STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 18 / ISSUE 37 / 21 SEPTEMBER 2017 / £4.49

SHARES

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GROWTH STOCK GREATS

WHAT DOES IT TAKE TO HAVE LONG TERM SUCCESS?

STERLING RECOVERY
What it means for your investments

JUNIOR ISA GAME PLAN
How to achieve £100,000+ in 18 years

SHOPPING FOR RETAIL BARGAINS
Time to reappraise Next and more

Pay close attention to resource nationalism

It is one of the most underappreciated risks when it comes in investing in mining, oil and gas shares

I spotted a great comment on Twitter the other day which perfectly illustrated the brutal force of resource nationalism. It showed the share price performance of the larger UK mining stocks so far this year with the words 'spot the companies with operations in Tanzania'.

While nearly all of the stocks were in positive territory, two stocks stood out because they had declined by a significant amount due to interference by the Tanzanian government.

They were **Petra Diamonds (PDL)** and **Acacia Mining (ACA)**, both down by about 50% year to date. In contrast, the best performing miner, copper producer **KAZ Minerals (KAZ)**, is up by more than 110%.

Petra, Acacia -50%

WHY ARE THOSE SHARES DOWN SO MUCH?

Acacia has suffered considerable losses after being forced to close one of its gold mines after the Tanzanian government blocked the export of unprocessed ore and accused the company of tax evasion.

Petra had one of its diamond parcels seized by the government and its Williamson diamond mine in Tanzania was temporarily closed while certain personnel engaged in talks with the authorities. The company has now warned it might breach agreements with its lenders over the ratio of debt to earnings if it cannot resume sales from Williamson by the end of the calendar year.

Chief financial officer Jacques Breytenbach says it has been one of the most difficult years for Petra in a long time.

It has also been a very testing time for shareholders, particularly as Petra was meant to have been at a major tipping point in its career where the benefits of a long period of development work would soon translate into significant cash generation.

UNDERAPPRECIATED RISK

Resource nationalism is one of the underappreciated risks associated with investing in mining stocks, so too oil and gas companies. It can be very difficult to predict precisely when it will happen – and in which countries – but historically it tends to happen at a point when commodity prices are rising.

The term resource nationalism covers many things. Ultimately it means a country increasing its percentage stake, income stream or control of natural resource projects through higher taxes or directly appropriating assets.

You also need to factor in competing global concerns over resource security, climate change, sustainable development and poverty reduction as drivers of resource nationalism.

The Tanzanian government appears to making changes to mining rules in order to benefit local people. However, its aggressive manner could ultimately backfire and stop foreign investment in the future. It has been a similar situation with many other countries over the years.

Most miners and oil firms go out of their way to give back to the local communities such as through job creation, setting up schools and infrastructure improvement. Yet many governments clearly don't think that is enough, hence why they can go through spells of being heavy handed.

What governments really need to do is create a system that supports a sustainable environment for foreign companies. Sadly that is unlikely to happen everywhere in the world as the leaders of many countries are not rational thinkers.

Next time you think about investing in a resources company, make sure you look at its country of operation rather than just its balance sheet and asset quality. (DC)

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BROKER RATINGS EXPLAINED:

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

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

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

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

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

What to consider as sterling recovers

The pound is staging a comeback against the dollar but what does it mean for investors?

A recovery in the strength of the pound against the US dollar could theoretically weigh on the FTSE 100, judging by how the currency relationship influenced the market last year. The blue chip index's 1.8% gain so far this year is considerably lagging the domestically-focused FTSE 250 index which is up 8.1% year to date.

The FTSE 100 has a large proportion of companies which derive their earnings outside of the UK. They benefit from pound weakness as their overseas earnings are worth more when translated back into sterling. That's why you saw the FTSE 100 rally following the Brexit vote last year, as the event served to weaken the pound.

It would therefore be fair to assume that the ongoing recovery in the strength of the pound is negative for the FTSE 100. However, it isn't that simplistic as other factors affect company share price performance including politics and economics, as well as company-specific news flow such as contract wins and market sentiment towards certain sectors.

INFLATION CHALLENGE

Inflation in the UK has hit 2.9%, substantially ahead of Bank of England chief Mark Carney's target of 2%. If prices rise any further, he will have to write to chancellor Phillip Hammond explaining why he has allowed this to happen.

At time of writing, the pound was trading just below its one-year high at $1.3541.

Possible impediments to a further sterling recovery are Brexit talks which have stumbled following the intervention of foreign secretary Boris Johnson which has raised further questions over how unified the cabinet is on Brexit strategy.

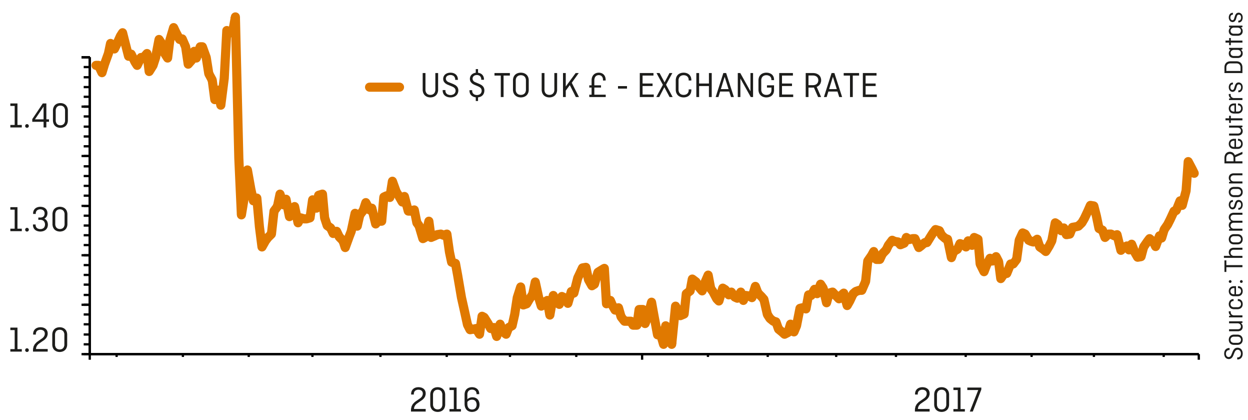
Sterling's future direction is also likely to be impacted by how much stock the market puts in comments from Mark Carney. His statement that interest rate hikes would be limited and done gradually caused sterling to slide 1% against the dollar on Monday 18 September before recovering ground.

PIVOTAL SPEECH

Prime minister Theresa May's speech on the UK's vision of Brexit due on Friday 22 September in Florence is also seen as pivotal. If she delivers plans for a 'soft Brexit' scenario this could please the sterling bulls and help boost the pound.

A stronger currency could help more domestic facing mid cap FTSE 250 stocks although, again, it should be noted that a large number of these companies derive a lot of their revenue from overseas.

Ultimately, although you should be aware of the impact of currency movements on your investments, long-term investors should not have their decisions dictated by where the pound is trading against the dollar. (DS)



Can retail recover?

Broker believes battered shopkeepers' sector may have reached low point

Investor sentiment towards the retail sector is currently poor. Consumer confidence has been dented by negative Brexit rhetoric, low wage growth and higher inflation. Profit warnings from the likes of **DFS Furniture (DFS)**, **Dixons Carphone (DC.)** and **Safestyle UK (SFE:AIM)** have driven investors to the exits.

However, in a recent piece of research (18 Sep), stockbroker N+1 Singer points out Dixons' warning, a major factor behind recent investor jitters, wasn't due to electricals but rather to mobile phones, where slower replacement could actually boost spending in other categories, and revenue recognition changes.

The broker writes, 'There are reasons for the mood to lift. We are at record employment. There is evidence of robust trading and share gains from sector leaders with strong growth/self-help strategies which, as hoped, has led to rebounds off lows.'

N+1 Singer continues: 'Most importantly, there has been £/$ recovery (approaching 15% above January lows) and signs the temporary imported inflation bubble will annualise out within nine to 12 months.

'For retailers reliant on Far East sourcing, this has positive margin implications and, more generally, sentiment towards consumption (next year) should also improve, even before any public sector wage u-turns.'

N+1 Singer sees sector buying opportunities as negative assumptions moderate around FX/margins and wages/inflation.

Among the mid caps, the broker favours car parts-to-bicycles seller **Halfords (HFD)** and plus-size fashion specialist **N Brown (BWNG)**, while also flagging **Dunelm (DNLM)** 'for pure growth, and **Findel (FDL)** and **Mothercare (MTC)** in the small cap space. (JC)

Scope for improvement at Rotork, says UBS

INVESTMENT BANK UBS says now is the time to buy engineer **Rotork (ROR)**.

Analyst Mark Fielding says: 'A return to 25%-plus operating margins by 2021 supports a 12% per year earnings per share compound annual growth rate and can catalyse a return to a sector premium rating'.

The company has struggled thanks to weakness in the oil and gas market and currently trades at 253p. UBS has a 295p price target. (TS)

Ocado update leaves bitter taste

ONLINE GROCER **Ocado's (OCDO)** third quarter update (19 Sep) triggered a share price decline as boss Tim Steiner reported falling average order sizes and said costs would rise. Customers spending less per order is negative for Ocado, particularly as the latest Kantar Worldpanel grocery share figures reveal sales gains for rivals including **Tesco (TSCO)**, **WM Morrison Supermarket (MRW)**, Aldi and Lidl over the 12 weeks to 10 September. (JC)

BAE gets lift from Qatar deal

DEFENCE FIRM **BAE SYSTEMS (BA.)** enjoyed around a 4% share price hike to 622p earlier this week as Qatar signed a letter of intent to buy 24 Typhoon jets from the UK outfit.

The deal, announced last weekend, helped make BAE the biggest riser on the FTSE 100 on Monday 18 September. Describing the news as a 'positive surprise' UBS notes the contract could be worth between 15p and 25p per share to the company. (DS)

Slump in NHS referrals clouds Spire's outlook

The private hospital operator warns on earnings and sales growth

Alarm bells are ringing at independent hospital group **Spire Healthcare (SPI)** following a decline in NHS referrals which has hit anticipated underlying sales and earnings growth.

Nearly a fifth of the company's market value has been wiped off since its profit warning on 14 September.

The company runs 38 private hospitals and 13 clinics. Users of its facilities include those who are privately insured, self pay patients and NHS referred patients.

WHAT'S GONE WRONG?

There has been a clampdown on NHS doctors referring patients for treatment as elective care demand is greater than hospitals are able to treat.

Spire expects earnings before interest, tax, depreciation and amortisation (EBITDA) to be up to 0.7% lower than its previous guidance of 16.8%. Sales are expected to be flat in the second half of 2017.

Underlying sales were down 0.1% in the two months to 31 August 2017, marking a significant reduction from 3.8% underlying sales growth in the first half of 2017.

NHS revenues declined 5.1% over the same period, down from 5.9% growth in the six months to 30 June as the health service introduced measures to reduce elective referrals.

