what it achieved for the whole of 2016.

Peel Hunt forecasts the company will report its maiden unadjusted pre-tax profit at the end of 2018 at \$0.6m, rising rapidly to \$7.8m in 2019 and \$15.6m in 2020.

Boku's average daily cash balance was \$23.1m in June.

OPERATIONAL GEARING BENEFITS

Boku's chief financial officer Stuart Neal says the underlying billing business is a sunk cost and it no longer needs to spend a lot on the platform, nor does it need to hire lots more people. That essentially means most of any revenue increase should turn into profit and cash.

You may think adding a cost to a mobile phone bill doesn't have a future, given how PayPal and other electronic wallet providers are gaining traction, plus debit and credit cards remain the dominant payment method digitally.

However, you have to consider that what's happening in the UK, for example, isn't the same as what's happening in other countries. For example, Japan has a cultural aversion to using cards online, says Neal.

Many individuals in emerging markets don't have a credit or debit card but do have a mobile phone. Others in developed and emerging markets simply have security fears about using their card online.

A study by Ovum found \$153bn was spent on video game, digital music and streaming media (such as TV and films) in 2017, of which 11% was paid via carrier billing which is the term to describe adding the cost to a mobile phone bill.

Ovum forecasts this category of digital content spending will increase to \$202bn in 2022 with carrier billing commanding a 14.3% share.

REVENUE MODELS

Boku makes money in two different ways. First is its 'settlement model' where it manages the flow of money. It negotiates commercial terms with mobile phone companies (known as 'carriers') and it offers a price to the merchant, which then lets its customers pay for digital goods and services by adding the cost to their phone bill.

Each month Boku collects money from the carriers, aggregates it and pays the necessary money to the merchant net of Boku's and the carrier's fees. Boku will typically earn a 2% to 3% margin. The carrier earns 5% to 25% depending on whether it is operating in a higher-risk territory and how much work it has to do dealing with bad debts.

The 'transaction model' involves the carrier paying the merchant directly, net of fees. Boku invoices the merchant for its fees. This is lower margin work as there is less involvement for Boku. For example, it acts as a technical partner for app stores, earning approximately 1% margin to make sure transactions happen.

While its margin figures are low, success in the payments sector is all about scale and processing large volumes of transactions. Boku's total processed value was $1.5bn in the first half of 2018, up 153% on the same period a year earlier. It had 10.3m monthly active users on its platform in June, versus 8.1m at the end of 2017 so roughly 25% growth in a mere six months.

Boku has connections with 170 carriers in 65 countries, but not all of its merchants are live in all those territories, implying considerable growth opportunities if it can take them to new countries. And it is certainly having great success.

For example, it has added Apple's iTunes app store to more than 60 carriers around the world, up from 35 last November when Boku joined the stock market.

'There is a discovery curve once a merchant adds direct carrier billing to a new market with it taking two years before there is a slowdown in growth,' says Neal.

He explains that Boku's processing cost is expensive versus a debt or credit card but 'very good value' if you look at its services as a cost of new customer acquisition.

For example, Spotify saw a 20% uplift in conversions of customers from free trials to paid-for subscriptions when it added a mobile phone billing option.

NEXT PHASE OF ITS LIFE

Boku is already working on the next phase of its corporate development, looking at solutions to reduce advertising fraud, identity fraud and subscription abuse.

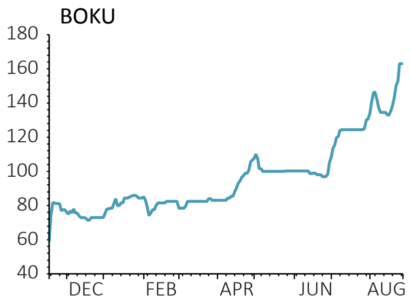
For example, it wants to help companies with a large customer base to clamp down on people manipulating free subscription trials such as hacking into computer chips and reselling subscriptions online.

'Mobile phone companies know your phone number, your name and address, something about your payment history, what your device is, and where your phone is,' says Neal.

He believes Boku can help validate where a phone is being used to authenticate areas such as online banking, verify the phone number is genuine and registered to the correct person and is a genuine phone and not something like a fridge freezer or combine harvester whose computer chips have been hacked.

Boku believes the identity solutions will help broaden its customer base and reduce concentration risk as its top four clients currently account for 67% of group revenue. (DC)

BOKU FORECASTS				
	2017A	2018F	2019F	2020F
REVENUE ($m)	24.3	34.0	42.0	50.2
EBITDA ($m)	-2.3	5.2	12.3	20.0
ADJUSTED PRE-TAX PROFIT ($m)	-7.6	1.6	8.8	16.6
EPS GROWTH (%)	n/a	n/a	589.0	85.9
ROIC (%)	-98.2	0.7	14.7	21.9
Source: Peel Hunt				



TRACSIS
(TRCS:AIM) 723p

Gain to date: 40.4%
Original entry point:
Buy at 515p, 22 February 2018

THE TRANSPORT TECHNOLOGY and analytics company has been enjoying a spell of strong demand so while analysts had been anticipating revenue of £36.15m and adjusted operating profit of £8.2m for the year to 31 July 2018, investors can now expect rough £40m and £8.5m equivalent figures.

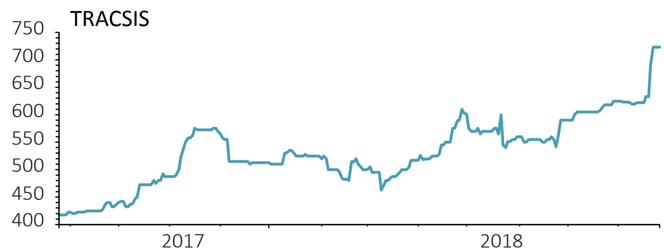
Tracsis (TRCS:AIM) provides the technology tools to help Network Rail and train operators improve performance, cut capacity problems and keep services running. It also provides technology-led insights on pedestrian and road traffic for infrastructure planning or organising large and complex events.

Encouragingly, both sides have witnessed improved business momentum, but there is also the good news of better profit margins at its traffic data operations, a trend that Tracsis sees continuing into the new financial year and beyond.

Using new technology and analytics to solve problems for often creaking transport systems appears to be an increasingly exciting space. Yet the emerging nature of this niche suggests progress will be more likely in fits and starts rather than linear.

Tracsis remains a high-quality business where self-funded acquisitions have major scope to add extra value beyond organic growth drivers.

As a result, some investors may be happy to hold for the longer-term but a 40% gain in six months suggests that others may choose to take some of that profit off the table now. That is how we see the current situation given a forward price to earnings multiple of 27.6.



SHARES SAYS:
Take profit but keep Tracis on your watchlist for future opportunities. (SF)

LEGAL & GENERAL
(LGEN) 257.3p

Gain to date: 0.5%
Original entry point:
Buy at 256p, 26 September 2017

DESPITE A FLAT share price performance from life insurer **Legal & General (LGEN)** since we added it to the *Great Ideas* portfolio, we still believe that the company will deliver the goods in the longer term.

Its first half results to 30 June released earlier this month showed steady progress. Operating profit was up 7% to £1.01bn with an increase in its interim dividend per share to 4.6p from 4.3p a year earlier.

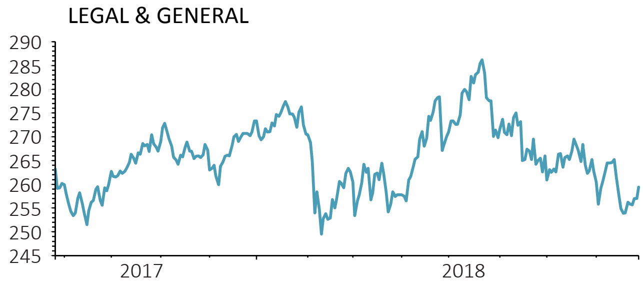
One reason we like the company is its ability to bolster its capital position as negative shifts in life expectancy reduce the amount it has to hold to cover annuity payments.

Chief executive Nigel Wilson says the company is reviewing its 'long term mortality assumptions' and will make a full release in the second half which will exceed the £332m released in 2017.

The company is active in the pension risk transfer market, taking on bulk annuities from companies.

According to Trevor Moss, analyst at investment bank Berenberg, only a 'modest' amount of risk transfer business was completed in the first half.

However, the second half could be a different story as it has a £7bn deal pipeline which it expects to complete during the period.



SHARES SAYS:
Keep buying. (DS)

SHOPPING AROUND – OPPORTUNITIES IN RETAIL

> “Many bricks-and-mortar retailers are meeting the e-commerce challenge head on…”

If you look at the share prices of conventional retailers today, you'd be forgiven for thinking that the high street is on its last legs. Recent store closures and bankruptcies have added to pessimism. Meanwhile, the eye-watering valuations of online retailers reflect a very rosy future indeed. The stockmarket has delivered its verdict: Amazon will take over the world, leaving a retail apocalypse in its wake.

As Amazon creeps towards a $1tn valuation, its shares trade on over 100 times this year's earnings. That leaves little room for any disappointment. In contrast, out of favour Marks & Spencer and Macy's, both of which are undergoing major transformations, are on a mere 12 times and 10 times, respectively*.

So does this gulf in valuations really point to the extinction of the high street? We believe it's misguided to assume that online will be the only way to shop. Online transactions are here to stay, but investors shouldn't underestimate the staying power of shops. A shopping trip is a major leisure activity for a great number of people – not just a necessity, but a social activity, even a hobby. The convenience of clicks can't compete with that.

Instead, the market's disdain for conventional retailers could be a buying signal for contrarian investors. The high street's survival of the fittest has created some high-profile victims. When the status quo is challenged, companies with credible plans to reinvent themselves tend to be the ones to survive and thrive.

Many bricks-and-mortar retailers are meeting the e-commerce challenge head on, by creating multi-channel offerings with mobile apps and 'click and collect'. Some are also adding other leisure services to their sites, increasing footfall and encouraging spending. And many have powerful brands that e-commerce has yet to rival. Marks & Spencer provides a good example.

Revivals in Marks and Spencer's fortunes have been heralded before, but we believe that this time really is different. Led by veteran retailer Steve Rowe and turnaround specialist Archie Norman, the company is shedding excess stores, revitalising product lines and improving its pricing strategy. Its food division is still very popular and its investments in IT and infrastructure are creating a robust multi-channel offering. If successful, this should boost earnings and improve margins.

One of our best-performing stocks is Macy's, which operates the US's largest chain of department stores. Given the challenges of e-commerce, the company's shares have been deeply out of favour. However, the company recently announced better-than-expected sales and a more promising outlook. Strong consumer spending, improvements in its bricks-and-mortar business and more 'disciplined' discounting are helping the company to positively surprise investors. Macy's has also been cutting costs and store space, while driving more value from its property holdings. Around 14% of Macy's shares are currently on loan to short sellers, who are betting that they will fall in value. Such 'short interest' is a sure sign that a stock is resolutely out of favour. For contrarian investors like us, it can point to exactly the sort of overlooked opportunities that we prefer.

We see these and many other retailers as 'ugly ducklings' – unloved shares that most investors shun. Although they have been under pressure from online competitors, they have considerable potential to defy the market's pessimistic expectations and turn their circumstances around. And while we wait for our ugly ducklings to become swans, most – like Macy's and M&S – offer higher-than-average dividend yields. We believe that the depressed shares of high-street operators conceal compelling opportunities. Smart investors should look out for high street bargains. ■

* As at 22 August 2018, data source: Bloomberg

RISK WARNING

Please remember that past performance may not be repeated and is not a guide for future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for shareholders. However, should markets fall these borrowings would magnify any losses on these investments. This may mean you get back nothing at all. Investment trusts are listed on the London Stock Exchange and are not authorised or regulated by the Financial Conduct Authority. Please note that SIT Savings Ltd is not authorised to provide advice to individual investors and nothing in this article should be considered to be or relied upon as constituting investment advice. If you are unsure about the suitability of an investment, you should contact your financial advisor. Issued and approved by SIT Savings Ltd, registered in Scotland No: SC91859, registered office: 6 Albyn Place, Edinburgh, EH2 4NL. Authorised and regulated by the Financial Conduct Authority.
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YOUR TICKET TO

VALUE CREATION

Four ways investment trusts can deliver decent returns

By Holly Black and Daniel Coatsworth

Investment trusts offer numerous benefits for those who take the time to understand them, but too often investors miss out on the opportunities offered by these investment gems, put off because they can seem complicated.

In fact, an investment trust is incredibly similar to a fund – the major difference is it is listed on the stock market and you buy shares rather than units. The price of these shares moves up and down depending on demand in the same way as any other stock such as those in the FTSE 100 or S&P 500 indices.

AN INVESTMENT TRUST IS SIMILAR TO A FUND, THE MAJOR DIFFERENCE IS IT IS LISTED ON THE STOCK MARKET AND YOU BUY SHARES RATHER THAN UNITS

The benefits of opting for trusts over funds are myriad: as well as typically having lower charges, they have a better track record for paying dividends, you can buy and sell shares whenever you want (they are very unlikely to suspend trading like the property funds after Brexit), and if you play your cards right you can boost your returns by buying at a discount.

Let's now look at four of the ways investment trusts can help to supercharge your portfolio.

1. Value investing

VALUE INVESTORS ARE similar to shoppers who only like to buy things when they are on sale. These investors buy stocks only when the share price is lower than what they believe to be the company's true value.

This tends to lead them to sectors which are unloved by the rest of the market and often cyclical industries such as industrials and commodities, which fall in and out of favour over time. The idea is that by buying these companies at a discount, the investor can enjoy returns when the rest of the market catches on and realises the opportunity.

But just as the stocks they buy go in and out of favour, so do value-style investment trusts. That means investors need to be picky.

Tom McMahon, senior analyst at research group Kepler Partners, says: 'Investors need to be highly selective when investing in value strategies; simply buying what is cheap is likely to be a mistake.'

As global stock markets have soared in recent years, trusts with a value approach to investing have lagged peers which have backed fast-growing technology stocks.

McMahon adds: 'But markets serially over-react and when certain sectors or themes become hated, then stocks sell off indiscriminately, offering opportunities for investors. The skill in value investing is identifying the under-appreciated companies and avoiding the dying ones.'

AN EXAMPLE OF A SUCCESSFUL FUND

Many trusts have still been able to deliver strong returns even while their style has been out of favour. McMahon likes **British Empire Trust (BTEM)**, which invests in other investment trusts and family-owned holding companies.

“Investors need to be highly selective when investing in value strategies; simply buying what is cheap is likely to be a mistake”

The trust typically buys holdings at significant discounts of 30% or 40%. Underlying investments include Exor, the family company which owns 30% of Fiat Chrysler, as well as shares in Juventus and Ferrari. The trust has delivered a return of 73% over the past three years, compared to an average of 69.9% from the investment trust global sector.

Aberforth Smaller Companies (ASL) is 'the only small cap trust to take an unabashed value approach', according to McMahon, who says it's a good option for investors looking to take advantage of out-of-favour smaller companies.

The team thinks even companies facing real difficulties can be good investments if they have been over-sold by the market. That has led Aberforth to snap up shares in the retail and transport sectors, among others. The trust has returned 23.8% over the past three years – less than half the investment trust UK smaller companies sector average of 49.1%.

REAPING THE BENEFITS OF A LONG-TERM APPROACH

James Carthew, head of investment company research at financial services group Marten & Co, says: 'Aberforth has been one of a number of determined value investors which have suffered as a handful of growth stocks have driven (smaller company sector) performance in recent years. Basically, if you haven't owned **Fevertree (FEVR:AIM)** or **Blue Prism (PRSM:AIM)** you've been left behind.'

McMahon adds: 'The Aberforth trust has taken a consistent approach for multiple decades and its outstanding long-term track record should give confidence in its ability to outperform should the market shift in favour of its style.' Over the 20 years to the end of 2017 it delivered a total return in net asset value terms of 968%, compared to a sector average of 556%.

The Scottish Investment Trust (SCIN) is another example of one which avoids investment fashions in favour of a long-term approach. The trust, which takes a global approach, has returned a little less than the global sector average over the past three years at 63.5%.

Current calls include investments in gold miners such as Newcrest Mining and Newmont Mining, which have suffered as the gold price has tumbled while the US dollar has strengthened. Manager Alasdair McKinnon says the two 'offer considerable opportunities when their cycles turn, and exemplify the out-of-favour stocks that we seek out'.

THE EXPERT'S VIEW

ALASDAIR MCKINNON, MANAGER, THE SCOTTISH INVESTMENT TRUST

'At the Scottish, we take a high conviction, global contrarian approach to investment with the simple philosophy that popular stocks become overvalued and unfashionable stocks, or "ugly ducklings", are often too cheap. We look to use this inefficiency to deliver long-term gains for our investors.

'This style of investment will not always be in fashion – we actively shun the latest hot themes. When the market mood turns, it is important to have a keen eye on risk and reward, particularly when markets have soared through successive highs.

