

SHARES

WE MAKE INVESTING EASIER

QUALITY BARGAINS

Why are Imperial Brands and Glaxo so cheap?

ITALY ON THE BRINK

What looming referendum means for markets

PROPERTY OPPORTUNITIES
HAVE INVESTORS OVERREACTIONED TO LETTINGS FEE CLAMPDOWN?



TAKEOVER FEAST

7 COMPANIES READY TO BE EATEN UP

CHRISTMAS RETAIL: WINNERS AND LOSERS

Beware the fad for growth

In the long-term a focus on quality makes sense

Investment bank Morgan Stanley sees European earnings per share (EPS) growing for the first time in five years in 2017 and forecasts a 12% increase.

It is even more positive on the UK with 18% EPS growth estimate, thanks to the London market's higher commodity weighting and the currency tailwind provided by sterling weakness.



**MORGAN
STANLEY
12 MONTH
FTSE 100
TARGET:
7,450**

CYCLICAL BOOST

This chimes with our main feature *Growth Vs Quality* in last week's issue (*Shares*, 24 Nov). There is no question certain quality and defensive stocks look expensive but investors should think carefully before blindly piling their cash into cyclical names and commodities stocks in 2017.

You first need to consider your investment timeframe and appetite for risk. Many of the stocks which could do well in a higher growth environment are ones to 'rent' rather than own for the long-term. You would need to actively manage these positions.

OUT OF FASHION

For many of us I suspect, focusing on quality would be a better approach for the long term. Not all cyclicals are bad companies but equally not all quality

names are necessarily overvalued.

Energy consultant **RPS (RPS)**, for example, has a very consistent track record and has delivered dividend growth through several cycles. It has taken a hit from the downturn in the oil and gas sector but this looks to be reflected in the fairly low share price compared to times when commodities were more in favour.

Even traditionally defensive names such as pharmaceutical **GlaxoSmithKline (GSK)** and tobacco stock **Imperial Brands (IMB)** are on price to earnings ratios of around 12. That's incredibly cheap for those types of companies.

For those who would rather go down the collective route – investment trust **Brunner (BUT)** trades at a near 17% discount to its net asset value yet boasts 44 consecutive years of dividend growth.

CASH IS KING

A focus on quality may prove unfashionable in the coming 12 months but if your selections are generating plenty of cash to fund generous dividends then frankly, who cares?

These dividends can be reinvested, allowing you to truly tap the wealth generating potential of the stock market through compounded returns. (TS)

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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.

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852.

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6.50% Target Dividend Yield



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The Company will provide direct loans predominately to UK based SMEs and Middle Market Corporates which have exceptional management teams, demonstrate good cash flow and earnings visibility and are supported by strong security packages. Typical investments will range from £2-10m, for a period of 3-15 years and are secured over real assets such as plant, property and equipment.

RM Secured Direct Lending Plc is targeting a net dividend yield of 6.50%, paid quarterly. Where possible the manager will seek a degree of inflation protection through index-linked investments.

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RM Capital

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Italy's banking stand-off weighs on markets

Political turmoil as BMPS tries to negotiate finance package



Banca Monte Paschi di Siena (BMPS:BIT) is the world's oldest surviving bank though that record looks increasingly in jeopardy.

Struggling with non-performing loans, BMPS has laid out new financing plans valued at €5bn (£4.2bn) which may be put under threat by uncertainty around a 4 December referendum.

Prime Minister Matteo Renzi is campaigning for changes to the constitution which would give the country's executive government branch more power and stability between elections.

POLITICAL LOGJAM

If defeated it's likely Renzi would resign and plunge the country into another political logjam – not a good environment for resolving some €400m (£340m) of soured loans across a struggling banking system.

BMPS is front and centre of the crisis: the bank's problems are more or less summed up by its decision to launch a 100-for-one share split on 28 November so that its stock price is now quoted in whole euros rather than cents.

Shares in BMPS have fallen 90% in the last year as investors mull whether the bank can be saved without resort to a controversial 'bail-in' under new European Union rules.

RECOVERY AND RESOLUTION

Since January 2016, bank bail-outs must now be executed through a mechanism called the Recovery and Resolution Directive rather than the direct

government cash injections which were used in the 2008 financial crisis.

Recovery and Resolution means 'bailing in' bond holders – forcibly converting their bonds into equity – as well as, potentially, depositors who hold more than a protected threshold of €100,000 in savings.

Former Bank of England deputy chairman Paul Tucker said in 2013 that if bank losses were particularly large, even insured depositors might be forced to take losses.

BAILED IN

Bondholders and depositors were 'bailed in' in the EU's resolution of banks in Cyprus. Depositors below the insured threshold eventually survived unscathed despite rumours authorities were planning a universal 6.75% deposit tax.

Renzi wants to avoid this outcome. Italian retail investors hold many of the bonds of BMPS and other struggling banks, as well as facing potential deposit losses. A market solution is preferred, in which BMPS and other Italian banks including UniCredit would raise capital on commercial terms.

Investors want Italian banks to reveal the true scale of their non-performing loans to work out how much capital will be required and what returns might be available once balance sheets have been cleaned up.

Unfortunately, political uncertainty increases risk – for which investors demand higher returns. The more unstable Italy's politics become, the larger its banking problems will grow. (WC)

IQE flies under the radar

Rapid growth in Photonics to keep re-rating going

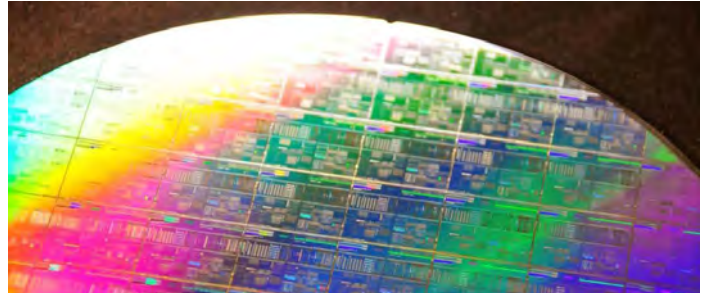
Compound semiconductor technology company **IQE (IQE:AIM)** is making faster progress in new markets than analysts had previously anticipated.

This creates the opportunity to reduce its exposure to its biggest wireless end market, worth 69% of half year to 30 June revenue, improve profit margins from higher value Photonics and other technologies, and power the share price to 50p or higher. The stock currently changes hands at 35.75p.

The Cardiff-based £240m company delivered 45% growth in revenue from Photonics – essentially lasers and sensors – during the first half to £10.7m. This was 17% of the £63m total.

Impressive traction is being achieved in smart phone laser focusing and fibre optic internet infrastructure applications. Other exciting breakthroughs are being made in Infrared, mainly in defence applications but increasingly in medical and industrial imaging, LiDAR, effectively a radar system using lasers being tested in self-driving cars, and in the estimated \$12bn Power Switching market.

'As Photonics grows, dependence on volatile Wireless revenues, that are susceptible to



inventory corrections and die shrinkage, should reduce and the quality of earnings increase,' explains Canaccord Genuity analyst Paul Morland in a note to clients following an IQE site visit.

It was an inventory correction that torpedoed underlying second half profits last year.

Ongoing production improvements mean that capacity constraints appear unlikely to be a problem in the short term as demand looks set to soar for Photonics and other applications.

SHARES SAYS: ↗

At the current 35.75p the stock trades on a multiple of 11.9 times 2017's anticipated 3p per share of earnings, falling to around 10 in 2018 as earnings are forecast to accelerate.

BROKER SAYS 3 0 0

Haydale seals deal

Haydale Graphene Industries (HAYD:AIM) has struck a major deal with **Huntsman (HUN:NYSE)**, a \$4.6bn billion chemicals business. Huntsman has secured the exclusive rights to market, distribute and sell a range of its resins including *Araldite* that have been strengthened via Haydale's graphene enrichment process. This is a major step forward for Haydale, although still subject to Huntsman's customers undertaking trials. (DC)

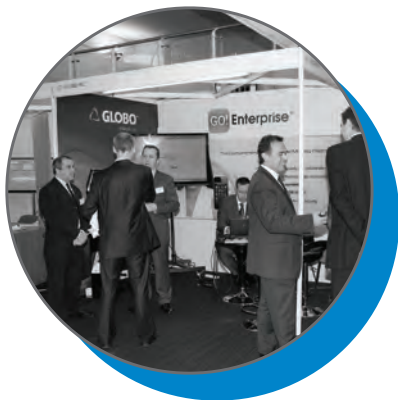
JD Sports goes outdoors

SELF-STYLED 'KING OF TRAINERS' **JD Sports Fashion (JD.)** has snapped up out of town retailer **Go Outdoors** for £112.3m in a highly complementary acquisition. The tents-to-waterproof jackets purveyor dramatically boosts the size of JD's improving outdoor products division, where existing brands include the high street based Blacks and Millets. (JC)

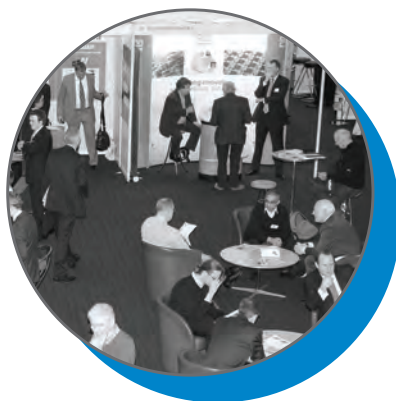
Begbies' boost ahead of results

UK CORPORATE INSOLVENCIES increased year-over-year in the third quarter of 2016 for the first time since 2011 – bad news for everyone apart from **Begbies Traynor (BEG:AIM)**.