WHAT THE ANALYSTS THINK

Berenberg's Charles Weston has downgraded his recommendation from 'buy' to 'hold' and reduced the target price to 300p on the lowered guidance and increased uncertainty into 2018. Spire presently trades at 250.8p.

He says the new earnings guidance implies EBITDA will contract by 5% and overall earnings will fall by 7%.

Liberum's Graham Doyle says you shouldn't buy the shares on price weakness. He flags the risk that NHS referrals could get worse while private medical insurance 'appears to be facing greater challenges'.

Spire says the amount of work it conducted funded by private medical insurance fell 0.6% to £219.3m in the six months to 30 June.

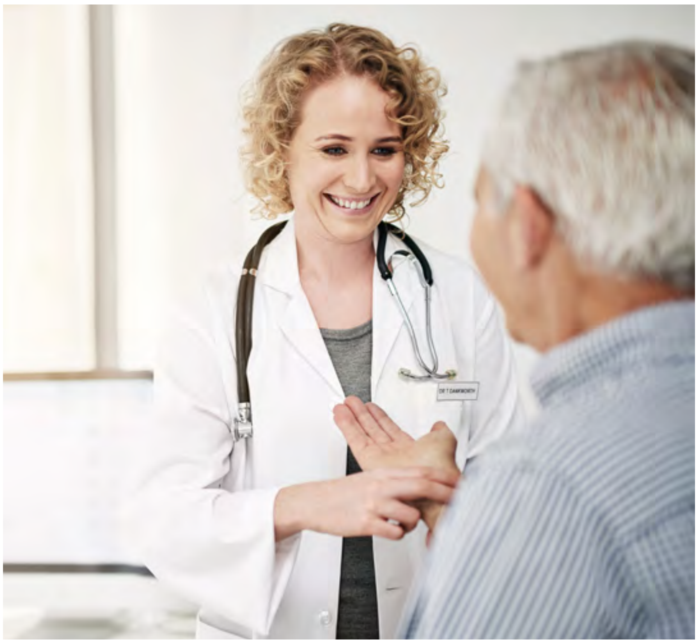
Doyle at Liberum warns that fewer people are taking out health insurance, intensifying the funding pressure on hospital operators like Spire. 'For Spire this is a big problem given private medical insurance is 50% of group revenue,' he adds.

Numis analyst Sally Taylor has cut sales forecasts by 2% for 2017 to 2019 and slashed anticipated EBITDA by 5% to 7%.

Taylor says the uncertainty looms over whether changes in the NHS referral process will affect the amount of patients referred to the independent sector and if there will be a shift to higher tariff procedures.

'In the medium term, this is likely to benefit Spire's self-pay opportunity, in our view,' comments the analyst.

While a 14% increase in self-pay sales were among the bright spots in Spire's results, the division only represents one fifth of overall revenue. (LMJ)



Europe: A *consistent* approach to a changing market

Politically, economically and in the way it is perceived by investors, Europe is being transformed. In our opinion, however, it is the continent's high-quality companies that still constitute the main argument for investing in it.

For the first time since we launched the Artemis European Opportunities Fund almost six years ago, Europe is on the front foot. This year, fears of populists taking over in European elections have faded and growth in the European economy has outstripped the US. Investors have responded by pouring money into a region they fled from in 2016.

Stocks *not* countries

Analysts are also becoming more optimistic about the prospects for European companies. For the first time in years, they have raised their earnings forecasts as 2017 progressed rather than lowering them. We should not, however, overstate the importance of these wider economic and political changes. It is a misconception that the lack of growth in the European economy in recent years has made it impossible for European companies to reliably and consistently grow their earnings. That has not been our experience.

Many of our holdings can, we believe, continue growing profitably almost irrespective of wider conditions. So while political and economic change in Europe is certainly helpful, the main positive to us is that it should allow investors to focus on the fundamental strength of Europe's stocks.

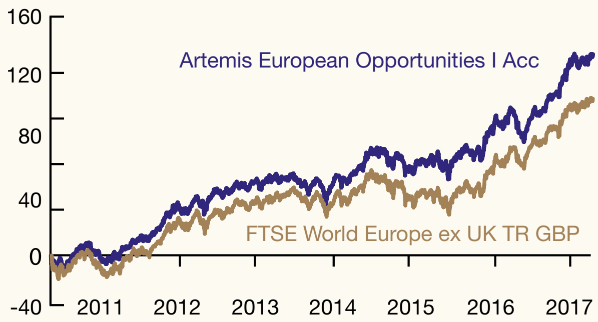
Watch the Fundamentals video on why investors might be buying the *Artemis European Opportunities Fund* right now.

Fundamentals - Artemis European Opportunities I (Acc)

A *patient* approach

Rather than responding to changes in the short-term outlook for the economy, politics or even corporate earnings, our approach focuses on buying great European companies on their own merits and holding them for the long term (our average holding period is three years). We focus on picking only the most profitable and cash-generative companies in Europe and holding them for as long as their share prices remain attractive.

Performance *since* launch (%)



Discrete *performance* to year end

	2016	2015	2014	2013	2012
12 months to 31 December	14.3%	11.7%	0.6%	26.9%	24.3%

*Source: Lipper Limited as at 31 August 2017, class I accumulation, bid to bid basis, in GBP with dividends reinvested. Benchmark is FTSE World Europe ex UK TR GBP, peer group is IA Europe Excluding UK NR. Past performance is not a guide to future returns.

The results of this patient approach have been clear: superior returns. Since the fund's launch in October 2011, it has returned 132.2% versus a rise of 104.4% in its benchmark*. It has delivered those returns with lower volatility (which is to say less dramatic ups and downs) than the European market and its peer group*.

Mark Page and Laurent Millet
Artemis European Opportunities Fund

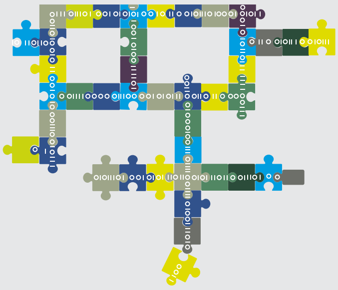
To ensure you understand whether this fund is suitable for you, please read the Key Investor Information Document, which is available, along with the fund's Prospectus, from **artemisfunds.com**.

79%

A SHARE PRICE decline at lipstick, eyeliner and face creams seller **Warpaint London (W7L:AIM)** to 167.5p means there's 79% upside towards Stockdale's conservative 300p price target.

Investors took fright on news (14 Sep) the cosmetics merchandiser's sales will be more second half weighted than previous years following a muted first half period.

Stockdale downgraded its full year sales forecast from £31.9m to £30.2m with Warpaint now prioritising profit over revenue. Encouragingly, Warpaint's *W7* brand continues to grow in all regions. (JC)



35% bitcoin slump

BITCOIN PRICES continue to move wildly. Having lost more than 35% of its value last week, the cryptocurrency swung from a 7% drop to a 5% gain in less than an hour on 15 September.

A crackdown by Chinese authorities on cryptocurrency exchanges was blamed for the earlier slump. BTC China, one of the country's biggest exchanges, even said it would stop trading by the end of September.

Adding to the negative sentiment was a comment by JPMorgan chief executive Jamie Dimon who called bitcoin 'a fraud'.

We are not fans of bitcoin at *Shares* and believe investors with spare money would be far better parking that cash in equities. (DC)

FUNDSMITH IS RUMOURED to be launching its third fund according to reports in the investment trade press. *Citywire* claims the product will be called Fundsmith Sustainable Equity Fund and may target companies with a positive influence on the environment and society.

The name was incorporated as an active company on 7 September, but that doesn't necessarily mean the fund will be launched imminently. We'll report back once there is more information.

M.P. Evans has real growth potential

Profit and dividends on upwards trajectory at Indonesian palm oil producer

Investors seeking a strong profit and dividend growth story with M&A optionality thrown in should cultivate a position in Indonesian palm oil producer **M.P. Evans (MPE:AIM)**. Boasting one of the industry's youngest estates, MPE has superb earnings visibility for the coming decade, while the strategic attractions of its assets could stir renewed bid interest before too long.

M.P. EVANS BUY
(MPE:AIM) 745p
Stop loss: 596p

Market value: £410.4m

CULTIVATING VALUE

The £410.4m cap is a play on a global palm oil market with encouraging fundamentals. Vegetable oil is a basic foodstuff seeing increasing demand from a growing world population. Delivering by far the highest yield per hectare of all the vegetable oils, palm oil also has the lowest cost of production.

M.P. Evans' half year results (18 Sep) revealed operating profit more than tripling to $18m as crops surged and palm oil prices strengthened; the company also harvested a one-off $68m profit following January's sale of its Agro Muko plantation joint venture, as per management's strategy to focus on majority-held plantation operations.

IMMATURE ESTATES

Excitingly, M.P. Evans is investing $108m in a 10,000 hectare plantation in East Kalimantan with a further $30m to be spent over the next five years on a mill and infrastructure. Earliest plantings from the project, more than replacing the Agro Muko hectarage sold, are already being harvested, meaning the acquisition will immediately contribute to crops, production and cash inflows.

The acquisition leaves M.P. Evans with one of the most immature estates in the industry, meaning its volumes and sales should be on an upwards trajectory for years to come. Estates become more profitable and cash generative as they reach maturity, while new palms are more productive with a higher oil yield due to improved genetics.

Peel Hunt has a 'buy' rating and an 880p price target implying 18% upside over the next 12 months. For the year to December 2017, the broker's upgraded forecasts point to a leap in adjusted pre-tax profit to $33.6m (2016: $24m), rising sharply to $46.7m and $55.1m in 2018 and 2019 respectively. A total dividend of at least 25p per share is expected this year, while M.P. Evans' share buyback budget has been extended by £2.5m to £7.5m.

Shares believes the valuation of M.P. Evans' plantations will only increase as scarcity of new land encourages further industry consolidation. At 745p, the shares are modestly ahead of the 740p offer made by hostile suitor KLK last year, one rejected by shareholders. KLK subsequently acquired a 12% stake and cannot make an offer without the board's approval before December. (JC)

BROKER SAYS: 2 0 0

Volume growth
Source: Company/Peel Hunt


CONVICTION
We choose our own investment path, seeking out market-beating returns
At Jupiter we encourage our fund managers to have individuality of thought and the freedom to actively invest with conviction. It is this confidence to go our own way that, we believe, allows us to seek out market-beating returns.
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Asset Management

Impax Asset Management's compelling acquisition

'Green' investor raises its game with US deal

Sustainable investment specialist **Impax Asset Management (IPX:AIM)** looks set boost its assets under management (AUM) by 42% after striking a deal to buy US peer Pax World Management.

The companies have been working together for over a decade managing the Pax Global Environmental Markets Fund with $511m in AUM, so there should not be any cultural problems as the firms know each other well.