'As we aim to avoid overpriced areas, so our portfolio is constructed without the constraints of a benchmark. Unlike many, we don't have holdings in Facebook, Amazon, Netflix or Google – the FANGs. We simply believe that greater opportunity lies elsewhere.

'Global retail, for example, is an out-of-favour area that we believe has been over-penalised and is ripe for recognition.'

2. The value of tapping into the expertise of seasoned stock pickers

CHOOSING TO INVEST in shares in an investment trust rather than a single company stock brings the benefits of diversification, as you will immediately have access to a number of shares chosen by an expert investor.

Investment trust managers have gained a reputation for their ability to cherry pick great businesses, a skill which many of them have harnessed over decades. While it is less common to find an open-ended fund (such as a unit trust or Oeic) where the manager has been at the helm for a number of years, it's a regular feature of investment trusts and means investors can see the performance and style of the manager proven over the long-term.

The first investment trusts available are now marking their 150th anniversaries and there are more than 30 trusts which have had the same manager for 20 years more. Peter Spiller is the longest serving manager, having headed up **Capital Gearing Trust (CGT)** for an incredible 36 years.

Among the most popular investment trust managers and one who takes a value approach to investing is James Henderson, manager of three trusts: **Lowland Investment Company (LWI)**, **Law Debenture (LWDB)** and **Henderson Opportunities Trust (HOT)**.

He says: 'People can overplay how dull and difficult value stocks are but if you have a company that already has the sales but just needs to grow its profit margins, there is a much greater possibility of achieving that than a growth stock promising to maintain 25% growth a year, which the great majority will never achieve.'

He is interested in firms such as **Croda (CRDA)**, which has reinvented itself from an industrial chemicals company to one which now supplies the likes of Boots and L'Oreal. Another stock catching his eye in an unloved sector is property group **St.Modwen Properties (SMP)** which has bucked the trend in the property market by developing brownfield sites across the UK.

Henderson also highlights **RSA Insurance (RSA)**, which has turned itself around after a 'torrid 10 years'.

He explains: 'The insurance industry was disrupted by comparison sites which have made it easier for people to find the cheapest policies and that revealed some of the weaker companies. RSA – previously known as Royal & Sun Alliance – has got out of areas it doesn't do well and focused on those it does and that is the case for value investing; when a business takes a look at itself, work out where it has an edge and is able to compete again.'

> "More than 30 investment trusts have had the same manager for 20 years or more"

As for examples of how other seasoned experts are currently approaching the market, Joe Bauernfreund, manager of British Empire Trust, is finding opportunities in Japan where companies have huge piles of cash on their balance sheets.

The Japanese government is encouraging shareholder activism and pushing for businesses to return spare cash back to investors in the form of dividends. He says: 'These firms are basically relearning 50 years of corporate practice.'

3. Reaping the value of a rising stream of dividends

A KEY FEATURE of trusts is that they are allowed to hold back up to 15% of their earnings each year. This means they can keep money in reserve to ensure there is enough cash to pay shareholders a dividend even in lean years. As a result, investment trusts have an incredible track record of not just paying decent dividends but growing them year-on-year.

Four investment companies have raised their dividend every year for more than 50 years, while 21 have grown their dividend for at least 20 years in a row. **City of London (CTY)**, **Bankers (BNKR)** and **Alliance Trust (ATST)** have all increased their dividend each year for an incredible 51 years.

Annabel Brodie-Smith, communications director at the Association of Investment Companies, says: 'This is an enviable achievement. While markets have seen volatility since the start of the year, interest rates remain low and income is very much in demand. Many investors rely on regular dividends for everyday spending and bills.'

Research from AJ Bell shows that £100,000 invested in the 10 highest-yielding trusts a decade ago is now worth a hefty £280,000, with investors receiving an annual income of £8,130 from these holdings.

For long-term investors, reinvesting these dividends can significantly boost returns too. A £10,000 investment in **BlackRock Smaller Companies (BRSC)** a decade ago would now be worth £58,078 if you had reinvested dividends.

4. The ability to buy many trusts for less than their underlying assets are worth

JUST AS VALUE style investment trusts aim to buy assets when they are 'on sale', the trusts themselves can also move to a discount. Because investment trusts trade like other company shares, their price is dictated by supply and demand.

That means, at times, you can effectively buy a share that has a net asset value (the actual value of the assets they own) of £1 for just 80p. This is referred to as the trust being at a discount, of 20% in this example.

The opposite situation is when trusts move to a so-called premium, whereby investors are willing to pay over the odds for the shares perhaps because they have delivered superior performance in the past.

When an investor pays £1.20 for a share with a net asset value of £1 the trust is said to be at a 20% premium. If a trust is at par value it means you pay £1 for shares with a net asset value of £1.

Aberforth, for example, has slipped to a 12% discount to net asset value because its style is out of favour and its performance has lagged its rivals.

Why would you invest in such a trust? Because you believe it will do better in the future; and if it does, there is the chance to also boost your returns if that discount narrows. If you buy a trust at a 12% discount and it delivers a return of 10% and also moves to par then you have actually made a 22% return.

These trusts employ this exact same technique in the investments they pick for their portfolio. British Empire, for example, last year invested in Aberdeen Private Equity at a 17% discount, only to later sell

the shares at a 2% premium – that's a return of 19% without even taking into account the actual returns delivered from Aberdeen's portfolio.

James Henderson from asset manager Janus Henderson says: 'Ultimately, you have to believe there is a strategy to move the (investee) company forward and that the business will grow in time. It can be less risky to invest in an established, mature business than a fast-growing one, but you need to be sure it's not just a legacy business that's declining.'

While buying assets when they are cheap is an appealing way to make a profit, value investors have to be careful not to fall into what is known as a 'value trap'. This is where investors buy an asset because it looks cheap, overlooking the fact that there is a good reason why it is cheap and that it is unlikely to recover.

FIVE EXAMPLES OF INVESTMENT TRUSTS CREATING VALUE IN DIFFERENT WAYS

SCOTTISH INVESTMENT TRUST (SCIN)

This value-driven trust has delivered 9.4% annualised total returns over the past decade through a strategy of investing in international equities and trying to achieve dividend growth ahead of UK inflation.

Research group Kepler says the portfolio was revamped in 2016, moving the investment strategy to a higher conviction approach with fewer holdings and 2018 saw the introduction of quarterly dividend payments.

The portfolio contains a mixture of well-known UK stocks include **Tesco (TSCO)** and **BHP Billiton (BLT)**, as well as some familiar brands listed overseas including Gap, Exxon Mobil and Pepsico. You'll also find some non-household names such as Japan's Sumitomo Mitsui Financial and National Oilwell Varco, a US energy firm.

TEMPLE BAR INVESTMENT TRUST (TMPL)

Temple Bar looks for out-of-favour stocks trading on cheap valuations. It looks at price relative to the operating profit it thinks the company can ultimately make when it has recovered.

It also demands a decent balance sheet from a company it is considering adding to its portfolio. That doesn't necessarily mean a pristine one, but rather a decent enough one to let the management work under the conditions they are being given. It doesn't want company bosses worrying that the balance sheet will implode in the next few months.

The majority of its portfolio is FTSE 100 stocks and some mid-caps. It doesn't necessarily look for high income yields on day one. But it wants to make sure the shares are very cheap for compensation that it isn't receiving a dividend yield on all of its stocks.

AURORA INVESTMENT TRUST (ARR)

Patience is a key virtue with Aurora which says its research process often takes years. It undertakes highly detailed studies of companies in order to gain utmost confidence before considering an investment. This means it is very picky and in turn this results in a very concentrated portfolio of typically 12 to 20 stocks.

The trust – run by Phoenix Asset Management – says it buys great businesses when they are cheap, usually because they are having short term issues. 'If our research is correct, then they emerge Phoenix-like and deliver high returns,' adds the asset manager.

Aurora's portfolio includes stakes in **Sports Direct (SPD)**, **WM Morrison Supermarkets (MRW)** and airline **EasyJet (EZJ)**.

Aurora's detail research has included the recruitment of mystery shoppers for Morrisons and monitoring cricket bat prices for its work on Sports Direct

FIDELITY SPECIAL VALUES (FSV)

Perhaps one of the better-known value-style investment trusts, this Fidelity product has a stellar track record, beating its benchmark index on a three, five and 10 year annualised basis by a considerable margin.

Its portfolio contains a large number of FTSE 100 companies but it does also have mid-cap exposure. Holdings include **CRH (CRH)**, **Ultra Electronics (ULE)** and **Aviva (AV.)**.

It aims to achieve long term capital growth by investing in stocks whose growth potential isn't yet appreciated by the broader market. Fidelity says the trust 'thrives on volatility and uncertainty'. The portfolio typically contains 80 to 120 stocks.

CRYSTAL AMBER FUND (CRS:AIM)

This is an activist investor fund targeting mainly small and mid-cap UK equities. It likes to shake up companies and extract hidden value.

Previous targets (and past fund holdings) include Aer Lingus, Pinewood and Kentz. The current portfolio includes **Hurricane Energy (HUR:AIM)**, **Ocado (OCDO)** and **Johnston Press (JPR)**.

One issue to consider is that Crystal Amber's shares are currently trading on a 5.6% premium to net asset value. That's likely to be a result of investors being encouraged by good past performance including 2017 where its successful campaigns boosted its value by 33% year-on-year.

In March this year, the investment trust said its net asset value fell by 6.7% over a six month period – illustrating how performance can be volatile with activist funds as you are often waiting a long time for change to be achieved in a business. Investors buy this fund for the potential rich rewards and accept that the risks are high as not all activist scenarios play out as expected.

THE IMPORTANCE OF INCOME

One advantage of contrarian investing is that the out-of-favour stocks we look for often offer higher-than-average dividend yields. But we never consider a high yield an attraction in its own right.

All that glitters is not gold – and an enticing dividend is worth little if it can't be sustained. That's why we look for companies with a yield that is both attractive and sustainable over the long-term. As part of a 'belt and braces' approach we often look for a reliable dividend to provide us with a return while we wait for our investment thesis to play out. As we typically invest in companies where major change is planned or already afoot, this can be crucial. Executing an effective turnaround can require time and patience and we want to be sure that the company has the wherewithal to maintain shareholder payouts through potentially turbulent times.

Being paid for our patience

If our research shows that the dividend is sustainable, then we can afford to be patient – secure in the knowledge that we are being paid to wait. That's an ideal situation for us: a strong dividend yield that gives us a consistent and attractive level of income while we await the return of health to the business – and hence its share price.

We value dividends not only because they boost portfolio returns, but also because we understand the importance of regular income to our investors.

Making income more predictable

We announced a step-change increase in our dividend in December 2017. This boosted the regular dividend by 48%, the total dividend increased by 11%. As our investment style tends to generate an above-average dividend income, compared with global equities, we have rewarded our shareholders with a higher and more predictable income stream than previously. Also, we have moved from semi-annual to quarterly dividend payments. This provides a more regular income to our shareholders. Of course, it should be remembered that dividend income is not guaranteed and can go down as well as up.

Thirty-four not out

Another key objective is to achieve dividend growth ahead of UK inflation. We have increased our net dividend in each of the last 34 years and the net dividend has been increased or maintained since at least the Second World War. Just as with our portfolio of investments, the sustainability of our own dividend is important to us and this is helped by revenue reserves of more than three times the regular dividend. This provides a strong foundation, so were the portfolio to experience a temporary shortfall in income the company would still be able to maintain its dividend policy.

Drip, drip

Finally, it is always worth emphasising the potential impact of reinvesting dividends. Dividends form a large part of total returns and this is especially true when the income is reinvested. Certificated shareholders can take advantage of our Dividend Reinvestment Programme (DRIP), allowing them to harness the power of compounding and potentially enhance returns significantly over the long-term. As at the end of July 2018, an investment in The Scottish Investment Trust would have returned 3 times its value over the last 20 years. With dividends reinvested, this would have increased to 3.7 times the original investment – an uplift of 25%. This underscores the importance of income – and shows how a steady drip of dividends can swell to a sizeable flow. ■

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Intertek is vital to global trade but can its shares keep the pace?

The FTSE 100 stock has significant investment appeal… yet is the price right?

With Brexit looming and the real possibility of leaving the EU with no trade deal in place, quality assurance company **Intertek (ITRK)** may potentially be in a position to make hay.

There may be additional regulatory regimes to satisfy once the UK leaves the EU. That could create additional work for the FTSE 100 business as companies seek to meet these new requirements.

While that is a potential earnings boost, it isn't the main reason why investors have been eager to own the stock. Intertek's core investment appeal lies in its strong market position for global quality assurance.

We live in a nation that is producing more and more goods and all these items have to be checked for safety reasons and to verify their contents match their description.

Intertek's seal of approval can be found on toys, electrical appliances and even clothes. It is the largest tester of consumer products in the world and has over 1,000 laboratories, with over 40,000 employees in 100 countries.

Other industries in which it validates the specifications, value and safety of materials include oil, construction, engineering, food and healthcare.

And Intertek works with governments, customs and national standards organisations to improve the compliance of imports with safety standards in order to help them protect import duty revenues and keep international supply chains running smoothly.

A MARKET LED BY THREE

The testing, inspection and certification market is dominated by three players: Intertek, Switzerland's SGS and France's Bureau Veritas.

Being part of an elite group in a vital industry combined with recurring revenue that keeps climbing has resulted in Intertek's shares trading on high multiples.

Negative market reaction to half year results on 7 August has seen the share price subsequently fall by 11% to £52.16 and lowered the valuation. Intertek now trades on 24.8 times forecast earnings for 2019; admittedly that is still a premium rating and perhaps one that is too rich for many investors to stomach when looking at the pace of future growth.

Analysts at stockbroker Numis presently expects it to deliver £2.807bn revenue this year (2017: £2.769bn), rising to £2.983bn in 2020. You could argue that is slow and steady growth, but you also have to consider that Intertek is exposed to cyclical industries and a slowdown in global economic activity would certainly be bad for its earnings.

UNDERSTANDING RECENT SHARE PRICE WEAKNESS

The most recent share price sell-off was triggered by Intertek missing market expectations for its half year results at the earnings per share level with analysts also closely scrutinising organic growth and margin.

Yet a broader look at the share price performance would suggest the most recent set-back is just a small blip in what has otherwise been a solid show.

Since Andre Lacroix became chief executive in 2015, the company's share price has appreciated by around 100%. That is phenomenal growth by anyone's standard and keeping up that pace is going to be a tall order.

Indeed, in April, stockbroker Shore Capital posed the question: is this the end of an 'exceptional era' for Intertek? It expressed concerns about the source of future upside value creation, saying it was hard to predict M&A and that the company's emerging value from its assurance arm was unlikely to be a catalyst to keep the share price going in the short term.

HOW A NEW CEO TRIGGERED A SHARE PRICE RE-RATING

The driving force behind the growth since Lacroix took the top job was this move to total quality assurance as well as TIC which he dubs ATIC (assurance, testing, inspection and certification).

In 2016, Intertek released a strategy update outlining the change in focus and the company's acquisition of US-based Alchemy in August this year is a continuation of the desire for this type of high margin business.

Alchemy is a provider of software as a service (SaaS) people assurance solutions for the food industry. Intertek said that the $480m deal would help with the complex supply chain issues in which employees are key. The business helps identify and mitigate the risks in its clients' supply and distribution chains.

Intertek says it will be able to use Alchemy's SaaS platform across all industries with a 'large deskless' workforce. The deal will be earnings accretive and bolster Intertek's position in the all-important food industry.

Steve Woolf, an analyst at broker Numis, says: 'We believe that Intertek is a quality company that is well-positioned in a structural growth market. It continues to deliver high returns, but at the current level, the valuation appears up with events.'

THE PRICE IS WRONG

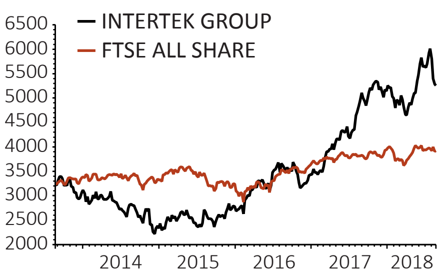
There's no doubt that Intertek has a commanding position in a sector that is vital for global trade. However, on its current valuation we see no great motivation to go out and snap up its shares.

Analysts seem to concur – only two analysts have a 'buy' rating on the stock out of a total of 16 covering Intertek. The majority (10) are sitting on the fence with a 'hold' rating.