We previously flagged insolvency practice Begbies as a value stock with the potential for substantial earnings growth from a low point in its counter-cyclical end-market. Begbies reports on 13 December. (WC)



SHARES  **and**
Growth and Innovation
F O R U M



31ST JANUARY 2017

The Business Design Centre, London



Pet grooming salons

PET PAMPERING IS becoming big business for **Pets at Home (PETS)** as the supermarket for animals upped its number of Groom Rooms by 18 to 258.

Service revenues including veterinary treatment and grooming grew 47.6% in the six months to 31 October, helping

group like-for-like sales gain 2.5%. New grooming salons don't earn much profit early in their early years and weighed on overall group margins.

Adjusted pre-tax profit increased only a little more than sales, at 3.9%, as operating margins declined a little over half a per cent to 11.3%.



EXPORTS OF HIGH end Swiss watches are considered a good bellwether for the luxury goods sector and the latest data is pretty alarming.

Monthly sales fell by 16% in October, the biggest drop in seven years. 'Hong Kong continues to be weak (-22%) and the US sequentially declining to -17% (September +5%) maybe due to cautious purchasing ahead of the US elections,' says investment bank UBS

Continuing pressure on the luxury space is potentially bad news for the likes of shoemaker **Jimmy Choo (CHOO)**, trench coats-to-cashmere scarves seller **Burberry (BRBY)** and handbag maker **Mulberry (MUL:AIM)**.

21 HAMMOND INFRASTRUCTURE PLEDGES

CHANCELLOR PHILIP HAMMOND used the word 'infrastructure' 21 times in the Autumn Statement as the Government looks at ways to underpin economic growth and improve productivity.

Investors have already cottoned on to the idea that infrastructure should be a decent growth area in the years ahead:

specialist infrastructure investment trusts trade at a 14% premium to net asset value.

'Never has the word infrastructure been used so frequently as the Chancellor decides that infrastructure spending will be the tool to boost productivity,' says Amber Infrastructure chief executive Giles Frost.

7 YEARS: LUCKY FOR STERLING

STERLING LOOKS set to post its biggest gain in seven years as strong economic data saw the UK make a comeback from post-Brexit vote lows.

The UK currency is on course for a 2% gain against the dollar for the month of November and on a trade-weighted basis is up around 5%.

If sustained into the end of

the month it would mark sterling's best performance since January 2009.

The UK's currency is expected to average \$1.19 against the dollar in 2017 versus \$1.25 currently.



£3.6m: Mitie CEO stock purchase

NEW MITIE (MTO) chief executive Phil Bentley loaded up on £3.6m shares in the beleaguered outsourcer at 194p – and has already made a £200,000 paper profit on the deal.

Bentley replaces Ruby McGregor-Smith, who was in charge since March 2007, after a profit warning wiped 30% off the facilities management company's share price earlier this year.

Investors are concerned about pressure from a higher minimum wage and delays on contract awards as customers mull economic uncertainty. Rival **Interserve (IRV)** is also struggling for similar reasons.

6.9: Dollar/CNY exchange rate



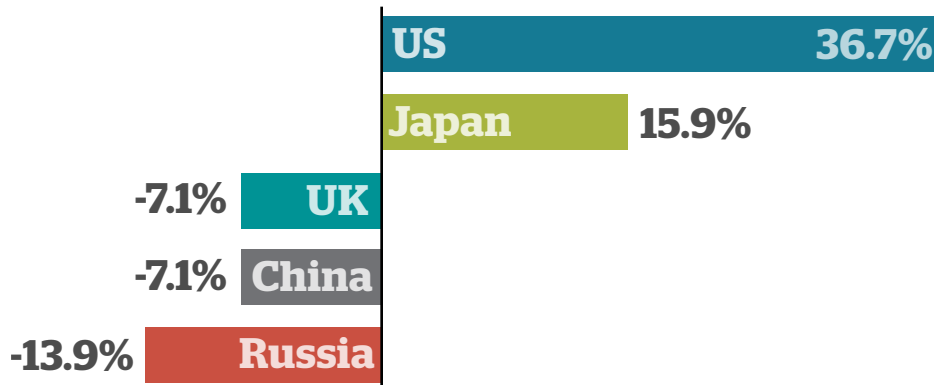
CHINA'S EXCHANGE RATE has hit an eight-year low against the dollar – something that's previously signalled turbulence in financial markets.

Stock markets tumbled when China's yuan depreciated against major developed country currencies in August 2015 and shares in commodity companies were hammered in early 2016 after another surprise dip in the currency.

A key global exporter, a weaker Chinese currency places downward pressure on manufactured goods around the world and historically also tends to knock the price of key industrial commodities.

Dividend Growth

Selected markets in third quarter



Source: Henderson

FTSE 350 IN A MONTH

BEST PERFORMERS

	COMPANY	(%)
1	Antofagasta	33.67
2	Kazakhmys	32.06
3	Vedanta Resources	24.75
4	Metro Bank	23.12
5	Aldermore	22.18
6	Tullett Prebon	20.35
7	Evrax	19.55
8	Electrocomponents	19.46
9	Thomas Cook	18.24
10	Barclays	17.31

WORST PERFORMERS

	COMPANY	(%)
1	Ashmore	-17.76
2	Al Noor Hospitals	-18.93
3	Randgold Resources	-20.56
4	Essentra	-21.18
5	Hochschild Mining	-23.43
6	TalkTalk Telecom	-24.60
7	Fresnillo	-25.02
8	African Barrick Gold	-26.64
9	Berendsen	-27.80
10	AMEC	-30.68

* Excluding Equity Investment Instruments, Nonequity Investment Instruments
Source: Thomson Reuters Datastream
Data 1 month to 25 Nov 2016

BEST & WORST - INFRASTRUCTURE INVESTMENT TRUSTS

Sector	One year performance
International Public Partnerships	26.24%
BBGI SICAV	18.81%
HICL Infrastructure	15.49%
Sequoia Economic Infrastructure	14.02%
Renewables Infrastructure	13.93%
GCP Infrastructure Investments	12.78%
John Laing Infrastructure	12.48%
Greencoat UK Wind	8.57%
Bluefield Solar Income	7.46%
John Laing Environmental	5.16%

Source: Association of Investment Companies (AIC), correct to end-Oct

Joules has growth welly

Premium lifestyle brand is an immature global expansion play

A pullback at British, premium lifestyle brand **Joules (JOUL:AIM)** presents a precious opportunity to pocket an immature growth company with exciting global potential.

The cash generative retailer, riding a boom in quality casual attire, intends to pay a maiden distribution for the year to May 2017. At 185p, the wellies, gilets and jewellery purveyor offers 27% potential upside towards Liberum's 235p price target.

DISCIPLINED ROLL-OUT

Leicestershire-based Joules, founded by creative inspiration Tom Joule in 1989 and with origins in equestrian events and country fairs, is expanding rapidly through a self-funded store roll-out. The AIM newcomer, a top selling wholesale brand in Next Label and John Lewis, is growing from a smaller base than premium lifestyle peers such as **Ted Baker (TED)** and **SuperGroup (SGP)**.

Consumer tastes in fashion are notoriously fickle, yet Joules' distinctive brand has wide appeal and low fashion risk, since the focus is on refreshing or adding something new to proven, timeless classics.

UPGRADE CATALYSTS

Extension of the product range and international expansion through wholesale and online channels add to the allure of Joules, whose full year results (7 Sep) showed a 41.5% surge



in underlying profit before tax to a forecast-beating £7.5m on sales up 12.8% to £131.3m. E-commerce sales shot up more than 17%, while CEO Colin Porter also flagged 33% growth in the active customer base to 824,000, demonstrating the brand's growing international traction.

Catalysts for earnings upgrades going forwards include an untapped licensing income opportunity and international expansion, a key priority for Joules. Overseas sales represent a shade over 10% of the total and the medium term focus is on North America and Germany, though China, Japan and the Middle East are under evaluation.

WINTER WARMER?

For the current year, Liberum forecasts pre-tax profit of £9m for earnings per share of 8.2p (2016: 6.9p), leaving Joules

on a punchy prospective PE of 22.6. Yet we believe the rating is justified by the retailer's abundant growth potential.