With a combined AUM of £10.3bn this puts Impax into a different league in this market, hopefully bringing in even more institutional investors to the company.

This would be a decent investment without the additional resources of Pax but with it, the already transatlantic firm (it has an office in New York) is a must buy.

Environmental investments are growing at a great pace, with Impax holding positions in clean energy, waste management and water companies to name a few.

The Paris Climate Accord is another boon for this fast-growing firm. Chief executive Ian Simm plays down the decision by the US to withdraw from the global action plan to limit global warming. He says: '[It] has done little to dent investor enthusiasm for investments in companies that provide solutions to environmental challenges'.

IMPAX ASSET MANAGEMENT
BUY
(IPX:AIM) 126.6p
Stop loss: 88.6p

Market value: £161.7m

FUTURE LOOKS BRIGHT

The acquisition of Pax World Management is costing Impax $52.5m plus contingent payments of up to $37.5m in 2021 based on performance.

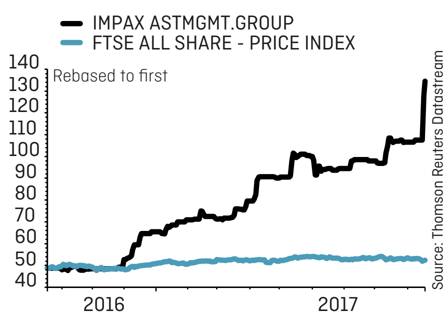
Two extra strings to the bow that Pax will bring Impax are passive equity and fixed income strategies to complement the UK headquartered firm's actively managed funds. This has the potential to bring in some decent retail flows to the enlarged entity and help build AUM.

Peel Hunt analyst Stuart Duncan describes the acquisition as 'strategically important' and says it will reduce Impax's reliance on partner BNP Paribas which has been a key driver of growth in recent years. BNP is the company's largest shareholder with a 24.99% stake.

Duncan says the deal is expected to be 'significantly earnings enhancing' although due to needing Impax shareholder approval, any financial contribution from the deal is unlikely to be seen until the financial year ending September 2019.

'Impax was already going through a period of significant growth, which has continued given the 61% increase in assets since the start of the year. This deal builds on the group's presence in the environmental asset sector, particularly in the US, which remains a major growth opportunity, while offering attractive financial returns,' concludes the analyst. (DS)

BROKER SAYS: 1 0 0



BILLINGTON
(BILN:AIM) 280p

Gain to date: 11%
Original entry price:
Buy at 252.2p, 24 August 2017

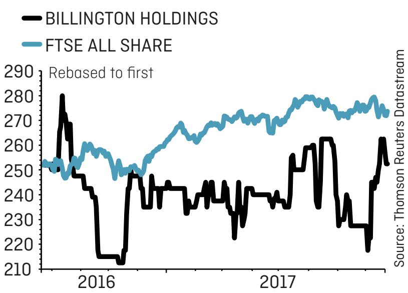
BARNSLEY-HEADQUARTERED structural steel business **Billington (BILN:AIM)** is off to a good start as a constituent of our *Great Ideas* portfolio as first half results (19 Sep) get a positive reception.

We correctly flagged those numbers as a potential catalyst for the shares in our original article on 24 August.

Pre-tax profit is up 29% to £2.2m for the first six months of the year. There are encouraging signs in terms of visibility on future profit with chief executive Mark Smith indicating consumption of structural steel will remain consistent through to 2020.

'The group has a strong forward order book and the second half of the year looks to be equally as busy as the first,' he adds.

An increase in capacity is allowing the company to deliver larger, more significant projects. Examples this year include IKEA's store in Sheffield and an office in Lombard Street in London.



A further boost to capacity is likely when the Shafton steel processing site, acquired in late 2015, becomes fully operational by January 2018.

SHARES SAYS:
We remain positive, particularly in light of plans for European expansion and the valuation remaining undemanding at 9.8 times 2017 forecast earnings per share. (TS)

BROKER SAYS: 1 0 0

MEDICA
(MGP) 200.7p

Loss to date: 8.4%
Original entry point:
Buy at 219.2p, 7 September 2017

WE REMAIN positive on teleradiology business **Medica (MGP)** as slower sales growth is expected to be a temporary blip for the company. Encouragingly it has declared a maiden interim dividend of 0.55p.

The company aims to diagnose various diseases earlier through its team of consultant radiologists who interpret computerised tomography (CT) and magnetic resonance imaging (MRI) scans.

In the first half of 2017, revenue rose 17% to £15.7m thanks to significant growth in out-of-hours reporting service Nighthawk and radiology reporting service Cross Sectional.

Unfortunately, overall sales were slower than expected as sluggish recruitment in the first quarter of 2017 impacted sales, triggering a 5% decline in the shares to 200.7p (18 Sep).

Investec analyst Cora McCallum says the performance in the second half is traditionally stronger and believes higher recruitment from June should drive 'necessary growth' to meet full year sales estimates of £35.6m.

Medica currently has 291 radiologists and hopes to have more than 300 by the end of 2017.

Volumes in the plain film division have declined 8.3% to £1.8m, but this is a knock-on effect of the company's focus on Cross Sectional and Nighthawk, representing 49% and 37% of sales, respectively.

SHARES SAYS:
We are confident that Medica can meet full year expectations through a stronger second half performance. (LMJ)

BROKER SAYS: 2 0 0

FRIDAY 22 SEPTEMBER

AGMS	
ACCROL	ACRL
SIRIUS REAL ESTATE	SRE

MONDAY 25 SEPTEMBER

FINALS	
ITM POWER	ITM
INTERIMS	
AMERISUR RESOURCES	AMER
OSIRIUM TECHNOLOGIES	OSI
SIMIGON	SIM
AGMS	
ZOO DIGITAL	ZOO

TUESDAY 26 SEPTEMBER

FINALS	
NETCALL	NET
TRANSENSE TECHNOLOGIES	TRT
INTERIMS	
ALTITUDE	ALT
E-THERAPEUTICS	ETX
INSTEM	INS
MI-PAY	MPAY
UNIVERSE	UNG
AGMS	
ARCONTECH	ARC
GREAT EASTERN ENERGY	GEEC
ECONOMICS	
UK	
BBA MORTGAGE APPROVALS	

SHARES IN ENTERTAINMENT ONE (ETO) have been racing ahead since June and last week briefly exceeded 260p. The next test for the share price will come on 27 September when it updates on trading.

Strong TV earnings have recently helped to offset tougher trading in film. Its family division continues to do very well including *Peppa Pig* as an evergreen, global property. And the *PJ Masks* children's TV brand is providing a new avenue of growth.

WEDNESDAY 27 SEPTEMBER

FINALS	
AVINGTRANS	AVG
INTERIMS	
CIRCASSIA PHARMACEUTICALS	CIR
DEFENX	DFX
STRIX	KETL
REDT ENERGY	RED
SUMMIT GERMANY	SMTG
XEROS TECHNOLOGY	XSG
AGMS	
ENTERTAINMENT ONE	ETO
FULCRUM UTILITY SERVICES	FCRM
GATELEY	GTLY
JOULES	JOUL

THURSDAY 28 SEPTEMBER

FINALS	
ALLERGY THERAPEUTICS	AGY
CLINIGEN	CLIN
PRODUCE INVESTMENTS	PIL
INTERIMS	
AIR PARTNER	AIR
ECSC	ECSC
FRONTIER SMART TECHNOLOGIES	FST
HARVEY NASH	HVN
MICROSAIC SYSTEMS	MSYS
MIDATECH PHARMA	MTPH
NETSCIENTIFIC	NSCI
TISSUE REGENIX	TRX
AGMS	
BYOTROL	BYOT
FILTRONIC	FTC
TAVISTOCK INVESTMENTS	TAVI
EX-DIVIDEND	
THE DIVERSE INCOME TRUST DIVI	0.4P
THE DIVERSE INCOME TRUST DIVI	0.8P

INVESTORS WILL BE keen for an update on Circassia's (CIR) respiratory business and the NIOX asthma management franchise when it reports interim results on 27 September.

The speciality biopharma business ditched its allergy programmes in April after its Phase IIb field study failed to meet its primary endpoint. Investors should also look out for updates on Circassia's plan to accelerate its collaboration with AstraZeneca (AZN).

ECKOH	ECK	0.48P
ESSENTRA	ESNT	6.3P
FULCRUM UTILITY SERVICES	FCRM	1.3P
HARGREAVES LANSDOWN	HL.	20.4P
HUNTSWORTH	HNT	0.55P
HANSTEEN	HSTN	0.2P
HANSTEEN	HSTN	2.1P
HEAVITREE BREWERY B	HVTB	5.75P
IG GROUP	IGG	22.88P
INTERNATIONAL PUBLIC PARTNERSHIP	INPP	3.41P
INTERTEK	ITRK	23.5P
JOHN LAING	JLG	1.91P
JAMES LATHAM	LTHP	4P
SMURFIT KAPPA	SKG	€0.23
STANDARD LIFE UK SMALLER COMPANIES TRUST	SLS	5.2P
SOMERO ENTERPRISES	SOM	$0.03
STV GROUP	STVG	5P
TRAVIS PERKINS	TPK	15.5P
UNITED CARPETS	UCG	0.28P
VALUE AND INCOME TRUST	VIN	2.7P
WORLDPAY	WPG	0.8P
WYNNSTAY	WYN	4.2P

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www.sharesmagazine.co.uk/market-diary

POTATO AND DAFFODIL company Produce Investments' (PIL:AIM) full year results on 28 September provide an early opportunity to check on new chairman Neil Davidson's turnaround and growth strategy.

A vertically integrated business, Produce supplies blue chip retailers with potatoes under the *Greenvale* and *Jersey Royal* brands. It has successfully diversified into daffodils and is scouting for food sector acquisitions. (JC)

Invest in the UK's strongest performing property sector

The shortage in student housing presents a unique opportunity for investors

STUDENT NUMBERS have been soaring. Back in 1990 fewer than 200,000 students enrolled at a university. Today the number is 535,200. There have been steady increases across all age brackets and income groups.

Obviously this is terrific for universities. What is less clear is where all these students are going to live. Competition for lodgings is getting out of hand.

In July, a group of postgraduates at the London School of Economics declared they were taking legal action against sub-standard accommodation. There have been demonstrations in Edinburgh, Bristol, Goldsmiths, UCL, and Durham over the need for more houses. Falmouth University is building 1,000 student rooms – it still may not be enough.

The shortfall presents an investment opportunity. James Pullan, head of student accommodation at Knight Frank, commented: "The market is still structurally undersupplied in all core university cities." Demand is expected to grow further still. The cap on undergraduate numbers is being relaxed. Savills forecasts an expansion of 6% in international students over the next three years.

WHY RENTS ARE HIGH AND RISING

Demand is rising, and squeezing supply. Rents last year rose by as much as 10%. The founder of flat listings website Uniplaces.com warned recently that, "The student housing market is in crisis...we can expect even greater strain put on current student housing stock and increased tenant competition."

