

SHARES

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HOW
ETHICAL
IS YOUR
ETHICAL
FUND?

WHAT THE ELECTION
RESULT
MEANS FOR YOUR MONEY

**WHY YOU SHOULDN'T
SOLELY RELY ON A
WORKPLACE PENSION**

**WHAT THE QATAR
CRISIS COULD MEAN
FOR OIL PRICES**

**THE SMALL CAP WITH
A LOW RATING AND AN
ATTRACTIVE YIELD**

CONCENTRATED FUNDS: DO FEWER HOLDINGS RESULT IN HIGHER RISK?

Hung parliament terrible news for support services

Election result suggests there could be further delays to contract awards

One of the most common reasons behind profit warnings over the past few years has been delays to contracts being awarded. This is either a client pushing back the start date or just sitting on their hands and not making a decision.

The outcome of the UK general election inevitably means this negative market factor is here to stay for longer.

A hung parliament is possibly the worst outcome for companies that serve the public sector. We don't know who is running the country, let alone how they plan to fund spending plans.

'The hiatus in government decision making caused firstly by last year's Brexit vote and then the calling of the snap general election is now set to continue for an indefinite period,' says Shore Capital analyst Robin Speakman.

'Contract decision making and awards (along with efficiency /policy programmes) now appear to be pretty low down in the list of priorities.'

WHICH STOCKS LOOK VULNERABLE?

Support services is one of the sectors most at risk. Many of the companies on the UK stock market work for the government directly or indirectly. The uncertain political situation may also weigh on private sector contract decisions, too.

Outsourcing groups **Capita (CPI)**, **Mitie (MTO)**, **Serco (SRP)** and **G4S (GFS)** look most at risk among the larger quoted support services firms.

Capita last September issued a profit warning on the back of a sluggish performance in the second half of 2016. It said some of its clients had delayed their decision making.

That closely followed a similar shock from Mitie which blamed a weak outlook for UK economic growth and uncertainty generated by the Brexit vote for its September 2016 profit warning.

In particular, Mitie cited government budget



constraints and pressures to clients' pricing for its gloomy outlook.

DON'T BE FOOLED BY SHARE SPIKE

Mitie's share price shot up earlier this week (12 June) after full year results showed the first signs of a turnaround under new boss Phil Bentley who is aggressively cutting costs.

I still see little reason to invest in the company as it has tiny profit margins and messy accounts. Furthermore, it is almost entirely dependent on the UK (>97% of revenue), meaning it is extremely vulnerable if public and private sector decision making keeps being delayed.

'The contract portfolio is exposed to re-bid risks and large contracts may be re-tendered at lower margins or lost to competitors,' says investment bank UBS following Mitie's full year results.

'The public sector is also a source of uncertainty given potential exogenous shocks to budgets and so pricing/volumes/contract changes.'

OTHER RISKS AHEAD

Shore Capital's Robin Speakman says another election-related risk to the support services sector is strikes over pay, particularly among government outsourcing companies.

'We expect "pay" to come to the fore following the Labour Party's populist manifesto agenda themes. We can foresee instances of industrial action increasing,' he says.

'Margin concerns come to the fore with a lesser ability in recent years to pass on higher costs under many contract arrangements (particularly where margins have been in double digits).

'Indeed, the levers of industrial action may come to the surface prominently across the public sector in coming months with the aim of forcing the policy agenda towards the populist agenda, making governance challenging.'

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JUPITER
Asset Management

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15 June 2017

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WHO WE ARE

EDITOR:

Daniel Coatsworth
@SharesMagDan

DEPUTY EDITOR:

Tom Sieber
@SharesMagTom

NEWS EDITOR:

Steven Frazer
@SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR:

James Crux
@SharesMagJames

REPORTER:

David Stevenson
@SharesMagDavid

JUNIOR REPORTER:

Lisa-Marie Janes
@SharesMagLisaMJ

CONTRIBUTORS

Emily Perryman
Holly Black

PRODUCTION

Head of Design
Rebecca Bodi

Designer
Darren Rapley

ADVERTISING

Sales Executive
Nick Frankland
020 7378 4592

nick.frankland@sharesmagazine.co.uk

MANAGING DIRECTOR

Mike Boydell

BROKER RATINGS EXPLAINED:

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

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

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

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

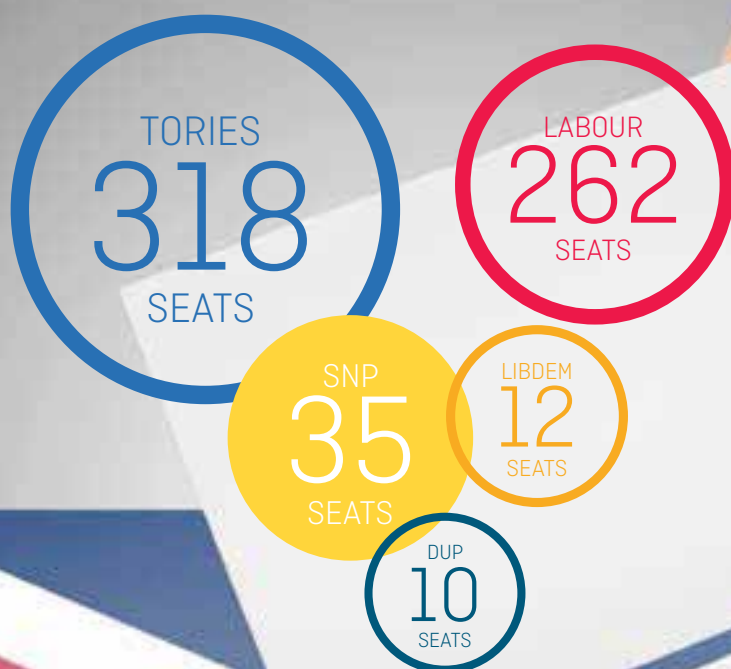
The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

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WHAT THE ELECTION MEANS FOR YOUR MONEY

WE LOOK AT EQUITIES, FUNDS, GILTS, PENSIONS, TAX
AND MORE FOLLOWING NEWS OF A HUNG PARLIAMENT



Investors are closely watching prime minister Theresa May for signs of how she will control a minority government following the UK general election result.

The markets have so far given a fairly tame reaction to the changing political landscape. However, events over the coming days could have great importance to investors, so read this article to understand what the election result means for your money.

WHAT'S THE NEXT BIG EVENT?

The key test of any new alliance with the Democratic Unionist Party (DUP) was supposed to happen on 27 June when MPs were due to vote on the government's legislative programme for the coming year.

That date has now been thrown into doubt after delays to the Queen's Speech (previously scheduled for 19 June) which is the official unveiling of all the laws the prime minister hopes to get through parliament.

The delays could suggest that some manifesto pledges will be dropped or watered down.

HOW SHOCKING WAS THE RESULT?

Berenberg's senior UK economist Kallum Pickering says the Conservatives losing their majority in the House of Commons is 'not a repeat of the Brexit vote on 23 June' last year.

He adds: 'Instead, the political uncertainty coming from the result is partly compensated by the small chance that Brexit may not happen and by the hope that the UK may opt for a less hard Brexit.'

On the subject of referendums, it is worth noting the Scottish Nationalist Party's loss of several seats to pro-union political parties would suggest there is a reduced likelihood of a second referendum on Scottish independence.

UK GENERAL ELECTION IS NOT A GLOBAL RISK EVENT'

Deutsche Bank's first take is that the result of the UK election is 'not a global risk event' and the impact will be confined to the UK.

Unfortunately the UK economic backdrop is not helpful. Jim Leaviss, head of retail fixed interest at M&G Investments, comments: 'The momentum of UK economic growth has been fading as we move through 2017.'

'Retail sales growth, house prices and inflation adjusted incomes are all weakening in what remains a very consumption driven economy. This election result and the continued uncertainty it brings suggests that this trend continues.'

UK GENERAL ELECTION IS 'NOT A GLOBAL RISK EVENT'

- DEUTSCHE BANK

WHAT IS THE POLITICAL SITUATION?

To quote the Russian revolutionary Lenin, 'there are decades where nothing happens; and there are weeks when decades happen.'

In a fast-moving environment, it is hard to say with certainty May will remain prime minister by the time you read this article.

Swathes of the Conservative party will be uncomfortable with the DUP's positions on same-sex marriage and abortion. Any combination with the party could undermine the UK's role as an independent broker in Northern Ireland.

The fragile nature of the partnership raises the possibility of a Conservative leadership battle, another election and another referendum on the UK's membership of the EU. Such events could provide yet another bout of stock market volatility. (TS)

THE OUTLOOK FOR EQUITIES, STERLING AND GILTS

News of a hung parliament triggered renewed weakness in sterling and lifted many of the stocks which also jumped following the Brexit vote last June, principally FTSE 100 companies with overseas operations.

These companies benefit from a drop in the pound as it makes their exports more competitive and boosts the value of foreign earnings.

Drinks giant **Diageo (DGE)**, packaging group **Smurfit Kappa (SKG)** and construction firm **CRH (CRH)** all saw their shares rise following the election news.

‘With the UK running a sizeable external deficit and on the threshold of renegotiating its trading relations with its largest trading partners, a weak pound seemed on the cards whatever

WHAT HAPPENED TO FTSE 250 STOCKS?

The more domestic-focused FTSE 250 equities index initially fell on the election result, albeit ending the day 0.1% higher.

The mid-cap losers were predominantly ones with exposure to consumers, as they are negatively affected by a weaker pound, and property. They included housebuilder **Crest Nicholson (CRST)**, mortgage lender **Virgin Money (VM.)** and DIY retailer **Travis Perkins (TPK)**.

Ritu Vohora, equities investment director at M&G Investments, says UK stocks are cheap on both an earnings yield and a historical price to book basis. However, she says companies with predominantly domestic earnings are

“ THE MARKET WILL DEMAND A GREATER RISK PREMIUM FOR OWNING ASSETS WITH SO MUCH POLITICAL INSTABILITY ATTACHED TO THEM

the election result (at least beyond the first few days, had a Conservative landslide created a sugar high),’ says Andrew Bell, chief executive of **Witan Investment Trust (WTAN)**.

Although the pound stabilised on Monday (12 June), its future direction will depend on political clarity and an update on Brexit negotiations which are due to begin next week.

‘Brexit negotiations remain key near term, but with such lack of clarity the outlook for the pound and the gilt curve remains unclear,’ says Charlie Diebel, head of rates at Aviva Investors.

‘The take for gilts is modestly negative as the market will demand a greater risk premium for owning assets with so much political instability attached to them,’ he adds.

vulnerable to import price inflation and so stocks with a high UK exposure may struggle near term.

‘The FTSE 100 large-cap index has been strongly driven by currency moves since the UK’s vote to leave the EU,’ says Vohora. ‘However, the FTSE 250 index has underperformed the FTSE 100 by c. 3% in recent weeks, suggesting that investors had started to factor in election risk.

‘The increased uncertainty could hamper prospects for domestically-focused UK stocks, and the FTSE 250, with foreign exchange moves impacting their profit margins and the real disposable income of their customers.’ (DC)





THE OUTLOOK FOR SPECIFIC SECTORS

REAL ESTATE AND HOUSEBUILDERS

Real estate and housebuilding are among the most sensitive sectors to what is happening in the UK. It was therefore no surprise to see some reaction in asset prices in the wake of the election result.