The broker also sees Joules as a likely Christmas retail winner, pointing out Joules is well placed to benefit from sterling weakness-driven 'staycations' due to its rural and seaside bias.

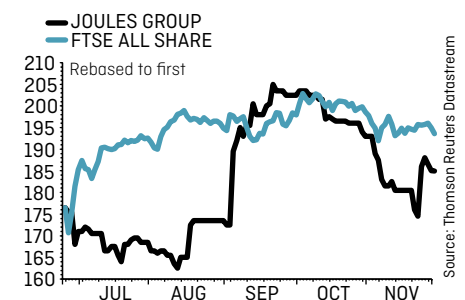
'Not only does this provide a smoothing of revenue profile compared to other retailers, but it could drive an incrementally strong performance over summer 2017,' writes Liberum. 'The company's strong focus on value, mean that it mixes competitive pricing with high quality products, which positions it well in the fast growing premium-lifestyle clothing category.' (JC)

BROKER SAYS: 3 0 0

JOULES ↗ **BUY**

(JOUL:AIM) 185p
Stop loss: 148p

Market value: **£154m**



Glaxo unlocking hidden value

Growth coupled with currency tailwind proves a heady mix

Large and complex conglomerates are often packed with hidden value which can ultimately be unlocked to the benefit of investors.

National champion pharmaceuticals outfit **GlaxoSmithKline (GSK)** is perhaps the most obvious example on the London market. The great news for investors is the business is already well underway to creating what is potentially a mind-blowing amount of value.

On top of that, a currency tailwind helped Glaxo's sales gain 23% versus in the third quarter while earnings surged 40% - a trend which could continue for the next nine months.

UNLOCKING VALUE

Glaxo has produced clear targets around its Consumer Healthcare division in particular which, if accomplished, would produce stunning results.

Chief executive Andrew Witty, soon to be replaced with Glaxo's Consumer Healthcare chief Emma Walmsley, said in a strategy set out in May 2015 that the division could deliver operating margins of 20% by 2020. That compares with margins of 11.3% last year.

Analyst forecasts indicate the unit will be delivering sales of £9.3bn in 2020. This would result in an estimated operating profit, if targets are hit on

time, of £1.9bn. To put that in perspective, Glaxo's Consumer Health division, *currently its smallest division*, would be earning almost the same as FTSE 100 heavyweight **Reckitt Benkiser (RB.)**.

Today, Reckitt is worth £47bn compared to Glaxo's current market value of £75bn. Based on similar valuation multiples to Reckitt, Glaxo's Consumer division would be worth around £39bn, of which it owns 63.5% with joint venture partner Novartis.

PHARMA AND VACCINES POTENTIAL

Opportunity in GlaxoSmithKline's Consumer Healthcare division is just the beginning of the pharma giant's value appeal. It still has two other divisions – Pharmaceuticals and Vaccines – which both deliver more profit today than its Consumer Healthcare unit.

Pharmaceuticals delivered £14.2bn of revenue and £4.3bn of operating profit in 2015 and



is expected to grow its top line close to 5% annually out to 2020.

Vaccines generated sales of £3.7bn and operating profit of £1.0bn and may grow even faster, according to estimates by Alastair Campbell at Berenberg, at 10% a year.

Across its three divisions, Glaxo boasts high quality assets and a management team which is now focused squarely on unlocking their value for shareholders.

Risks include a relatively uncertain outlook in Glaxo's important respiratory portfolio, where successful new drug launches will be needed to offset declining sales in its Advair asthma treatment.

Any failure to meet 2020 targets would result in an adverse market reaction which would probably see shareholders lose money. (WC)

GLAXOSMITHKLINE

BUY

(GSK) £15.30

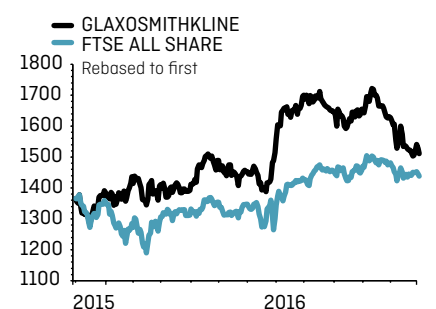
Stop loss: None

Market value: £74.6bn

Prospective PE Dec 2017: 13.2

Prospective dividend yield: 5.3%

BROKER SAYS: 13 12 3



CRANSWICK

(CWK) £23.59

Gain to date: 6.5%

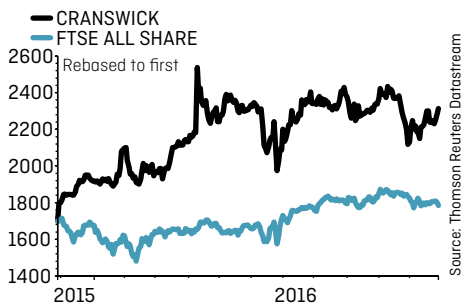
Original entry point:

Buy at £22.16, 17 Nov 2016

OUR BULLISH CALL on pork processor **Cranswick (CWK)** is already in the money. Excellent half year results (29 Nov) provided a catalyst for share price gains and another round of earnings upgrades for the gourmet sausages-to-gammon supplier.

Despite deflationary headwinds from a weaker UK pig price, Cranswick served up strong 24% growth in half year pre-tax profit to a forecast-beating £37.9m. This performance was driven by 16% volume growth and a maiden contribution from April's £40m acquisition of poultry producer Crown Chicken. Reliably cash generative Cranswick also hiked the dividend 12.9% to 13.1p.

Shore Capital has nudged up its year to March 2017 pre-tax profit forecast by £1m to £73.5m for nourishing year-on-year growth of 14.1%. Moreover, factoring in a 12 month contribution from recently acquired (16 Nov) Northern Irish pork processor Dunbia Ballymena results in a £3m



upgrade to £79.8m for the broker's financial year 2018 profit forecast.

SHARES SAYS: ↗

We're running with our positive call on Cranswick, a high-quality food producer set to bring home the bacon over Christmas. (JC)

BROKER SAYS: 5 3 0



QUIXANT

(QXT:AIM) 327.5p

Gain to date: 14.9%

Original entry point:

Buy at 285p, 20 Oct 2016

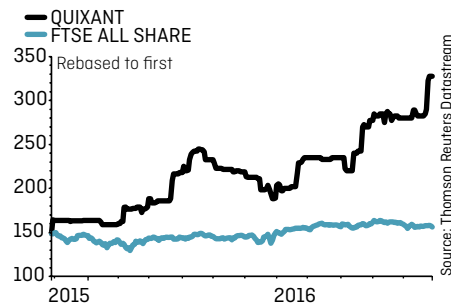
OPERATING IMPROVEMENTS, synergies from the Densitron deal and a robust underlying gaming operator end market; **Quixant (QXT:AIM)** has been quick out of the blocks.

A trading update on 24 November showed particularly strong year-on-year revenue growth and margin performance from its core gaming division. Analysts reckon that full year results to 31 December 2016 will be 'at least 10% better across the board' on forecasts issued right after the Densitron acquisition just over a year ago.

FinnCap's Lorne Daniel has lifted forecasts from sales of \$79m and adjusted earnings per share (EPS) of \$0.15 to \$86m revenue and \$0.165 EPS.

We flagged the stock at 285p. We explained that not only was the rating not particularly testing, but

that there was a steady flow of possible catalysts for forecast upgrades. So far, so good.



SHARES SAYS: ↗

This share will seldom look dirt cheap but could pleasantly surprise shareholders. (SF)

BROKER SAYS: 1 0 0



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TAKEOVER FEAST

7 COMPANIES READY TO BE EATEN UP

Takeovers are back on the agenda for the UK stock market. We aren't surprised, given favourable conditions for M&A (mergers and acquisitions) have been in place for some time.

The cost of borrowing is low; sterling devaluation

makes British companies a more attractive proposition to overseas buyers; and volatile conditions in certain sectors have left some decent businesses in a vulnerable position.

After building up steam since the summer, the acquisitions train is now speeding up and

investors should be prepared to get on board.

THE CATALYST

Takeovers are among the catalysts which can change the market's view on an under-appreciated stock, alongside management change, a

refinancing or better-than-expected trading.

To tap this theme we look at companies where an activist investor could provide the impetus for bid interest, as well as reviewing several bombed-out stocks which we believe look vulnerable to a

takeover approach.

We also revisit the sterling weakness theme and consider why companies with unique assets are often in play.

Finally, we consider what can be learned from the latest batch of deals announced over the past month or so.

TAKEOVERS ARE COMING THICK AND FAST

A BID WAR IS underway for water utility **Dee Valley (DVW)** and several parties have shown interest in workforce management specialist **ServicePower Technologies (SVR:AIM)** as well as aerial platform group **Lavendon (LAV)**.

Bids for marketing agency **Creston (CRE)** and in-flight catering group **Journey (JNY:AIM)** look like done deals.