The market urgently needs more stock. The sector is growing fast, particularly Purpose-Built Student Accommodation (PBSA), which has established itself as a serious investment class in recent years. International investment into PBSA has almost doubled in the last two years – but it isn't being offered to non-institutional investors in the way it should be. Technology has changed this. For the first time, access to this asset class has been opened up by a new investment service, Property Partner, which boasts more than 10,000 active investors already.

PURPOSE-BUILT STUDENT ACCOMMODATION

Property Partner was designed from scratch to be the easiest and most efficient way to engage with the property market. Investors use the website to buy shares in one or multiple properties. They earn income from the rent, and can realise capital gains if the property rises in value.

The platform recently entered the student market, focussing on Purpose-Built Student Accommodation. This is new build for the student sector. PBSA, as it's known, is comfortable and well appointed. It often offers shared social spaces, cable TV, laundry, and organised social events. Some even include gym facilities. It's a world away from the low-grade housing traditionally associated with student life.

The returns reflect the dynamics of the market: PBSA has returned 11.8% annually on average for the past five years, even outperforming residential property at 7.8% and commercial property at 7.4%. Last year, yield on PBSA was 5.4% on average. Property Partner is targeting opportunities offering 6%+. Moreover, demand has also been rising, standing at 2.3 students per bed space, up from 2.1.

Income from PBSA is stable, as students typically sign up for 48-week contracts, with the additional security of guarantors. As a result the asset class is remarkably durable. During the global financial crisis, for example, data from Lasalle Investment management shows that rental growth for PBSA continued at 3% to 4% per year, while rental values fell sharply in the wider commercial property market between 2007 and 2010.

BETTER THAN TRADITIONAL PROPERTY INVESTMENT

Property Partner makes investing straightforward. The platform takes care of all the legwork, including legal work and surveyors reports, finding and vetting tenants, building repairs and so on. This opens up the investment opportunity to investors who are either daunted by, or tired with the hassle of investing in property.

It is simple to buy shares in multiple properties through the platform. Some investors back more than 20 properties. Diversification is a golden rule in investing, and property is no different.

The model is tax efficient, holding properties in separate limited companies, making it more efficient for some investors under the new laws. And because flats tend to be bought in bulk there is a discount over the normal market rate. Acquisition is done by a team of experts led by Robert Weaver, the former Global Director of Residential Investment at RBS, and a member of the British Property Federation's Residential Committee. He also set up the Student Accommodation Investment team at Savills. Few private property investors will be able to match his knowledge and contacts.

There is also a unique level of liquidity. Investors may want to divest at any given moment. Traditional property investment makes this hard. By contrast, Property Partner offers a resale market where investors can buy, sell, and bid on shares - like a stock market. Normally, investments are held for at least five years, but the resale market means portfolios can be expanded or contracted as needed, with a current time to sell of 3.6 days, based on the last 30 days of trading. The company is fully authorised and regulated by the FCA, and audited by KPMG, so you can invest with confidence.

ALL PARTIES STAND TO BENEFIT

The backers reflect the quality of the Property Partner model. The company has received £23m of backing by some of the world's leading investors, including Index Ventures, backers of Dropbox, Octopus Ventures, backers of Zoopla, Dawn Capital, backing Mimecast, and Seedcamp, backing Transferwise.

The investment proposition is clear. British universities urgently need more accommodation, and rents are growing steadily. Purpose-Built Student Accommodation is a fast-growing sector in huge demand from investors around the world.

For non-institutional investors, Property Partner offers access to larger investments, on better terms, with the added benefits of diversification and liquidity when needed. In short, unprecedented access to one of the UK's most desirable asset classes.

To find out more go to www.propertypartner.co

Sources: CBRE student accommodation index. IPD quarterly property index. UK HPI & ONS rental growth index. Cushman & Wakefield UK Student Accommodation Report 2016/17, Spareroom, UCAS.

Capital at risk. The value of your investment can go down as well as up. The Financial Services Compensation Scheme (FSCS) protects the cash held in your Property Partner account, however, the investments that you make through Property Partner are not protected by the FSCS in the event that you do not receive back the amount that you have invested. Forecasts are not a reliable indicator of future performance. Gross rent, dividends and capital growth may be lower than estimated. 5 yearly exit protection or exit on platform subject to price & demand. Property Partner does not provide tax or investment advice and any general information is provided to help you make your own informed decisions. Customers are advised to obtain appropriate tax or investment advice where necessary.

Property Partner is the trading name of London House Exchange Limited (No. 08820870), which is authorised and regulated by the Financial Conduct Authority (No. 613499).

Don't delay if you want to invest in VCTs

Product providers anticipate another record year for demand

With the new venture capital trust (VCT) season already in full swing, investors need to act quickly if they want to get their hands on the best offers.

The past month has seen a flurry of new fundraisings being launched. The season has started earlier than previous years, which VCT providers say is due to the huge growth in demand for their products.

> VCTS ARE A NATURAL ALTERNATIVE HOME. ALTHOUGH INVESTORS HAVE TO BE CHOOSY AND CAUTIOUS OVER WHICH VCTs THEY INVEST IN, THE AVERAGE PERFORMANCE OF VCTS HAS BEEN VERY GOOD

LIVE OFFERS

Octopus Investments, the biggest player in the market, recently announced a fundraising of up to £200m for its Octopus Titan VCT, making it the biggest fundraise ever. The vehicle provides access to a portfolio of over 50 companies of varying sizes and ages, like holiday firm Secret Escapes and Chronext, a platform for trading high value watches.

Albion Capital has launched a £38m fundraising for its six VCTs, which target technology-driven companies in sectors like digital healthcare, automation and data analytics. Half of the portfolio is in more defensive, asset-backed investments like independent school Radnor House.

Mobeus intends to raise up to £80m across four of its VCTs. The existing investments are predominantly management buyouts of established, profitable companies like Virgin Wine.

Legislative changes mean further MBO investments are no longer allowed, so Mobeus' new investments focus on younger, and hopefully higher growth, companies such as tutoring platform MyTutor.

There has also been a £20m offer from Downing ONE VCT, which has a portfolio of 78 existing investments in sectors like care homes, pubs and health clubs. It recently invested in pre-owned jewellery retailer Xupes.

LAST YEAR'S UNPRECEDENTED DEMAND

VCTs have historically been used as an end of tax year financial planning tool, but this is no longer the case.

There was unprecedented demand for VCTs last tax year. By March, 21 VCTs had closed fully subscribed, leaving just eight products for investors to choose from. Octopus Titan alone raised a record £120m, of which 55% came from new investors.

One of the main reasons for

the surge in popularity is the curtailment of the pension lifetime allowance – the amount of money you can save into pensions without triggering extra tax charges. The cap has steadily declined over the years and is now £1m, which is surprisingly easy to breach.

Mark Wignall, managing partner at Mobeus, suggests another factor is the low interest rate environment, which makes it difficult to get any meaningful return from cash.

'People who are looking for appealing places to house their cash have found that two historic sources have effectively been blocked off. VCTs are a natural alternative home. Although investors have to be choosy and cautious over which VCTs they invest in, the average performance of VCTs has been very good,' he says.

The media focus on the lifetime allowance cuts has meant more investors are becoming educated about the benefits of VCTs. They offer 30% income tax credit on investments of up to £0.2m each year, and capital gains and income are tax-free.

WE FILL UP OUR OFFERS EACH YEAR AND THERE WILL BE PEOPLE WHO MISS OUT. THINKING THAT VCTs ARE A PRODUCT TO BUY AT THE END OF THE TAX YEAR MAKES NO SENSE

WHY YOU SHOULD INVEST NOW

VCT providers reckon demand for VCTs could be as high or even higher this tax year because awareness of the products is growing and the issues around low interest rates and the lifetime allowance remain.

Paul Latham, managing director at Octopus Investments, says if you spot a good product you should invest straightaway.

'We fill up our offers each year and there will be people who miss out. Thinking that VCTs are a product to buy at the end of the tax year makes no sense,' he adds.

The good news is that the supply of VCT offers looks set to be greater than last year. Some providers didn't launch fundraisings last year because they were getting to grips with legislative changes and already had sufficient liquidity.

Wignall says Mobeus took time off fundraising so it could refocus its business towards investing in early stage businesses, in line with new legislation.

He thinks the majority of offers will have launched by the end of September.

'Our ambition is to sell out before the end of November – we think demand will be that strong,' Wignall adds. (EP)

HOW TO BUY AND SELL

INVESTORS SHOULD buy any type of VCT direct from the fund manager or a specialist VCT broker during the offer periods to get all the tax benefits. You can buy VCTs on the open market (also known as the secondary market) but you would lose the 30% income tax relief.

And don't forget the VCT rule that you lose the tax benefits if you sell before the first five years of ownership is up.

If you do sell before the first five years is up, you would need to tell the taxman HMRC and reimburse the relevant income tax relief amount.

Some VCT providers offer to buy back shares at a 5% to 10% discount to net asset value.

Why do so many investment trusts raise new money at a premium to NAV?

We untangle the reasons why lots of investors are happy to pay a top price for certain assets

Is it bad practice for an investment trust to raise money by issuing new shares priced at a premium to net asset value (NAV)? It's an interesting question given that several trusts have recently asked shareholders to pay more for assets than they are worth in order to provide more money to make further investments.

The concept of issuing new shares at a premium to underlying value might seem odd if you mainly focus on individual company shares.

The majority of fundraising by listed equities is done at a discount to the market price.

Many companies on the stock market are listed purely because they want to regularly tap capital markets for new funding to support their business growth.

Investors such as pension funds and investment funds typically say they will only buy new shares as long as there's something in it for them – namely the ability to buy cheaper than if they simply bought existing shares from another investor via the market. The world of investment trusts is slightly different as we now explain.

> "THEY FEEL THE FUND MANAGER'S SKILL IS SO GOOD THAT IT DESERVES A PREMIUM PRICE"

WHY DO SOME TRUSTS TRADE AT A PREMIUM?

Many trusts trade on a premium to NAV because investors are happy to pay up for certain assets currently in demand such as infrastructure – or because they feel the fund manager's

skill is so good that it deserves a premium price.

Net asset value for an investment trust is the value of its assets (for example, equities in its portfolio and cash) minus the value of its liabilities (such as debt if it uses gearing).

'When a trust is trading at a premium, the board won't want to issue new shares at a discount to net asset value or even at NAV as this will dilute the value of shares for existing shareholders,' says Ryan Hughes, head of fund selection at stockbroker AJ Bell.

'By issuing them at a premium to NAV, this extra liquidity should squeeze the premium lower pushing the price back towards "fair value".'

BB HEALTHCARE IS A TOPICAL EXAMPLE

One of the latest to raise funds, **BB Healthcare Trust (BBH)** is currently giving investors the chance to buy new shares at premium of 1.5% to NAV.