M&G Real Estate's head of property research Richard Gwilliam argues the dynamics behind UK real estate remain strong thanks to 'a lack of significant supply of space'.

He notes the attractive yields on offer and adds the 'renewed cheapness' of sterling should boost the UK's attractiveness to foreign investors.

A member of Investec Structured Property Finance team, Hayley Scott, is less relaxed. She suggests projects may be put on hold as banks withdraw financing.

'Real estate as an asset class will lose favour with institutional and overseas investors as doubts hang over the UK real estate sector,' she says.

On the housebuilding side, while all the major parties want the UK to build more houses, the uncertainty created by

the election may lead to delays in house purchases and other building work, putting some pressure on volumes.

Broker Peel Hunt flags **Telford Homes (TEF:AIM)** as being better positioned thanks to its bumper order book and exposure to the emerging build to rent space. (TS)

BANKS

A softer Brexit could favour UK banks, according to various investment experts. Jefferies analyst Joseph Dickerson says if a so-called 'hard Brexit' is dead, then a resulting reassessment of risk could boost shares in UK-centric banks.

Going into the general election, UK banks were trading on an 'uncertainty' discount, a remnant from the decision to leave the EU.

Dickerson says the earnings backdrop for UK banks is more favourable than perceived because impairment indicators are stable at worst.

The banks favoured by Dickerson include **Lloyds (LLOY)**, **Virgin Money (VM.)** and **Metro Bank (MTRO)**, all with 'buy' ratings.

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REAL ESTATE AS AN ASSET CLASS WILL LOSE FAVOUR WITH INSTITUTIONAL AND OVERSEAS INVESTORS AS DOUBTS HANG OVER THE UK REAL ESTATE SECTOR

Conversely, Ian Gordon, an analyst at Investec Securities, says that **Barclays (BARC)** is the only large cap UK bank still offering material share price upside on a 12 month view.

He suggests investors should also look at the challenger bank space such as **OneSavings Bank (OSB)**. (DS)

INSURANCE

'A hung parliament with the Conservatives the largest party makes a hard Brexit less likely with parliamentary checks and balances leading to broad Brexit package support rather than a rush for the exit,' says stockbroker Peel Hunt.

'There is, however, another chance of a general election down the road, so uncertainty remains.'

It adds: 'The insurance sector has already adapted to a hard Brexit with many Lloyd's insurers and the Lloyd's market announcing the creation of local subsidiaries in the EU (4% premiums in EU), hence the uncertainty over whatever Brexit brings has diminished.'

Peel Hunt is positive on **Novae (NVA)** and **Lancashire (LRE)** among the Lloyd's insurers. (DS)

RETAILERS

Uncertainty and a further slide in sterling arising from a hung parliament are negatives for retailers.

Broker N+1 Singer expects this 'to exacerbate margin headwinds, add to imported inflation and erosion of spending power, and weigh on confidence amongst many consumers'.

Domestic consumer stocks, especially those reliant on foreign sourcing and an above average age demographic, are in the firing line.

RBC Capital Markets concurs that the election outcome is 'a negative for UK exposed businesses with high dollar sourcing costs', highlighting **Sports Direct (SPD)**, **B&M European Value Retail (BME)**, **Next (NXT)** and **Marks & Spencer (MKS)** as among

those vulnerable.

Conversely, **ASOS (ASC:AIM)** and **Kingfisher (KGF)** are 'relative gainers short term' given their 'relatively high non-UK exposure'. (JC)

GAMBLING FIRMS

Stockbroker Davy views the election result as unhelpful for **Ladbrokes Coral (LCL)** and **William Hill (WMH)**.

It says 'gaming sector regulation ranks fairly low down the list of priorities for those parties grappling with government formation and imminent Brexit negotiations' and 'the uncertainty that has weighed on the UK retail betting companies is likely to persist for some time to come.'

Specifically, Davy sees an increased risk the next government will make a more severe cut to the gaming machine staking limit than might be mandated by a forthcoming regulatory review. (JC)

UTILITIES

One surprise is the modest rebound in some utility stocks, possibly as a sign of relief that Labour didn't get a chance to enforce its various threats for parts of the sector.

'Many utility and energy companies had been weak after both major UK parties pledged potential caps on energy bills,' points out Colin Morton of the Franklin UK equity team.

'We view a Conservative/DUP coalition as thematically more favourable, as the threat of Labour introducing more punitive policies has for now receded,' say analysts at RBC Capital Markets. They flag reduced risk of nationalisation of water companies, in particular. (SF)

HEALTHCARE

There may be limited impact on the healthcare sector despite uncertainty concerning the hung parliament as investors generally focus on developments in the US market when looking at the sector. (LMJ)



MANY UTILITY AND ENERGY COMPANIES HAD BEEN WEAK AFTER BOTH MAJOR UK PARTIES PLEDGED POTENTIAL CAPS ON ENERGY BILLS

BREXIT – WILL IT STILL HAPPEN?

Few are seriously suggesting that Brexit won't happen... but who leads the talks and what type of negotiations is now up in the air.

Whether the general election result was a mass rejection by voters of May's hard Brexit stance remains open to debate but the large youth vote was a surprise.

'Early indications suggest a turnout of 72% for 18 to 24 year olds,' points out Colin Morton of the Franklin UK equity team. 'All the evidence suggests young people were generally in favour of the UK remaining in the EU.'

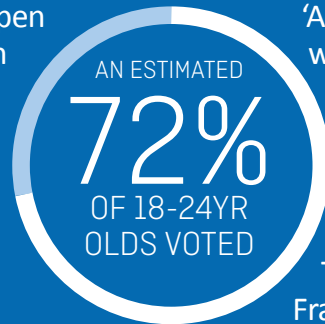
That may give Labour leader Jeremy Corbyn the wiggle room needed to keep protections for existing worker rights and tariff-free access to the EU single market within any deal – should Corbyn find a way to lead the country or a form of cross-party consensus emerges on EU negotiations.

'We see bigger risks of an economically disruptive no deal,' say analysts at the BlackRock Investment Institute, although that appears to be a doomsday scenario at this stage. A softer Brexit is seen as more likely.

'A Conservative-led government will most likely have to make compromises with other parties,' says Hetal Mehta, senior European economist at Legal & General Investment Management. That view is shared by Franklin's Colin Morton. 'Already

the language coming from the Conservatives has been toned down in terms of Brexit.'

Chris Darbyshire, chief investment officer at Seven Investment Management believes 'a soft, Norway-style Brexit represents the path of least resistance both for the British nation and for our biggest trading partner.' (SF)



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ALL THE EVIDENCE SUGGESTS YOUNG PEOPLE WERE GENERALLY IN FAVOUR OF THE UK REMAINING IN THE EU

WHAT DOES ELECTION MEAN FOR PENSIONS AND TAX?

The Conservative Party may find it harder to push through some of their proposals on the personal finance front, if they now require the co-operation of the DUP.

For example, the Tories want to switch the triple lock on state pensions to a double lock system. The former guarantees state pensions rise at the highest of average earnings, inflation or 2.5%. A double lock ditches the 2.5% factor.

The DUP manifesto includes a commitment to the triple lock, so that system seems likely to remain in place if the

DUP form an alliance with the Conservative Party.

Elsewhere, a question mark still hangs over various items that were originally included in the Conservative's finance bill, but which were put on hold when the snap election was called. This includes a reduction to the dividend tax allowance from £5,000 to £2,000. (DC)



HOW HAVE FUND AND WEALTH MANAGERS REACTED TO THE ELECTION RESULTS?

Noland Carter, head of Heartwood Investment Management, says within the UK equity market, 'our bias is towards larger companies, which have performed well over the last year and have benefited from the depreciation of sterling.'

'The scale of the imbalances of the UK economy – large current account and budget deficits – keeps us underweight in both sterling and UK government bonds on a duration basis.'

Ariel Bezalel, manager of **Jupiter Strategic Bond (GB00B2RBCS16)** remarked that UK bank debt features prominently in his portfolio. 'These banks are in good shape from a capital perspective, so are not a cause for worry,' he explains.

'Overall, the portfolio should not be too impacted by an extended period of political uncertainty.' Foreign currencies make up around 8% of the portfolio and 'their appreciation against the weaker pound, should help mitigate any temporary weakness we may see in our bank holdings.'

BENEFITS OF BROAD EXPOSURE

Close Brothers Asset Management's chief investment officer Nancy Curtin explains that 'times of uncertainty can create interesting stock specific opportunities as pockets of value often emerge'.

She adds: 'As multi asset class investors, our portfolios have broad exposure to global companies, many of which can continue to benefit from improved global growth and earnings expectations that have little to do with

UK politics.'

Meanwhile Mike Pinggera, manager of the **Sanlam Four Multi-Strategy Fund (IE00B8HRMZ88)**, points out that 25% of his fund is invested in real assets. 'We are invested for the longer term in the pillars of a functioning economy – education, transport, healthcare, energy and housing.'

MORE OPPORTUNITIES COULD SOON EMERGE

Pinggera points out that 'market moves over the next few weeks may throw up some good long-term opportunities, but to a large extent, this is a domestic issue for the UK'.

He says: 'We will look to see if there are opportunities to deploy some of our cash. However, while equity volatility remains low, we would rather participate in any future equity upside by owning options, where the downside is clearly controlled. The uncertainties have increased, particularly over the future of Brexit negotiations.'

Miton's David Jane sees some opportunities in the consumer services area, where expectations and valuations are low despite the leading indicators remaining strong.

'Here we favour the pub and restaurant groups. Similarly, we have a small holding in the housebuilders, where recent slower mortgage approvals and the election have caused prices to weaken short term. The currently low mortgage rates and wider availability of high loan to value offers mean the background for volume remains favourable.' (JC)

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MARKET MOVES OVER THE NEXT FEW WEEKS MAY THROW UP SOME GOOD LONG-TERM OPPORTUNITIES, BUT TO A LARGE EXTENT, THIS IS A DOMESTIC ISSUE FOR THE UK

Dixons Carphone ends US dash



Dixons Carphone (DC.) says it is selling its 50% stake in a joint venture with mobile network Sprint, citing a 'changing US mobile market landscape' for the move.

US expansion scope has been one investment attraction of the electricals and mobile phone retail titan, which inked its deal to open and run Sprint-branded stores in the US in July 2015.

Dixons Carphone will now concentrate on deploying its Honeybee software platform across the Sprint estate. (JC)

Merlin flags reduced demand for its UK attractions

Shares in Legoland operator **Merlin Entertainments (MERL)** are under pressure as terrorist attacks deter the public from travelling which has dampened trading at its UK attractions.

The company is confident the UK market will bounce back and reminds investors that more than 70% of its profit last year came from outside the UK.

Shares in Merlin are up 10% year to date, although they've been weak for much of June. (LMJ)



Ashtead results fail to impress

Full year results (13 June) from construction equipment rental firm **Ashtead (AHT)** failed to wake its share price out of its slumber as the company failed to include detailed comment on the new financial year.

Analysts couldn't find any reason to push through large earnings upgrades, perhaps another reason why the shares didn't move.

The stock has been hovering around the £15.50 to £16 mark since late 2016.