And takeover offers have emerged from private equity and industry players for industrial components supplier **Brammer (BRAM)**, walkie talkies expert **Sepura (SEPU)** and IT and telecoms provider **Alternative Networks (AN.:AIM)**.

It is possible to group some of these takeover situations into distinct categories:

UNIQUE ASSETS

As we discuss elsewhere in this article, many companies stand out from the crowd by being the only company of their kind on the stock market. It is quite easy to sort out the companies that have significant appeal to ones which don't have rivals because their business model is flawed.

Dee Valley is the only small cap water utilities stock on the UK market. The utilities sector is ever-shrinking as it has been a popular target for third party investors – often private equity firms – to use cheap funding to buy a business that pumps out significant amounts of cash over time.

Steady cash flow effectively covers the cost of acquisition debt repayments and should still leave money over to reward shareholders and/or grow the business.

Infrastructure investor Ancala is competing

against FTSE 100 utilities group **Severn Trent (SVT)** to buy Dee Valley.

SHARE PRICE WEAKNESS MAKES THEM A 'SITTING DUCK'

Most companies trade on low valuations as a result of financial, trading or reputation problems. Share price weakness has over the years been a trigger for takeovers – and we expect this trend to remain in play for years to come.

Interested parties typically have to make two decisions. Firstly, is the current problem fixable? If not, you won't see a bid. Two, does the target have a good track record in its industry?

Many problems are the result of a short-term bout of market weakness or a contract issue that is only temporary.

Taking a longer term view can often result in your view of a stock shifting from 'I wouldn't touch that stock as it just had a profit warning' to 'this is a once in a blue moon opportunity to buy a great company cheaply'.

Brammer definitely fits into the latter category. Five years ago this was a major player in the European markets.

The distributor lost its way and has suffered financial and operational pressures; but private equity bidder Advent believes it can put the business back on track.

Advent will be able to inject a chunk of money and capitalise on its experience in the distribution and power manufacturing sectors to put the spark back into Brammer.

Don't rule out a counter bid for the company.

CURRENCY-DRIVEN DEALS

ALTHOUGH STERLING HAS staged a few recovery rallies since its lows in the wake of the Brexit vote, it remains at historically depressed levels versus other major global currencies.

For example, against the dollar it trades at \$1.24 versus an average for the last decade of \$1.62.

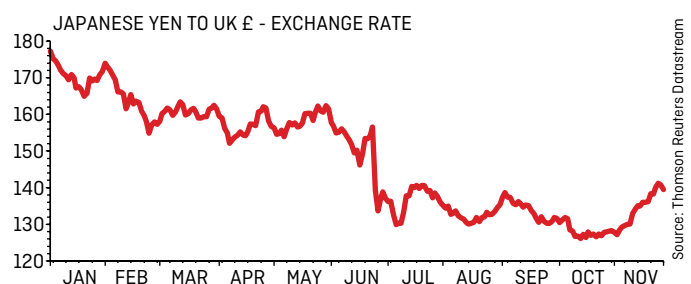
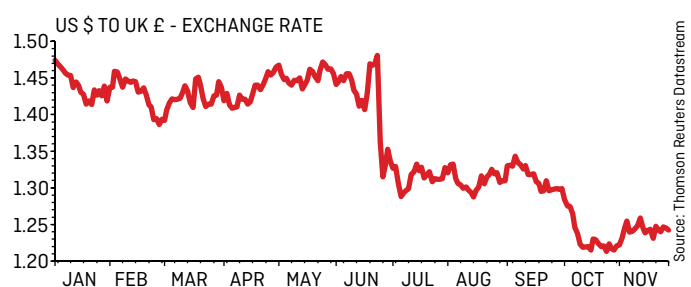
This makes the economics of a deal for a UK company more compelling to a foreign rival. Particularly if said company has a lot of its costs in sterling but generates revenue overseas.

This was the case for UK tech champion and microchip designer ARM before its £24bn takeover by Japan's **Softbank (9984:TYO)** in the summer.

Fellow chip specialist **Imagination Technologies (IMG)** has some similar dynamics and seems very much 'in play' right now with regards to takeover appeal.

Drug companies like **AstraZeneca (AZN)** and **Shire (SHP)** could be in the sights of their peers from across the pond, both having flirted with US ownership in recent years.

In October 2014 **AbbVie (ABBV:NYSE)** pulled a £32bn bid for Shire after a tax loophole was closed, while **Pfizer (PFE:NYSE)** failed with a \$118bn approach for AstraZeneca in May of the same year.



UNIQUE ASSETS

A LIKELY TAKEOVER candidate is a company with a brand, technology or market position impossible or prohibitively expensive to replicate. Add share price weakness and you have all the ingredients necessary for M&A.

There are several UK-listed examples. Free-to-air broadcaster **ITV (ITV)** has an unrivalled position in the UK television market and ability to attract a mass market audience.

Virgin Media owner **Liberty Global's (LBYTA:NDQ)** 9.9% stake means it has been consistently

linked with a potential bid. Concerns over weak advertising revenue have seen **ITV's** share price get significantly lower in 2016 too.

Trench coats-to-cashmere scarves seller **Burberry (BRBY)** has a unique luxury brand which has been around for more than 150 years. Its history as a producer of high quality goods is extremely well established.

The shares have stuttered of late after initially enjoying a strong run off the back of the currency tailwind

delivered by the Brexit vote. There have been rumours of a potential merger with US firm **Coach (COH:NYSE)**.

Engineering consultant **Ricardo (RCDO)** is another unique business on the UK stock market. It specialises in environmental matters such as automotive emissions and water scarcity and has a good reputation in the transport industry.

It has several blue chip firms on its roster of clients including **Volkswagen (VOW:ETR)**, McLaren and Network Rail.

Companies with tech, market position or brand which can't be replicated

FOLLOW THE ACTIVISTS

KEEPING AN EYE out for activist investor stock purchases can be a way of identifying potential takeover targets or deal-related catalysts.

Among the two largest activist investors in the UK are Crystal Amber and Toscafund – and both have been fairly active this year.

Activist investors usually buy strategic stakes in companies and then attempt to influence board members and management to make changes that increase shareholder value.

However, the approach is not always successful and investors should never purchase shares in a company on the hope of a takeover alone.

TOOLED UP

We've covered Toscafund's interest in tool hire plays **Speedy Hire (SDY)** and **HSS Hire (HSS)** in many previous editions of *Shares*.

Crystal Amber also has an interest in the sector through a 4% stake in the UK's biggest van rental business **Northgate (NTG)**.

**ACTIVIST
BUYS CAN BE
AN INDICATOR
OF M&A
TARGETS**

The activists believe poor shareholder returns delivered in this sector are down to the industry being too inefficient, meaning few of the main players can earn enough in profit to cover their cost of capital.

Consolidation makes sense, they argue, and those that refuse to take part may end up with less palatable options further down the line.

MEDIA SECTOR OPPORTUNITIES

Crystal Amber has been sniffing around for opportunities in the media sector too. In April 2016, we flagged Wireless Group (previously called UTV) as a special situation after it offloaded TV assets to ITV, returned capital to shareholders and refocused as a smaller business around radio broadcasting.

Within a few months it was taken over by Rupert Murdoch's **News Corporation (NWSA:NDQ)** at a substantial premium.

Also in media, small cap **Johnston Press (JPR)** recently said it was considering selling some of its publishing assets after stake-building from Crystal Amber, helping shares gain around 20% on the day of the announcement before falling back.

The activist fund has been adding to positions including **STV (STV)**, which broadcasts ITV programming in Scotland.

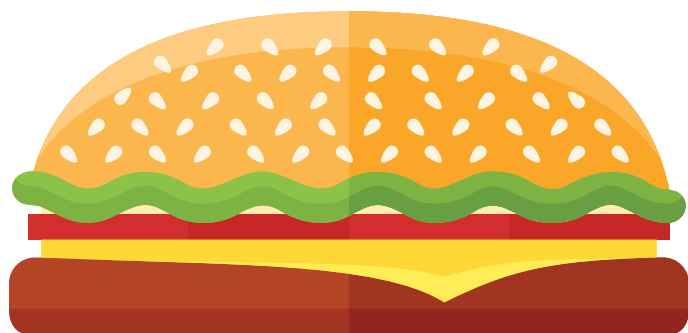
KEEP YOUR EYES ON THESE STOCKS

Crystal Amber has a 24% interest in foreign exchange and corporate cards provider **FairFX (FFX:AIM)** after a strategic investment in March.

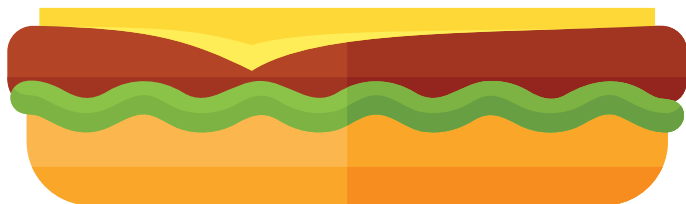
At Toscafund, as well as recently upping its stake in HSS Hire above 21%, it has also been busy hoovering up shares in **Esure (ESUR)** prior to its spin-off of **GoCompare (GOCO)**, owning around 15% of each stock after the demerger.