Fundamentally Intertek is a decent business yet it is hard to justify paying the current price for the stock. We suggest you start building a list of stocks to buy should there be a market correction and put Intertek at the top. It is worth buying but only on a much lower rating. (DS)

INTERTEK: EARNINGS BY DIVISION	
PRODUCTS	60% of revenue, 76% of profit
TRADE	23% of revenue, 18% of profit
RESOURCES	17% of revenue, 6% of profit

Source: Intertek



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INVESTMENT TRUSTS FOR GROWTH

Whatever your ultimate investment goals if you are looking to grow your portfolio then investing in investment trusts can offer many benefits. In some investors' minds investment trusts are solely synonymous with income, but there are many trusts that have a growth mandate, or a combination of growth with income.

There are lots of different ways that investments trusts invest to generate their growth. They can be used to get exposure to different markets and asset classes and understanding where and how they put their money to use can help you better understand which investment trusts are right for you.

Come to the free **Investment Trusts for Growth** event to hear insights from leading fund managers on how the investment trusts they are responsible for achieve growth, get your chance to ask the questions that matter to you and network with your fellow investors.

Baillie Gifford UK Growth Fund
The Trust aims to maximise capital growth over the long-term from with the majority of assets held in a 'best ideas' portfolio of approximately 40 UK listed equities.

Henderson Alternative Strategies Trust
Benchmarked against the FTSE World Total Return index using a multi asset approach the Trust aims to exploit global opportunities not normally accessible in one investment vehicle.

Lowland Investment Company
With an objective of delivering a combination of income and growth the Lowland Investment Company's portfolio is predominantly UK focussed and includes a blend of large, medium and smaller companies.

Fundsmith Emerging Equities Trust
Using the same strategy as the Fundsmith Equity Fund the Fundsmith Emerging Equities Trust invests in companies that have their operations, or revenue derived from, developing economies.

Fidelity Special Values Trust
An actively managed contrarian trust, with a UK focus, that invests in what it believes to be undervalued stocks with growth potential.

Click on this page for full details and to register for your complimentary ticket.

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Registrations 18:00
Presentations start at 18:30
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Registration contact

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EVENT CHAIR

Daniel Coatsworth
Editor
Shares Magazine

Broadening your horizons in the hunt for income

Investment trusts enable you to address a whole world of different dividend opportunities

An investor on the hunt for dividends does not have to limit their search to the UK. The latest global dividend index from asset manager Janus Henderson shows global dividends surged 12.9% in the second quarter of 2018 reaching a record $497.4bn.

Dividends hit new record levels in 12 countries, including France, Japan and the US, which are among the largest contributors to the index. The index itself closed the quarter at a fresh high of 182, meaning global dividends have risen by more than 80% since 2009.

LOOK TO NEW GEOGRAPHIES

Investment trusts are a simple way of accessing the income which is pouring in from around the world. Examples of trusts with a focus on global dividends include **JPMorgan Global Growth & Income (JPGI)** and **Henderson International Income (HINT)**.

The latter has been steered by Ben Lofthouse since its launch in 2011. It targets a similar yield to UK equity income trusts but excludes the UK from its portfolio entirely.

The approach is to remain genuinely diversified so that not one of its three regional portfolios, in North America, Europe and the Far East, accounts for more than 50% of its holdings.

Lofthouse is on the hunt for value opportunities – looking to buy unloved stocks which can deliver capital growth and rising dividends. Current holdings include Coca-Cola and Deutsche Telekom. The shares currently trade at a 0.7% discount to net asset value (NAV) and the ongoing charge is 0.9%.

The JPMorgan trust is managed by Jeroen Huysinga and Timothy Woodhouse. Interestingly, they invest in a portfolio of global stocks which provide the best total returns rather than those paying the biggest dividends. Total return refers to losses or gains from shares proce change plus dividends.

RECORD GLOBAL DIVIDENDS IN Q2 OF $497.4BN

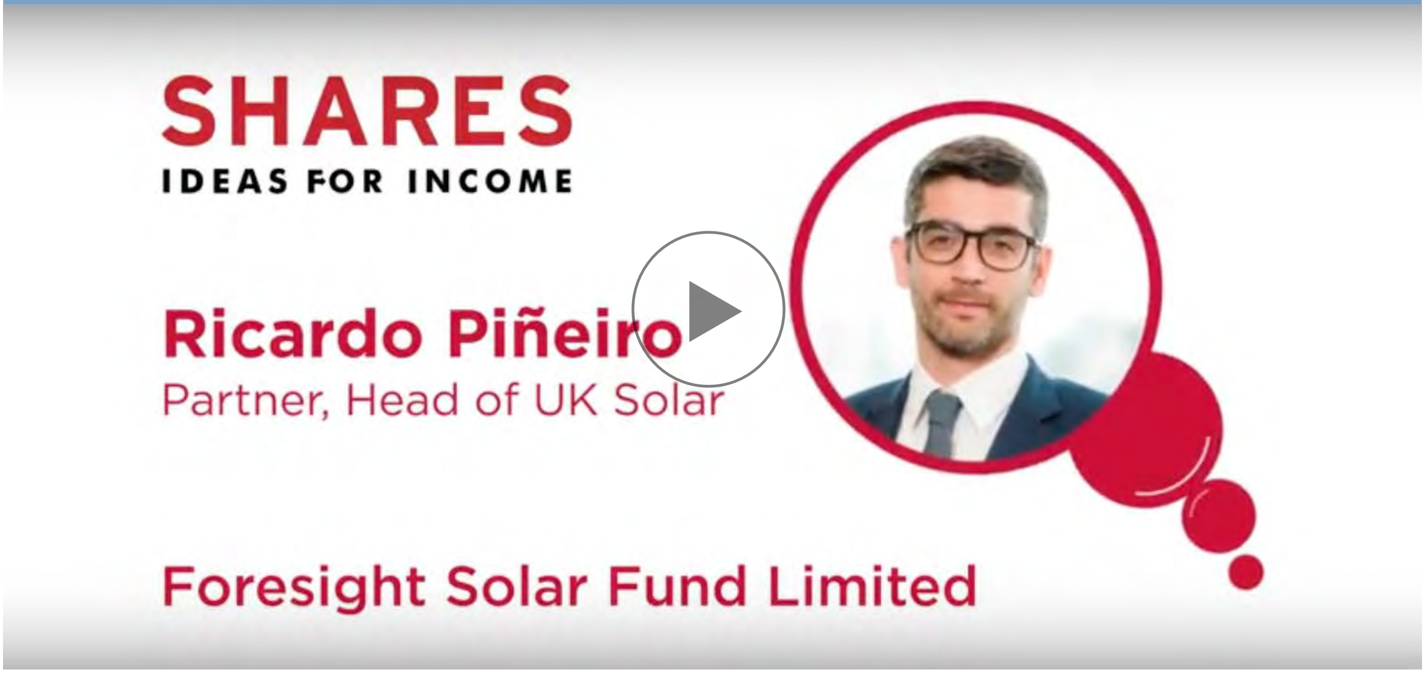
By using profits booked on investments alongside the underlying yield from these companies, Huysinga can generate a healthy dividend yield for investors in the region of 3.8%. Top holdings include Google-owner Alphabet, software firm Microsoft, insurer **Prudential (PRU)** and payments business Visa.

The fund trades at a modest 1% premium to NAV and has an ongoing charge of 0.57%, rising to 1.23% with performance fees (charged if it hits certain performance targets).

BROADEN YOUR ASSET HORIZONS

As well as looking to different

WATCH FORESIGHT'S EXPERT DISCUSS HOW THE FUND GENERATES INCOME



geographies for income, you could consider using investment trusts to gain access to a variety of different asset classes such as infrastructure.

The recent recommended £1.45bn takeover bid for **John Laing Infrastructure (JLIF)** by a private equity consortium has helped lift other infrastructure trusts such as **HICL Infrastructure (HICL)** and **BBGI (BBGI)** and led to speculation of further M&A in the space.

These trusts had been languishing at discounts to NAV thanks to the perceived risk of a crackdown on private involvement in big public projects.

SOME TRUSTS OFFER DIVIDEND YIELD APPROACHING 6%

However, the John Laing bid demonstrates the appeal of the highly visible cash flows associated with infrastructure projects, which are often linked to, and therefore protected from, inflation.

Another alternative asset class linked to infrastructure and which can often generate a healthy income is renewable energy.

The collection of investment trusts in this area principally invests in wind farm and solar projects. Specific examples include **The Renewables Infrastructure Group (TRIG)** which has a bias towards projects which are already in operation in the UK and northern Europe. It generates a yield from this portfolio in the region of 5.9%.

Foresight Solar (FSFL), which focuses on ground-based solar assets, predominately in the UK, also offers a prospective yield of 5.9%. The investment trust has nearly 40 assets in the UK and a handful in Australia. It raised £48m in an over-subscribed share placing this summer to invest in new projects. (TS)

Janus Henderson INVESTORS

Why are dividends so important to equity investors?

Income fund managers constantly bang on about dividends. Maybe it's in our genetic makeup but actually dividends should be important for all equity investors. David Smith, fund manager of Henderson High Income Trust, shares his five key reasons for this:

1) TOTAL RETURNS

I can bore you by reciting data from numerous studies showing dividend yield and dividend growth make up the majority of an investor's total return over the long run but it would be more interesting to look at a real time example. I bought Imperial Brands for Henderson High Income Trust 5 years ago when the stock was trading on an 11x price to earnings multiple. Today the multiple is still at 11x. The market is valuing the company at the same rating it did 5 years ago. So does that mean the company has been a bad investment? In short, No. The shares have delivered a total return of 64%, outperforming the UK equity market by over 20% in that time period. That return has been driven by the high dividend yield which has grown at 10% p.a. Message 1 – you don't need a rerating for shares to outperform.

2) CONTRARIAN INVESTING

Generally high yielding stocks tend to be unfashionable as either they have disappointed the market, resulting in a falling share price/rising yield, or they are mature, low growth businesses. Consequently, investors either underestimate their ability to produce decent returns or assign a too low valuation to these returns. Back in 2012 AstraZeneca had a dividend yield of 7% but was facing a patent expiry on its main drug, was unloved by analysts, was perceived to have no new drugs in its pipeline and people questioned the dividend sustainability. Not a compelling investment case. Since then the company has committed to the dividend, developed a pipeline full of exciting immuno-oncology drugs which are the envy of the industry and the shares have returned 186%. Message 2 – Just because a company is out of favour doesn't mean it can't change.

3) INVESTOR DISCIPLINE

Fund managers love to talk through their investment process and how it led them to buy a particular stock but frequently skip over their sell discipline. A focus on dividend yields provides a clear valuation discipline for fund managers. When the dividend yield of a stock moves to a discount to the market, through strong share price appreciation, it forces the fund manager to re-evaluate the investment. Can I still justify holding a low yielding company as an income fund manager? The answer is sometimes. Hilton Food Group now yields only 2.3% having been one of my strongest performers over the last few years, however, given the good visibility over its future growth it still has a place in the portfolio. When MoneySuperMarket's dividend yield fell to less than 3% in 2015, the payout ratio was already high while the rate of growth was slowing. Despite being a good performer it was time to move on. Message 3 – Stay disciplined even with your favourites

Janus Henderson INVESTORS

4) COMPANY MANAGEMENT DISCIPLINE

Company management's role is to keep us shareholders happy. One way is to pay a sustainable dividend while the other way is to invest and grow the business. It's a fine balance in capital allocation. Paying a too small dividend may lead to the cash flow burning a hole in management pockets and encourage them to spend it irresponsibly. Think Rio Tinto's $38bn acquisition of Alcan in 2007. Paying a too big dividend may constrain investment in the business and lead to issues in the future.

Bus and Rail operator FirstGroup cut capital expenditure to maintain their dividend which ultimately led to an underinvested fleet, operational problems, a dividend cut and a rights issue. Message 4 – A high dividend yield is not always attractive especially if the company can't afford it.

5) CASH FLOW

Companies are unable to pay dividends without sufficient cash flow. Cash flow is harder to manipulate than earnings and provides a better indication of a company's value. Before Carillion got into trouble the valuation used to screen "cheap" on earnings metrics but the company always generated poor cash flow. This should have been the early warning signs to investors. Message 5 – Don't ignore the phrase "Cash is King"

Dividends are very important to investors but only if they are sustainable and can grow into the future. Focusing on a well-diversified portfolio of companies that pay a good and growing dividend should help drive outperformance over the long term.

GLOSSARY

Price to earnings ratio: A popular ratio used to value a company's shares. It is calculated by dividing the current share price by its earnings per share. In general, a high P/E ratio indicates that investors expect strong earnings growth in the future, although a (temporary) collapse in earnings can also lead to a high P/E ratio.

Discount: When the market price of a security is thought to be less than its underlying value, it is said to be 'trading at a discount'. Within investment trusts, this is the amount by which the price per share of an investment trust is lower than the value of its underlying net asset value. The opposite of trading at a premium.

How can I pass on shares to my children?

We explain the gifting rules and the tax implications

Passing on investments to children can be a great way of getting them interested in investing, and helping them to learn about how financial markets work.

However, it's worth noting that shares can be a high-risk investment, as your money is based on one company's fortunes, rather than spread across a number of investments. Because of this, you may be better off selling any shares you plan to gift and investing the money into a more diversified fund for your children or grandchildren.

Occasionally some families may have emotional attachment to certain company shares and want to keep them in the family, while others may just think the shares represent a good investment for their offspring.

It's also the case that if you're passing on the shares to a child the money will remain invested for a long period of time, meaning there is time to ride out the highs and lows of the market.

> **"If you are gifting the shares there are a number of points to consider. Unlike transfers to spouses, which are free of capital gains tax, any shares handed to children will be classed as a disposal for capital gains tax purposes"**

CAPITAL GAINS TAX IMPLICATIONS

If you are gifting the shares there are a number of points to consider. Unlike transfers to spouses, which are free of capital gains tax, any shares handed to children will be classed as a disposal for capital gains tax purposes. This means that you could be handed a tax bill for passing the shares on.

You would need to calculate any gain between the value of the shares when you bought them and their market value when you transfer them to your children.

If this is above your annual capital gains allowance of £11,700, or if you've already used this tax-free limit this tax year, you'll pay 10% or 20%, depending on your income.

If you're transferring a large number of shares, which have seen a hefty gain, and so are likely to face a large tax bill you could split the transfer of the shares up across a few tax years, to make use of multiple years of your capital gains tax allowance.

INHERITANCE TAX IMPLICATIONS

You also need to consider inheritance tax as the shares will be counted as a gift. If you die within seven years of passing on the shares your estate may have to pay inheritance tax, at up to 40%, on the value of the shares – depending on whether your estate is above the IHT nil rate band.

The rate at which IHT is paid depends on how long before your death you gifted the shares.

However, every individual can gift up to £3,000 in a year free of inheritance tax (so £6,000 for a couple). You can use this annual gifting exemption to pass on the shares without the seven-year rule applying. If you haven't used the previous year's gifting allowance you can use double in one year, so £12,000 for a couple.

THE RULES FOR INHERITANCE TAX

Years between gift and death	Tax paid
Less than 3	40%
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

Source: HMRC

DIVIDEND IMPLICATIONS

If you are a parent gifting shares to your child and the shares generate dividends you also need to be mindful of how much income they are generating.

Children can earn up to £100 a year free of income tax, but anything over this amount is taxed at the parent's marginal rate. This limit doesn't apply if the shares have been gifted by grandparents, other relatives or friends.

To avoid this income tax and any future capital gains tax, it would be best to transfer the shares into a Junior ISA in the child's name, where it can grow free of tax. However, contributions to Junior ISAs must be made in cash, so you would need to sell the shares and then re-buy them within the ISA.

The annual limit on a Junior ISA is £4,260, so if the value of shares is higher than this amount you will need to do this effective transfer over a number of tax years.

With Junior ISAs, one thing to consider is that when the child reaches the age of 18 they are in control of the money and can decide what to do with it, so they could sell the shares at this point.

THE BENEFITS OF TRUSTS

Trusts could be an alternative to using a Junior ISA. One option is a bare trust, where the assets automatically become the trustee's when they reach the age of 18 and over (or 16 and over in Scotland).

A bare trust could be set up by the grandparents and the shares transferred into that wrapper. If the bare trust is set up by a parent, they will still be subject to the income limit, meaning the parent will pay income tax on any dividends generated above that £100 limit. However, if it is set up by a grandparent this rule is avoided.

Laura Suter, personal finance analyst, AJ Bell

Three quick ways to test the strength of the US market

Transport, semiconductors and banks are the key sectors to watch

By Russ Mould, investment director, AJ Bell

After a lot of huffing and puffing to recapture the ground lost since January, America's S&P 500 index is trading at fresh all-time highs and in the process setting new records for the longest bull run in US stocks in history at 3,461 days and counting.

The 428% rise since the post-Lehman bottom on 9 March 2009 is not, however, the best advance forged during a bull run. Between October 1990 and March 2000, the S&P 500 romped higher by 518%.

To match that gain, the S&P 500 must therefore get to 3,505, some 20% higher than where we are now.