Stanley Gibbons goes under the hammer

'Comprehensively restructured' stamp dealer-to-rare coins auctioneer **Stanley Gibbons (SGI:AIM)** has appointed FinnCap to carry out a full strategic review which could lead to 'a sale of some or all of the group'. One interested party is Disruptive Capital Finance, chaired by former Boris Johnson adviser Edi Truell.

Disruptive is participating in the formal sale process for the philatelic and numismatic markets leader, battling back from the damage done by its previous board under chairman Harry Wilson. (JC)



What the Qatar crisis could mean for oil

Oil prices slump as Gulf states cut ties with neighbour and US output increases



Oil prices have remained constrained this year thanks to an ongoing surplus of supply driven by output from US shale producers. That's despite the efforts of oil producers' cartel OPEC in concert with other major oil producing nations in trying to put a cap on output.

There is now a twist to the story which could cause swings in the oil price – both down and up.

TROUBLE IN THE GULF AS US RAMPS UP

A diplomatic crisis in the Gulf could threaten oil quota agreements, according to traders.

Saudi Arabia, Bahrain, the United Arab Emirates, Egypt and Yemen have all cut ties with Qatar and enforced land and air blockades, ostensibly due to its support for its extremism but

perhaps more likely because of its ties to Iran.

Of the six members of the Gulf Co-operation Council (of which Qatar is ironically one), Kuwait and Oman remain on the sidelines for now – with Kuwait actively trying to broker a deal.

Some traders are worried that the Qatari crisis means OPEC won't stick to agreed oil production rates, which is potentially bad for the oil price.

At the same time, US crude stockpiles rose for the first time in nine weeks in the week ending 2 June, indicating that demand is not strong enough to balance with supply.

However, if the crisis escalates then oil prices could spike as focus shifts from the status of the OPEC production cuts, which were extended at a meeting in Vienna in late May,

to any impact on production from a ramping of geopolitical tensions in the world's major oil producing region.

This represents a difficult tightrope for investors. In a previous look at **BP (BP.)** and **Royal Dutch Shell (RDSB)** and their ability to sustain dividend payments, we highlighted

\$50 per barrel as the key threshold below which it becomes more difficult for both companies to balance the books.

UBS expects oil prices of
\$60
per barrel by year end

WHAT IS THE OUTLOOK FOR PRICES?

At the time of writing the European oil benchmark Brent was around the \$48 per barrel while its US counterpart West Texas Intermediate (WTI) was trading between \$45 and \$46 per barrel.

UBS analyst Jon Rigby comments: 'We have cut our price forecasts by \$4 to \$5 per barrel for 2017 to 2019. But if markets play out as we expect, inventories should reduce towards normal levels by the first quarter of 2018, implying to us oil prices of around \$60 per barrel by year end.'

'We think 2018 will likely stay at around those levels as US production surges and before reduced new conventional supply starts to be evident.' (TS)



BROADER EXPERTISE

BRIGHTER INVESTMENT IDEAS

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Janus Henderson Investors was born out of a shared belief in helping clients achieve their long-term financial goals. The combined company has the enhanced breadth of capabilities and distribution reach to serve clients better together, harnessing the intellectual capital of some of the industry's most innovative thinkers.

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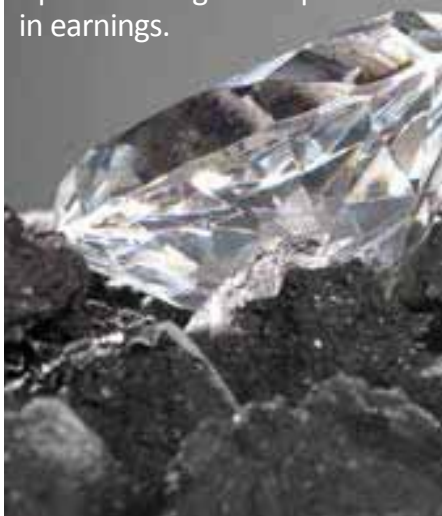
Shareholders
owning
18.4%
of Gem Diamonds
try to oust CEO



SHAREHOLDERS ACCOUNTING for nearly a fifth (18.4%) of shares in Gem Diamonds (GEMD) have voted against the re-election of Clifford Elphick as chief executive.

The opposition represented 26.9% of votes cast at the annual general meeting. Two other directors were also left with red faces with approximately one fifth of votes in favour of removing chief legal and commercial officer Glenn Turner and non-executive Gavin Beevers.

Shares in the miner hit an all-time low of 86.5p in April following a slump in earnings.



72 WPP NEEDS TO PLAN
FOR LIFE AFTER SORRELL

MARTIN SORRELL, THE founder and chief executive of advertising giant WPP (WPP), is now 72 years old, raising concerns about succession planning.

Whereas his level of remuneration (running into the tens of millions of pounds) is typically a bugbear for shareholders at WPP's AGMs, this year's meeting (7 June) triggered much debate on future leadership.

Standard Life Investments says: 'As another annual meeting passes, the time to address succession for the CEO shortens and the necessity to do so becomes more pressing.'



30% Shoe Zone's
sure-footed
digital steps



DISCOUNT FOOTWEAR SELLER Shoe Zone (SHOE:AIM) has grown online sales by 30% in the six months to 1 April. While mellow half year results (7 June) triggered earnings downgrades, Shoe Zone's multi-channel business is showing strong profitable growth. Revenue is on the rise through the Shoe Zone site and sales building on external platforms like Amazon and eBay.

46,595
AIM STOCKS
IN DEMAND

TRADING VOLUMES ON the AIM junior stock market exchange have almost doubled year-on-year. Data for April

showed the number of AIM shares traded daily averaged 46,595, with daily volumes jumping 98% year-on-year for AIM's 10 most traded companies. Online retail star ASOS (ASC:AIM) remains AIM's most popular stock with investors, chalking-up an average 118,300 shares traded each day through April 2017, more than 21% up on April 2016.

BOOHOO FOUNDER AND FAMILY CASH IN £80M OF STOCK



MAHMUD KAMANI, FOUNDER and joint CEO of **Boohoo.com (BOO:AIM)**, has sold circa £80m worth of stock in his fast-growing charge, offloading 36.6m shares at 220p-a-pop to institutions.

Selling shareholders Kamani and family members Rabia Kamani and Nurez Kamani still hold sway over 442.8m shares (38.6% of the company).

Coinciding with this news is the retailer also raising £50m through placing new shares. This money will fund a new mega warehouse to service its stellar growth rates.

TOOPLE HAS LOST THREE QUARTER OF ITS VALUE IN A YEAR

SHARES IN **TOOPLE (TOOP)** have fallen by 75% since the telecom services group floated on the stock market just over a year ago (10 May 2016).

The loss making business reported a 63% increase in revenue for the six months to 31 March. While that sounds impressive in percentage terms, it only amounted to an extra £252,112 which is peanuts for most firms on the stock market.

We warned on the eve of Toople's IPO that the firm looked incredibly over-valued given it had barely any customers.



BEST PERFORMING FTSE SMALL CAP STOCKS OVER PAST YEAR

Company	Share price gain
Cambian	142%
Fenner	117%
Hostelworld	95%
Dialight	94%
Kenmare Resources	87%
Jimmy Choo	87%
Porvair	77%
Wincanton	72%
Severfield	68%
Allianz Technology Trust	67%

Source: SharePad. Data 12m to 8 June 2017



WORST PERFORMING FTSE SMALL CAP STOCKS OVER PAST YEAR

Company	Share price loss
Circassia Pharmaceuticals	-66%
Game Digital	-62%
Lonmin	-60%
St Ives	-59%
Countrywide	-57%
Laura Ashley	-55%
CMC Markets	-54%
Topps Tiles	-45%
International Personal Finance	-45%
Laird	-45%

Source: SharePad. Data 12m to 8 June 2017

Ramsdens looks like a superb investment

Small cap offers a potent blend of growth, income and value as it enjoys good start to life on the stock market

Fancy the chance to buy a profitable, growing business quite cheaply and get a nice income on top?

If so, act now and buy shares in pawnbroker, jewellery retailer and currency exchange company **Ramsdens (RFX:AIM)**.

It has an undemanding equity rating, trading on a mere 11.3 times forecast earnings for the financial year to March 2018. That looks far too low given pre-tax profit is forecast to nearly double between 2016 and 2018.

You are also getting a prospective 4.6% dividend yield if buying today, based on Liberum's forecasts.

The broker has a 162p price target, implying 14% upside over the next 12 months. Add on the 4.6% dividend yield and you could potentially get nearly 19% total return in a year.

What's even more exciting is Liberum saying its forecasts have been conservatively pitched. We translate that as meaning Ramsdens' earnings estimates could easily be upgraded if it can show that trading remains healthy as the year progresses.

SURVIVED THE GOLD FALLOUT

The Middlesbrough-based company has its roots in the 1970s and chief executive Peter Kenyon says he has 'hardened battle scars from the last gold debacle'.

RAMSDENS

BUY

(RFX:AIM) 142p

Stop loss: 100p

Market value: £44m



Many pawnbrokers profited from the rapid rise in the value of gold between 2005 and 2012. They suffered from gold's subsequent collapse including major player Albemarle & Bond going into administration in 2014.

Volatile commodity prices are still a major risk to the industry. Just under one third of Ramsdens' revenue and approximately one fifth of gross profit came from precious metal sales in the year to 31 March 2017.

However, the struggles of rival businesses have played to Ramsdens' favour. Many competitors are now shrinking in size, leaving Ramsdens clear to grab market share organically and through opportunistic acquisitions.

For example, Cheque Centre is thought to have closed all its shops in December 2016 due to

regulatory changes. Ramsdens acquired four of that company's branches that month.

Its currency exchange business should also benefit from the scaling down of some competitors as they were also offering retail forex services. Currency-related business now accounts for c37% of its gross profit.

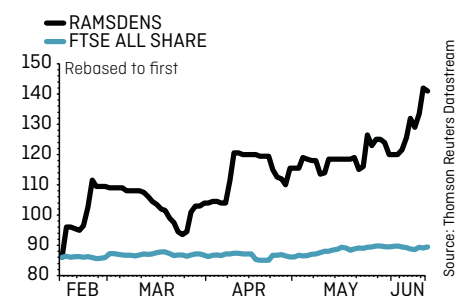
COMPANY IS EXCEEDING EXPECTATIONS

The latest set of full year results beat market expectations despite analysts having upgraded estimates in April.

This is a well-run company which has been through many business cycles. It is managing to get more customers through its doors and has a large opportunity to improve operational efficiencies.

A weakening economic backdrop should also play to its strengths as pawnbrokers typically see increased demand when times get tough. (DS)

BROKER SAYS: 1 0 0



Compass could keep your portfolio on track

Global catering play looks a solid share selection amid an uncertain political backdrop

At a time when the UK economic and political outlook is uncertain, investing in a big multi-national with a consistent track record of success is a sensible approach.

Catering giant **Compass (CPG)** fits the bill. The £27 billion cap operates in more than 50 countries, in more than 50,000 locations and employs more than 500,000 people.

Results for the six months to 31 March 2017 revealed accelerating growth, with organic expansion of 4.4% in its second quarter against 1.4% and 1.9% for global rivals Sodexo and Aramark respectively.