Spin-offs are often a catalyst for M&A activity. In this case we believe Esure is the more likely to receive a takeover bid because GoCompare was marketed to potential buyers prior to the separation of the two businesses so the M&A opportunity on the latter has passed, in our view.

As an online-only operation, Esure could prove an attractive target to established UK insurers because of the potential cost savings which could be delivered.



"ACTIVIST INVESTORS USUALLY BUY STRATEGIC STAKES IN COMPANIES AND THEN ATTEMPT TO INFLUENCE BOARD MEMBERS AND MANAGEMENT TO MAKE CHANGES THAT INCREASE SHAREHOLDER VALUE."



PREYING UPON THE WEAK

BOMBED-OUT STOCKS can be vulnerable to a takeover approach. To help generate some M&A ideas, we've run the numbers to find FTSE All-Share constituents which are down 20% or more year-to-date.

Here we rate a selection of companies from that list in terms of their takeover viability.

INMARSAT (ISAT) 728.5P ✓

The company is one of only a handful of commercial suppliers of satellite connectivity with several geostationary satellites surrounding the globe. The share price has been weighed down by its \$3bn of net debt but it could interest a purchaser with deep pockets given the unique nature of its assets.

THOMAS COOK (TCG) 80.6P ✓

It has a strong brand in the travel sector and one with a leading position in the European market. The most obvious suitor is China's **Fosun International (0656:HK)**, which has built an 8.2% stake in the company and with which it recently launched a joint venture aimed at wealthy Chinese holidaymakers.



CAPE (CIU) 156P ✗

The industrial services provider operates in a space which is seeing increased M&A activity. Despite its discounted valuation, with the shares trading on a price to earnings ratio of six times, previous spells of weakness didn't encourage a bid. Historic asbestos liabilities could be viewed as a poison pill.

GAME DIGITAL (GMD) 47.5P ✗

The specialist retailer may have a bombed-out share price but this is unlikely to attract any interest. It is hard to see why any acquirer would want exposure to a UK retail sector facing a consumer spending squeeze from rising inflation and the fall-out from the Brexit vote. Ask the question: 'If Game Digital and its high street stores didn't exist today, would you create such a business?' The answer is definitely 'no'.

DEVRO (DVO) 160P ✓

A share price collapse at sausage skins maker Devro could attract an overseas predator, with Spanish rival **Viscofan (VIS:MC)** likely to be among those watching developments with interest.

Devro supplies collagen casings for sausages, salamis and hams and is geared into increasing emerging market protein demand.

In August, Devro said a transitional period would be needed to extract benefits from £110m worth of new plant investment in the US and China.

Shares slumped again in November when it warned 2017 profit would disappoint; and debt, taken on to invest for growth in China and the US, was close to breaching commitments given to lenders.

Seeking to mitigate weaker volume trends, notably in Latin America where Devro is encountering disruption as it transfers customers onto new products, the food producer is accelerating restructuring plans and making investments in next generation products. This will improve its competitive position but hurt profitability next year.

Devro's management have been buying shares on weakness and see plenty of long-term value in the business.



CAPITA (CPI) 572P ✓

Possibly the highest profile victim of the uncertainty created by the Brexit vote, the outsourcer's shares have crashed on a big profit warning (29 Sep) and amid suggestions a rights issue might be required to repair the balance sheet. However, this remains a cash generative business with material barriers to entry which could prove attractive to an opportunistic buyer.



ESSENTRA (ESNT) 372P ✓

The industrial distributor has suffered a big share price slump on a relatively mild profit warning but the inherent quality of its Pipe Protection Technologies (PPT) division and other business units could attract a suitor. Particularly one prepared to look through to a recovery in the oil and gas space.

GULF MARINE SERVICES

(GMS) 48.25P ✗

The company operates a fleet of maintenance vessels mainly used by oil and gas companies. There is a good business in here somewhere. However, being an asset heavy operation during a structural downturn in your industry, particularly when you factor in a big debt pile, is never a good look. This could prove an obstacle to bid interest.

ST IVES (SIV) 128P ✓

The company has been busy recycling cash from its legacy print operations into a digital marketing expansion drive. Although the company has hit some bumps thanks to a wider decline in marketing spend, it could prove attractive to an acquirer looking to build scale in this high growth area.

LAIRD (LRD) 144P ✓

Electronics and high performance materials outfit **Laird (LRD)** is in the doldrums after warning in October that 2016 pre-tax profit would come in 30% shy of expectations at £50m.

The warning raised the sceptre of a covenant breach and dividend cut and came shortly after the announced departure of chief executive David Lockwood. That leaves the company rudderless and potentially even more vulnerable to a bid.

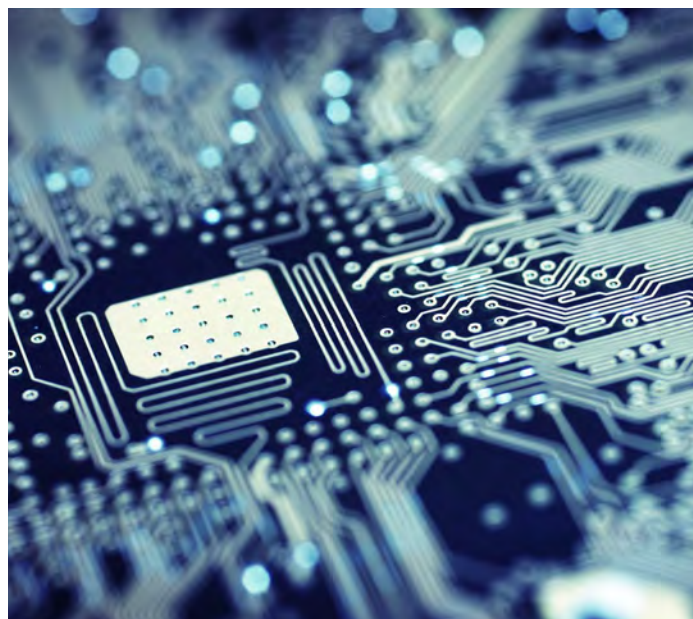
Laird makes high-spec antennas, embedded wireless chips and various radio frequency (RF), microwave and electro-magnetic shielding which are mainly sold into smartphones.

The problem lies in a rapid slowdown in smartphone sales growth, particularly at key client **Apple (AAPL:NDQ)**. However, Laird still generates valuable high tech kit.

There is scope to expand into new markets such as connected vehicles – or in other words souped-up cars filled with electronic gadgetry – and medical devices.

On a long-term view it is possible to see the rationale for a bid. The stock trades on an 11% free cash flow yield for 2017 based on forecasts from Berenberg. These seem unlikely to be overpitched given it is a notable bear of the stock.

The limited cost of borrowing means this kind of return could prove highly attractive to a private equity firm which feels it can address the group's balance sheet and operational issues. (TS/DC/WC/JC)



Rising interest rates: Key points

Higher interest rates affect the value of all financial assets

Imagine you're pumping up a balloon. The further you push down on the pump, the larger the balloon inflates. When you pull up on the pump, the balloon starts to shrink.

The relationship between interest rates and financial assets is very similar. Falling interest rates and yields – pushing down on the pump – increases the prices of financial assets: the balloon.

But markets are now fretting that the pump is about to be pulled back up again: and the impact on financial assets could be significant.

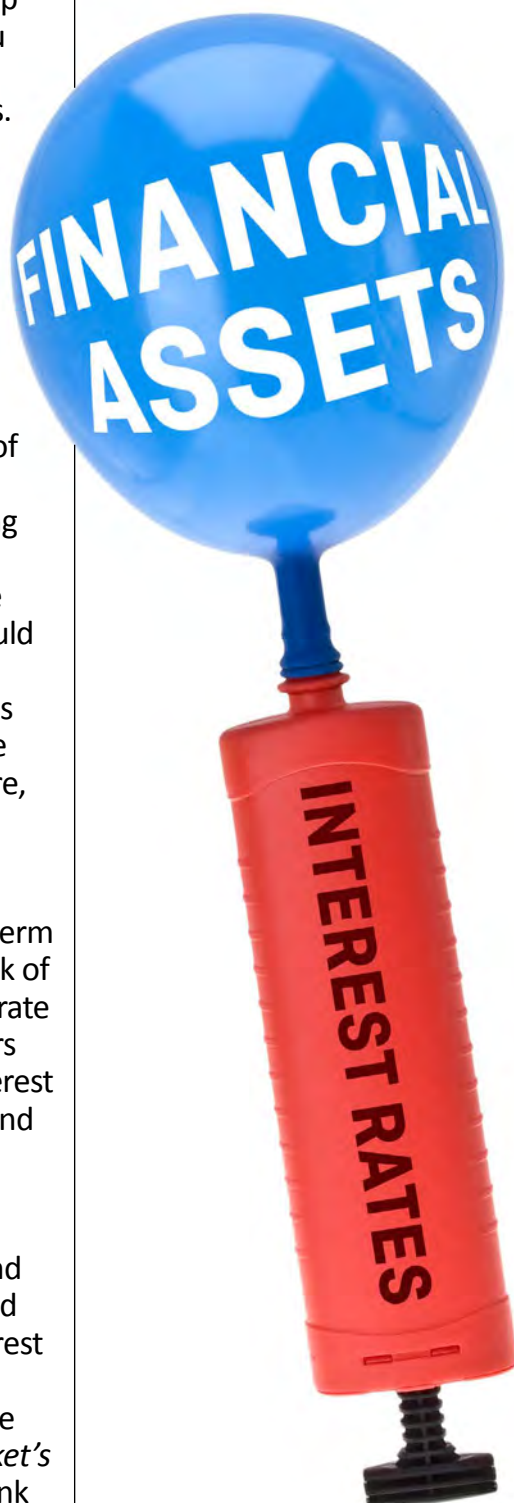
Understanding interest rates can be quite technical but the broad points, as we show here, should be easily understood.