One factor in the S&P 500's rise this year has been very strong earnings growth as the US economy has picked up steam, helped by the tax cuts pushed through by the Trump administration in late 2017.

And with interest rates slowly rising, and the Federal Reserve also withdrawing quantitative easing, profit growth will have to remain strong if stocks are to resist the gravitational pull of higher returns on cash, which just might one day tempt investors to take on less risk and lessen their portfolio allocation to equities.

ONWARD AND UPWARD

After 20% year-on-year growth in the first quarter of 2018, analysts went into July looking for a 38% surge in the second quarter of the year, buoyed by tax cuts, share buybacks, initial dollar weakness and also a strong operational performance from oil and technology firms in particular.

The good news is that corporate America has delivered in style. With just a handful of S&P 500 members yet to report, earnings look set to rise 43% year-on-year, with operating margins and earnings per share reaching fresh all-time highs, at 11.6% and $38.72 for the quarter respectively.

Better still, profit growth looks to be accelerating.

This helps to explain why US stocks trade at fresh all-time highs of their own, at least using the S&P 500, NASDAQ Composite and the small-cap Russell 2000 indices as benchmarks, with only the share-price weighted Dow Jones Industrials letting down the side.

But this also implies that profit growth forecasts must be met or exceeded and operating margins maintained or increased to help US stocks sustain their momentum.

It will therefore be interesting to see if any US firms flag any negative impact from tariffs, costs or the dollar. No-one is expecting a 2008-09 style margin collapse but with US stocks having done so well any disappointments could be taken badly, since arguments that the US market is still cheap largely rest on the assumption that profit margins will stay at their new highs forever (or go up even more).

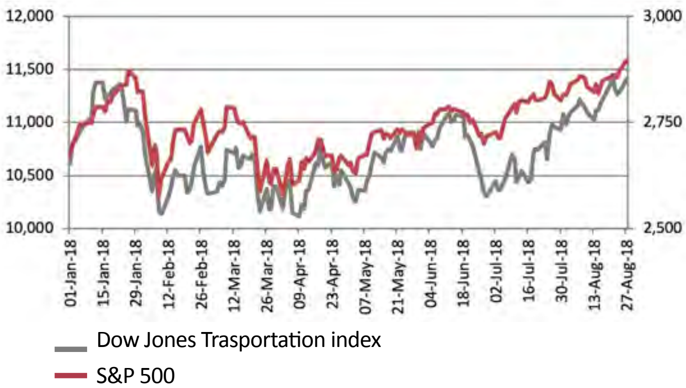
THREE AGAINST THE FIELD

Checking out some 500 sets of results every three months is a laborious job that will be beyond most investors. To cut out of some of the donkey work, investors might like to keep an eye on three sector indices to help them take markets' temperature as the earnings numbers flood in once more.

All three tap into the US economy and tend to be good indicators of wider stock market sentiment. While the past is by no means guaranteed to repeat itself, the S&P 500 tends to do well when these three sectors are doing well and not so well when they are doing badly.

1. Transport. The old theory is that if the economy is doing well, the transport stocks will do well, as goods are being sold and therefore new supplies must be shipped. Bulls will be delighted to see that the Dow Jones Transportation index is rumbling higher again after a slight skid in the summer.

TRANSPORT STOCKS ARE POWERING HIGHER ONCE MORE



Source: Thomson Reuters Datastream

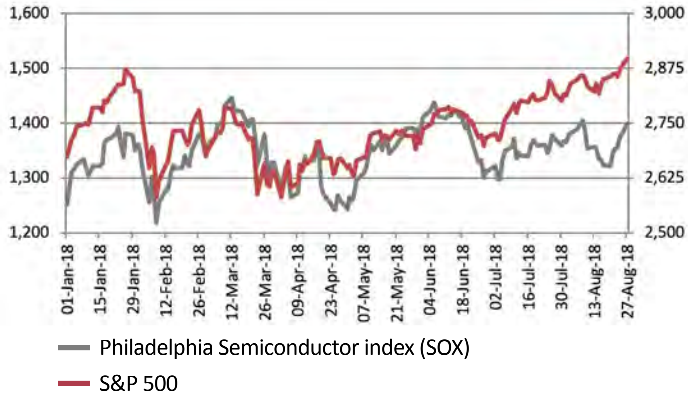
2. Semiconductors. The Philadelphia Semiconductor index, or SOX, contains 30 companies involved in the design, manufacture and sale of silicon chips and it is therefore a very useful guide for investors on two counts.

These integrated circuits are everywhere, from smart phones to computers to cars to robots, so they offer a great insight into end demand across a huge range of industries and therefore the global economy.

Chip-makers' and chip-equipment makers' shares are generally seen as momentum plays, where earnings growth is highly prized and valuation less of a consideration. As such they can be a good guide to broader market appetite for risk.

The SOX is up by 11.5% this year and the S&P 500 by 8.5% so that looks good, although investors need to watch the chipmakers' inability to set new highs. This may reflect lingering concerns over trade disputes with China in particular.

CHIP STOCKS ARE STILL COOKING

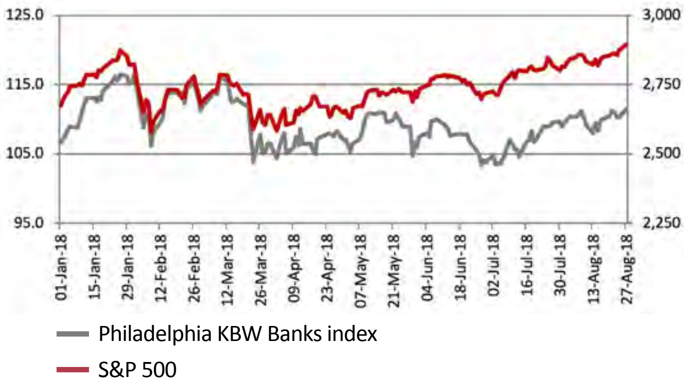


Source: Thomson Reuters Datastream

3. Banks. Both the economy and the financial markets need healthy banks if they are to thrive so a feeble performance from Philadelphia Banks index is a concern.

Real weakness, rather than mere underperformance, could warn of economic and market troubles ahead since the sector lost momentum in early 2007, well before the peak in the S&P 500 and before the great financial crisis broke.

BANKS MUST BE WATCHED AS THEY REMAIN A POTENTIAL WEAK LINK



Source: Thomson Reuters Datastream

CONCLUSION

History suggests bull markets end when interest rates are rising, valuations are stretched and earnings disappoint. The first is undeniable, the second arguable but the third, for now, is not a concern, especially with transport and chip stocks blowing hot, although any further cooling in the banks' momentum could yet be an early warning signal.

THE ULTIMATE FTSE 250 GUIDE

How the mid cap index works and the companies driving the market

BY THE SHARES TEAM

In a companion piece to last week's FTSE 100 special, this week *Shares* investigates the FTSE 250 index, the authoritative measure of UK-quoted mid cap companies.

It could be described as Anteros to the FTSE 100's Eros; the FTSE 250 is more obscure than its larger and more celebrated sibling index yet it has attracted investment right from its October 1992 launch.

Perceived as the better barometer of the UK economy, FTSE 250 constituent revenues are more evenly split between overseas and domestic sources than its bigger brother yet 51% of revenues still come from aboard. Evidently, the FTSE 250 is not the UK pure-play index that many believe it to be.

WHAT MOVES THE FTSE 250?

The FTE 250 is heavily influenced by the FTSE 100 because investors and markets respond to macro events and data more than anything else, as we have seen with aspects such as rising oil prices, trade war concerns and Brexit.

Putting that to one side, the mid cap index is widely believed to enjoy a more balanced split between sectors, unlike the FTSE 100, where banks, resources and consumer companies dominate.

This point is arguable. According to 31 July 2018 data from FTSE Russell, more than 78% of the FTSE 250's weighting is split between just three sectors: financials, industrials and consumer services.

This is illustrated by the presence of insurance firms **Hiscox (HSX)**, **Phoenix (PHNX)** and engineers **Spirax-Sarco (SPX)** and **Weir (WEIR)** which feature among the index's most influential by weighting.

Financials exert an enormous influence over the index's direction with 40.5% of the FTSE 250 weighting alone.

The explanation is the high density of investment trusts in the FTSE 250. More than 40 are listed on the index with approximately half of them valued in excess of £1bn, with **Alliance Trust (ATST)**, **Monks (MNKS)** and **Templeton Emerging Markets (TEM)** among the biggest, so they have a broad influence on the FTSE 250's direction.

STATS

21,324.02

FTSE 250'S ALL-TIME HIGH (14 JUNE 2018)

15.8%

% OF FTSE 250 MARKET CAP OF THE FTSE ALL-SHARE

6

NUMBER OF FTSE 250 ETF TRACKERS

FAMILIAR NAMES

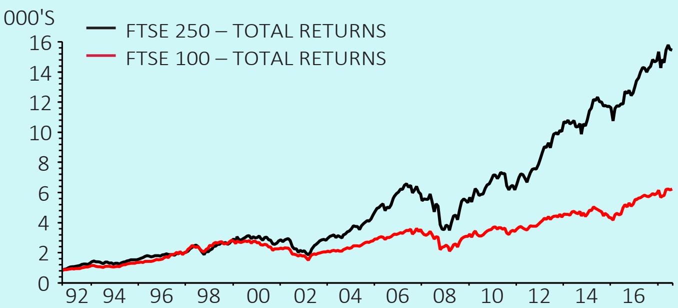
While investors might be on less intimate terms with the FTSE 250 in general there are many companies in the index that will seem like part of the furniture. Who doesn't know breakdown firm **AA (AA.)**, for example, or pile 'em high, sell 'em cheap sports retailer **Sports Direct (SPD)**?

Others you'll also know include **Domino's Pizza (DOM)**, **Moneysupermarket (MONY)**, **TalkTalk (TALK)** or cinemas operator **Cineworld (CINE)**, by name if not by stock market index membership.

Perhaps the most important assumption investors make about the FTSE 250 is that smaller companies have a greater capacity to grow, and grow faster. Elephants don't gallop, but fleas jump, to repeat the stock market idiom.

PERFORMANCE & PROSPECTS

Since the global financial crisis ended the FTSE 250 has beaten the FTSE 100 in annual performance terms every year bar two (2011 and 2016). According to FTSE Russell data last year, the FTSE 250 total return (assuming dividends were reinvested) for the index since its debut was 1,637% (to 31 Aug 2017).



Pessimism towards UK equities has become entrenched since the nation voted for Brexit. The ensuing economic uncertainty and political backdrop ahead of the UK's exit from the EU is still weighing heavily on wider market sentiment.

As analysts at Schroders recently put it, the UK stock market is 'currently viewed by international investors as one of the least favoured asset classes'.

This level of negativity is at odds with much of the news and corporate results we've seen from many mid cap companies this year, whose earnings have often exceeded market expectations.

It isn't to say there aren't some highly challenged mid cap sectors and companies, as the seemingly never ending litany of woe from the traditional bricks and mortar retailers reminds us, for example.

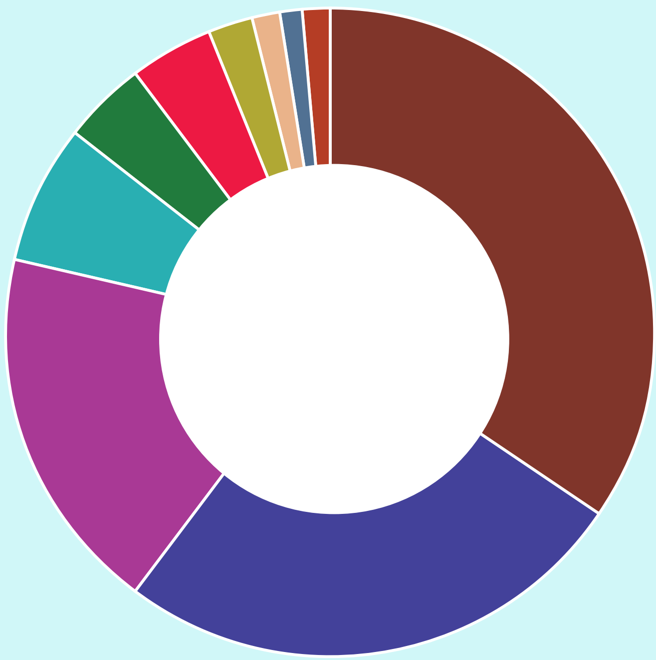
Yet prospects for UK mid cap companies are not, we believe, as poor as the wider investment community perceives it, a point on which Schroders' experts agree, who conclude that 'this could be to the stock picker's benefit'.

FTSE 250
Total returns

START	END	RETURN
12 Oct 1992	31 Dec 1997	143.8%
1 Jan 1998	31 Dec 2002	3.3%
1 Jan 2003	31 Dec 2007	180.5%
1 Jan 2008	31 Dec 2012	34.6%
1 Jan 2013	31 Aug 2017	81.5%

Source: FTSE Russell

FTSE 250 SECTOR BREAKDOWN



Financials	34.6%
Industrials	25.8%
Consumer services	18.3%
Consumer goods	7.07%
Healthcare	4.12%
Basic materials	4.02%
Oil & gas	2.24%
Technology	1.36%
Telecoms	1.28%
Utilities	1.18%

Source: FTSE Russell

FOUR OF OUR FAVOURITE FTSE 250 STOCKS

ENTERTAINMENT ONE (ETO) 365.8P BUY

Over the long-term we expect TV and film rights business **Entertainment One (ETO)** to be a major beneficiary of strong global demand for media content.

Streaming services, such as Amazon's Prime Video and Netflix, as well as subscription channels offered by the likes of **Sky (SKY)**, need plenty of films and TV shows, such as those produced by Entertainment One, to hold on to their prized subscribers.

The company's rights ownership of leading pre-school brand *Peppa Pig* is also a big plus point.

The proliferation of *Peppa* into new markets, including China where a new movie is set for release in February 2019, offers an increasingly global shop window for a highly lucrative range of toys and other merchandise from which the company takes a healthy cut.

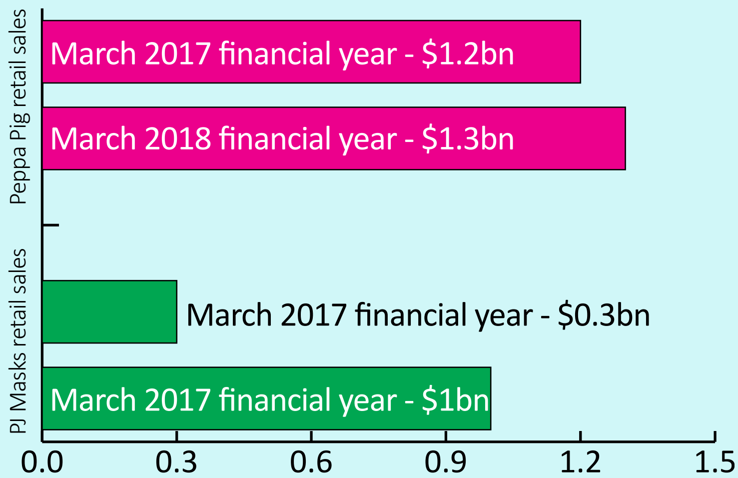
Launched in 2004, *Peppa's* appeal shows no sign of fading. In the year to 31 March 2018 the brand generated $1.3bn of retail sales.

There are early signs Entertainment One is repeating the trick with its *PJ Masks* series which generated $1bn of retail sales in the same period – up from just $300m a year earlier.

An independent valuation of its existing content library at $1.7bn provides a good underpinning to the current market cap (£1.69bn or $2.18bn).

The main issue investors have had with the business, which helps account for the volatile share price in recent years, is the company's weak cash conversion. However, as an increasing volume of content is produced in-house, giving it greater financial control, we reckon this could become less of an issue in the future.

PJ MASKS CATCHING UP WITH PEPPA PIG



FDM (FDM) 935P BUY

Every business and organisation is grappling with the problem of staying relevant in a disruptive, digital world and **FDM (FDM)** has the technology expertise to provide advice and solutions.

The company is an IT services and contract staffing provider operating around the globe. At the heart of its strategy is what it calls the Mounties model, under which graduates (and increasingly ex-military services personnel) are trained for free by FDM in return for at least two years of full-time service.

Parachuted in to clients, Mounties provide a wide range of technical and business functions, such as business development, testing, project management, data and business analysis, and production support.

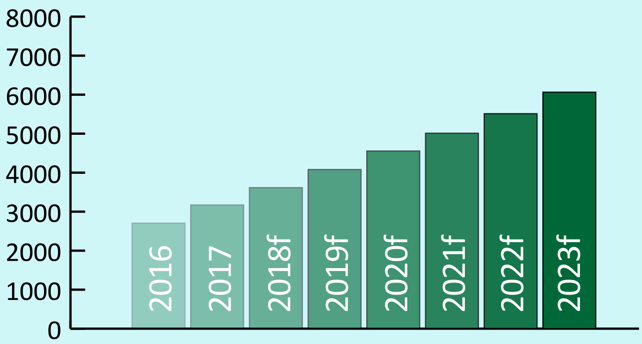
It has now decided to trust in its Mounties workforce and stop using for-hire contractors. This is the right thing to do. Mounties are in use about 98% of their time so the more FDM can get out in the field, the better the growth.