This level of growth is expected to be sustained through the remainder of the financial year.

GROWTH IS ACCELERATING

Sales for the half year came in at £11.6bn – up 20.3% year-on-year – and underlying earnings up 23% to £894m (both figures flattered by currency movements).

This implies a slightly improved margin of 7.6% driven by operating efficiencies and the conclusion of a restructuring programme in the same period of the previous year.

Free cash flow was up 26.8%

COMPASS

BUY

(CPG) £16.59

Stop loss: £13.27

Market cap: £27.4bn



More than half of sales come from North America

to £502m and this underpinned a better-than-expected special dividend of £1bn.

Compass, whose main business involves running canteens and cafeterias in workplaces, is the leading outfit in a £200bn food service market but still has just an 8% share. Its own analysis suggests 80% is in the hands of regional businesses or in-house providers. This should provide the running room for further steady growth.

The company benefits from economies of scale – mitigating the impact of volatility in food prices and allowing it to serve the needs of corporations with locations all over the globe.

Contracts typically run to three to five years and Compass derives ancillary revenue from

providing cleaning and building maintenance services.

DESERVES A PREMIUM RATING

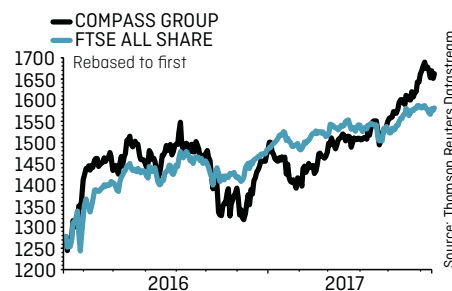
The shares are not cheap; however, it can be worth paying a premium for a solid business like Compass. It trades on 21.5 times forecast earnings for the financial year to September 2018.

Compass has achieved 16.7% average lease-adjusted return on capital employed over the past 10 years. Anything above 15% is deemed to be a high quality business.

German investment bank Berenberg comments: 'Compass's diversity – by both geography and industry – means that it has levers it can pull to maintain underlying growth and remain the winner in the market'.

The main risk is any kind of global slowdown where the company's diversified approach would not spare it the pain of corporate cuts. (TS)

BROKER SAYS: 9 16 1



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ELAND OIL & GAS

(ELA:AIM) 55p

Loss to date: 3.5%

Original entry point:

Buy at 57p, 27 April 2017

ALTHOUGH SHAREHOLDER DILUTION is never welcome, a \$19.5m share placing at Nigerian oil producer **Eland Oil & Gas (ELA:AIM)** (7 Jun) should at least keep its planned work programme on track.

This is underlined by news (13 Jun) a rig contract has subsequently been agreed for a side-track well on the Opuama-7 well.

This is a key element of a plan to lift production from 8,000 barrels of oil per day (bopd) to 25,000 bopd by the end of the year.

SHARES SAYS: ↗

Keep buying. (TS)

BROKER SAYS: 6 0 0



BLUEJAY MINING

(JAY:AIM) 15.15p

Gain to date: 10.2%

Original entry point:

Buy at 13.75p, 13 April 2017

NICKEL PRODUCER WESTERN Areas has sold its 18.8% stake in mineral sands explorer **Bluejay Mining (JAY:AIM)** to existing and new institutional investors.

Western Areas has backed the company for several years and is using the proceeds to support activities in Australia.

Broker SP Angel reports 'unusually strong demand' for the Bluejay stock from other investors during Western Areas' share sale. (DC)

IOMART

(IOM:AIM) 325.25p

Gain to date: 25.8%

Original entry point:

Buy at 258.5p, 23 June 2016

ANOTHER VALUABLE BOLT-ON acquisition (Dediserve in Ireland), organic growth momentum, super cash generation and a 90% jump in the dividend are key stand outs of another excellent trading year for **Iomart (IOM:AIM)**.

'Textbook delivery,' and 'cash machine' were among the remarks made by analysts and the company is comfortably on track to hit its £100m revenue and 40% EBITDA (earnings before interest, tax, depreciation and amortisation) margins by the end of the year to 31 March 2018 (EBITDA margin was 40.8% last year).

A dip in gross margins from 68% to 64% is most likely due to a modest fall off in consulting income and third-party cloud services supply (Amazon Web Services, for example) but we do not see this as a major concern.

SHARES SAYS: ↗

Still among best cloud plays on the UK market. (SF)

BROKER SAYS: 3 1 0

GB GROUP

(GBG:AIM) 384.75p

Gain to date: 52.1%

Original entry point:

Buy at 253p, 27 October 2016

THE IDENTITY VERIFICATION technology specialist went quickly through the growth gears in the second half of its financial year based on results to 31 March 2017. This followed a first six months blip (which we explained in our original feature). Performance overall was impressive for **GB Group (GBG:AIM)** on all metrics bar the top line, with profit and cash the stand outs.

ECKOH

(ECK:AIM) 48p

Gain to date: 23.1%

Original entry point:

Buy at 39p, 15 September 2016

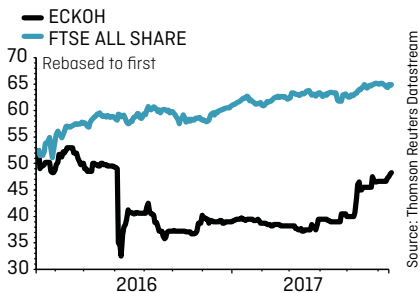
RESULTS FOR THE year to 31 March 2017 show the effects of cost over-runs from its now closed professional services arm and more rapid software-as-a-service (SaaS) take-up in the US.

The contact centre automation and secure payment solutions supplier has impressively bounced back, beating lowered expectations.

Growth will be aided by large emerging opportunities in the US, which surprisingly lags the UK and Europe when it comes on over-the-phone payments and call centre automation.

We expect the need for a PCI DSS (Payment Card Industry Data Security Standard) ratified solution among US businesses to play very strongly for **Eckoh (ECK:AIM)** and with limited need for further acquisitions, management can fully focus on business execution.

Interestingly, the average value of contracts won in the company's US payment business has risen five-fold since last year and analysts at Berenberg put its US target market at around \$1.5bn. More



SaaS contracts mean a slower pace of growth, although the recurring nature makes such revenues more sticky and predictable.

SHARES SAYS: ↗

We remain fans. (SF)

BROKER SAYS: 2 0 0



BURFORD CAPITAL

(BUR:AIM) 955p

Gain to date: 30.1%

Original entry point:

Buy at 734p, 9 March 2017

LITIGATION FINANCE PROVIDER **Burford Capital (BUR:AIM)** continues to prove a winning selection.

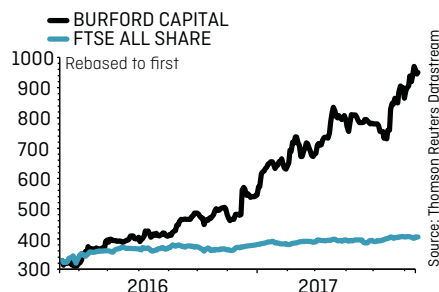
As a reminder, Burford is the leading operator in this niche space, providing funding for law suits in return for a share of any compensation award.

The limited visibility on earnings is mitigated by an excellent track record. The company does not have to wait until a case is decided to make money from the cases it is financing.

On 13 June the company reported the \$66m sale of a further 15% interest in *Petersen V Argentina*. The litigation concerns Spanish investment group Petersen which faced insolvency after the Argentine government summarily renationalised oil company YPF.

According to broker Liberum, the company's return on invested capital from this case to date, factoring in a previous sale of 10% of the case; is an eye-watering 489%.

It initially invested just \$18m and has since recouped \$106m for 25% of its stake. Liberum reckons it could get a windfall of more than \$1bn when the case concludes.



SHARES SAYS: ↗

We remain positive on the shares. Keep buying. (TS)

BROKER SAYS: 4 0 0



KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY

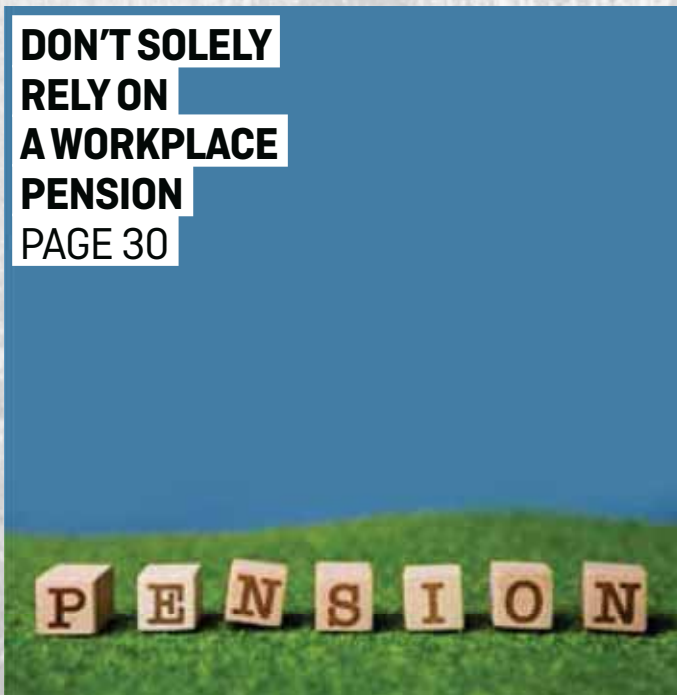
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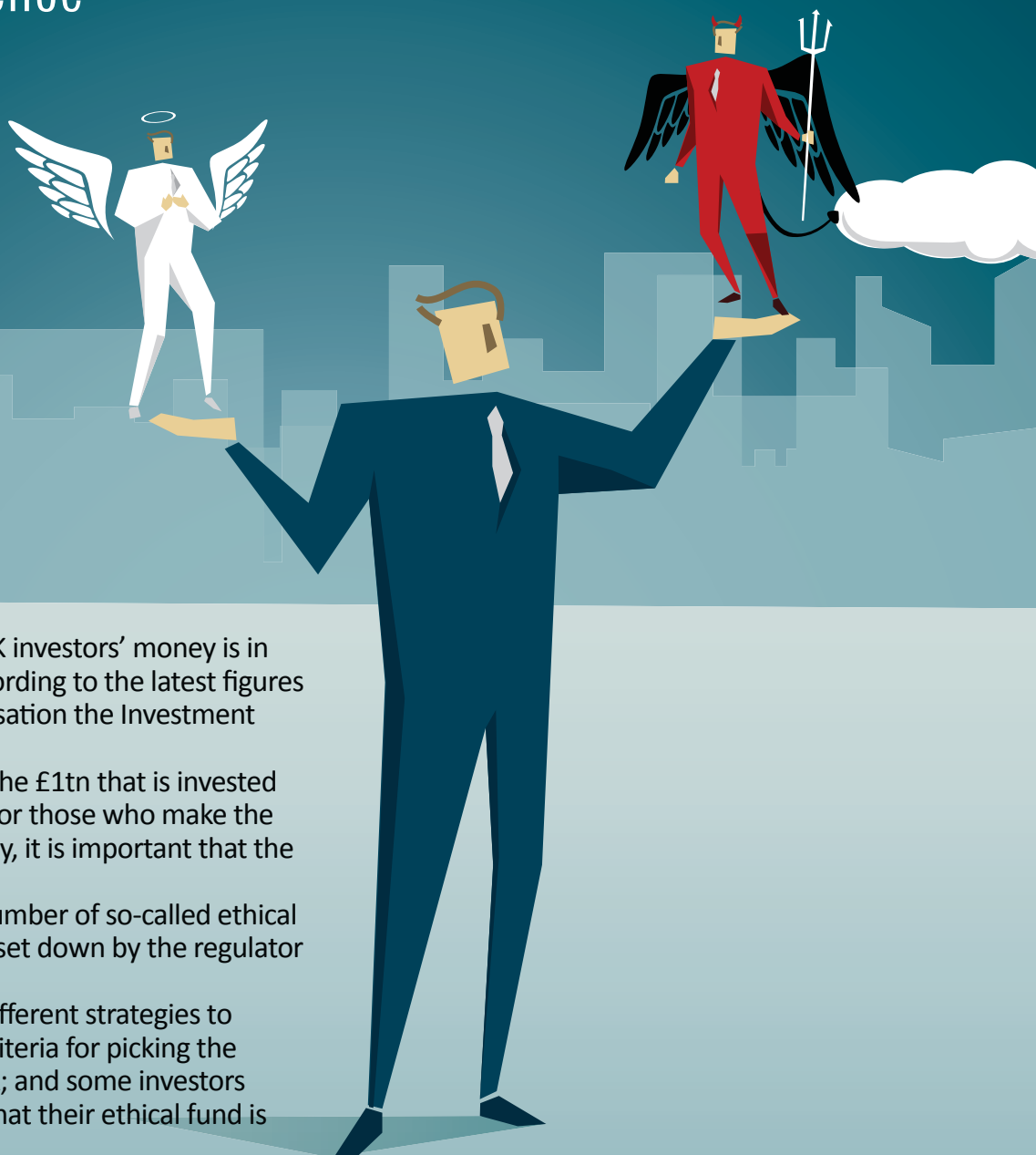