WHICH INTEREST RATE?

Central banks set very short term interest rates. In July, the Bank of England cut its main interest rate to 0.25%. So why are investors worried about increasing interest rates when the Bank of England is actually cutting them?

While the central bank sets short-term interest rates, longer-term interest rates tend to be decided by investors and markets – and it is these interest rates which are rising.

Long-term interest rates are best understood as the *market's expectation* of where the Bank of England interest rate will be



in the future.

Typically, changes in yields on government bond markets are where these expectations are expressed.

Ten-year government bond yields have increased to 1.43% from 1.08% in the last month. Very simply, this market movement means investors believe that the Bank of England will need to raise interest rates more quickly in coming years than was assumed one month ago.

Rising government bond yields mean investors expect one or a combination of factors to play out:

- Higher economic growth;
- Higher inflation; and,
- Higher chance a government fails to repay its debts.

The key point to understand is that government bond yields are the market's best guess on the future direction of interest rates. Recently that best guess is erring towards higher rather than lower interest rates, albeit from a very low base.

INTEREST RATE IMPACT

When government bond yields rise, the prices of government bonds fall – just like in the example with the pump and the balloon. It also means the prices of other similar assets are likely to fall too – for example corporate bonds.

Certain types of companies

listed on the stock market are also like bonds and their share prices behave in a similar way. Utilities are a good example. Not only are their profits very consistent – like the coupons paid on a bond – they also pay out a large share of these earnings as dividends.

Utilities and stocks like them are often described as ‘bond proxies’ – they are stocks which trade like bonds. Bond proxies have been great assets to own over the last three decades because ‘the pump’ has been pushed further and further down: Bank of England interest rates fell from 17% to almost zero in that period.

If, as markets expect, interest rates rise more quickly, companies that produce consistent but slow growing profits like utilities might struggle. If markets are wrong and interest rates fall there is probably some upside in bonds and bond proxy assets like utilities.

Elsewhere, there are some opportunities from rising bond yields. As we saw earlier, interest rates rise when investors expect higher economic growth, higher inflation or a higher chance of government insolvency.

“If, as markets expect, interest rates rise more quickly, companies that produce consistent but slow growing profits like utilities might struggle.”

CYCLICAL RECOVERY

Higher economic growth should mean improvements in profitability at companies which are sensitive to the economic cycle. Higher profitability usually means higher share prices. *Shares* covered a few examples of companies which potentially sit in this bucket in last week’s edition. Construction companies, industrials, some consumer businesses and banks could be beneficiaries.

Increasing inflation without economic growth is a much more difficult environment in which to invest. Gold miners are typically seen as a hedge against inflation, though it is worth noting the value of London-listed gold stocks have been falling rather than rising in recent months. Industrial metals have done better however, including companies like copper miner

Kaz Minerals (KAZ).

A higher chance of government insolvency is another reason why interest rates may rise. Governments like the UK and the US, which issue their own currency, can usually find a way to repay their debt. Countries in the eurozone, however, do not have this option and this is why yields on Greek government debt, for example, came close to hitting 40% in early 2012.

Overall, it’s important to understand why interest rates affect stock prices and the factors which may offset them like higher growth at certain companies. Whether interest rate expectations rise or fall in the next 10 years, investors should try and understand how much risk they are taking and consider what, if anything, they can do to build a diversified and resilient portfolio.



Investment trusts on sale

Bargains abound within the investment trusts sector, Brunner among them



The investment companies sector has many constituents trading at steep discounts to their net asset value (NAV).

Many of the widest discounts do indicate poor performance, or reflect a sector or style that is currently out of favour for a reason, although a number of consistent performers appear unduly overlooked by the market.

They include **JPMorgan**

Smaller Companies

(JMI), the capital growth-focused portfolio guided with aplomb by Georgina Brittain and Katen Patel trading at a 21.2% discount,

the Mike Prentis-managed **BlackRock Smaller Companies (BRSC)** on a 19.5% discount and **Henderson Smaller Companies (HSL)** on a

JPMorgan Smaller Companies - 21.2% discount

14.7% discount.

Elsewhere, **Templeton Emerging Markets (TEM)** trades on a near-14% discount that may entice value seekers. It is now over a year since Carlos Hardenberg took over from Mark Mobius. The new lead manager has moved to diversify away from the mega-caps, reducing the

concentration in

the largest holdings and adding frontier market exposure.

These changes are beginning to pay off and are not yet reflected in the share price.

Long-established trusts with superb dividend track records, such as **Foreign & Colonial (FRCL)** and **Witan**

Templeton Emerging Markets - 13.9% discount

(WTAN), also trade at material discounts.

BRUNNER TO REBOUND

One situation that has caught our eye is the **The Brunner Investment Trust (BUT)**, a concentrated global equity portfolio aiming to generate long-term growth in capital and income.

The fund boasts 44 consecutive years of dividend growth.

A 16.9% discount to NAV looks a buying opportunity, since this trust has a reassuring focus on high quality growth franchises trading at attractive valuations. The discount partly reflects Brunner's structural gearing; it has two debentures which make the cost of its debt relatively high, although the

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discount should narrow as the debt reaches maturity.

QUALITY BIAS

Brunner was launched in 1927 to manage the wealth of the Brunner family. Today it is 29.1%-owned by the family and managed solely by Lucy MacDonald, who has a significant amount of her pension invested in the trust.

Macdonald runs a book of high-quality global stocks designed to outperform the benchmark index of 50% FTSE All-Share and 50% FTSE All-World ex-UK Index over the long-term and has been reducing UK exposure. 'Having more overseas means that we have diversified the sources of income for the trust,' says the manager, pointing out that due to the plunge in sterling, the dividend is better covered.

'We're now a highly concentrated, conviction portfolio,' says MacDonald, who says the number of holdings 'has come down in waves' from the 100s in 2005 to 76 holdings at the end of October 2016. MacDonald invests in a spread of high-quality growth names

operating in different sectors and countries.

She favours large, well-financed businesses with global reach, pricing power and also corporate liquidity, by which she means 'the bank balance to either pay dividends, buy back shares or buy other companies'.

'We do have a bit of a focus on consumer stocks, healthcare and technology and some of these names have become more expensive, but I don't think there's too much valuation risk in healthcare.'

In the tech space, 'we have decent exposure to **Accenture (ACN:NYSE)**,' says the manager referring to the consulting and outsourcing services provider. 'Accenture benefits from large business transformation projects as the world goes online,' she explains.

'We also have exposure to **Microsoft (MSFT:NDQ)** where growth is accelerating because of the growth of its cloud business, Azure.' A strong recent contributor, she welcomes Microsoft's payment of a healthy dividend – 'it is a

signal of Microsoft being an adult company rather than being ex-growth' – and says the tech titan continues to perform well driven by the cloud computing business.

Another good portfolio performer is **TGS Nopec Geophysical (TGS:OL)**, a Norway-based geophysical consulting and contracting services provider. Positive third quarter revenue growth of 17% beat consensus forecasts. The company has a strong order book and should continue to do well as the oil services cycle recovers.

MEDIA ANALYTICS

Brunner continues to hold **Nielsen (NLSN:NYSE)**, whose media analytics allow customers to assess the value generated by their advertising spend.

Some profits have been taken on sports products powerhouse **Adidas (ADSGn:F)** following a nice recovery. 'Its competitive position versus Nike has improved and it is seeing market share gains in the US and China,' remarks MacDonald.

Other interesting holdings include **Amphenol Corp (APH:NYSE)**, a US-listed electronic component manufacturer MacDonald believes can generate double-digit sales growth by increasing market share and completing acquisitions.