If you strip out currency oscillations and look at earnings from a constant currency perspective, revenue in the first six months of 2018 rose 17% as the company continues to win new customers.

First-half adjusted pre-tax profit increased by 12% to £25m. That's pretty much bang on track with full year's £50.2m pre-tax profit forecasts, based on Stockdale estimates.

FDM has a proven record as a nimble, high-quality execution business with substantial UK and overseas growth potential. Investors need to consider the stock has rallied from 287p to 935p in four years, putting it on a 2019 price to earnings multiple of 21.6. But we believe that is not an enormous premium given the growth prospects.

FDM'S MOUNTIE EXPERTS PLACED ON SITE



Source: FDM, Shore Capital
f = forecasted

FOUR OF OUR FAVOURITE FTSE 250 STOCKS

B&M EUROPEAN VALUE RETAIL (BME) 409.3P

BUY

In a wider retail sector beset by challenges, general merchandise discounter **B&M European Value Retail (BME)** is flourishing. The multi-price discounter is a high quality structural winner, more than meriting its premium rating (it trades on 20 times forecast earnings).

It is participating in two of the three key trends re-shaping modern retailing: the rapid expansion of the value sector and the rise of convenience. It has yet to participate in online retailing as its bargain wares arguably don't lend themselves to online transacting and CEO Simon Arora is loathed to add costs to a winning low cost model.

B&M's disruptive value model has traction with consumers who delight in its constantly changing, seasonally-adjusted ranges.

Furthermore, B&M prospers in economic weather fair or foul, benefiting from higher average transaction values in the good times and rising footfall and volumes in the bad.

B&M is seeing good footfall at both its in and out-of-town outlets, while the collapse of competitors such as Poundworld provides a trading tailwind.

Significantly, the cash-generative, progressive dividend payer is expanding its high street footprint at a time when rival bricks and mortar retailers are retrenching. With 578 UK B&M stores at last count, Arora reckons there are 'hundreds of catchments' where the retailer has yet to plant a flag and sees scope for at least 950 B&M fascia stores across the UK in the years ahead.

As if all that weren't enough, 2017's £152m acquisition of Heron Foods is allowing B&M to roll out a complementary discount convenience grocery brand and provides a platform for introducing frozen and chilled foods into B&M stores. The group also has a platform for growth in Germany via its Jawoll chain.

Year to March	PBT (£m)	EPS (p)	DPS (p)
2017 (A)	190.1	14.8	5.8
2018 (A)	221.5	17.7	7.2
2019 (F)	256.3	20.5	8.2
2020 (F)	282.7	22.7	9.2

Source: Numis. A = Actual. F = Forecast

SYNCONA (SYNC) 264.8P

BUY

Life sciences fund **Syncona (SYNC)** has a portfolio of innovative companies that tap into the lucrative healthcare market.

Global healthcare expenditure is anticipated to hit $8.7trn by 2020 according to Deloitte.

Syncona focuses on cell and gene therapies to treat a range of diseases and provides investors with access to a £515m life sciences portfolio and £465m investment portfolio.

It hopes to tighten its focus on life sciences even further, which in the year to 31 March 2018 delivered a 57.2% return, dwarfing the 7.5% return from the investment portfolio over the same period.

The fund is aligned with original founder The Wellcome Trust and Cancer Research UK, both significant shareholders in the business.

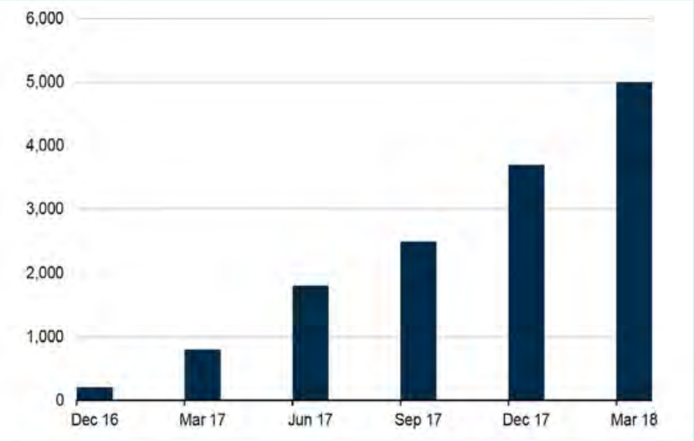
Syncona looks for businesses that develop transformational treatments. It takes a significant stake in portfolio companies and works with them to help build a successful long-term commercial entity. This strategy appears to be paying off as the fund delivered 18.7% net asset value return in 2017.

One of Syncona's top holdings, gene therapy developer Autolus, works on cancer treatments via CAR-T therapies, which aim to use the immune system to identify and attack cancer cells.

It has been a big year for Autolus after floating on the US NASDAQ market in June, enhancing the value of Syncona's stake from £69.6m to £86.7m and prompting the fund to invest an extra $24m (£18.1m) in the business.

Other investments include Blue Earth which has developed Axumin, a diagnostic imaging agent.

AXUMIN QUARTERLY US UNIT SALES



Source: Company data

THE COMPLETE FTSE 250: NUMBERS 1 TO 25

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Spirax-Sarco Engineering	SPX	Industrial Goods & Services	£5,247	28.8	1.4	26
Wood Group	WG.	Oil & Gas	£5,234	16.1	3.7	34
Weir Group	WEIR	Industrial Goods & Services	£4,839	17.0	2.5	6
Hiscox	HSX	Insurance	£4,777	22.1	1.9	28
JD Sports Fashion	JD.	Retail	£4,734	17.7	0.4	46
Hikma Pharmaceuticals	HIK	Healthcare	£4,537	22.8	1.4	51
Auto Trader	AUTO	Media	£4,326	23.6	1.4	35
Aveva	AVV	Technology	£4,319	33.0	1.7	40
ConvaTec	CTEC	Healthcare	£4,292	16.4	2.3	-24
B&M European Value Retail	BME	Retail	£4,127	19.5	2.3	10
Meggitt	MGGT	Industrial Goods & Services	£4,094	16.3	3.1	3
Phoenix	PHNX	Insurance	£4,082	10.3	6.8	2
Cineworld	CINE	Travel & Leisure	£4,046	14.3	3.8	0
Foreign & Colonial Investment Trust	FRCL	Equity/Nonequity Investment Instruments	£3,936	n/a	n/a	18
G4S	GFS	Industrial Goods & Services	£3,912	13.9	4.0	-14
NEX	NXG	Financial Services	£3,898	30.3	1.5	52
Renishaw	RSW	Industrial Goods & Services	£3,858	28.1	1.2	16
Hammerson	HMSO	Real Estate	£3,816	15.9	5.4	-14
Merlin Entertainments	MERL	Travel & Leisure	£3,755	18.0	2.0	-20
Bellway	BWY	Personal & Household Goods	£3,640	7.0	4.7	-7
Babcock International	BAB	Industrial Goods & Services	£3,625	8.5	4.3	-12
Mediclinic International	MDC	Healthcare	£3,574	15.8	1.7	-34
Derwent London	DLN	Real Estate	£3,425	28.8	2.1	11
Investec	INVP	Financial Services	£3,416	9.1	5.1	-15
Wizz Air	WIZZ	Travel & Leisure	£3,394	14.1	n/a	14


Merlin Entertainments

THE COMPLETE FTSE 250: NUMBERS 26 TO 50

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Electro-components	ECM	Industrial Goods & Services	£3,349	21.2	2.0	18
Homeserve	HSV	Industrial Goods & Services	£3,337	27.2	2.1	40
IG	IGG	Financial Services	£3,318	15.4	4.8	34
BBA Aviation	BBA	Industrial Goods & Services	£3,268	17.7	3.5	2
IMI	IMI	Industrial Goods & Services	£3,263	16.7	3.4	4
RIT Capital Partners	RCP	Equity/Nonequity Investment Instruments	£3,230	n/a	n/a	6
Tullow Oil	TLW	Oil & Gas	£3,207	12.1	0.1	43
Dechra Pharmaceuticals	DPH	Healthcare	£3,198	41.4	0.8	62
SSP	SSPG	Travel & Leisure	£3,196	28.6	1.5	26
Pennon	PNN	Utilities	£3,175	14.4	5.4	-6
Jardine Lloyd Thompson	JLT	Insurance	£3,104	21.3	2.5	20
Beazley	BEZ	Insurance	£3,100	20.5	2.0	13
RPC	RPC	Industrial Goods & Services	£3,092	10.0	4.0	-15
Tate & Lyle	TATE	Food & Beverage	£3,025	12.9	4.6	-6
Cobham	COB	Industrial Goods & Services	£3,023	26.4	0.6	-7
Intermediate Capital	ICP	Financial Services	£2,998	14.5	3.4	16
CYBG	CYBG	Banks	£2,994	13.7	0.5	16
Howden Joinery	HWDN	Industrial Goods & Services	£2,992	15.2	2.4	16
Polymetal International	POLY	Basic Resources	£2,949	8.9	5.5	-30
Hays	HAS	Industrial Goods & Services	£2,923	17.9	3.1	18
Inchcape	INCH	Retail	£2,903	10.8	3.9	-17
Rotork	ROR	Industrial Goods & Services	£2,898	26.5	1.8	49
Travis Perkins	TPK	Industrial Goods & Services	£2,862	11.1	4.0	-23
HICL Infrastructure	HICL	Equity/Nonequity Investment Instruments	£2,844	14.7	5.0	-2
Shaftesbury	SHB	Real Estate	£2,800	52.2	1.9	-8

Travis Perkins

THE COMPLETE FTSE 250: NUMBERS 51 TO 75

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Metro Bank	MTRO	Banks	£2,793	54.7	n/a	-18
Man	EMG	Financial Services	£2,747	13.5	5.3	3
Spectris	SXS	Industrial Goods & Services	£2,742	15.4	2.6	-1
Victrex	VCT	Chemicals	£2,663	23.4	3.5	51
Quilter	QLT	Financial Services	£2,648	14.4	6.4	n/a
Alliance Trust	ATST	Equity/Nonequity Investment Instruments	£2,630	n/a	n/a	7
Inmarsat	ISAT	Telecommunications	£2,581	22.8	2.8	-24
Pershing Square	PSH	Equity/Nonequity Investment Instruments	£2,535	n/a	n/a	11
Ashmore	ASHM	Financial Services	£2,509	16.5	4.7	-2
Sophos	SOPH	Technology	£2,416	65.4	0.9	3
Capita	CPI	Industrial Goods & Services	£2,413	10.0	n/a	-63
Close Brothers	CBG	Financial Services	£2,392	11.6	4.0	3
Vedanta Resources	VED	Basic Resources	£2,360	12.6	6.4	4
UNITE	UTG	Real Estate	£2,296	25.1	3.3	29
Aggreko	AGK	Industrial Goods & Services	£2,245	17.8	3.1	2
Petrofac	PFC	Oil & Gas	£2,227	9.2	4.6	49
Capital & Counties Properties	CAPC	Real Estate	£2,217	215.3	0.6	-2
WH Smith	SMWH	Retail	£2,207	18.3	2.6	9
Tritax Big Box REIT	BBOX	Real Estate	£2,204	21.5	4.5	4
William Hill	WMH	Travel & Leisure	£2,192	11.3	5.2	4
International Public Partnership	INPP	Equity/Nonequity Investment Instruments	£2,188	16.1	4.5	-4
Intu Properties	INTU	Real Estate	£2,180	10.9	8.8	-35
IWG	IWG	Industrial Goods & Services	£2,164	18.4	2.6	-19
RHI Magnesita	RHIM	Industrial Goods & Services	£2,143	10.7	1.5	n/a
Britvic	BVIC	Food & Beverage	£2,130	14.7	3.4	7


Petrofac

THE COMPLETE FTSE 250: NUMBERS 76 TO 100

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
BTG	BTG	Healthcare	£2,097	15.9	n/a	-20
National Express	NEX	Travel & Leisure	£2,081	12.5	3.6	14
Sports Direct International	SPD	Retail	£2,080	16.5	n/a	-3
KAZ Minerals	KAZ	Basic Resources	£2,037	4.8	1.8	-43
Balfour Beatty	BBY	Construction & Materials	£2,032	16.5	1.7	7
PageGroup	PAGE	Industrial Goods & Services	£2,031	19.4	4.2	27
Redrow	RDW	Personal & Household Goods	£2,023	6.8	4.5	-9
Great Portland Estates	GPOR	Real Estate	£2,005	32.4	1.7	3
Witan Investment Trust	WTAN	Equity/Nonequity Investment Instruments	£1,994	n/a	n/a	7
Indivior	INDV	Healthcare	£1,975	11.3	n/a	-35
3i Infrastructure	3IN	Equity/Nonequity Investment Instruments	£1,942	11.5	3.6	22
Jupiter Fund Management	JUP	Financial Services	£1,941	13.1	6.1	-20
Dixons Carphone	DC.	Retail	£1,937	8.3	6.5	-29
Synthomer	SYNT	Chemicals	£1,929	16.9	2.4	20
UDG Healthcare	UDG	Health Care	£1,920	22.1	1.5	-6
Bodycote	BOY	Industrial Goods & Services	£1,904	18.4	1.9	8
BCA Marketplace	BCA	Industrial Goods & Services	£1,886	19.1	3.9	30
Workspace	WKP	Real Estate	£1,885	25.6	3.1	20
Grafton	GFTU	Industrial Goods & Services	£1,867	13.3	2.2	-2
Monks Investment Trust	MNKS	Equity/Nonequity Investment Instruments	£1,853	n/a	n/a	19
Templeton Emerging Markets	TEM	Equity/Nonequity Investment Instruments	£1,847	n/a	n/a	-7
Polar Capital Technology Trust	PCT	Equity/Nonequity Investment Instruments	£1,784	n/a	n/a	27
Hastings	HSTG	Insurance	£1,778	11.9	5.0	-15
Virgin Money	VM.	Banks	£1,749	9.9	1.6	49
Provident Financial	PFG	Financial Services	£1,748	13.0	1.3	43


Balfour Beatty

THE COMPLETE FTSE 250: NUMBERS 101 TO 125

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Syncona	SYNC	Equity/Nonequity Investment Instruments	£1,741	n/a	n/a	66
Mercantile Investment Trust	MRC	Equity/Nonequity Investment Instruments	£1,730	n/a	n/a	9
Sirius Minerals	SXX	Chemicals	£1,726	n/a	n/a	33
Genus	GNS	Healthcare	£1,723	37.9	0.9	52
Computacenter	CCC	Technology	£1,721	20.8	1.9	69
Playtech	PTEC	Travel & Leisure	£1,711	8.8	6.2	-46
Millennium & Copthorne Hotels	MLC	Travel & Leisure	£1,707	16.4	1.3	16
Vesuvius	VSVS	Industrial Goods & Services	£1,699	13.0	3.1	10
Entertainment One	ETO	Media	£1,693	15.3	0.4	54
Ascential	ASCL	Media	£1,687	25.1	1.3	15
Softcat	SCT	Technology	£1,663	30.1	1.3	106
TP ICAP	TCAP	Financial Services	£1,626	8.5	5.9	-39
Cranswick	CWK	Food & Beverage	£1,621	21.1	1.8	6
ContourGlobal	GLO	Utilities	£1,570	16.2	4.1	n/a
Caledonia Investments	CLDN	Equity/Nonequity Investment Instruments	£1,566	n/a	n/a	1
Money supermarket.com	MONY	Media	£1,545	17.1	3.7	-10
John Laing Group	JLG	Financial Services	£1,543	6.1	3.2	11
Bovis Homes	BVS	Personal & Household Goods	£1,539	11.9	9.0	10
QinetiQ	QQ.	Industrial Goods & Services	£1,534	15.8	2.4	16
TalkTalk Telecom	TALK	Telecommunications	£1,534	20.3	2.0	-32
Diploma	DPLM	Industrial Goods & Services	£1,525	24.3	2.0	30
City of London Investment Trust	CTY	Equity/Nonequity Investment Instruments	£1,515	n/a	n/a	0
Big Yellow	BYG	Real Estate	£1,509	22.6	3.5	23
Drax	DRX	Utilities	£1,509	34.8	3.8	18
Greene King	GNK	Travel & Leisure	£1,507	7.8	6.8	-26