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HOW ETHICAL IS YOUR ETHICAL FUND?

You need to do your research if you want to invest with a conscience



Almost £13bn of UK investors' money is in ethical funds, according to the latest figures from trade organisation the Investment Association.

It's a tiny fragment of the £1tn that is invested in UK funds in total but, for those who make the decision to invest ethically, it is important that the money is used for good.

There are a growing number of so-called ethical funds and no strict rules set down by the regulator as to what defines one.

These funds all have different strategies to investing and different criteria for picking the companies they will back; and some investors may be very surprised what their ethical fund is investing in.

BEWARE NASTY SURPRISES

Caroline Shaw, head of asset management at Courtiers Wealth Management, says: 'Not all

ethical funds have the same ethical standards, and investors need to do some research to make sure that the fund they pick fits their own objectives.'

Ethical investors may not like the fact the biggest investment in the **L&G Ethical Trust (GB0009243824)** is telecoms group **Vodafone (VOD)** or that **AXA Ethical Distribution (GB0005297980)** invests in banking group **Barclays (BARC)**, for example.

Other investors might be uneasy to find their ethical fund backs oil giants such as **BP (BP.)** and **Royal Dutch Shell (RDSB)** or be shocked that some of the largest weightings in the FTSE4Good UK index include mining firms **BHP Billiton (BLT)** and **Anglo American (AAL)**.

Shaw says: 'This really shows the need to do your research and make sure you're happy with the approach to ethical investing a fund takes.'

HOW TO SEPARATE 'GOOD' FROM 'BAD' FIRMS

Traditionally ethical funds have used what is known as a 'negative screening criteria'. This means any companies engaged in specific areas of business – such as arms, tobacco or pornography – are automatically ruled out.

The funds with the strictest criteria are known as dark green funds. One of these is **Kames Ethical Equity (GB00B8HVNR99)**, which has been run by Audrey Ryan since 1999.

She says: 'I would argue our fund is quite traditional; we screen against 12 criteria including gambling, tobacco and alcohol. We are one of the strictest funds in the market and it won't suit everyone.'

Ryan likes housebuilders such as **Taylor Wimpey (TW.)** and growing e-commerce businesses such as car sale site **Auto Trader (AUTO)** and online property portal **Rightmove (RMV)**.

She surveys her investors every two years to find out what's important to them and to see whether any changes need to be made to the fund's criteria.

One area where there has been change is that UK retail banks such as **Lloyds (LLOY)** and challenger banks such as **OneSavingsBank (OSB)** are now allowed in the fund.

She says: 'It doesn't mean we have changed our thinking on banks but rather that these banks have changed their business model.'

GOOD BUSINESS... BUT POTENTIALLY CONTRIBUTING TO OBESITY

Even with such a strict fund there are grey areas.

Ryan invests in takeaway food delivery app **Just Eat (JE.)**; some investors might not want to back a business which profits from the sale of unhealthy food, which is contributing to rising national obesity.

Ryan says: 'While we are mindful of the incoming sugar tax, we don't have a specific obesity criteria. If I try to please everyone then the number of stocks I would be able to invest in would be very small.'

One of the major problems with ethical investing is that it is incredibly personal and it can be difficult to untangle a fund's criteria to work out how well it aligns with your own beliefs.

Two funds may both screen against alcohol but could do it in very different ways; one might just exclude firms which produce alcohol, while another

'IF I TRY TO PLEASE EVERYONE THEN THE NUMBER OF STOCKS I WOULD BE ABLE TO INVEST IN WOULD BE VERY SMALL'

could exclude any business which derives any revenue from the sale of alcohol.

Similarly, with animal testing, some funds may exclude any companies which engage in animal testing while others might not exclude pharmaceutical firms which must test on animals by law prior to introducing a drug to market.

And where some people may not want to invest in pharma giants because of animal testing, others would argue that these companies save lives by creating products to treat major diseases.

Analysis by Courtiers shows that fund groups including Kames, Old Mutual and Rathbones exclude all pharmaceutical companies because of animal testing, whereas groups such as BMO GAM and



Legal & General allow pharma firms but they don't allow other companies which use animal testing.

HOW DO YOU KNOW WHAT YOUR FUND IS INVESTING IN?

Even if you know what you are looking for in an ethical investment fund, it can be hard to fully find what's in it.

Catherine Howarth, chief executive at Share Action, says: 'It can be very difficult to find out what a fund is investing in – the industry is notoriously bad on transparency. But people need to check because some investors are horrified to find that they're not just invested in Shell, it's their biggest holding.'

WIDER CHOICE FOR INVESTORS

As this part of the industry has grown, so too has the variety of funds on offer.

Many funds now take a lighter approach to ethical investing, using a positive screening process instead. This means companies are not ruled out by what they do, but considered based on the progress they are making or some of the activities they are engaged in.

These funds are focused on what is known as ESG – environmental, social and governance factors. This is where companies are chosen based on commitment and improvement across

environmental, social and governance issues.

Shaw at Courtiers says: 'This can mean a fund includes companies which could surprise a traditional ethical investor. The BMO GAM Responsible Global Equity fund, for example, invests in Amazon.'

'I have no doubt Amazon is committed to improvement in ESG but many UK investors will have watched the *Panorama* feature on working conditions in its warehouses and might not feel it should be in their ethical portfolio.'

Some funds, meanwhile, use a 'best in class approach'. Rather than ruling out entire sectors such as oil and gas, they will try to pick the 'least worst' company in the sector to invest in to make sure the portfolio is diversified.

THE GENERATIONAL SHIFT

Howarth at Share Action says: 'There is a generation shift taking place which I think ethical funds need to do more about. In the 1980s ethical was about arms, porn and tobacco, but millennials are more interested in environmental issues and human rights. We are starting to see some funds catch up with this, but others don't seem to reflect this new generation's priorities.'

Chris Wright, manager of the **Premier Ethical (GB0004073002)** fund, uses a mixed approach, which incorporates negative screening as well as



looking for positive aspects.

He says: 'The positive criteria are always more difficult but we are trying to find companies that can make a positive difference.'

An industrial or engineering business, for example, might not be an obvious choice for an ethical fund; but if it is providing a service or product which helps to minimise waste of materials or to reduce emissions, for example, then that is clearly a good thing.

Elsewhere, Wright's team recently ruled out investing in a travel firm which they felt had acted unethically when a customer had an accident abroad.

He says: 'You can't make a specific criteria or screen for something like that but we think how you treat your customers is an important part of ethics and we would not invest in a company we thought had treated a customer unethically.'

INVESTING IN BONDS

Simon Bond is manager of **Threadneedle UK Social Bond (GB00BF233915)** fund, which invests in bonds issued by local authorities, charities and universities as well as listed companies. He says investing through bonds makes it easier to ensure the money he invests is being put to good use because it is often ring-fenced.

'When you buy company shares, you are trusting the company to spend its money wisely to do the right thing but money raised for bonds is often earmarked for a specific use so it's easier to see the evidence that it is doing some good in society.'

The bonds in the fund vary widely from those issued by not-for-profit organisations such as Motability, which provides finance for carers of disabled people so they can adapt their cars, to government organisations such as Transport For London.

'The money in that bond targets new transport infrastructure such as the cycle superhighway, more buses and ticket hall improvements – we would say anything that improves commuters' lives is doing good,' says Bond.

CAN YOU MAKE MONEY FROM ETHICAL FUNDS?

One of the main reasons to invest is to make money, and many investors might be concerned that ethical funds don't generate a decent return.

Ryan at Kames says: 'The strict criteria we use can mean we sometimes underperform, especially



'YOU DON'T NEED TO SACRIFICE INVESTMENT RETURNS TO ACHIEVE A SOCIAL AIM.'

when defensive stocks such as pharmaceutical or tobacco companies are doing well and we cannot invest in those.

'We can't please everyone; all we can do is to explain what we are looking to achieve as well as we can.'

HOW DOES THE PERFORMANCE STACK UP?

Over the past year, the Kames Ethical Equity fund has returned 9.5% compared to an average return in the UK All Companies sector of 21.2%.

But over five years the fund has outperformed with a return of 98.5% compared to a sector average of 85.6%.

The Premier Ethical fund has returned a hefty 136.1% over that five year period, but it too has underperformed the sector average over the past 12 months with a return of 18.4%.

The Threadneedle Social Bond fund has returned 8% over the past year, compared to an average return in the Sterling Corporate Bond sector of 9.4%. Over three years it has returned 21.1% compared to a sector average of 19.2%.

Bond concludes: 'You don't need to sacrifice returns to achieve a social aim. This is an investment, not philanthropy, so investors should expect the sort of return you would expect from any other corporate bond fund. The bonus is that you also know that the money is going to good causes.' (HB)

Is Somero on the brink of a profit warning?

We probe management in an exclusive interview following troublesome trading update

Concrete levelling specialist **Somero Enterprises (SOM:AIM)** is the second best performing stock on the AIM market over the past five years, rising by 1,430% in value according to data from SharePad.

Shareholders have been happy people for a long time... until now.

A disappointing trading update on 5 June has set the tone for a potential profit warning later this year, in our opinion. Trading has been pedestrian in its core North American territory and growth has been harder to achieve in one of its hottest prospects, being China.