Another prized holding is **Priceline (PCLN:NDQ)**, the travel website operator which is seeing off **Expedia (EXPE:NDQ)**. 'There's no dividend but it does provide structural growth,' says MacDonald, 'as only 60% of travel around the world is booked online.'

Brunner
- 16.9%
discount



Imperial is pick of the bunch

Top tobacco stock available at what looks like knock-down price

Investment Perpetual's star UK stock picker Mark Barnett says **Imperial Brands (IMB)** is the pick of the London-listed tobacco stocks at present – and you can see why.

Imperial trades on a September 2017 price-to-earnings ratio of 12 according to analyst forecasts – astonishing for a high quality mega cap stock.

To recap, Imperial more than doubled earnings per share over the last decade – and management targets imply it can probably do so again over the next 10 years, with earnings per share growth projected at between 4% and 8%.

Imperial's stock price has increased 10.9% a year over a period which included the deepest recession in 80 years.

Earnings also benefit from translation of overseas profits into a sterling – though this could reverse if the UK exchange rate strengthens.

A deal last year to acquire parts of US outfit Lorillard in a carve up with **Reynolds American (RAI:NYSE)** adds potential risks and rewards in North America.

Overall, Imperial, which boasts brands including Davidoff and Gauloises cigarettes as well as Cohiba, Montecristo and Romeo y Julieta cigars, looks like a great business.

KNOCK-DOWN PRICE

So what's the reason for the knock-down price?

Berenberg analyst Jonathan Leinster says Imperial's latest set of results showed tobacco volumes contracted 7%. Volume decline is expected in tobacco as smoking rates fall across the world but Imperial's performance looks a little weaker than its rivals.

All of the volume decline was recouped by price increases: pricing power is the way companies like Imperial are able to increase profit year-on-year even as volumes decline.

Imperial aims to arrest volume decline with more competitive pricing, which led to Leinster reducing

2017 earnings per share forecasts by 1% to 284p. And the market remains undecided on the strategy.

'This is unlikely to be an area where management is given the benefit of the doubt until proved otherwise,' writes Leinster in a 9 November note following Imperial's full-year results to 30 September.

'However, first half organic sales growth in fiscal 2017 is expected to be negligible as the investment will include a considerable reduction in stock keeping units (SKUs) or different variants of the same brand within six to eight markets, temporarily reducing shipments, as well as additional price promotions, which will reduce price/mix temporarily.'

PRICE-TO-MIX

Price-to-mix is where a company sells the same number of units but sales increase because customers are buying more expensive products.

Overall, we think Imperial chief executive Alison Cooper is more than capable of managing these issues and improving volume performance.

Risks investing in tobacco stocks include the potential for regulatory penalties, with all companies in the sector incurring substantial legal expenses to defend them against claims.



SHARES SAYS: ↗

Cheap for no reason at £34.96.

BROKER SAYS: 13 4 1

Central Asia Metals fired up by growth plan

Copper producer signs up new project and nears development decision on another asset

The future is starting to look very interesting for copper producer **Central Asia Metals (CAML:AIM)**.

Having essentially been a single asset business since joining the stock market in 2010, the £251m cap group now has two additional projects that could significantly enhance the amount of metal it produces in the medium term.

Central Asia Metals' share price has recently been given a boost by a surge in the copper price. The commodity price improvement should result in higher free cash flow from its flagship Kounrad project in Kazakhstan.

NEW PROJECT

The company has announced a deal to buy 80% of an exploration project in Kazakhstan called Shuak. It is required to spend \$2m on exploration over the next five years to gain ownership.

Central Asia Metals has run some material from trial mining by the previous owner through its processing plant at Kounrad. It has proved the material is good enough to be run through the same leaching process as used at Kounrad.

Shuak has been subject to significant amounts of exploration in the 1970s and 1980s, yet it is nowhere near ready to start production according to business development director Gavin Ferrar.

He says Central Asia Metals will undertake trenching and drilling in the near term with a view to publish a resource statement at the end of 2017. 'We expect to undertake a study in two to three years' time and then a construction decision can be made,' adds Ferrar.

SEARCHING FAR AND WIDE

Central Asia Metals has been seeking growth projects for some time. Ferrar says the company has looked at many projects that could involve reprocessing mine waste, as per the set-up at Kounrad. 'We've looked at waste dumps in

Kazakhstan, Chile and Peru; none of them are nearly as attractive as Kounrad.'

The most advanced project under consideration is Copper Bay in Chile. Central Asia Metals should soon announce whether it will develop this project, in which it currently has a 75% stake.

A definitive feasibility study is expected to be finished next month with an announcement from the company likely in early 2017. Permitting could take another six to 12 months, says Ferrar.

The business did have a several Mongolia-based exploration projects when it floated six years ago but these gradually fizzled away.



SHARES SAYS: ↗

Although the growth projects change its risk profile, we remain positive given the company's solid track record. Buy at 224p.

BROKER SAYS: 4 2 0

Cambria's got gas in the tank

Well-funded franchised motor dealer looks significantly oversold

A sell-off at franchised motor retailer **Cambria Automobiles (CAMB:AIM)** looks overdone. A prospective price to earnings ratio (PE) of 6.7 discounts sector risks yet ignores the small cap's cash generation and exciting future prospects.

Motor retailers have de-rated since before the Brexit vote. Investors have priced in an uncertain consumer outlook and called the top of the new car market.

Cambria's full year results (22 Nov) showed 38% growth in pre-tax profit to £10.6m as sales topped £600m for the first time, as well as a reassuring £400,000 net cash position.

Caution over softening new car margins prompted analysts to downgrade profit estimates, yet Cambria has a rock-solid balance sheet – 41p per share property asset backing according to N+1 Singer – and is steered by experienced management that has grown the business in conditions fair and foul alike.

There should be more to come from recent acquisitions that have beefed up Cambria's premium and high luxury business, while

tougher market conditions are already increasing acquisition opportunities in a fragmented market.

New forecasts for the year to August 2017 from N+1 Singer, which suggests fair value of 73p, point to slightly lower adjusted pre-tax profit of £10.4m (2015: £10.6m) for earnings per share of 8.2p and a flat 0.9p dividend.



SHARES SAYS: ↗

A markdown to 55p presents a buying opportunity at Cambria Automobiles. (JC)

BROKER SAYS: ○ ○ ○

Fair wind for Lamprell

OIL RIG REFURBISHMENT and construction outfit **Lamprell (LAM)** retains its recent share price momentum off the back of a \$225m contract on a new wind farm in the North Sea from ScottishPower Renewables. Deliveries are to be made between March and October 2018. The contract looks material in the context of the \$400m to \$500m guided revenue for 2017. (TS)

Growth spice for SciSys

THE £9.7M acquisition of German newsroom software supplier Annova could help UK IT solutions minnow **SciSys (SSY:AIM)** discover its growth spark. Annova will enhance its media and broadcasting solutions business. Analysts have hiked 2017 earnings forecasts by 25% to 4p per share. SciSys shares have rallied about 55% to 111p since the summer. (SF)

Mothercare in a muddle

CONTINUED DOWNWARDS share price pressure means maternity products retailer **Mothercare (MTC)**, no favourite of *Shares*, trades firmly in small cap territory with a £189.7m market tag at just 111p. Poor first half figures (24 Nov) confirmed the UK turnaround remains uncertain, sales and margins hit by poor weather as well as warehouse changes. (JC)



WHY SMALL CAP FUNDS GIVE YOU EXTRA

THE SECOND OF OUR 2-PART FEATURE EXPLAINS HOW YOU CAN
BENEFIT FROM FUND MANAGERS' PRIVILEGED ACCESS

Small cap fund managers typically enjoy the privilege of being able to meet company bosses on a regular basis. They get a chance to sit down and properly understand the businesses' risks and opportunities.

This can provide valuable information on which to base investment decisions – not just the initial purchase of shares but also to reassess the investment case as time goes on.

Unicorn Asset Management fund manager Simon Moon says meeting management teams is a 'hugely important' part of his investment process. 'It's highly unlikely we'll invest prior to meeting a team,' he adds.

Retail investors – namely the general public – rarely have the luxury of spending quality time with plc bosses. They are often limited to the information provided in company announcements and the occasional video interview on a company's website.

Investing in small cap funds can therefore give retail investors access to that investment edge possessed by fund managers.

In the second of our two-part series, we look at three more small cap funds (in addition to the three funds we featured last week) and explain their attractions from an investment perspective.

QUALITY LEADERSHIP

The quality of leadership arguably has a far greater influence in the relative success, or not, of a smaller company than a multi-billion dollar business which has lots of managers.

That's a key reason why Katen Patel, who runs the **JP Morgan UK Smaller Companies Fund (GB0030880255)** alongside colleague Georgina Brittain, meets a lot of management teams.

'We are making sure that the management is strong and is disciplined with its funds,' he says. 'We like cash generating companies with healthy

balance sheets.'

One of the chief stock selection criteria he uses is making sure that earnings growth can be repeated year after year. When he identifies a track record for 'sustainable earnings progression' it can lead to a long-term relationship with the company since 'we like to run our winners,' Patel explains.