On one hand, investors are getting a chance to buy stock cheaper than the market – BB says its shares have traded at an average premium of 2.3% to NAV since floating on the stock market in December 2016.

However, its sector is not entirely in favour which makes us contemplate whether it should instead reward existing investors by offering them the chance to more stock as a discount in recognition of their support during tougher times.

A spokesperson for BB says the new shares are being raised at a 1.5% premium to cover associated fundraising costs.

The listing rules say a closed-end investment fund (i.e. an investment trust) may not issue further shares of the same class as existing shares for cash at a price below the net asset value of those shares. However there is an exception which is when they are first offered pro rata to existing holders of that class of shares.

Prothena is the largest holding in Woodford Patient Capital Trust

TRUSTS CAN LOSE THEIR PREMIUM STATUS

Investors shouldn't assume an investment trust will always trade at a premium. There are examples of trusts issuing new stock above NAV, only for the shares to drift to a discount over time.

Woodford Patient Capital Trust (WPCT) is a good example as it issued new shares at a 10% premium in 2015, but the stock is now trading at a 3% discount to NAV.

A trust may not always trade at a premium to NAV

HOW MARKET PERCEPTION CAN BOOST PREMIUMS

Investment trusts often use independent parties such as accountant Mazars to determine NAV, particularly if the underlying assets aren't companies quoted on a stock market.

Yet you have to consider the market – namely investors – determines the price at which it is happy to buy, even if it means the shares trading at a premium to the stated NAV.

GCP Infrastructure Investments (GCP) raised £70m in the summer at a 2.7% discount to the market price – but the issue price was still at a significant premium to its net asset value.

'The premium to NAV at which the shares of GCP has always traded is simply a reflection of the fact that the market places a higher value on the cash flows arising from the underlying investments than Mazars does,' says executive chairman Stephen Ellis.

THE UNDERLYING ASSETS PLAY AN IMPORTANT ROLE

Sometimes the type of asset being targeted by a fund manager can dictate the level of premium to NAV at which new shares are issued.

For example, **Standard Life Investments Property Income Trust (SLI)** fund manager Jason Baggaley believes it is relatively expensive to buy a real estate asset, flagging approximately 6% in fees and stamp duty.

'We aim to issue equity at a premium of at least 6% to avoid dilution in NAV. This is a very important discipline in our view,' he comments.

In March, **Sequoia Economic Infrastructure Income Fund (SEQI)** raised £160m at 105.5p per share, which was a 4% premium to NAV but a 4.2% discount to the market price of 110.2p.

Portfolio manager Steve Cook says investors are willing to pay a premium because the fund 'generates a stable and high dividend from loans and bonds backed by infrastructure projects'.

MedicX Fund (MXF) finance director Alan Pennell says investors have an opportunity to invest via his employer's investment trust in government-backed properties without incurring stamp duty or other purchase costs.

If investors bought properties directly, they would have to pay these fees and would not have access to a diverse portfolio of high-quality properties. He highlights that an investment in MedicX Fund currently yields 7%.

WHY DO SOME SHARES TRADE AT A DISCOUNT?

A few investment trusts have issued new shares at a discount to NAV over the past year, but this is rare. For example, **Oakley Capital Investments (OCI)** raised £24m in January through placing existing shares (held in treasury) with institutional investors at an estimated 33% discount to NAV.

Like many private equity-style funds, Oakley has regularly traded at a discount to NAV because the market finds it hard to properly value its assets as they are predominantly likely to be privately-owned businesses and so there is less information compared to companies on the stock market.

'It should be remembered that some trusts can trade at a discount for long periods of time, particularly when an asset class is out of favour,' comments Hughes at AJ Bell.

SOME TRUSTS CAN TRADE AT A DISCOUNT FOR LONG PERIODS OF TIME

Infrastructure India (IIP) is a prime example as it currently trades at a whopping 91% discount to NAV.

Investors hoping to take advantage of buying low and selling high should consider one important point. There is no guarantee that a discount rate will narrow by the time you decide to sell the shares and, therefore, no promise of boosting returns. (LMJ)

GROWTH STOCK GREATS

WHAT DOES IT TAKE TO HAVE LONG TERM SUCCESS?

WHAT IS A GROWTH STOCK?

Growth, or the perception of it, is arguably the biggest driver of share prices.

The Organisation for Economic Co-operation and Development (OECD) defines a growth business as a company of 10 or more employees that grows revenues by an average of more than 20% per year for three consecutive years.

'That sounds like a good enough definition,' says Lorne Daniel, an analyst at broker FinnCap.

'We like to see a strong track record as it is an indication of quality,' adds Mark Slater, founder of asset manager Slater Investments and primary manager of the **Slater Growth Fund (GB00B7T0G907)**.

But like any investor, Slater has his eyes firmly fixed on future potential rather than historic performance.

'A business with a great track record that has come to an end is of no interest,' the fund manager says. '20% growth rates are much rarer now than 10 or 20 years ago but our favourite companies are able to sustain growth rates in that ballpark.'

Pharma firm **Hutchison China Meditech (HCM:AIM)**, big data analytics company **First Derivatives (FDP:AIM)** and veterinary practice operator **CVS (CVSG:AIM)** are currently Slater's three biggest stakes.

Growth companies come in all shapes and sizes but the dynamic inevitably favours smaller companies. A business with £100m of revenue is far more likely to put up 20% annual growth rates over a three year period than one with £5bn sales.

That is described by what is called the 'law of large numbers', where boosting revenue becomes increasingly difficult when sales are much bigger.

However, technology titans like Google's parent compay Alphabet and online retail giant Amazon have been pulling off this trick for years despite being among the world's five largest companies by market value (more on Amazon later). The big Chinese internet companies including Alibaba and Tencent are doing likewise.

'I find it extraordinary,' says Ali Unwin, manager of the **Neptune Global Technology Fund (GB00BYXZ5N79)**. Unwin was a fan of the Chinese internet boom long before he helped launch his Neptune fund in December 2015, and his fund has held stakes in both Alibaba and Tencent during the 21 months or so since launch.

Mark Slater says the impressive thing about some of the big US tech names in recent years has been that very large companies (Alphabet, Facebook et al) have been able to sustain very high growth rates with low levels of capital employed. 'This is extremely unusual,' he adds.

TOP LINE DRIVER

Rapidly expanding revenue is most relevant to investors as a way of driving the share price higher, which arguably makes that the true arbiter of a

EASY TO ACHIEVE SALES GROWTH?

£100M x 20% x 20% x 20%
= £172.8M
SO £72.8M OF EXTRA SALES

HARD TO ACHIEVE SALES GROWTH?

£5BN x 20% x 20% x 20%
= £8.64BN
SO £3.64BN OF EXTRA SALES

growth stock.

One excellent example is **Blue Prism (PRSM:AIM)**, the robotic process automation technology designer that *Shares* has followed since its initial public offering (IPO) in March 2016.

For the year to 31 October 2016 the company posted revenue growth in excess of 200% and it's on track to more than double sales again this year, with consensus forecasts predicting £21.5m (up more than 120%).

Other important growth metrics – recurring licence run-rate and recurring revenues, for example – have been soaring similarly.

'Price is also important,' says Slater. 'Great growth companies priced to the sky are of no interest to us. We seek the optimum combination of dynamic growth and a reasonable price, along with a raft of other protective criteria to limit our downside,' he explains.

> "PROFIT IS A VERY DIFFERENT ISSUE FROM GROWTH. I'M SURE PEOPLE HOPE GROWTH LEADS TO PROFIT BUT THAT'S BEEN SHOWN AS NOT ALWAYS THE CASE"
> - FINNCAP'S DANIEL

PROFIT MATTERS

In the spirit of that old stock market saying; 'revenue is vanity, profit sanity, cash flow is reality,' many investors will judge a growth company's ability to turn its fast-growing sales into, hopefully, even faster expanding profit and cash.

'Profit is a very different issue from growth,' says FinnCap's Daniel. 'I'm sure people hope growth leads to profit but that's been shown as not always the case,' he says.

Also the higher the rating, the more the future growth is already reflected in the share price, says fund manager Slater.

This can all combine to colour an investor's view of a growth stock's risk/reward balance.

'It's the first question I ask a potential investee company – does it make a profit?' says Paul Mumford, fund manager of **Cavendish Opportunities (GB0032212283)**, **Cavendish AIM (GB00B0JX3X39)** and **Cavendish UK Select (GB00B55L4S87)**.

EYES ON THE LONG-TERM PRIZE

Growth investors tend towards the optimistic and are quite capable of chasing share prices to astonishing levels on the assumption of future profit performance. Often profit may be years down the line.

AIM-quoted Blue Prism is, again, a good example. The company joined the junior market at 78p per share and the stock has since soared to astonishing heights of more than £10.00. This stock performance came despite Blue Prism never having made a profit and chewing its way through millions of pounds of investment funding.

New technology is sparking a paradigm shift in business and society that creates opportunities and threats to established organisations. It is also spawning legions of new businesses which are shaking up existing operating models and creating entirely new markets.

GROWTH STOCK CLASSICS

Fast growing companies which are now household names include Uber, Airbnb, Netflix and Tesla. These relatively new businesses are transforming the way we behave and are blazing new trails for us to travel.

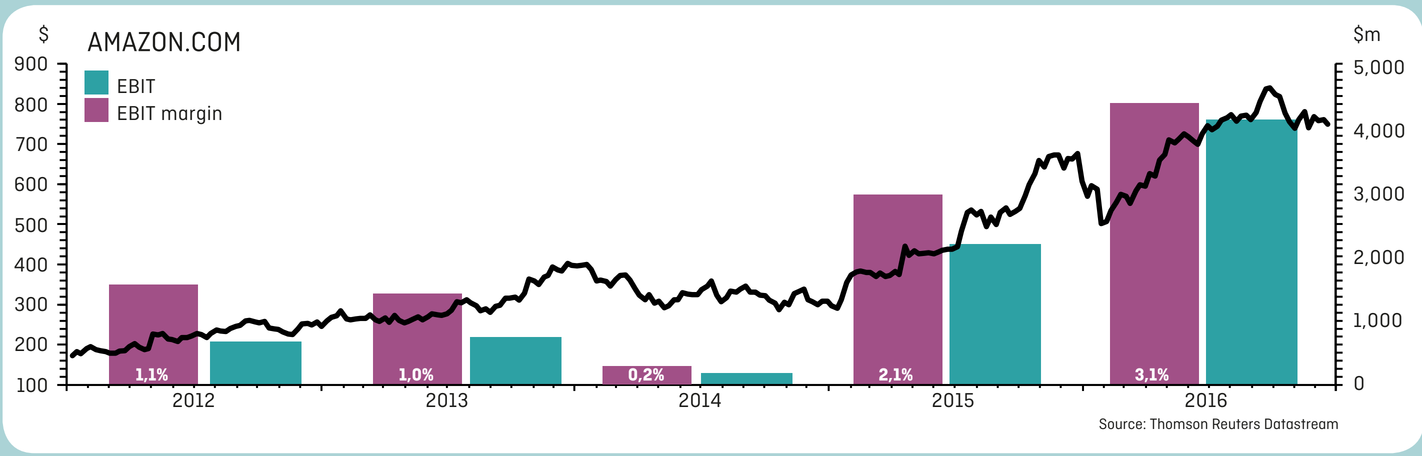
Yet while most of those companies aren't profitable, investors haven't allowed that to get in the way of the story or the share price in the case of Netflix and Telsa (Uber and Airbnb remain privately-owned, for now).