Greene King

THE COMPLETE FTSE 250: NUMBERS 126 TO 150

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Countryside Prop	CSP	Personal & Household Goods	£1,492	9.2	3.3	-5
Euromoney	ERM	Media	£1,461	17.8	2.3	21
Murray Int.	MYI	Equity/Nonequity Investment Instruments	£1,457	n/a	n/a	-11
Finsbury Growth & Income Trust	FGT	Equity/Nonequity Investment Instruments	£1,447	n/a	n/a	12
John Laing Infrastructure	JLIF	Equity/Nonequity Investment Instruments	£1,444	n/a	n/a	7
Cairn Energy	CNE	Oil & Gas	£1,434	28.2	n/a	35
Worldwide Healthcare Trust	WWH	Equity/Nonequity Investment Instruments	£1,411	n/a	n/a	13
Greencoat UK Wind	UKW	Equity/Nonequity Investment Instruments	£1,406	7.5	5.4	3
Saga	SAGA	Retail	£1,388	9.3	7.3	-38
Domino's Pizza	DOM	Travel & Leisure	£1,384	17.7	3.3	9
Rathbone Bros	RAT	Financial Services	£1,370	17.4	2.6	-9
TI Fluid Systems	TIFS	Automobiles & Parts	£1,365	7.5	3.0	n/a
Edinburgh Investment Trust	EDIN	Equity/Nonequity Investment Instruments	£1,352	n/a	n/a	-3
Senior	SNR	Industrial Goods & Services	£1,344	20.6	2.3	16
TR Property Investment Trust	TRY	Equity/Nonequity Investment Instruments	£1,343	n/a	n/a	16
Assura	AGR	Real Estate	£1,343	20.6	4.7	-14
IP Group	IPO	Financial Services	£1,338	9.5	n/a	4
Hunting	HTG	Oil & Gas	£1,286	24.4	0.9	87
Londonmetric	LMP	Real Estate	£1,285	20.6	4.5	9
Wetherspoon (JD)	JDW	Travel & Leisure	£1,283	16.5	1.0	15
Thomas Cook	TCG	Travel & Leisure	£1,275	8.8	1.0	-34
Grainger	GRI	Real Estate	£1,272	19.2	1.7	19
Greencore	GNC	Food & Beverage	£1,271	12.3	3.2	-14
Paragon Banking	PAG	Financial Services	£1,269	10.4	3.9	18
Fidelity China Special Situation	FCSS	Equity/Nonequity Investment Instruments	£1,254	n/a	n/a	-1

Domino's Pizza

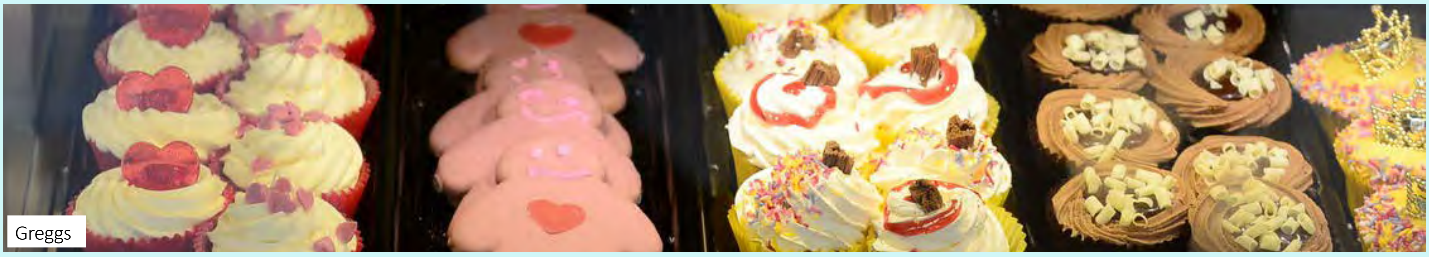
THE COMPLETE FTSE 250: NUMBERS 151 TO 175

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Aberforth Smaller Companies Trust	ASL	Equity/Nonequity Investment Instruments	£1,236	n/a	n/a	5
Elementis	ELM	Chemicals	£1,223	16.4	2.8	-5
Essentra	ESNT	Industrial Goods & Services	£1,221	19.3	4.4	-14
The Renewables Infrastructure	TRIG	Equity/Nonequity Investment Instruments	£1,209	7.9	5.9	1
Lancashire	LRE	Insurance	£1,205	12.7	6.5	-15
IntegraFin	IHP	Financial Services	£1,204	34.0	1.7	n/a
Centamin	CEY	Basic Resources	£1,197	13.5	4.0	-33
Ultra Electronics	ULE	Industrial Goods & Services	£1,195	15.4	3.1	-11
F&C Commercial Property Trust	FCPT	Real Estate	£1,185	n/a	n/a	-1
Coats	COA	Industrial Goods & Services	£1,171	13.4	1.5	8
Esure	ESUR	Insurance	£1,163	15.4	4.8	-2
UK Commercial Property Trust	UKCM	Real Estate	£1,154	n/a	n/a	-1
Savills	SVS	Real Estate	£1,147	10.8	3.8	-8
Safestore	SAFE	Real Estate	£1,121	20.2	3.0	27
Galliford Try	GFRD	Construction & Materials	£1,109	6.6	7.9	-20
Games Workshop	GAW	Personal & Household Goods	£1,107	23.7	3.5	106
Pantheon International	PIN	Equity/Nonequity Investment Instruments	£1,107	n/a	n/a	13
Harbourvest Global PE	HVPE	Equity/Nonequity Investment Instruments	£1,099	n/a	n/a	9
Bankers Investment Trust	BNKR	Equity/Nonequity Investment Instruments	£1,098	n/a	n/a	9
Mitchells & Butlers	MAB	Travel & Leisure	£1,091	7.6	1.0	4
GCP Infrastructure	GCP	Equity/Nonequity Investment Instruments	£1,083	17.0	6.1	-2
JPMorgan Emerging Mkts	JMG	Equity/Nonequity Investment Instruments	£1,082	n/a	n/a	3
FirstGroup	FGP	Travel & Leisure	£1,081	7.1	3.8	-23
Serco	SRP	Industrial Goods & Services	£1,077	24.3	n/a	-10
Bakkavor	BAKK	Food & Beverage	£1,070	12.5	3.2	n/a

Safestore

THE COMPLETE FTSE 250: NUMBERS 176 TO 200

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Riverstone Energy	RSE	Equity/Nonequity Investment Instruments	£1,061	n/a	n/a	-3
Greggs	GRG	Retail	£1,053	16.6	3.1	-12
OneSavings Bank	OSB	Financial Services	£1,048	8.3	3.3	10
Dunelm	DNLM	Retail	£1,039	12.2	5.3	-16
PZ Cussons	PZC	Personal & Household Goods	£1,030	17.0	3.5	-31
Brewin Dolphin	BRW	Financial Services	£1,029	16.8	4.5	3
JPMorgan American	JAM	Equity/Nonequity Investment Instruments	£1,024	n/a	n/a	19
Crest Nicholson	CRST	Personal & Household Goods	£1,009	6.1	8.3	-26
FDM	FDM	Technology	£1,008	26.8	3.2	1
Ibstock	IBST	Construction & Materials	£1,003	12.7	6.2	5
Morgan Advanced Mat.	MGAM	Industrial Goods & Services	£998	14.1	3.2	18
Jupiter European Opportunities	JEO	Equity/Nonequity Investment Instruments	£977	n/a	n/a	27
Premier Oil	PMO	Oil & Gas	£975	8.6	n/a	121
Ted Baker	TED	Personal & Household Goods	£970	15.4	3.1	-13
Fidelity European Values	FEV	Equity/Nonequity Investment Instruments	£968	n/a	n/a	4
Daejan	DJAN	Real Estate	£965	n/a	n/a	-4
Sanne	SNN	Industrial Goods & Services	£965	26.0	2.0	-12
Superdry	SDRY	Personal & Household Goods	£965	11.2	3.0	-26
Vietnam Enterprise	VEIL	Equity/Nonequity Investment Instruments	£962	n/a	n/a	14
Stagecoach	SGC	Travel & Leisure	£944	9.1	4.6	-5
Marshalls	MSLH	Construction & Materials	£930	19.7	3.0	10
Genesis Emerging Markets Fund	GSS	Equity/Nonequity Investment Instruments	£929	n/a	n/a	0
Herald I.T.	HRI	Equity/Nonequity Investment Instruments	£920	n/a	n/a	25
Personal Assets Trust	PNL	Equity/Nonequity Investment Instruments	£915	n/a	n/a	-2
Fisher (James)	FSJ	Industrial Goods & Services	£914	20.9	1.7	18


Greggs

THE COMPLETE FTSE 250: NUMBERS 201 TO 225

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Hochschild Mining	HOC	Basic Resources	£912	32.8	1.7	-32
Sequoia Economic Infr.	SEQI	Equity/Nonequity Investment Instruments	£910	n/a	n/a	-2
Kier	KIE	Construction & Materials	£909	8.0	7.5	-21
TBC Bank	TBCG	Banks	£896	6.6	4.1	3
CLS	CLI	Real Estate	£894	16.1	3.0	1
Ferrexpo	FXPO	Basic Resources	£884	3.8	6.1	-47
F&C Global Smaller Cos	FCS	Equity/Nonequity Investment Instruments	£876	n/a	n/a	11
Perpetual Income & Growth	PLI	Equity/Nonequity Investment Instruments	£869	n/a	n/a	-5
Just Group	JUST	Insurance	£867	5.4	4.2	-38
Hill & Smith	HILS	Construction & Materials	£861	14.6	3.0	-15
St Modwen Properties	SMP	Real Estate	£861	28.1	1.7	11
Temple Bar Investment Trust	TMPL	Equity/Nonequity Investment Instruments	£859	n/a	n/a	0
British Empire Trust	BTEM	Equity/Nonequity Investment Instruments	£855	n/a	n/a	8
Stobart	STOB	Industrial Goods & Services	£855	44.2	7.9	-15
Clarkson	CKN	Industrial Goods & Services	£847	27.3	2.8	0
Bank of Georgia	BGEO	Banks	£837	4.1	n/a	-24
888	888	Travel & Leisure	£837	15.2	5.3	-6
Primary Health Properties	PHP	Real Estate	£836	21.4	4.8	-6
Telecom Plus	TEP	Telecommunications	£827	17.6	4.9	-8
Charter Court Financial Services	CCFS	Banks	£815	8.0	2.4	n/a
NB Global Floating Rate	NBLS	Equity/Nonequity Investment Instruments	£813	n/a	n/a	-1
Equiniti	EQN	Industrial Goods & Services	£797	12.9	2.4	-12
Energean O&G	ENOG	Oil & Gas	£797	112.4	n/a	n/a
NewRiver REIT	NRR	Real Estate	£796	12.7	8.5	-24
Keller	KLR	Construction & Materials	£796	11.1	3.3	33

Stobart

THE COMPLETE FTSE 250: NUMBERS 226 TO 250

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Barr (AG)	BAG	Food & Beverage	£770	20.8	2.4	3
Hilton Food	HFG	Food & Beverage	£765	23.0	2.2	23
JPMorgan Indian Investment Trust	JII	Equity/Nonequity Investment Instruments	£757	n/a	n/a	-4
Schroder AsiaPacific Fund	SDP	Equity/Nonequity Investment Instruments	£751	n/a	n/a	3
Baillie Gifford Japan Trust	BGFD	Equity/Nonequity Investment Instruments	£749	n/a	n/a	17
SIG	SHI	Industrial Goods & Services	£745	12.9	3.0	-28
Dairy Crest	DCG	Food & Beverage	£737	13.0	4.9	-19
Fidelity Special Values	FSV	Equity/Nonequity Investment Instruments	£725	n/a	n/a	12
JPMorgan Japanese I.T.	JFJ	Equity/Nonequity Investment Instruments	£722	n/a	n/a	20
Polypipe	PLP	Construction & Materials	£718	12.7	3.3	-7
BlackRock Smaller Cos	BRSC	Equity/Nonequity Investment Instruments	£711	n/a	n/a	21
Edinburgh Dragon Trust	EFM	Equity/Nonequity Investment Instruments	£696	n/a	n/a	3
Go-Ahead Group	GOG	Travel & Leisure	£694	8.6	6.4	-6
AA	AA.	Industrial Goods & Services	£691	7.5	1.7	-36
Spire Healthcare	SPI	Healthcare	£687	15.6	1.6	-49
Scottish Investment Trust	SCIN	Equity/Nonequity Investment Instruments	£686	n/a	n/a	7
Rank	RNK	Travel & Leisure	£661	10.7	5.1	-25
Halfords	HFD	Retail	£647	11.1	5.6	3
RDI REIT	RDI	Real Estate	£643	11.6	7.7	-13
Card Factory	CARD	Retail	£629	10.4	8.1	-44
On The Beach	OTB	Travel & Leisure	£617	22.5	0.7	9
VinaCapital Vietnam Opp	VOF	Equity/Nonequity Investment Instruments	£614	n/a	n/a	7
McCarthy & Stone	MCS	Personal & Household Goods	£601	11.3	3.9	-31
Renewi	RWI	Industrial Goods & Services	£532	10.0	4.8	-32
Alfa Financial Software	ALFA	Technology	£488	30.0	n/a	-62

Halfords

Source: SharePad. Please note the published yields in these tables are forecasts and that dividends are not guaranteed to be paid.

KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT SEVEN DAYS

Half year results

31 Aug: Old Mutual, The Restaurant Group, John Laing Infrastructure Fund. **4 Sep:** WPP, Dalata Hotel. **6 Sep:** Melrose, PPHE Hotel.

Full year results

3 Sep: Dechra Pharmaceuticals. **5 Sep:** Barratt Developments. **6 Sep:** Genus, Go-Ahead Group.

Trading Statements

4 Sep: Halfords, DS Smith. **5 Sep:** Berkeley. **6 Sep:** Dixons Carphone.

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ALLIANCE PHARMA
NON-STANDARD FINANCE
OXFORD INSTRUMENTS
VALIRX

SHARES SPOTLIGHT

Growth & Innovation

AUGUST 2018

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

Introduction

Welcome to Spotlight, a bonus magazine which is distributed eight times a year alongside your digital copy of Shares.

It provides small caps with a platform to tell their stories in their own words.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

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

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our investor evenings in London and other cities where you get to hear from management first hand.

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

Previous issues of *Spotlight* are available on our website.

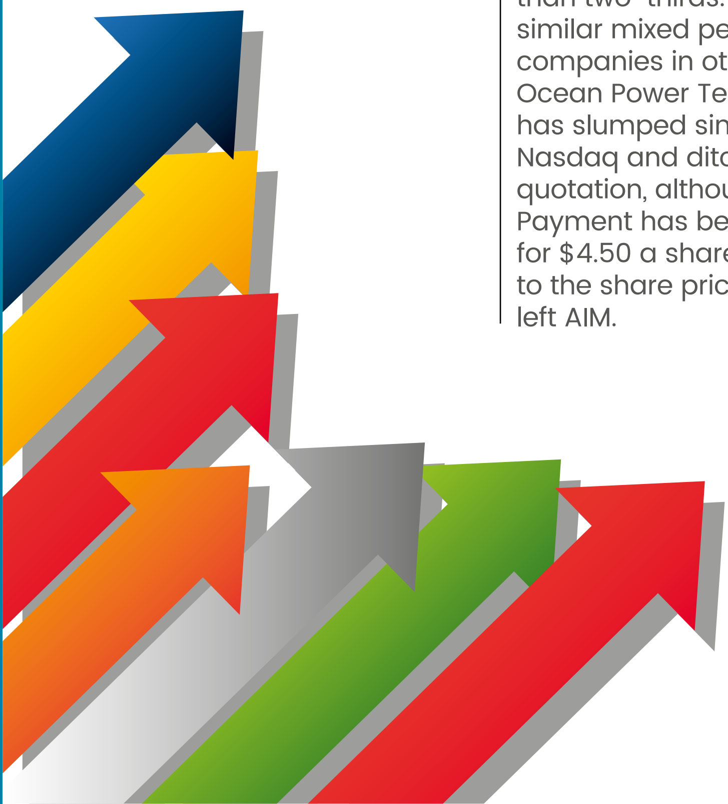
Nasdaq no guarantee of AIM pharma success

Tiziana Life Sciences (TILS:AIM) is the latest AIM-quoted pharma company to seek a listing on Nasdaq. Less than one week after announcing the plan the Tiziana share price had risen by 30% as investors became excited by the prospects of the US listing.

The oncology and immunology treatments developer has filed a registration statement with the US Securities and Exchange Commission (SEC) so that it can raise cash via a public offer of American Depositary Shares (ADSs). No figure was put on the amount of cash the company wants to raise.

However, there is little to suggest that gaining a Nasdaq quotation will itself provide additional value for shareholders, particularly when the company does not have a significant business already. It all depends on what the company achieves. Eleven AIM-quoted pharma and health companies subsequently gained a Nasdaq listing.