The company remains hopeful it will meet earnings forecasts for the year. We are nervous, having interviewed management following the trading update.

WHAT SHOULD INVESTORS DO?

Investors must now decide whether to take profit and sit on the side lines should trading not improve near-term. The alternative is to stay invested and use any share price weakness to buy more shares at a cheaper price, with an eye on the longer-term picture.

We're not fans of trying to time the market. If you believe a company has good long-term prospects, the best strategy is to stay invested and stomach any



setbacks assuming they are only temporary.

You only need to think about selling your shares if the setbacks point to something more serious which can't be fixed quickly.

We believe Somero shareholders should not panic sell, but caveat that it could be a choppy few months ahead for the share price.

SURVIVED MANY PAINS BEFORE

The business is 30 years old, makes 50% gross margins and has been through plenty of good and bad market conditions. We take comfort in its superb track record of generating value for

shareholders. Its average lease-adjusted return on capital employed is 18.5% over the past decade. Anything above 15% is a high quality firm, in our opinion.

Somero has no debt and is cash rich which means it can keep reinvesting money back in the business for product innovation and to boost sales and marketing capacity. Such qualities are rare at the junior end of the stock market.

WHAT'S BEHIND THE RECENT BAD NEWS?

The company believes the North American problems are temporary and chief executive Jack Cooney says he is perplexed as to why trading in China is 'slow'. He says management will

SOMERO HAS NO DEBT AND IS CASH RICH WHICH MEANS IT CAN KEEP REINVESTING MONEY BACK IN THE BUSINESS FOR PRODUCT INNOVATION AND TO BOOST SALES AND MARKETING CAPACITY. SUCH QUALITIES ARE RARE AT THE JUNIOR END OF THE STOCK MARKET.

spend more time in the country to find out what's holding back the expected growth.

China is still a small part of Somero's business, whereas North America provides just over 70% of group earnings.

For the latter territory, the company has blamed bad weather for delaying projects and political uncertainty for holding back earnings growth during the first half of 2017. These are both temporary issues, in our opinion, and not reason to think its business model is weakening.

Cooney says Somero's concrete levelling equipment is only needed once a property development project is mobilised, so its kit isn't ordered if the construction workers can't do their job because of bad weather.

'Heavy rain has been going on for months in North America and it is still raining very heavily in Florida,' he comments. 'We don't think our earnings forecasts will have to be downgraded as customers say they have a backlog of work through to 2018.'

STOP-START LANDSCAPE

As for political uncertainty, property owners and developers

paused projects around the time of the November 2016 US election and work has been stop-start ever since, according to chief financial officer John Yuncza.

'The pace of work is up and down. It is hard to tell on a month by month basis,' adds Cooney. 'Everybody in the (US) construction industry is seeing one month up, one month down. The result is flatness. We can't say if conditions have improved until there has been at least two consecutive "up" months.'

UNDERSTANDING ITS CHINESE POSITION

In China, there is greater competition for basic equipment to level a layer of concrete on the floor. We're encouraged by Somero saying earlier in June that it has enjoyed 'early traction' with its entry-level kit.

Importantly, Somero has a market advantage by also offering equipment for more sophisticated jobs where the client has certain specifications. Chinese rivals don't have this type of equipment, claims Somero's CEO.

'The Chinese guys aren't laser specialists like us. They don't know how to lay down concrete;

they are just equipment manufacturers. We're experts and we have 24 hour support if a customer needs help. We also have a translation system which can talk in 65 different languages. We can have a certified engineer on the phone to anyone in the world within 10 minutes,' says Cooney.

This service capability gives Somero an important edge. Speed is vital when you're dealing with concrete as it sets in an hour and is very expensive to move once set. Therefore problems need to be fixed quickly.

SUCCESS IN OTHER PLACES

The company remains upbeat about its prospects and is introducing new innovative products to cross-sell to existing clients and use as a way to reel in new clients. European growth is going well, so too Australia, India and Korea, says Cooney.

The shares fell 8.3% to 285p following the recent trading update but have since recovered to 292p. The stock now trades on 13.5 times FinnCap's forecast 27.4c (21.7p) earnings per share in 2017. Existing shareholders should sit tight. (DC)

Don't solely rely on a workplace pension

Investing in ISAs and/or SIPPs is essential if you want a comfortable retirement

The introduction of auto-enrolment has ensured that everyone who works for an employer can benefit from their company's pension scheme. Unfortunately, the amount of money put aside is unlikely to be sufficient to meet many people's retirement goals.

If you want to enjoy your retirement – particularly if you have dreams of travelling or taking up new hobbies – you'll need to invest additional money each month to fund a decent lifestyle.

WHY ISN'T A WORKPLACE PENSION SUFFICIENT?

Auto-enrolment makes it compulsory for employers to automatically enrol their workers into a pension scheme.

It's a welcome development because it ensures employees don't miss out on valuable pension benefits. The problem is that current contribution levels are very low.

Under government rules, your employer presently has to pay a minimum of 1% of your 'qualifying earnings' and you pay 0.8%.

The government adds tax relief of 0.2%, meaning the total contribution is 2%.

Qualifying earnings are how much you earn (before income tax and National Insurance contributions are deducted) that falls between a lower and upper earnings limit set by the government. At the moment the range is £5,876 to £45,000.

The first £5,876 of earnings isn't included in the calculation to determine auto-enrolment contributions.

Let's say your salary is £24,000. Your qualifying earnings would therefore be £18,124 and the total amount paid into your pension each year would be £362.48, or £30.21 a month.

The minimum total contribution levels are due to increase to a total of 5% in April 2018 and then 8% in April 2019.

Fiona Tait, technical director at retirement planning adviser Intelligent Pensions, says these minimums are unlikely to be enough to provide anything approaching the level of pre-retirement income needed.

Steve Webb, director of policy at pensions company Royal London, recommends taking full advantage of any 'matching' contribution by an employer.

'If your employer will put in an extra pound (or more) for each pound you contribute, that is a rate of return you would struggle to get in any other investment,' he says.

Emma Welling, employee benefits consultant at financial services group Mattioli Woods,



suggests employees analyse their workplace pension and ensure they don't just remain in the default fund. Default funds tend to be comprised of 'safe' investments which might not grow your money sufficiently.

HOW MUCH DO I NEED IN RETIREMENT?

What constitutes a good retirement income will depend on your individual circumstances, such as your mortgage payments and day-to-day living costs.

Tom Selby, senior analyst at AJ Bell, says a reasonable benchmark is around 70% of current earnings. So someone earning £40,000 might target an annual pension of around £28,000.

'With the flat-rate state pension providing around £8,000 of retirement income, the remaining £20,000 would need to come from their private savings. To put that in context, it could cost a healthy 65 year-old over £600,000 to buy a guaranteed inflation-linked income of £20,000 a year through an annuity,' says Selby.

HOW DO I START?

The first step is to work out how much income your workplace pension is likely to generate in retirement. You can usually find this out by looking at the annual statement from your pension provider.

The idea of saving over £600,000 by the time you're 65 is intimidating, but it's important to

remember that many people are choosing to retire later or work part-time to supplement their retirement income.

In addition, you might decide to keep your retirement pot invested beyond age 65 and look to benefit from extra stock market growth.

'Given the continuing rise in life expectancies, the reality is that someone aged 65 could well have an investment time horizon of 30 years plus,' says Selby. 'This is a significant period of time in investing terms, although clearly their appetite for risk will depend on their other assets and income sources, and if they are drawing an income from their pension.'

Ideally, you should start saving early so you can benefit from compound investment growth.

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RETIREMENT INCOME.



PENSION

WHICH TAX WRAPPER TO USE?

There are lots of different tax wrappers you could consider using alongside your work-place pension.

A self-invested personal pension (SIPP) is a form of pension that lets you take control of your investments yet still benefit from government tax relief.

ISAs enable you to make tax-free withdrawals at any age, which is appealing if you think you might need to access some of your money before retirement.

The Lifetime ISA, which launched this year, includes a 25% government bonus payment on up to £4,000 of savings a year.

Webb at Royal London says the biggest mistake would be to leave your money in a cash ISA. Headline interest rates are close to zero and with inflation running at 2-3%, your money would lose real spending power year.



WHICH INVESTMENTS SHOULD I CONSIDER?

Before picking investments you need to decide what investment risk you're willing to take. This will depend on your investment time horizon and personal circumstances.

Alex Brown, wealth management director at Mattioli Woods, says if you have 20 years until retirement you could opt for higher-risk investments like equities. This is because you have time to weather any market volatility.

As you get closer to retirement you'll need to think about which retirement income strategy to use, for example income drawdown or an annuity.

'For some investors this may mean completely de-risking towards cash and other low-risk investments.

For others it may mean remaining in equities but altering the portfolio to one which is tailored to their individual circumstances and need for cash and income in retirement,' explains Tait at Intelligent Pensions. (EP)



LIFETIME ISA – THE KEY FACTS

Lifetime ISAs can be opened by people aged over 18 and younger than 40. You can either have a stocks and shares version or a cash version.

You can invest up to £4,000 in a Lifetime ISA each year as a lump sum or in chunks. The government pays a 25% bonus on your savings. The bonus is paid every year until you hit age 50. The bonus is paid on contributions, not interest or stocks and shares growth/loss.

The wrapper allows tax-free withdrawals without penalty at any age for the purchase of your first home or if you become terminally ill.

For all other situations, you cannot access the money until you reach age 60 unless you pay a 25% penalty.

WORKPLACE PENSIONS – MINIMUM CONTRIBUTIONS

Your employer pays:	You pay:	The government adds tax relief of:	Total contribution
1.0% of your qualifying earnings until 6 April 2018, rising to 2.0% until 6 April 2019, then rising to 3.0%	0.8% of your qualifying earnings until 6 April 2018, rising to 2.4% until 6 April 2019, then rising to 4.0%	0.2% of your qualifying earnings until 6 April 2018, rising to 0.6% until 6 April 2019, then rising to 1.0%	2.0% of your qualifying earnings until 6 April 2018, rising to 5.0% until 6 April 2019, then rising to 8.0%

Source: Pensions Advisory Service



SHARES

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Wednesday 21 June 2017

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Companies presenting

Berkeley Energia Limited (BKY)
Paul Atherley, Managing Director

Berkeley Energia is a high impact, clean energy company focused on bringing its wholly owned Salamanca project into production. Initial construction began earlier last year and will continue throughout 2017.

This world class uranium project is being developed in an historic mining area in western Spain, about three hours west of Madrid. Following recent ministerial approval, the company has now received all the European Union and National level approvals required for the initial development.

Diurnal (DNL)
Martin Whitaker, Chief Executive Officer

Diurnal was founded in 2004. It is a UK-based specialty pharma company developing high quality products for the global market for the life-long treatment of chronic endocrine conditions, including Congenital Adrenal Hyperplasia and Adrenal Insufficiency. Its expertise and innovative research activities focus on circadian-based endocrinology to yield novel product candidates in the rare and chronic endocrine disease arena.

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Do fewer holdings result in higher risk?

Concentrated portfolios prove managers are prepared to put their necks on the line



Diversification is the goal of funds with a large number of stocks in their portfolios. Yet be aware that the more diverse the portfolio, the closer to the benchmark index a fund tends to trade and the less the stock picking skills of the manager can be expressed.