'I think Amazon will come to dominate retail, media, cloud storage and other areas in future,' says Lorne Daniel of FinnCap. 'I increasingly buy a load of stuff on Amazon that I'd otherwise have gone to the shops for; it's so much quicker and easier and you get what you're looking for.'

HOW MUCH MONEY DOES AMAZON MAKE?

In the 20 years to 2016 Amazon generated a staggering $652bn worth of revenue, according to numbers crunched by Russ Mould, investment director at AJ Bell.

Yet its operating profit of $11.9bn earned



over the same time frame is surprisingly miniscule, in relative terms. The company has thrown off just $10.6bn of operating free cash flow.

Operating profit margins have been growing since 2014 after several years of shrinkage, yet 2016's 3.1% is piddling when drawn against other established organisations. That hasn't bothered investors as Amazon's share price has tripled in five years to the current $990.38.

Clearly Amazon has many fans. 'It is an extraordinary business and a bit of a one off,' believes Mark Slater.

'Amazon's model (dominating every market with a view to maximising profit later) is very unusual, or at least it is unusual in that the prospect of them being able to monetise their market dominance is highly credible.'

But Slater puts forward caveats. 'Amazon doesn't work for us as we like the margin of safety afforded by a reasonable near-term rating combined with strong cash flows and dynamic earnings growth.

IN THE 20 YEARS TO 2016 AMAZON GENERATED A STAGGERING $652BN WORTH OF REVENUE

'For most businesses, forecast profits many years in the future are highly suspect and extremely difficult to get right,' he adds. 'We like to start with ratings in the normal range as we then benefit from profit growth and an upwards status change in the multiple; a very powerful double whammy.'

WAYS FOR UK INVESTORS TO ACCESS GROWTH STOCKS

There are plenty of growth companies available on the UK stock market. Examples of ones we like include attractions and ticketing software designer **Accesso (ACSO:AIM)**, health, safety and regulations kit maker **Halma (HLMA)** and cyber security specialist **Sophos (SOPH)**.

We also favour property website **Rightmove (RMV)**, IT consultant and experts supplier **FDM (FDM)** and **Alfa Financial (ALFA)**, the asset financing software expert.

Allianz Technology Trust (ATT) and **Polar Technology Trust (PCT)** are specific technology investment collectives which provide exposure to lots of growth companies. (SF)

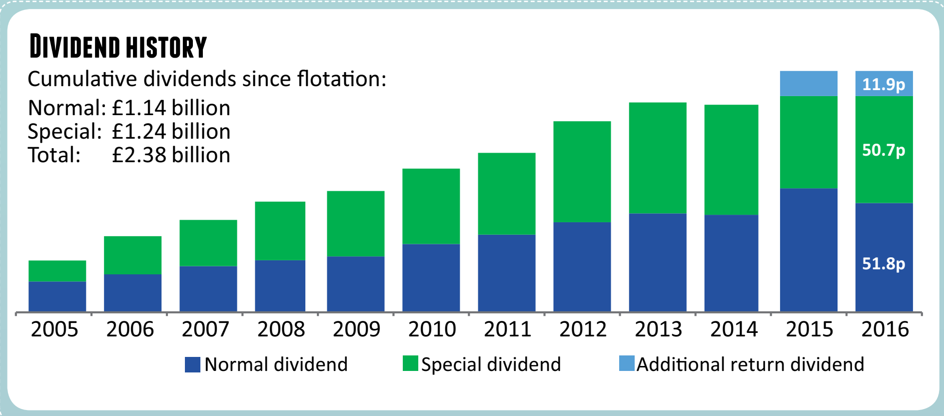
THREE GROWTH STOCKS ON THE UK STOCK MARKET

WE NOW TAKE a closer look at three familiar growth stories and explain the individual pros and cons of each company. They are insurer **Admiral (ADM)**, online retailer **ASOS (ASC:AIM)** and property portal **ZPG (ZPG)**, best known as the owner of Zoopla.

ADMIRAL (ADM) £17.72

CARDIFF-BASED ADMIRAL has been a superb growth stock over the years in terms of revenue, profit and dividends as it increased its position in the UK insurance industry.

Unfortunately market share growth could now be harder to achieve, according to investment bank Berenberg. That in turn could cause investors to reconsider how the shares are rated. They currently trade on 16.7 times forward earnings. A slower growth business may only command a rating in the region of 14 to 15 times, in our opinion.



Admiral's share of the UK motor insurance market has gone from around 8% in 2010 to 13% today. Management have referred to the company's optimal market share as being 12% to 14%, says Berenberg.

The investment bank reckons Admiral is close to becoming the market leader yet is worried that rivals are eating away at its competitive advantage.

For example, it believes **Hastings (HSTG)** is now at least as good as Admiral operationally and has also enjoyed rapid market share gains. Berenberg also believes Admiral's overseas businesses aren't that great apart from its operation in Italy.

Fundamentally we believe Admiral is still a fantastic investment to have in your portfolio. The caveat is that you should now consider this to purely be an income stock rather than one which will also reward every year with strong capital gains. It currently yields 6%. (DC)

ASOS (ASC:AIM) £56.44

ONLINE FASHION AND beauty retailer **ASOS (ASC:AIM)** is perhaps the ultimate AIM growth stock. Its market value has rocketed from £12.3m at IPO in 2001 to £4.76bn today.

The cutting-edge fashion seller, originally dubbed AsSeenOnScreen and selling fashion items copied from celebrities, has proved a major beneficiary of the structural spending shift to the internet, sales surging from a mere £1.7m in 2001 to around £2bn today.

The question is; can ASOS sustain this stellar sales momentum into the future? We believe the answer is yes, driven by investments in price and proposition and ASOS' immense overseas growth scope.

ZPG (ZPG) 367.9P

ZOOPLA'S PARENT COMPANY **ZPG (ZPG)** has enjoyed strong growth since being spun out of **Daily Mail & General Trust (DMGT)** in 2014. Revenue has increased from £26.8m to £197.7m over the past five financial years thanks to a mixture of acquisitions and organic expansion.

This sales boost has help drive up its share price by two thirds on the 220p price at which it joined the stock market.

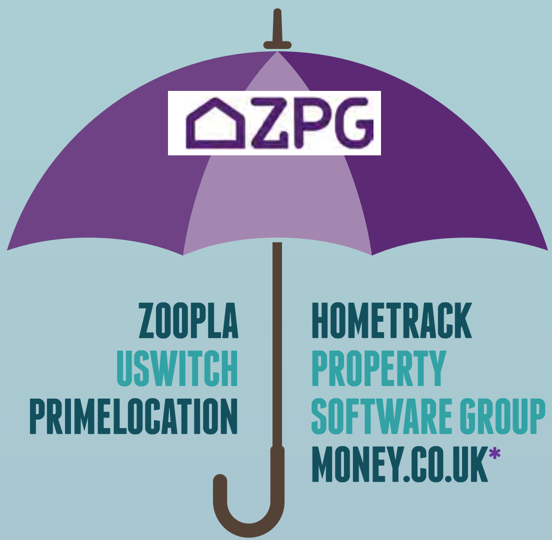
The revenue growth is expected to continue with a further advance to £238.6m in the current financial year to 30 September. Full year results are reported on 29 November.

Founder and chief executive Alex Chesterman has steered the company away from a pure focus on online property listings to offer comparison and data services.

Most recently (7 Sep), it agreed to acquire financial services comparison site Money.co.uk for £140m. With ZPG's shares trading on a forward price to earnings ratio of 21.4 times, prospective investors need to decide if the cross-selling opportunities created by this 'one-stop shop' approach can sustain the company's growth.

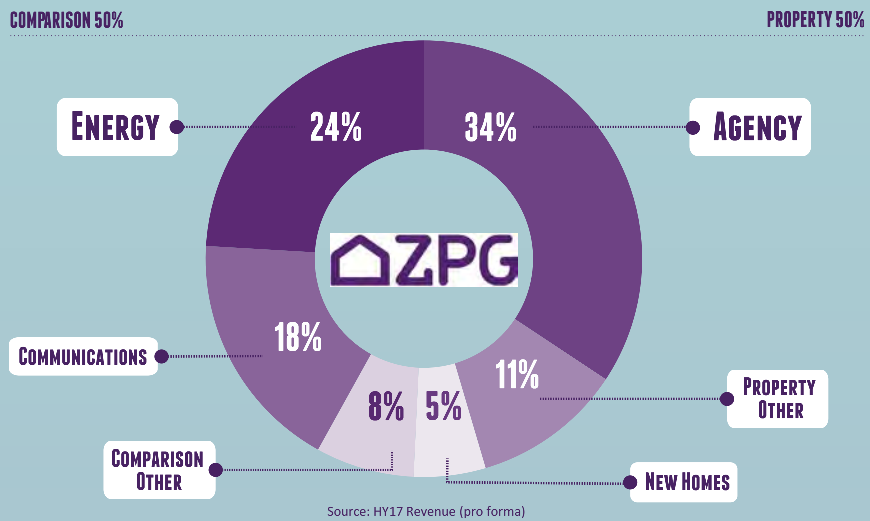
Earlier this year investment bank Liberum suggested the company was sitting on a £3bn revenue opportunity across its suite of businesses. The competitive threat posed by agent-led proposition OnTheMarket, soon to float on AIM, also needs to be considered along with the vagaries of the housing market. (TS)

BRANDS OWNED BY ZPG:



*Acquisition scheduled to complete on 1 October 2017.

INCREASED REVENUE DIVERSITY IN BOTH DIVISIONS



Source: HY17 Revenue (pro forma)

ASOS (ASC:AIM) £56.44

Underscoring its outstanding growth momentum, a trading update (13 Jul) for the four months to June revealed 32% total top line growth to £675.8m, helped by rising average order value and order frequency and surging mobile penetration.

Chief executive Nick Beighton also reiterated his medium term sales growth guidance of 20-25% per year.

Investors have to pay a premium price to access ASOS' growing sales, profit and cash flows. Ahead of results (17 Oct) for the year to August 2017, Shore Capital forecasts adjusted pre-tax profit of £80m (2016: £63.7m) for earnings of 76.7p, placing ASOS on a 74 times price to earnings multiple.