The share price of four of these companies has risen since the Nasdaq offering, while five have fallen by more than two-thirds. There is a similar mixed performance by companies in other sectors. Ocean Power Technologies has slumped since joining Nasdaq and ditching the AIM quotation, although Planet Payment has been taken over for $4.50 a share - a premium to the share price when it left AIM.



SIZE

The reality is that many AIM pharma companies that obtained a Nasdaq listing were still small and probably hardly on the radar of most US investors. What is small on AIM is tiny on Nasdaq. Even after the share price rise, Tiziana is valued at less than £60m. Last year, Tiziana initiated a phase IIa trial to prove the safety and tolerability of Milciclib (TZLS-201) as a single therapy in patients with hepatocellular carcinoma and the enrolment has continued.

Tiziana has other potential treatments but the focus is Milciclib, which is an inhibitor of Cyclin dependent kinases that are involved in the regulation of cell growth and their potential transformation to cancer cells. Miliciclib has undergone phase I and phase II trials in the past and they showed signs of anti-tumour action and that it is well tolerated.

The initial findings of the phase IIa study show that it is well tolerated with manageable drug-related toxicities, although this is based on a small number of patients. A phase IIb study that combines Miliciclib with sorafenib (which is the standard treatment for hepatocellular carcinoma) will be started this year.

Trials are costly. Back in March, Tiziana managed to raise £600,000 at 10p a share, but the loss of its then broker, Beaufort, at the beginning of the month cannot have helped. More cash will certainly be required to push ahead with further trials for Miliciclib.

Just because a registration statement has been filed with the SEC it does not mean that the offer will go ahead immediately. **MotifBio (MTFB:AIM)** delayed its offering in 2016 and, in April this year, therapeutics development and commercialisation company **Mereo BioPharma (MPH:AIM)** postponed its Nasdaq offering because of 'challenging stockmarket conditions'.

The registration filing is still valid if Mereo were to go ahead with the offer. There is no short-term need for cash because there was £52.5m at the end of 2017.

WINNERS

The big winner has been cannabisbased medicines developer GW Pharmaceuticals (no longer on AIM), which is currently valued at $3.7bn. It continues to raise money to invest in R&D. GW had been on AIM for well over a decade and was already generating revenues from drugs. **Hutchison China Meditech (HCM:AIM)** has also done well since joining Nasdaq, but it is more than 17 times the 275p a share AIM flotation price back in 2006, so this is a continued trend rather than any identifiable boost from being quoted on Nasdaq.

LOSER

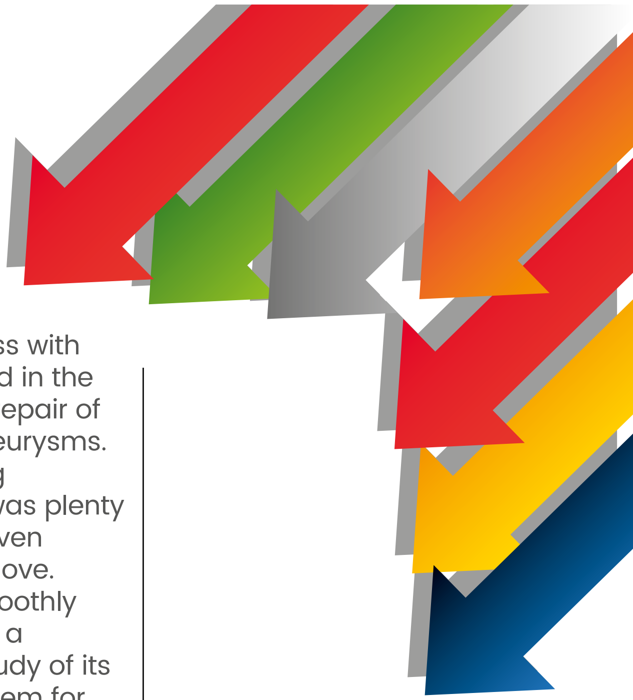
The big disappointment is Lombard Medical Technology, which appeared to be making good progress with its Aorfix product used in the endovascular aortic repair of abdominal aortic aneurysms. Aorfix was generating revenues and there was plenty of cash in the bank even before the Nasdaq move. Things did not go smoothly and the FDA required a 50-patient clinical study of its Intelliflex delivery system for the Aorfix stent graft.

That led to the exit from the US market. In the end, Lombard ran out of money. The Aorfix technology was snapped up by a buyer, showing that there is value, but Lombard was not able to raise more cash to benefit. Lombard has no remaining business and is traded on the OTC, having been demoted by Nasdaq.

That is something else to bear in mind. Nasdaq does not have tiny companies at the bottom end of the market like AIM; it gives them the elbow. Track record It cannot be much of a surprise that the diagnostics firm **Akers Biosciences' (AKR:AIM)** share price has slumped since the Nasdaq listing.

Akers has consistently disappointed and nothing has changed in the past five years. If a company disappoints it will be hit just as hard on Nasdaq, or possibly even harder, than it would be on AIM. An attraction of joining Nasdaq is that there are plenty of other pharma companies that the AIM company can be compared with.

That is a downside if the AIM company does not achieve



its targets, because there are plenty of other alternatives for Nasdaq investors' money. The past performance of many of these companies is something to bear in mind. Some of the share prices have performed poorly prior to joining Nasdaq.

A glance at long-term share price graphs will bear this out. To be fair, in the pharma sector there will always be disappointments. **Summit Therapeutics (SUMM:AIM)** was at a premium to its Nasdaq flotation price until the poor news from its clinical trial for a treatment for Duchenne muscular dystrophy.

Summit still has a potential lucrative C.difficile infection treatment. Companies, such as **Verona Pharma (VRP:AIM)**, MotifBio and the most recent Nasdaq entry, **Realm Therapeutics (RLM)**, still have potential to become successful and have much higher share prices.

This article originally appeared in the August edition of AIM Journal sponsored by Northland Capital Partners which can be found here **www.hubinvest.com/AimJournalDownload**

ALLIANCE

Alliance Pharma is on the ascent

Peter Butterfield: Alliance Pharma CEO

Website: www.alliancepharmaceuticals.com

2018 has been a year of major progress for **Alliance Pharma (APH:AIM)**. Recent developments, including a significant acquisition and marketing authorisation for a new product, are further transforming the company, enhancing its international growth prospects and reinforcing the company's position as a rising star in the European specialty pharma sector.

2018 has marked the appointment of Peter Butterfield as Alliance's CEO. Peter knows the company well, having joined in 2010 as an executive director at the time of Alliance's acquisition of Cambridge Laboratories, where he had worked for five years. His early career was at the pharmaceutical giant **GlaxoSmithKline (GSK)**.

NEW LEADERSHIP

In welcoming him to the role of CEO, John Dawson, the founder and former CEO who led Alliance for 20 years, said that Butterfield's 'career path has been impressive, and his capabilities give the board the utmost confidence that, as CEO, Peter will be highly effective in driving the company forward'. Dawson, who brought the company to AIM in 2003, has remained with Alliance as a non-executive director.

Founded in 1998, Alliance has evolved through a successful buy-and-build strategy in which 35 acquisitions have been completed over 20 years to create a profitable, cash generative specialty pharma business with a progressive dividend policy. Recent acquisitions have given Alliance a significant international footprint. The company has direct sales in the UK, Europe and the US

and an extensive distributor network with the result that its products are sold in around 100 countries worldwide.

The company's product portfolio comprises around 100 products, ranging from prescription medicines to well-known consumer healthcare brands such as Ashton & Parsons Infants' Powders and Lypsyl.

INTRODUCING... ALLIANCE PHARMA

A SPECIALTY PHARMACEUTICAL COMPANY BASED IN CHIPPENHAM, WILTSHIRE.

MAJOR ACQUISITION

This year, the momentum of the company's buy-and-build strategy has continued apace, and, in June, Alliance announced a major brand acquisition: the £60m purchase of exclusive marketing rights to Nizoral, a medical anti-dandruff shampoo, in the Asia-Pacific region. The rights, which were acquired from Johnson & Johnson, extend to more than 15 countries including Japan, Thailand, South Korea and China.

A well-known and clinically respected brand, Nizoral recorded sales in the APAC region of a sizable £18.5m in 2017. The brand significantly increases Alliance's presence in the APAC region, which is Alliance's fastest-growing region worldwide.

Nizoral is Alliance's fourth International Star brand, the term the company uses to describe a handful of key products which have strong international or multi-country growth potential.

Other products in the portfolio, which have good sales potential in individual countries or in a small number of countries, are called Local Heroes. Finally, Bedrock is the term used for products that have stable sales and do not require or justify marketing expenditure. The cash generation from these Bedrock products is invested in the marketing of growth products and contributes to dividends for shareholders.

Nizoral joins Alliance's three other International Star brands: Kelo-cote for scar reduction, MacuShield for macular degeneration and Vamousse for the treatment and prevention of head lice.

These International Star brands are the company's high growth drivers – for example in Alliance's half year trading update issued in July, Kelo-cote sales were reported as up 88% in the first half of 2018 at £10.9m.

ANOTHER BRAND ON THE WAY

And there's another potential International Star brand on the way: Xonvea, a proven product for the treatment of nausea and vomiting of pregnancy. Back in January 2015, Alliance in-licensed the UK marketing rights to the product from the Canadian company Duchesnay Inc; the following year these rights were extended to a further nine European countries including Germany, France and Italy.

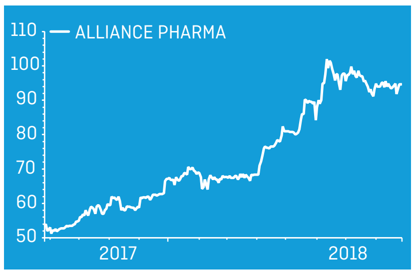
In July this year, the Medicines and Healthcare products Regulatory Agency, the UK healthcare regulator, granted marketing authorisation for Xonvea. Alliance expects to launch Xonvea in the UK this autumn and then to seek marketing authorisations in continental Europe.

There is currently no licensed treatment for nausea and vomiting of pregnancy in the UK. Market research reveals a large unmet medical need for such a treatment. It is estimated that the condition affects almost 700,000 women each year in the UK alone, where peak sales of Xonvea are estimated at about £10m. Once available across Europe, total peak sales of Xonvea are estimated at around £40m.

ALTERED GROWTH PROSPECTS

Xonvea is the most studied medicine in pregnancy with a proven efficacy and safety profile from use in more than 30 million women over more than 30 years.

Research analysts at Hardman & Co (whose reports can be found at www.hardmanandco.com) commented in a recent report that: 'The acquisition of Nizoral, the recent purchases of Vamousse and Ametop, and the UK approval of Xonvea, are changing APH's growth prospects considerably.'



Non-Standard Finance looks to stand out

Website: www.nsfgroupplc.com

Non-Standard Finance (NSF) listed on the main market of the London Stock Exchange as a cash shell in 2015 raising £103m from a broad range of institutional investors including INVESCO, Woodford and Marathon.

Having ran **Provident Financial (PFG)** for 23 years (six years as CEO and 17 as chairman), John van Kuffeler (CEO) saw an opportunity to build another, well-capitalised group focused on serving the 10m to 12m UK consumers that are either unable or unwilling to borrow from high street banks.

Unlike many other lenders, when lending direct, NSF aims to meet their customers face-to-face, thereby establishing a personal relationship with them but also helping to reduce the rate of impairment on loans issued.

Having completed three acquisitions since IPO, NSF now has 175,000 customers, over 130 locations across the UK and leading positions in three core segments of the UK's non-standard finance market: branch-based lending, guarantor loans and home credit. All of the group's businesses are fully authorised by the Financial Conduct Authority.

DIVISIONAL BREAKDOWN

Branch-based lending is the group's largest division, representing two thirds of Group operating profit before central costs in the first six months of 2018. Everyday Loans is the UK market leader, providing unsecured loans of between £1,000 and £15,000 to UK customers via its 64 branches, up from 44 branches a year earlier.

INTRODUCING... NON-STANDARD FINANCE

A COLLECTION OF BUSINESSES WHICH OFFER CREDIT TO THE AROUND 10M UK ADULTS NOT SERVED BY MAINSTREAM FINANCIAL SERVICES COMPANIES.

After applying online or by phone, applicants that pass an initial screening process are asked to attend their local branch for an in-depth interview when the branch completes a formal credit assessment face-to-face.

Having processed over 1m applications in 2017, the business made just over 30,000 loans in 2017 and grew its loan book by 21%. In the first six months of 2018 annualised loan book growth had accelerated to 28% but this was not at the expense of credit quality: the rate of impairment fell to 19% of revenue (2017: 23%) and operating profit increased by 22%.

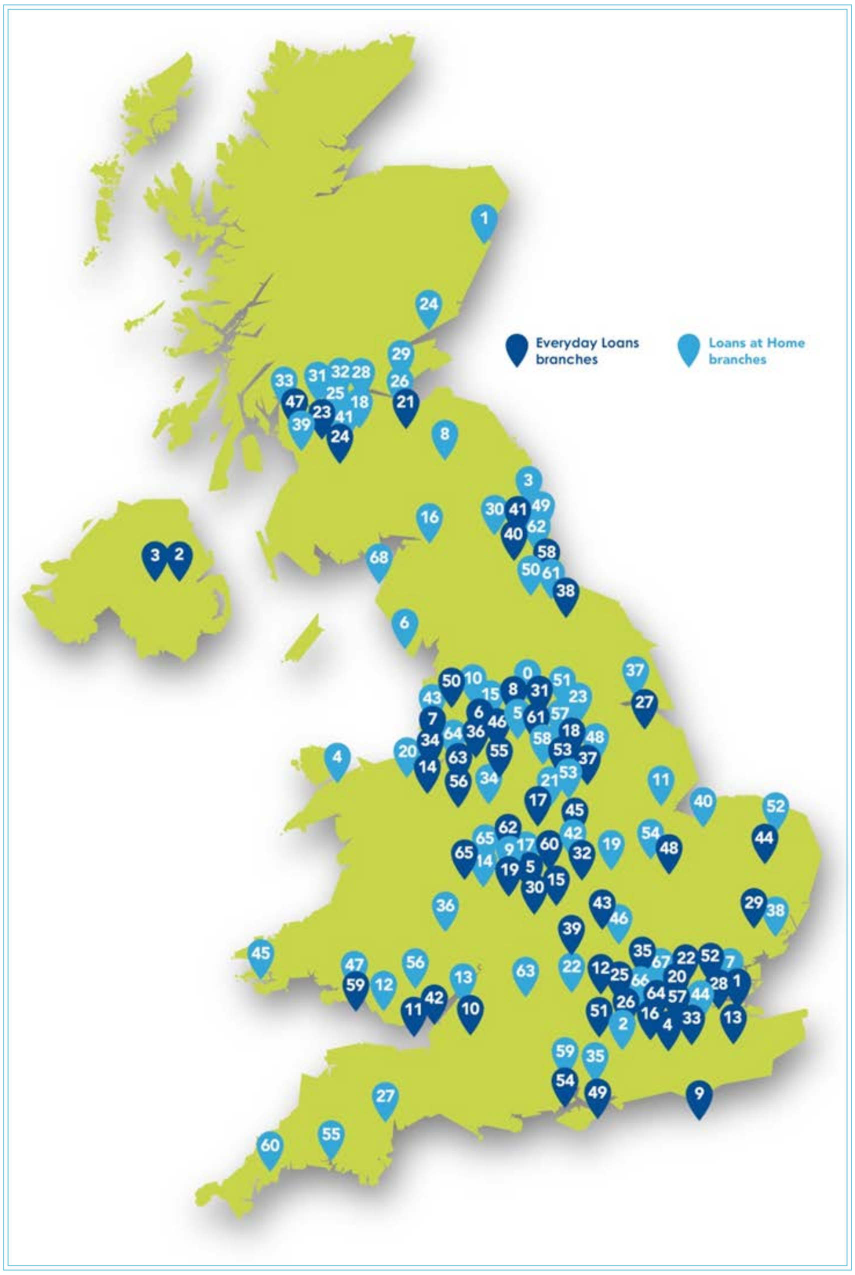
Whilst an expensive model to operate when compared with pure online lenders, the face-to-face contact with customers is a key factor in driving profitable growth by keeping impairment rates low.

In guarantor loans, NSF is now the UK's second largest operator with over 21,000 active customers at the end of June 2018 and a loan book of £63m, up 56% from a year earlier. Customers are typically a younger person, earning between £24,000 and £30,000 but with a limited or poor credit score. Loans are for amounts ranging from £1,000 to £10,000 and typically for a period of between three to four years.

The presence of a guarantor means that they are able to borrow at a much lower rate of interest than were they to borrow on their own and allows them to get on the credit ladder so they can start to rebuild a credit history for themselves.

This rapidly growing segment has been in investors' spotlight recently following the highly successful IPO of **Amigo (AMGO)**, the market leader, in July 2018. NSF's business is growing at a similar rate to Amigo and is starting to realise additional scale benefits that are helping to increase profits and returns.