Last year, research from the Association of Investment Companies (AIC), looking at investment companies in the equity sectors only, found that a third of these companies have 50 or fewer companies in their portfolios; 57 out of 174 companies.

As the AIC's communications director Annabel Brodie-Smith remarked: 'It's interesting that a third of equity investment companies have a concentrated portfolio. Clearly, these managers are taking high conviction decisions on their portfolios.'

'However, the investment company sector has always offered a wide variety of choice for investors. Some investors will be looking for investment companies with a higher number of holdings, arguing that it gives them a more diversified portfolio. When it comes to performance there's no hard and fast rules on which is better, and it very much comes down to manager style and what investors want.'

BETTING BIG

Nick Train of **Finsbury Growth & Income Trust (FGT)** says: 'Clients want professional investors to beat the index and you really can't do that without taking risk.'

'There are many different types of risk an investor can take. The type of risk that works best for us is to create highly concentrated portfolios, made up of big holdings in what we analyse to be very low risk/high quality companies.'

'The theory is that – if we get it right – the gains from a winning share are disproportionately great, because we have a big position size. Meanwhile – if we make a mistake with our timing and buy a share that goes nowhere for a period – at least we own a piece of something reliable that ought to come good eventually.'

Gary Channon, who manages **Aurora Investment Trust (ARR)**, adds: 'What we found was that lower concentration reduces the volatility of the fund but also reduces the long-term returns of our strategy. We concluded that lower returns were not a price worth paying for lower volatility.'

Other concentrated investment companies include **British Empire Trust (BTEM)**, a focused book of investments in companies trading at a discount to underlying net asset value and the small cap focused **Strategic**

Equity Capital (SEC) with just 17 holdings as at 31 March.

Other concentrated portfolios include **Prospect Japan (PJF)**, **Lindsell Train (LTI)** and **Martin Currie Asia Unconstrained Trust (MCP)**. The latter's portfolio of 28 holdings makes it the most concentrated in the AIC Asia ex-Japan sector.

PHOENIX FROM THE FLAMES

Phoenix Asset Management-run Aurora is an extremely concentrated portfolio. It seeks to achieve long-term returns by investing in a portfolio of between 12-20 equities using a value-based philosophy inspired by legendary investors Warren Buffett, Charlie Munger, Benjamin Graham and Philip Fisher, the author of *Common Stocks and Uncommon Profits* who popularised 'scuttlebutt', or primary research using a range of sources.

Aurora invests in high quality businesses run by honest and competent management purchased at prices that, even with low expectations, 'will deliver excellent returns.'

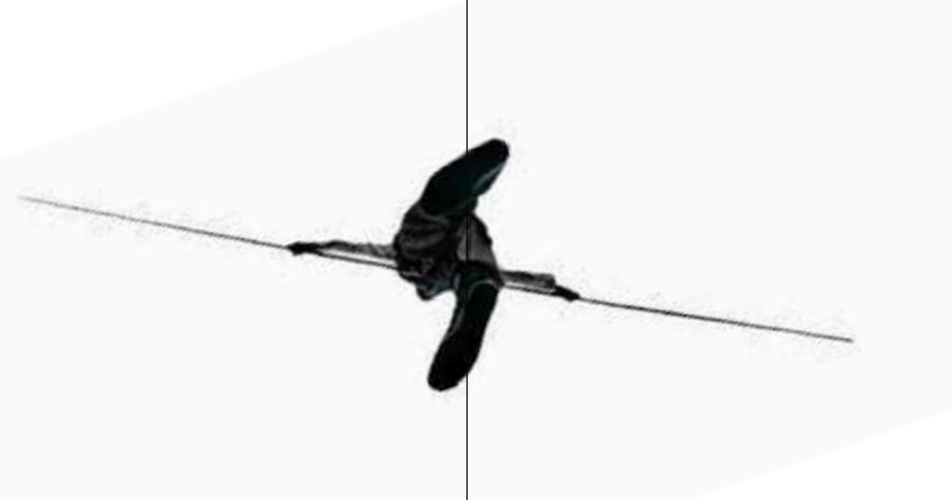
In short, Aurora looks for great businesses when they are cheap, usually because they are having short term issues; if its research is correct these companies should recover and deliver high returns.

Phoenix's contrarian value approach is reflected in the fact that a stock will never be purchased at a price above the team's estimate of the company's 'intrinsic value' under the worst feasible outcome.

'We are value investors but we're not deep value investors,' explains Phoenix director

Tristan Chapple, an exponent of scuttlebutt. 'We want really high quality, but cheap, so companies trading at 50% of what they are worth or less. We are often looking in areas of distress. And we are looking at businesses that make at least a 15% return on capital,' says Chapple. 'That is incredibly rare.'

He adds: 'Our secret sauce, if there is one, is the research we do.' The trust's managers carry out exhaustive reading on the businesses they are looking at;



visiting them, their competitors and suppliers. 'We don't think we can know more than 12-20 businesses,' says Chapple, whose view is that risk management is done by knowledge, not diversification.

One unloved share Aurora owns is **Sports Direct International (SPD)**, Mike Ashley's sporting goods retail giant. 'We've got to know the business really well. It has 50% of the UK market, the best retail management team we've come across and it is cheaper than the competition. We've visited almost every country in Europe in which they operate – it enables us to understand why

Sports Direct is winning,' says Chapple.

INNOVATIVE OPTION

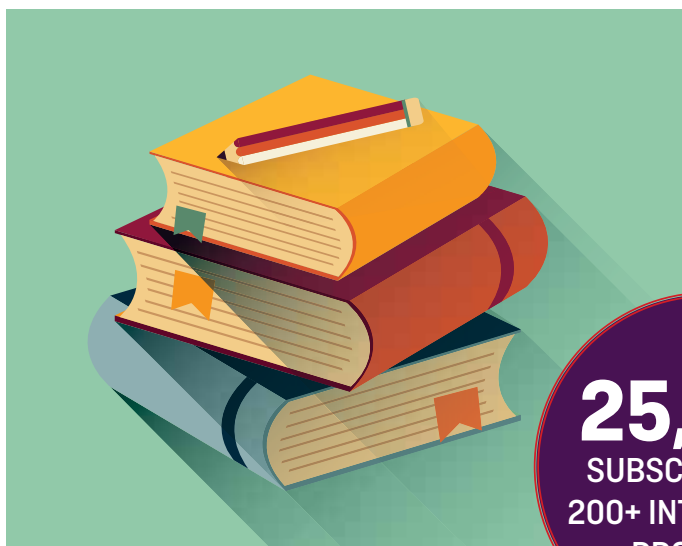
An interesting option in the open-ended funds arena is the **Guinness Global Innovators Fund (IE00BQXX3K83)**. It has a concentrated portfolio of 30 large and medium-sized companies in any industry and in any region. Managed by Ian Mortimer and Matthew Page, the fund provides global exposure to companies

benefiting from innovations in technology, communication, globalisation or innovative management strategies and has a strict value discipline to avoid over-hyped stocks.

'We like asset light companies that can build and grow from their own operating cash flow,' says Page. 'And we want companies that generate a return on capital above their cost of capital.' Companies that currently pass muster with the managers' stringent criteria include Paypal, Google's parent Alphabet and AAC Technologies, a Chinese acoustic component manufacturer for smartphones. (JC)

Get clued up on Informa

FTSE100 events and information business looks an interesting investment proposition



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F TSE 100 media firm **Informa (INF)** is worth checking out ahead of an event today (15 Jun) when the company will provide an in-depth explanation of its business to analysts and institutional investors. This could stir up more interest in the shares.

A first quarter trading update at the end of May was solid rather than spectacular. The company reported a strong performance for its Exhibitions and Business Intelligence divisions (running events and digital subscription products respectively) but was more downbeat on the Knowledge & Networks and Academic Publishing businesses.

Overall chief executive Stephen Carter signalled the company was on track for a fourth consecutive year of growth in revenue, earnings and cash flow.

HOW DOES THE VALUATION STACK UP?

Although it is a multi-national group with offices in more than 40 countries and upwards of 7,500 staff, Informa falls into the category of lesser known FTSE 100 firms. Broadly it can be placed in the same category as **RELX (REL)** and **UBM (UBM)**, offering a mix of events and professional information services.

At 14.4 times forecast 2017 earnings per share it trades in line with UBM on a price-to-earnings (PE) ratio of 14.3 times, but lower than RELX which trades on 20.8 times 2017 forecast earnings.

Informa also offers the attraction of a 3% prospective yield.

Formed through the merger of IBC Group and LLP Group in 1998, the company has expanded rapidly in the intervening two decades through acquisitions. It agreed to buy Penton Information Services for £1.2bn in September last year, and successfully fought off takeover attempts by UBM and a private equity consortium in 2008.

Its most enduring brand is *Lloyd's List*, now a digital-only product covering the shipping industry which has been in existence in some form since 1734.

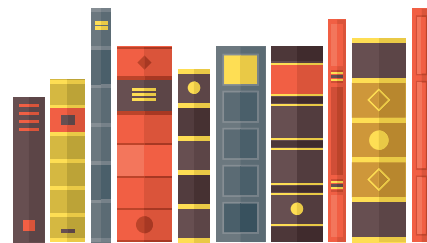
Just under half of the company's revenue is derived from the events space. We like events businesses

because they are typically cash generative, have solid visibility with plenty of recurring revenue and, for the right events, the barriers to entry for competitors can be significant.

WHAT ARE THE RISKS?

Like **Pearson (PSON)**, Informa has experienced weaker demand for physical academic text books and plans to divest its Garland Science publishing house targeted at undergraduates.

In 2016, 43% of the company's revenue came from the US so its earnings are sensitive to the performance of the dollar against sterling. The 2016 results also saw significant adjustments to profit, reflecting in part the acquisition of Penton.



SHARES SAYS: ↗

We like Informa as an investment. Stockbroker Panmure Gordon has a price target of 875p implying nearly 30% upside at the current 680p. (TS)

BROKER SAYS: 13 6 0

INVESTMENT FACTS.

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Walker Greenbank's walking tall

Core business recovery and Clarke & Clarke deal offer positive catalysts

Luxury interior furnishings play **Walker Greenbank (WGB:AIM)** is well placed for healthy profit growth in the years ahead.

Growing overseas earnings and the absence of flood distractions which previously hurt the business leave the £143m cap on course for a much improved year.

Performance in the year to January 2017 was hindered by the knock-on effects of December 2015's flood at Walker's Standfast & Barracks fabric printing factory.

Yet the outfit behind brands including *Sanderson, Morris & Co, Harlequin* and *Zoffany* still grew adjusted pre-tax profit by 16.9% to £10.4m. Encouragingly, the fabric printing factory is now back in full production and the core business is reverting to growth.

Walker's profit prospects have been materially enhanced by the October acquisition of Clarke & Clarke. This fabrics and wall-coverings business

extends Walker's reach in the US, its second biggest market, and boosts the cash-generative company's dividend paying capacity.

The new financial year has started positively with brand sales on an improving trend and global licensing income set to benefit from new agreements signed in the US and China.

For the year to January 2018, Edison Investment Research forecasts a jump in normalised pre-tax profit to £14.3m (2017: £10.4m) for earnings of 16.1p (2016: 12.9p). For the year to January 2019, Edison looks for £15.2m pre-tax profit and earnings of 17p.