Profit is expected to power higher to £101.4m in the current financial year, ahead of £127.4m in fiscal 2019, with free cash flow rising from £23m this year to £54.6m next year.

Potential risks to the stock's high rating include the potential for weaker spend in key markets and expansion by competitors. (JC)

When investments lead to boardroom battles

Lessons to be learned from Ecotricity and Good Energy spat

Can a company use its powers as a shareholder to appoint directors to the board of a rival business and potentially influence how it is run?

We've just seen Ecotricity try to appoint two non-executive directors to the board of rival energy supplier **Good Energy (GOOD:AIM)**. Retailer **Sports Direct (SDL)** tried to do the same a few years ago with **Findel (FDL)**.

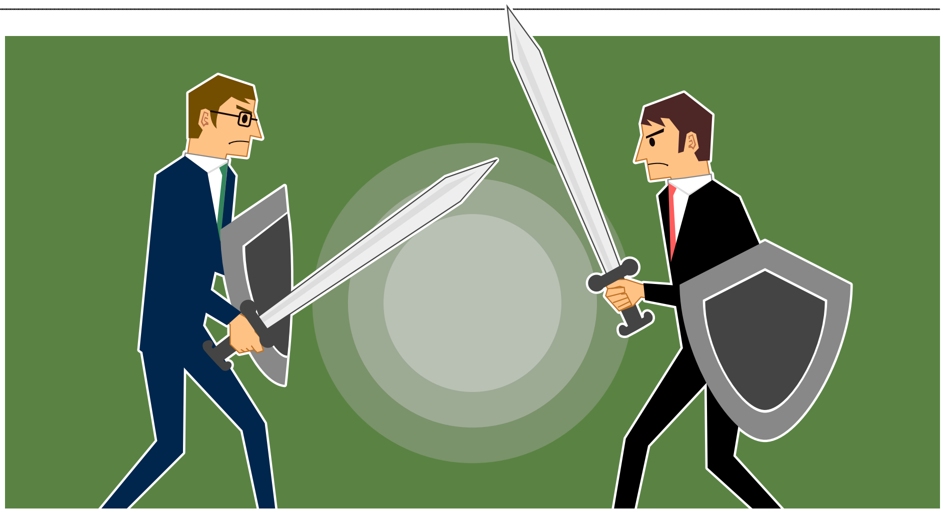
Ecotricity has built up a 25.3% stake in Good Energy and recently sought to appoint chief executive Dale Vince and a colleague to its board.

Good Energy said such an appointment would present 'significant conflicts of interest' that wouldn't be in the best interests of its shareholders and customers.

Although Ecotricity subsequently pulled its request, such actions raise a number of interesting company law issues with regards to director duties and conflicts of interest.

As a matter of basic company law there is absolutely nothing wrong with what Ecotricity was trying to do.

If you own more than 5% of a company you can propose a shareholders' resolution to appoint a board member and if the resolution receives approval from a majority of eligible voters it will pass.



Most private companies have shareholder-appointed directors – whether in the context of owner managed business or in a joint venture.

Even in a public company context, where the need for market credibility drives the requirement for companies to adhere to corporate governance codes requiring board independence, there are many high profile examples of shareholder-appointed directors.

Indeed, the UK Corporate Governance Code requires only companies within the FTSE 350 to fill their board with a majority of independent directors.

While the legal path to appointment is relatively easy, the same cannot be said for how such a representative would need to conduct themselves following appointment to ensure they do not breach any complex statutory and common law rules to which they will be subject.

For example, the Companies Act 2006 requires directors to, among other things, 'exercise independent judgment' and 'avoid conflicts of interests' as well as being bound by duties of confidentiality.

To avoid breaching these obligations the appointed directors would need to ensure they seek to enhance the interests of the shareholder body as a whole rather than pushing any specific agendas which may be beneficial to their appointing shareholder.

By staying off the board and sacrificing the ability to obtain influence in the short term, Ecotricity has avoided any potential restrictions to buy further shares which may have existed if its appointed board member had become privy to non-market price sensitive information.

By Andrew Hart, a corporate lawyer at international law firm Bryan Cave LLP

How to give your children's finances a kick start

You could build a £100,000 portfolio by investing in equities through a Junior ISA

Investing a relatively small amount of money can make a huge difference to your children's financial security in later life.

One of the best ways to invest is through a Junior ISA. Income and capital gains are tax-free and your child can't withdraw any money until they turn 18.

There are cash versions of Junior ISAs but the interest rates are extremely low. If you want to beat inflation and grow money over time, you need to choose the stocks and shares version.

START INVESTING EARLY

The earlier you start investing, the better. Figures from financial advice firm Addidi Wealth show that if you opened a Junior ISA at birth and invested £4,128 a year (the current maximum allowance) the portfolio would be worth £110,099 by the time the child reached 18, assuming an annual growth rate of 4%. Were you to delay by five years, the portfolio would be worth £71,381.

Investing from birth to age 18 provides plenty of time to ride out any stock market volatility. This means you can take on an increased level of risk, which can help to boost long-term returns.

WHERE TO INVEST

Charlie Musson, spokesperson for AJ Bell Youinvest, suggests building a portfolio that gives exposure to exciting growth areas across the world, combined with a solid core that can be left to grow over time.

For the core of the portfolio, he recommends **Fidelity Index World (GB00BLT1YP39)**. It tracks the MSCI World Index, giving exposure to the biggest and best known companies in the world. Its ongoing charge is just 0.15%.

You could then add smaller exposures to funds like **Liontrust Special Situations (GB00B57H4F11)**, which aims to identify companies with a sustainable competitive advantage; and **Invesco Perpetual Asian (GB00BJ04DS38)**, which offers exposure to a wide range of Asian companies.

Another fund worth looking at is **Polar Capital Global Technology (IE00B42W4J83)**.

'Technology shares have had a fantastic run recently, however with such a long time horizon, I'm comfortable investing in this area accepting that it may well be volatile,' says Musson.

If you're worried about the world your kids may grow up in, you might want to consider ethical and sustainable funds.

Anna Sofat, managing director at Addidi Wealth, likes **Jupiter Ecology (GB00B7W6PR65)**, which screens companies against strict in-house ethical criteria; and **F&C Responsible Global Equity (GB0033145045)**, which seeks to invest in companies that make a positive contribution to society and avoids those that harm the world, its people or its wildlife.

If you start investing later in your child's life and expect them

Sofat says Junior SIPPs can be a good way of introducing your children to long-term financial planning to access funds at age 18, the level of risk taken will need to be lowered accordingly.

TAX BREAKS

It's possible to invest on behalf of your kids outside of a Junior ISA but you won't benefit from the tax breaks. Normally, if a parent gives money to a child that generates more than £100 a year in interest, tax is paid at the parent's marginal rate. This isn't the case when it comes to a Junior ISA – all the interest earned is free from tax.

Additionally, if the portfolio grows significantly over time it could trigger a tax liability when the money is passed from the parent to the child at age 18. A Junior ISA avoids this because it automatically converts to a normal ISA with the same tax advantages when the child turns 18.

HOW TO STOP A SPENDING SPREE

One worry of investing in a Junior ISA is that your children may decide to blow the lot when they get access to the money at age 18.

Sofat says she's come across parents who don't tell their kids about their Junior ISA, but she doesn't think this is necessarily the best approach.

> **TEACH CHILDREN TO BE SAVVY ABOUT MONEY**

'Part of the whole savings process is to teach children to be savvy about money,' she explains. 'Once they reach their teenage years you could consider having regular meetings to discuss what they have. This helps to create a responsible attitude towards money, and hopefully there's more chance they'll use it for something like university fees.'

JUNIOR SIPPS

Another way of ensuring your children don't spend your hard-earned investment is to pay money into a Junior SIPP (Self-Invested Personal Pension). Your kids won't be able to access the funds until they are at least 55 under current rules.

You can pay in up to £2,880 a year into a Junior SIPP and the government will add tax relief of 20% to make this up to £3,600. The investment time horizon in a Junior SIPP is extremely long which means you may wish to opt for higher-risk assets.

Sofat says Junior SIPPs can be a good way of introducing your children to long-term financial planning.

'It's an easier way to sell a pension than introducing the concept when they're in their 20s because they can already see some momentum. Even £50 or £100 a month can make a huge difference,' she says.

The choice between using a Junior ISA and a Junior SIPP comes down to your objectives.

'The chances are your children will have the most need for the funds as they make the transition from child to adult, so a Junior ISA can help give them a great start to their adult life,' says Musson. 'By the time they are 55 hopefully they will have built their own wealth, particularly if they have seen the value in long-term savings through their Junior ISA.' (EP)

If you opened a Junior ISA when your child is aged five and invested £4,128 a year (the current maximum allowance) the portfolio would be worth £71,381 by the time the child reached 18, assuming an annual growth rate of 4%. Were you to start at birth, the portfolio would be worth £110,099

£4,128 a year from age five with 4% annual growth = **£71,381**

£4,128 a year from birth with 4% annual growth = **£110,099**

Are you paying too much for your investments?

Have a look to see if you are paying more than 1% annual charge for a fund

Before 2013 people generally paid in the region of 1.5% for an actively managed UK equity fund.

Even if you used a financial adviser and/or invested via a platform this was potentially the only charge you paid, as they received a portion of the 1.5% from the fund group as a rebate.

For example, for a fund with a total charge of 1.5%, the fund manager would typically retain 0.75%; the adviser would get 0.5% and the platform 0.25%.

If you invested directly with a fund group – which many would have done, particularly in the 1980s and 1990s – the fund group would still have charged the 1.5% and kept it all.

If you invested without using an adviser via a direct-to-consumer (D2C) platform, the platform may also have received some of the 0.5% normally paid to an adviser passing the remainder back to your account as a rebate.

The Retail Distribution Review changed all this between 2012 and 2014.

Platforms were no longer able to receive and retain rebates from fund groups and all costs had to be disclosed separately. As a result, many fund groups introduced lower prices for their funds. Platforms and advisers were now paid separately by the customer.

In theory this should mean the fund charge in the earlier example drops from 1.5% to 0.75% – but the fund itself remains exactly the same.

However, in many cases the older, more expensive versions of the funds still exist and people might inadvertently be invested in them and hence paying too much.

> INVESTORS ARE PAYING MORE THAN NECESSARY

The impact on potential investment returns can be profound. The table below shows the value of a £100,000 investment over time with a 1.5% charge compared to a 1% (assuming a 0.75% fund charge + 0.25% platform charge). It assumes a 5% per year gross investment return.

WHO MIGHT BE AFFECTED BY THIS?

According to figures from the Association of Professional Financial Advisers (quoted in *The Sunday Times*) around £765m could be held in funds where investors are paying more than necessary.