In home credit, NSF is the number three player with just under 100,000 customers and a loan book of £38m at the end of June 2018. Having benefited from a major restructuring at Provident Financial, the business has grown significantly over the past 18 months – the loan book was up 53%, driving both revenue and profit growth.



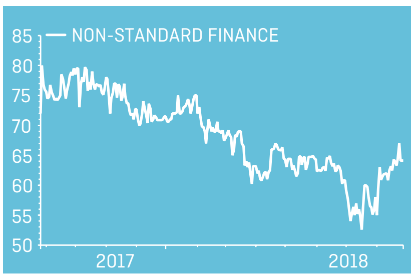
RECENT RESULTS AND OUTLOOK

Overall, the latest results for the six months to 30 June 2018 showed that normalised revenue had increased by 51% year on year and operating profit was up by 79%. Earnings per share (EPS) was up 7%, due to higher funding costs associated with its latest acquisition that was completed in August 2017.

In recognition of the board's confidence in the second half, it has declared a 20% increase in the half year dividend per share (DPS) to 0.6p. Directors have been buying shares since the half year results on 2 August 2018.

The group has £260m of long-term debt funding already in place and is in the final stages of increasing this to £330m thereby underpinning its growth plans into 2020.

House broker Shore Capital is expecting a strong second half in 2018 with full year normalised EPS of 4.1p and DPS of 2.5p rising to 6.9p and 4.2p respectively in 2019.



Oxford Instruments' micro focus has big potential

Website: www.oxinst.com

Abingdon-headquartered **Oxford Instruments (OXIG)** is looking to drive growth and improved returns for the benefit of all stakeholders as they embed clearly defined core capabilities across its businesses in market intimacy, innovation and product development, customer support, and operational excellence.

The Group is structured around three sectors to support their customer and application focus:

Materials & Characterisation, which supplies products and solutions that enable the fabrication and characterisation of materials and devices down to the atomic scale. This sector predominantly supports customers across applied R&D as well as they production and manufacture of high technology products and devices.

Research & Discovery, which provides advanced solutions that create unique environments and enable imaging and analytical measurements down to the molecular and sub-atomic level, predominantly used in scientific research and applied R&D.

Service & Healthcare, which provides customer service and support for the Group's own products, and the service, sale and rental of third-party healthcare imaging systems.

INTRODUCING... OXFORD INSTRUMENTS

A LEADING PROVIDER OF HIGH TECHNOLOGY PRODUCTS AND SERVICES TO THE WORLD'S LEADING INDUSTRIAL COMPANIES AND SCIENTIFIC RESEARCH COMMUNITIES TO IMAGE, ANALYSE, AND MANIPULATE MATERIALS DOWN TO THE ATOMIC AND MOLECULAR LEVEL.

CORE MARKETS

Oxford Instruments has recently updated its market focus structure and has aligned it with serving its core end markets in:

Healthcare & Life Science, where growth is driven by demand for improvements in disease detection and the understanding of fundamental mechanisms.

Semiconductor & Communications, where there is a focus on speed, security and capacity.

Quantum Technology, where the exploration of the regime where quantum effects dominate are radically changing the 'rule book' of what's possible.

Environment, which includes greener production, recycling, detection of hazardous substances in soil, agriculture and food.

Energy, where improved efficiencies and sustainability remain core drivers, and includes work in photovoltaics and batteries.

Advanced Materials, where Oxford Instruments helps customers lead the race to develop lighter, stronger, higher functioning and more affordable materials.

Research & Fundamental Science, where the Group helps customers develop breakthrough applications, gaining previously unknown insights.

WHAT OXFORD INSTRUMENTS DELIVERS

Oxford Instruments provides advanced nanotechnology solutions to a broad range of end markets, supported by new product offerings and personalised customer support. They enable customers to accelerate their R&D, increase productivity and make new scientific discoveries.

Their key enabling technologies provide the basis for innovation across a range of markets and industrial sectors helping underpin the shift to a greener economy, increased digital connectivity, advances in materials, life science, manufacturing and healthcare.

The Group says it is proud to be widely recognised as leaders in what it does and for the difference it makes in the world. It has high performance expectations and, by working together, enables its committed and skilled employees to make a real impact. It is committed to be the company where the best people in the sector want to work.

Corporate responsibility is integral to Oxford Instruments' ongoing business success. It reminds the business of the need to minimise their impact on the environment, encourages it to pay attention to the needs of customers, employees and investors, and to build engagement with local communities.

The business is underpinned by sound financial management. By achieving sustainable revenue growth and margin improvement, Oxford Instruments is well placed to deliver business growth and maximise shareholder returns over the long-term.

WHAT IS THE INVESTMENT CASE?

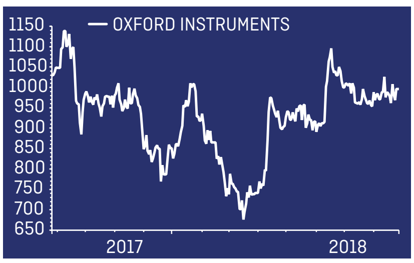
Oxford Instruments is a globally recognised brand with a reputation for world-class product performance, unprecedented ease of use and excellence in service and support. Oxford Instruments offers increased value to existing customers, as well as creating growth opportunities in new market segments, through application specific solutions with improved workflows, bespoke analytics, data interpretation and associated support services.

Oxford Instruments is positioned to address a broad range of markets and industrial sectors. This provides a global base and comprehensive portfolio, offering diversification of opportunity and risk.

Through market intimacy, the group has developed an in-depth understanding of customer needs, helping customers to accelerate their applied R&D, increase their manufacturing productivity and make new scientific discoveries. Today, nearly half of Oxford Instruments' customer base comprises commercial organisations.

The end markets supported by Oxford Instruments are robust, supported by sustained commercial and government investment. This, alongside a customer application focus and excellent core capabilities, provides strong long-term drivers for future growth and margin improvement.

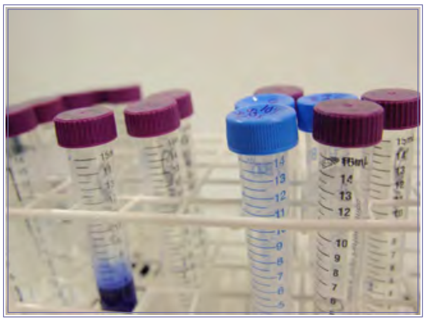
The Group focuses investment on market segments where nanotechnology drives product innovation, world-leading research and long-term growth for customers, and where it can maintain leadership positions.



Valirx
Bioscience Innovation

ValiRx continues its strong progress

Website: www.valirx.com



With cancer worldwide being the second leading cause of death after heart disease, **ValiRx (VAL:AIM)** aims to apply its technologies to modern medicine's better understanding of cancer and to deliver improved and more targeted treatments for the disease.

The company aims to make a significant contribution in 'precision' medicine and science, through the early detection of cancer and its personalised therapeutic intervention. By so doing, ValiRx is striving to develop therapeutics that can substantially improve human health and well-being.

Currently, the company has four therapeutic drugs in development, two of which are in clinical trials. Both its clinical stage therapeutics and pre-clinical assets have demonstrated clear potential for addressing significant unmet medical need. The company has worldwide exclusive developmental and commercial rights and its compounds have worldwide patent protection.

Furthermore, the technologies and science lying behind the development programmes and therapeutics, originate or derive from Word class institutions, such as Cancer Research UK and Imperial College.

While established cancer treatments, such as surgery, radiation and chemotherapy, are still improving, recent exciting advances in the cancer arena today, lie in the development of novel and targeted therapies, otherwise known as 'Precision Medicine'. This targeted, personalised medicine includes early stage diagnosis of every specific cancer, tailor-made therapeutic intervention and the careful monitoring of progress.

With the development of target-based agents, primed to attack only identified cancer cells, higher response rates for treatments, as well as less toxic and more effective outcomes, are now possible. New drugs in this group—such as those in ValiRx's pipeline—promise to greatly improve outcomes for cancer patients.

INTRODUCING... VALIRX

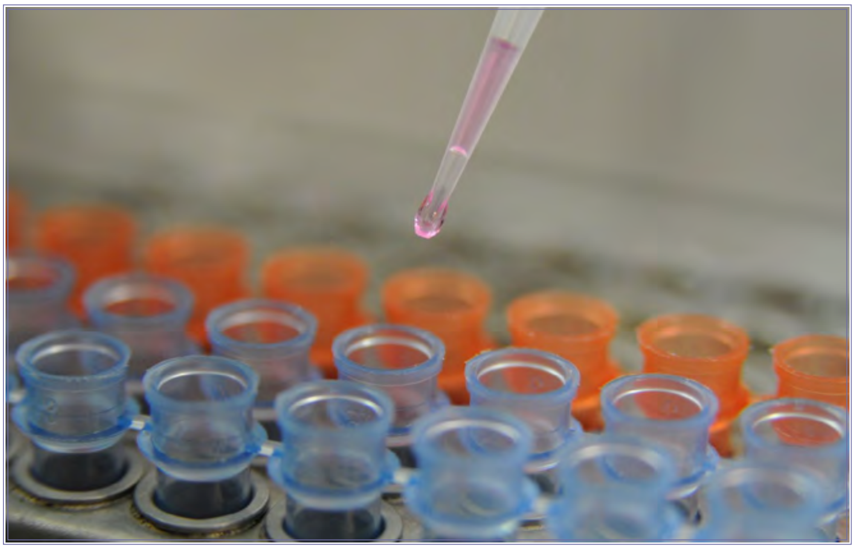
A CLINICAL STAGE BIOTECHNOLOGY COMPANY SPECIALISING IN DEVELOPING TARGETED NOVEL TREATMENTS FOR CANCER AND ASSOCIATED BIOMARKERS.

RECENT CLINICAL TRIAL PROGRESS AND LATEST DEVELOPMENTS

VAL401

ValiRx's compound closest to Market Approved Application (MAA) is VAL401, which is a reformulated drug, Risperidone, with an established safety record derived from clinical studies and years of use in other medical areas. ValiRx's subsidiary, ValiSeek, has completed its Phase II trial of VAL401 as an oral treatment of late stage non-small cell lung adenocarcinoma in a clinical study in Tbilisi, Georgia.

Positive VAL401 clinical data from the completed trial in December 2017 showed that the VAL401 treatment had a statistically significant improvement in overall survival for patients with non-small cell lung cancer compared to those receiving no treatment. The trial also demonstrated that the VAL401 treatment had a measureable improvement



on patient quality of life and did not trigger any unwanted immune responses.

The company is currently in the process of filing the formal trial report to regulators and it is currently in advanced negotiations with a number of potential partners. Significant interest has been received from organisations in the UK, Europe, US and Asia including potential joint venture, licensing-out and co-development structures vis-à-vis the compound's progression into a Phase III clinical study.

The VAL401 technology has received recent patent grants in the US and New Zealand. With its worldwide patent protection, allied to the trial's very encouraging results, regarding both efficacy and its palliative effect on patients, VAL401 is on the cusp of a pivotal trial and the value inflection that would represent.

VAL201

ValiRx's other clinical-stage compound, VAL201, has the potential to treat hormone-induced oncological conditions and abnormal growth in cells, including prostate, breast and ovarian cancers, as well as Endometrosis.

The compound is being trialled in patients with hormone-refractory prostate cancer at University College London Hospital and has in practise completed its Phase I study. VAL201 is a compound with a unique mechanism of action, which was first discovered by academics, partly with support from Cancer Research UK.

VAL201 has performed extremely well in its clinical trials and has confirmed to date, that beyond it being well tolerated and safe, it is efficacious and works. The compound had a major trial review of its protocol at the end of 2017, which the regulatory authorities subsequently approved.

This modification to the trial protocol allows the Company to escalate or accelerate the dosing regimen of the study, from 4mg to 16mg in a couple of steps; effectively seeing a substantial increase in the dose of VAL201 being administered to patients, which allows treatment to more speedily reach its full therapeutic potential and potential anti-cancer impact on patients.

The company is actively recruiting patients for the trial and is hopeful that data will begin to emerge by the year-end, although with the caveat that such an outcome does depend on the right subjects becoming available and with the appropriate commitment level and progression of the disease.

A major challenge experienced in any cancer treatment is the ability of cancer cells to seek new locations and to spread to other sites in the body. This is called metastasis. The ability of cancer cells to metastasize is, as a rule, very bad news for cancer sufferers, as it offers the cancer cells potential new places in the body for growth.

With this issue in mind, scientists at ValiRx have been very excited by what they have seen in a subset of the pre-clinical data obtained with VAL201, as it shows that the compound, when administered in cancer models, decreased metastatic growth by up to 50%. Since all cancers have the potential for metastatic growth, ValiRx believes that this treatment could potentially be used in several oncological indications, together with a specific cancer targeting treatment.

VAL301

By good fortune, preclinical studies of VAL201 in a slightly different use, also suggested that the compound would work against a major gynaecological indication, namely Endometriosis. This is a medical condition in which cells from the lining of the uterus appear and flourish outside the uterine cavity. Endometriosis is excessively debilitating and it represents one of the major causes of female infertility.

In preclinical studies, VAL201's reformulation, which has been named VAL301, has been shown to reduce the endometrial lesions by up to 50%. The condition is not adequately served with current medications, as those medications are frequently poorly tolerated. However, due to VAL201's safety profile and lack of any noticeable side effects, the compound is well placed as a potential treatment.

The compound has recently received a US patent grant for its use in Endometriosis and is currently in the final pre-clinical stage with an ambition to move into the clinic within the next twelve months dependant on funding and regulatory clearance.

VAL101

The molecule VAL101 is based on a technology, which is called GeneICE ('Gene Inactivation by Chromatin Engineering') and is licensed from Imperial College. All cells in our bodies contain the same genome and tissue differentiation requires well maintained, highly-tuned specific gene activity regulation.

If this regulation system goes wrong or genes have unwanted mutations and are 'rebellious', problems such as cancerous growth or neurological indications and problems will occur.

The GeneICE technology allows the design of molecules which find and bind these 'rebellious genes', thereby potentially reversing the problem. VAL101 is a molecule based on this technology and it is currently in pre-clinical trials.

The compound has been optimised after considerable reformulation and background work, funded by two prestigious Eurostars grants. ValiRx is now in discussions with European, US and Chinese organisations over ways to take the compound forward and more details on these discussions will emerge in the near future.

BUSINESS MODEL

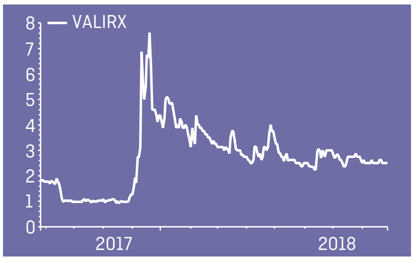
The Company's business model focuses on in-licensing early stage drugs and technologies from World-leading academic institutions, such as Cancer Research UK and Imperial College and maturing them to the point where they can be out-licensed to pharmaceutical partners or co-developed and taken to market. The model for biotechnology companies, like ValiRx, is to act as a specialised and experienced bridge between World-class academic science and big pharma.

Currently pharmaceutical companies are facing an increasing need for novel, more precise and effective therapies across a number of indications and accordingly, ValiRx strives to be in continuous discussions with these major players in the oncology field.

THE NEXT STAGE AND INTO THE FUTURE

Given the current industry climate, ValiRx believes that in view of the progress of these trials, the company's therapeutic approaches are increasingly attractive to pharma partners, as a licensing opportunity or a co-development partner. The interest ValiRx has seen from potential partners to date has been very encouraging. Based on ValiRx's history of out-licensing separate technologies, the company remains optimistic of a successful outcome to its talks and the crystallisation of substantial value for its assets.

Details about the trials can be found on the website: **www.clinicaltrials.gov**



MASTER INVESTOR MAGAZINE

Delivering real investment insights from some of the best minds in the business

Website: **www.masterinvestor.co.uk/magazine**

In the investment world, it's easy to get overwhelmed by the vast array of information and news prompting us to act on a constant basis. Whereas many other publications offer glorified news, Master Investor Magazine cuts through the "noise" to deliver real investment insights from some of the best minds in the business.

Published online - and entirely free of charge - every month, Master Investor Magazine equips its readers with the information they need to manage their investments and secure their future prosperity in an uncertain world. Exploring trends before the market gets wind of them, digging for value in the small cap arena, scouring the market for the best funds and investment trusts… Master Investor Magazine has you covered.

FOCUSING ON NASCENT INVESTMENT THEMES AND TRENDS

Each issue is packed with commentary and analysis on the major themes taking shape in the markets, and how to tap into them: The latest investment trends and trading ideas, a "How To" of investing, current economic and political analysis, book reviews, insights into new technologies, and much more.

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