SHARES SAYS: ↗

We're positive on Walker Greenbank at 203.6p given the scope for earnings growth underpinned by strong brands and rapid global licensing income. (JC)

BROKER SAYS: **3** **0** **0**

Tribal passes repairs stage

TRIBAL (TRB:AIM) IS making the switch from restructuring to a business execution phase. It is paying £1.25m for intellectual property for the Wambiz private social network, to be tied in to its new student information framework.

Tribal provides student management systems and inspection services to higher education, further education, schools and training providers in the UK and internationally. (SF)

Quick-fire success for Sopheon

MICRO CAP SOPHEON (SPE:AIM) has secured two-thirds of its targeted \$26m revenue for the year to 31 December 2017, with just over six months still to run.

The product development and lifecycle management software supplier has confirmed \$17.5m worth of revenue.

Sopheon is also aggressively widening its target market into chemicals, consumer goods and food and drinks, with insurance and automotive being investigated. (SF)

Seplat surges as oil flows

INDIGENOUS NIGERIAN OIL producer **Seplat (SEPL)** is riding high as it recovers lost crude output after force majeure is lifted on the Forcados export terminal in the country. The company announced on 7 June that as a result it was able to successfully reinstate production from its fields to a level of 56,000 barrels of oil equivalent per day. The shares gained nearly 40% to 107.5p in response. (TS)

FRIDAY 16 JUNE

FINALS

RECORD REC

TRADING STATEMENTS

TESCO TSCO

AGMS

ERGOMED ERGO

GULF KEYSTONE

PETROLEUM GKP

MONDAY 19 JUNE

INTERIMS

CARETECH CTH

AGMS

GLOBALWORTH REAL

ESTATE INVESTMENTS GWI

RASMALA RMA

ECONOMICS

UK

RIGHTMOVE HPI

CBI INDUSTRIAL ORDER EXPECTATIONS

TUESDAY 20 JUNE

AGMS

21ST CENTURY

TECHNOLOGIES C21

COCA-COLA HBC CCH

EVRAZ EVR

FAROE PETROLEUM FPM

MARWYN VALUE

INVESTORS MVI

WEDNESDAY 21 JUNE

AGMS

BLACKSTONE/GSO

LOAN FINANCING BGLF

ST PETER PORT

CAPITAL SPPC

THIRD POINT

OFFSHORE INVESTORS TPOU

TARSUS TRS

UK COMMERCIAL

PROPERTY TRUST UKCM

XEROS TECHNOLOGY XSG

THURSDAY 22 JUNE

AGMS

ADGORITHMES ADGO

ECSC ECSC

NEPTUNE-CALCULUS

INCOME AND

GROWTH VCT NEP

PETROPAVLOVSK POG

SAGA SAGA

SENTERRA ENERGY SEN

UNIVERSE UNG

EX-DIVIDEND

JD SPORTS FASHION JD. 1.3P

MORSES CLUB MCL 4.3P

ORCHARD FUNDING ORCH 1P

SPRUE AEGIS SPRP 5.5P

TEX HOLDINGS TXH 6P

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TESCO

A first quarter trading update (16 Jun) from Tesco (TSCO) gives investors an opportunity to assess CEO Dave Lewis' turnaround. The grocery titan's full year results (12 Apr) revealed UK like-for-like sales up 0.9%, the first reported annual growth for seven years. Tesco, whose takeover of food wholesaler Booker (BOK) is being debated by the competition authority, appears to be on a firmer footing. However the rapid grocery share gains being achieved by Aldi and Lidl, as flagged by the latest Kantar Worldpanel (31 May) data, is cause for concern.



CHEMRING

Defence company Chemring (CHG) is posting its interim results on 22 June and investors will be hoping that this military technology provider can keep its momentum going since posting strong results in January.

The firm posted a whopping 45% increase in underlying earnings per share for the year ending 31 October 2016 and investors will be hoping that US president Donald Trump's plans for increased military spend secure the approval of Congress as it's a key market for Chemring.



CARETECH

Social care services provider CareTech (CTH:AIM) has had a strong share price run this year, having bounced back from weakness in March as the company underwent fee discussions with local authorities.

On 19 June, the company will report half-year results that should reveal if its plan to hike fees to cover higher living wage costs can be implemented and if its acquisitions are driving sales growth.

SMALLER ASSET MANAGERS *are looking attractive*

WE LOOK AT THREE COMPANIES ENJOYING CONSIDERABLE SUCCESS ON THE STOCK MARKET.

Several of the market's smaller asset managers have been having a great year on the stock market, putting the spotlight on the companies that run funds rather than individual funds themselves.

Investing in asset managers has definite risks, as investor sentiment can change quickly and the barrage of regulation can increase the costs of doing business.

However, investors are clearly finding something positive in the sector at present, so let's take a look at three relevant stocks on the UK market.



Liontrust Asset Management (LIO)

Share price gain year to date: 17.1%

Latest share price: 453.3p

THE FIRM'S CHIEF, John Ions, says the key to an asset manager's success is delivering a 'clearly articulated strategy'.

The boss also points to the importance of his fund managers having 'skin in the game' (personal money in the funds they manage). 'If there is a culture of fund managers investing in the funds they run, it shows a belief in and a commitment to their investment processes and fellow investors.'

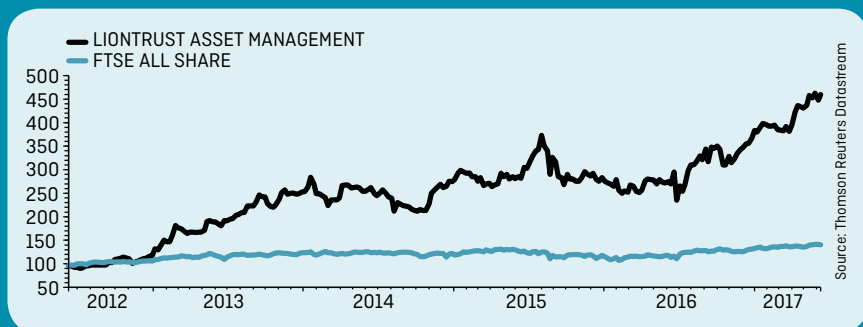
Liontrust's assets under management (AUM) grew by 36% to £6.5bn for the year to 31 March 2017. A further £2.5bn AUM was automatically added on 1 April when Liontrust completed a deal to buy Alliance Trust Investments.

Ions says 96% of the company's actively-managed unit trust funds by AUM have outperformed their benchmark since launch, objective change or fund manager inception.

The company launched in 1995 and has been listed on the UK stock market since 1999. It now has 28 funds covering a broad range of themes including income,

growth, special situations, ethical and smaller companies.

N+1 Singer says Liontrust's most recent full year performance was £0.3bn better than expected, in AUM terms. It forecasts adjusted pre-tax profit moving from £14.6m in 2016 to hit £16.6m in 2017 and £24.9m in 2018. Full year results are expected to be published later in June.





Polar Capital (POLR:AIM)

Share price gain year to date: 48.6%

Latest share price: 445.75p

Polar Capital's increased breadth of funds, combined with the positive fund performance, should provide more stability and a lower business and financial risk profile going forward, says Canaccord Genuity.

Asset manager Polar Capital in April reported its second consecutive quarter of net inflows and a 27% rise in AUM to £9.3bn for the 12 months to 31 March 2017.

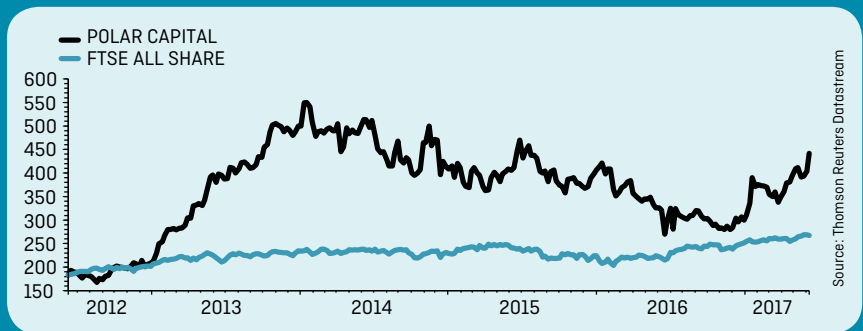
'A number of (Polar's) funds have seen considerable levels of net inflows throughout the year, in particular Technology, Healthcare and

Insurance, resulting in a marked improvement in the diversification of the group's AUM compared to recent years,' adds Canaccord.

We would also add in the success of its **Polar Capital UK Value Opportunities Fund (IE00BD81XX91)** which amassed c£170m of assets

under management in just two months since launching in January 2017.

A key risk to the investment case is the dividend where Polar guides for 25p per share in 2017 and 2018. Canaccord says the payment is greater than its forecast earnings per share.



Impax Asset Management (IPX:AIM)

Share price gain year to date: 40.6%

Latest share price: 92p

Impax reported a 27% increase in assets under management to £5.7bn when it reported half year results on 11 May. The dividend was lifted by an impressive 40% to 0.7p per share, something which 'reflects the strong performance of the business and confidence in the coming years' according to Peel Hunt analyst Stuart Duncan.

Most of the asset managers we interviewed for this article pointed to a desire for genuine active management as a reason for the recent rise in their firms' fortunes.

Impax's chief executive Ian Simm says that making people aware of the stock was

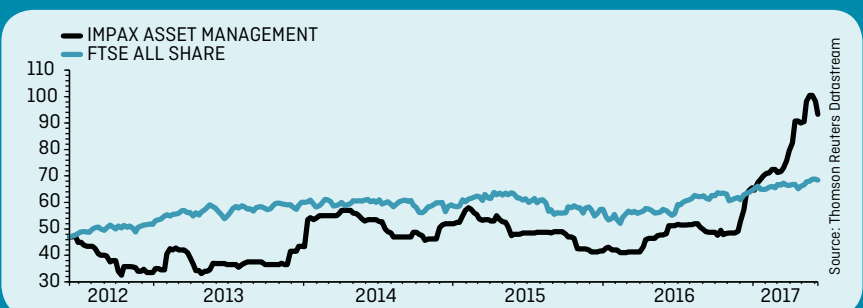
invaluable as well.

'At this sort of market cap (c£117m), a bit of PR (aka publicity) brings in retail buyers. If you don't have that communication you're left in the hands of institutional investors,' says Simm. His point is that retail interest makes the stock more liquid and easier to trade.

The asset manager's focus

is on environmental markets although Simm insists the firm does not wear the ethical investor badge.

Companies on Impax's radar involved with clean energy, waste management and sustainable food are actually growth stocks which should appeal to the 'red blooded capitalist' according to Simm. (DS)



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KEY

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

Anglo American (AAL)	25	Chemring (CHG)	39	Lindell Train (LTI)	35	Serco (SRP)	2
Ashtead (AHT)	13	Compass (CPG)	19	Liontrust Asset Management (LIO)	40	Shoe Zone (SHOE:AIM)	16
ASOS (ASC:AIM)	16	Crest Nicholson (CRST)	8	Lloyds (LLOY)	9, 25	Smurfit Kappa (SKG)	8
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