THOSE MOST LIKELY TO BE OVERPAYING INCLUDE:

- Anyone who invested directly with a fund group
- Someone who has used a financial adviser in the past but doesn't anymore
- People who have mistakenly invested in the wrong version of the fund

If you're unsure whether or not you are overpaying, have a look through your fund picks and sift out any where the charge is more than 1%. You can then simply search for the fund via your online platform to check whether a cheaper version is available. (TS)

Annual charge	1.5%	1.0%	Difference
Year 5	£118,769	£121,665	£2,897
Year 10	£141,060	£148,024	£6,965
Year 15	£167,535	£180,094	£12,559
Year 20	£198,979	£219,112	£20,133
Year 25	£236,324	£266,584	£30,259
Year 30	£280,679	£324,340	£43,660
Year 35	£333,359	£394,609	£61,250
Year 40	£395,926	£480,102	£84,176

Next: bouncing back into fashion?

Discount rating at clothing-to-homewares giant is a buying opportunity

We believe fallen stock market darling **Next (NXT)** could soon be back in favour. Get in now while the stock remains unloved with many investors at £50.

We're encouraged by in-line half-year results (14 Sep) and upgraded profit guidance following a promising start to the third quarter and the absence of any further deterioration in the consumer environment during the past six months.

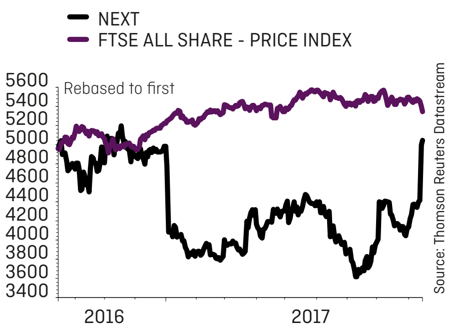
OVER THE WORST?

We flagged a buying opportunity at the best-in-class jeans-to-jackets purveyor at £39.80 in our summer examination of the retail sector, highlighting Next's management nous and impeccable cash returns pedigree. That proved to be a good call.

The £7.42bn cap's results for the half to July showed a 9.5% drop in profit before tax to £309.4m amid tough clothing market conditions and a 'marked divergence' in performance between physical stores and online arm Next Directory; Next Retail sales fell 8.3%, Next Directory revenues rose 5.7%.

Flagging improved product ranges ahead of Christmas, chief executive Simon Wolfson also explained that 'our performance in the last three months has been encouraging on a number of fronts' and 'prospects going forward appear somewhat less challenging than they did six months ago'.

Accordingly, Next modestly upgraded its full year sales and profit guidance, with the profit before tax range upped from £680m to £740m to between £687m to £747m, while also re-starting its share buyback.



NOT EVERYONE IS ENTHUSIASTIC

Berenberg thinks you should sell the stock. Its analysts argue the rise of e-commerce has increased choice, product and price transparency for shoppers resulting in 'market share decline for Next due to its lack of differentiation', while the retailer's store estate 'has become a burden, lowering its capacity to invest in product and online'.

Wolfson doesn't concur with those arguing retail shops will be more of a liability than an asset in the future: 'Firstly, our store portfolio looks set to remain profitable and strongly cash generative for many years to come. Secondly, our shops are an important part of our online service to the increasing number of customers who collect and return their orders through our stores.'

The retail division's high margins, short lease terms, profitable space expansion and likely rent deflation all underpin its longer-term future, even as the shift online continues.

Next is one for patient investors, in our opinion. For the year to January 2018, Numis Securities forecasts a drop in pre-tax profit to £715m (2017: £783.3m) ahead of £702.5m in 2019.

Based on this year's 402p earnings forecast and 158p dividend estimate, a prospective PE of 12.4 and 3.2% yield look appealing.

SHARES SAYS: ↗

We're buyers at £50 given Next's strong cash returns and the prospects for a recovery in profit under a first rate management team. (JC)

BROKER SAYS: 2 14 8

Why now is time to take a dose of Alliance Pharma

The speciality pharmaceutical company sidesteps traditional sector risks though product acquisitions

Chippenham-based **Alliance Pharma (APH:AIM)** is arguably a lower risk play in the pharmaceutical sector with a buy and build strategy that continues to deliver strong growth.

It may interest anyone who wants exposure to the industry but doesn't want to invest in a company at the mercy of drug trials. Alliance does not undertake any drug development. Instead, it buys specialty drug products and sells them in more than 100 countries via direct channels, joint ventures and a network of distributors.

Sales, pre-tax profit and the dividend are all growing. However, this is not a risk-free investment. For example, the £250m pharma business suffered a setback in July when its nausea treatment Diclectin failed to receive marketing approval from the UK's regulator, Medicine and Healthcare Products Regulatory Agency (MHRA).

Discussions between the drug's licensor Duchesnay and MHRA are expected to continue into the next year. 'Diclectin is a much-needed product as there is no licensed medicine for treating nausea and vomiting of pregnancy in the UK,' says Alliance.

> **HALF OF ALLIANCE'S SALES ARE MADE IN THE UK, WITH 25% IN EUROPE AND THE REMAINING 25% OF REVENUES GENERATED GLOBALLY**

CASH GENERATIVE AND PROFITABLE

In the first half of 2017, Alliance generated £11.1m in free cash flow and hiked the dividend by 10% to 0.44p.

Over the same period, underlying pre-tax profit rose to £11.9m from £11.7m, a slightly restrained performance as currency movements affected the cost of goods and operating costs.

The company made £22.2m pre-tax profit in 2016. Investec estimates that figure will rise to £23.7m in 2017, £26.4m in 2018 and £29.1m in 2019.

Sales in the first half of 2017 from scar gel Kelo-cote and food supplement MacuShield have surged 52% to £6.2m and 67% to £3.4m respectively thanks to growth in new territories and existing outlets.

Half of Alliance's sales are made in the UK, with 25% in Europe and the remaining 25% of revenues generated globally.

BUY AND GROW STRATEGY

Investec analyst Andrew Whitney believes Alliance is currently in delivery mode and is de-leveraging ahead of the next phase of its 'buy and grow' strategy, which could drive outperformance.

He flags the acquisition of Sinclair's healthcare products business in 2015 as important as it 'materially increased the breadth of its portfolio'.

Alongside organic growth, Alliance focuses on bolt-on acquisitions by buying products that have a good history of stable sales.

It also targets growing products from smaller entrepreneurial companies that need a larger business with a wider distribution footprint for further growth.

Alliance Pharma currently trades on 12.4 times forecast earnings per share for the year to 31 December 2018.

SHARES SAYS: ↗

Alliance Pharma is a cash generative company with a clear strategy that we believe could richly reward investors over the long term. Buy at 53.3p. (LMJ).

BROKER SAYS: 2 0 0

STM's new product line could be a winner

Company has adapted to the pension needs of its ex-pat client base

There are plenty of pension administrators on the market but **STM (STM)** caters primarily for ex-pat clients. As a result, the company is having to make changes to secure new business after being put through the ringer by HMRC.

The company used to specialise in providing Qualifying Recognised Overseas Pension Schemes (QROPS). In this year's Spring Budget, a 25% tax was introduced for anyone living in a country which is not the same as the one from which your pension is administrated.

STM found it very hard to win new QROPS business due to the tax change.

Going forward, the company is pinning its hopes on the International SIPP, its replacement for QROPS to secure new business.

Serious growth potential

The reason why STM could remain the 'go to' firm for ex-pats is that the company has built up a large international distribution network to serve its clients. This includes IFAs in the 106 countries that STM customers are based.

STM trades on 11 times forecast 2017 earnings per share figure of 5.3p using house broker's FinnCap's figures. It also has a prospective 3% dividend yield for 2017 as well.

The international SIPP business is yet to come online in the US, where STM had 30% of its new business in. The company is also waiting for HMRC approval of its Australian pension product. Once these two goals have been achieved, the company may have some serious growth potential. (DS)

Mixed opinion on Eve Sleep despite revenue surge

MAIDEN HALF year results (13 Sep) from branded memory foam mattress business **Eve Sleep (EVE:AIM)** revealed 126% increase in revenue to £11.5m, as well as improving gross margins and news of sales growth acceleration in July and August.

While some commentators are unconvinced about its merits, stockbroker Peel Hunt has a 'buy' rating and 135p price target (versus current price of 95.5p). It expects Eve's UK business to be profitable in 2018 ahead of a breakthrough into group-level profitability from 2019. (JC)

Manx proves to be a reliable income gem

TELECOMS AND DATA services supplier **Manx Telecom (MANX:AIM)** increasingly looks like that market rarity; a reliable high-yielding small cap stock.

The company is the incumbent supplier on the Isle of Man and has built a loyal customer base. Analysts at investment bank Liberum anticipate a full year to 31 December 2017 dividend of 11.5p per share, rising to 12.1p in 2018, implying a 6.1% yield next year. (SF)

Energy provider Yu Group smashes expectations

INDEPENDENT GAS and electricity supplier **Yu Group (YU.:AIM)** has increased its half year dividend by 33% to 1p and reported a 308% year-on-year hike in revenue to £20.7m for the six months ending 30 June.

The £83m business says revenue for calendar 2018 is now expected to be 'substantially ahead' of current expectations, thanks to having already contracted £23.2m worth of sales for that period. Its shares jumped nearly 14% to 523.75p on the news (19 Sep). (DC)

NOW IS THE TIME TO FOCUS ON YOUR INVESTMENT PORTFOLIO

Looking for new companies to invest in? Come and join Shares and AJ Bell Media at their evening event in London on Thursday 19 October 2017 and meet directors from Avacta, Custodian REIT and Savannah Recources.

London – Thursday 19 Oct 2017

Sponsored by PrimaryBid AJBell Youinvest

Companies presenting

Avacta (AVCT) Alastair Smith, CEO
Avacta's focus is on its proprietary Affimer® platform technology, a novel engineered alternative to antibodies, that has wide application in diagnostics, therapeutics and research.
Antibodies dominate markets worth more than $75bn despite their shortcomings. Affimer technology, based on a small, robust protein, can be quickly generated to bind with high specificity and affinity to a wide range of targets, addressing many of the limitations of antibodies.

Custodian REIT (CREI) Richard Shepherd-Cross, MD
Custodian REIT plc is a UK real estate investment trust, which listed on the main market of the London Stock Exchange on 26 March 2014. Its portfolio comprises properties predominantly let to institutional grade tenants on long leases throughout the UK and is characterised by properties with individual property values of less than £10 million at acquisition.
The Company offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. By targeting sub £10 million lot size, regional properties, the Company intends to provide investors with an attractive level of income with the potential for capital growth. an Capital for the previous 12 years.

Savannah Resources (SAV)
Savannah Resources Plc is a multi-commodity development company focused on building cash generative and profitable mining operations. The Company operates a strategic portfolio of assets, spanning near term production potential and longer term development opportunities in Oman, Mozambique, Portugal and Finland.

Follow this link www.sharesmagazine.co.uk/events for full details.

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Presentations to start at 18:30
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Contact

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KEY

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