Patel tends to steer clear of certain types of company. He's not a huge fan of biotech, for example, which can often be 'three or more years away from real revenues' and sometimes even longer before they make a profit.

His investment style will chime with many investors that favour a more risk-averse policy.

Patel has also noted the distinct change in demand for dividends. Many small companies are not noted for paying cash rewards to shareholders. They are often early in their growth curve where surplus cash can be better used to fund expansion.

Equally, he thinks companies themselves are more aware of the investor appetite for dividends. There is a risk that firms pay dividends to lure investors when in fact that's not the best use of their money.

GLOBAL COVERAGE

Another small cap surprise, in some cases, is their worldwide reach. 'A lot of smaller companies are more global than you might expect,' he says.

Patel cites infrastructure engineer **Hill & Smith (HILS)** as a good example, hence why he's been building his fund's stake recently.

The business is growing both in the UK and overseas, and is pitched as a possible winner from extra infrastructure spending anticipated under Donald Trump's presidency.

Patel has been buying more shares in promotional products manufacturer **4imprint (FOUR)** and housebuilder **MJ Gleeson (GLE)**.

A newish name to the fund's portfolio is **Quarto (QRT)**, which publishes coffee table-style books. 'It got in new management three years ago who are turning the business round, yet it still trades on a PE (price to earnings ratio) of six, with a 4% dividend yield,' Patel states.

GRAB THE MARKET'S NEW NAMES

Early access to IPOs (initial public offerings) is another reason why some investors will choose the

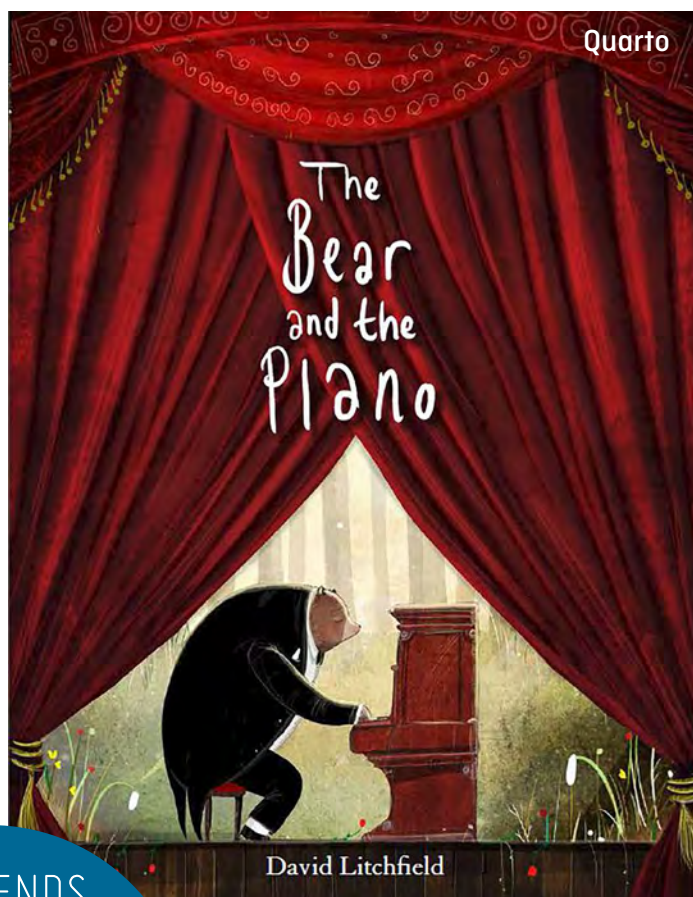
DIVIDENDS
AREN'T ALWAYS
A GOOD SIGN —
SMALL CAPS MAY
HAVE BETTER USE
FOR THAT
CASH

funds route rather than waiting to buy the stock directly.

'We have unprecedented access to management and in-house experts,' the fund manager says.

In August his fund participated in the £26.6m fund raising of sound proofing materials designer **Autins (AUTG:AIM)** with Patel particularly noting its 'great visibility'. The shares are up 37% in value since the stock market float.

A month later Patel and his team took a stake in **Hollywood Bowl (BOWL)**, the bowling alley operator.

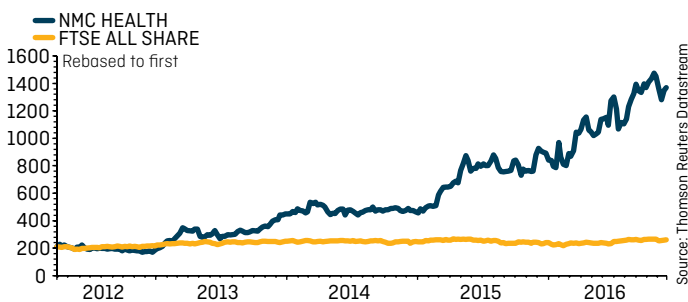


STRUCTURAL GROWTH DRIVERS

Henderson fund manager Neil Hermon looks for companies with structural growth drivers. 'I seek' long-term underlying trends – for example changing demographics, over-arching governmental policies, or technological innovations – drive revenues and enable businesses to grow regardless of what's going on in the wider economy.'

Hermon manages **Henderson Smaller Companies Investment Trust (HSL)**. One holding that fits the bill for structural trends is Middle East hospitals company **NMC Health (NMC)**.

Admittedly NMC is now a mid-cap stock worth £2.5bn rather than a smaller company as its market value has increased sevenfold in the past four and a half years. However, that performance shows the potential gains to be made if you pick the right stock.



'Small and mid-size companies – where we focus our attention – serve to further enhance exposure to the underlying structural growth trends.

'Their inherently small, nimble, ambitious management teams, unencumbered by red tape or giant operations, are able to seek-out new markets, launch new products or services, or look at new ventures overseas; ultimately, to build sales rapidly and tap into the trends that underpin the business' success,' says Hermon.

'Growth investing is inherently risky; a delicate and volatile balance exists between top-line growth and share price performance. Increasing the reliability of revenues by gaining exposure to long-term structural trends strategically aims to mitigate some of these risks, and by looking at smaller companies to seek out these opportunities the exposure to these trends is only further concentrated.'

NICHE PREFERENCE

Simon Moon, manager of **Unicorn UK Smaller Companies (GB0031791238)** likes stocks that are profitable, generate cash and operate in niche areas of their chosen end markets.

'Companies at the smaller end of the market capitalisation spectrum don't tend to be as well covered by brokerage houses and as such don't have exhaustive earnings estimate consensus, as such we feel that by putting in the 'leg-work' we're often able to uncover some 'hidden gems' that are underappreciated by the market.'

Somero Enterprise (SOM:AIM) is the largest position in his portfolio. The AIM-quoted manufacturer of specialist concrete levelling machinery has seen its share price nearly double in the past year.

'The machinery increases the efficiency and productivity of a build site and is attractive compared to the manual alternative. The company is attractively valued, pays a well-covered dividend,' says Moon.

'It is exposed to markets which are being driven by significantly increasing infrastructure spending and as such is growing revenues and profits strongly. The international nature of the business means it's also a beneficiary of the strengthening US dollar.' (SF/JC/DC)





CHRISTMAS CRACKERS

Five gift-wrapped picks for festive portfolios

The Brexit vote looms large over the retail sector. A devaluation of the pound is set to import inflation, putting the squeeze on consumer spending which is already showing early signs of being affected by economic uncertainty.

Nonetheless, there are reasons to be positive near-term. Sterling weakness could persuade UK shoppers to spend more at home this year, while London shops are reporting strong growth in international shoppers due to the drop in the pound. Thus far, consumer confidence has held up better than feared and with rising prices expected in 2017, the nation's shopkeepers may benefit short term as consumers pull forward their spending.

WINTER WARMERS

The flurry of January Christmas trading statements is traditionally kicked-off by **Next (NXT)**. These

updates will give investors a picture of how retailers fared over the festive selling season, which began in earnest with this year's extended Black Friday and Cyber Monday bargains bonanza.

Many retailers have had negative experiences of US import Black Friday, citing disruption to Christmas trading patterns and squeezed profit margins. Though there are winners, as demonstrated by an increased amount of deals starting earlier than ever this year.

FinnCap analyst Roger Tejwani expects electronics retailers to trade well this Christmas given price rises from the new year have been well publicised. 'Overall, I'd expect it to be a fairly robust Xmas across the sector as people buy ahead before tightening their belts in the new year, albeit subject to how much of Xmas shopping is brought forward to Black Friday,' comments Tejwani.

Michael Stewart, retail analyst at **Panmure Gordon (PMR:AIM)**, believes Black Friday

Companies facing strong 'comps':
Debenhams,
ScS, Majestic
Wine



winners will include John Lewis as well as online fashion retailers **Boohoo.com (BOO:AIM)** and **ASOS (ASC:AIM)**, **Dixons Carphone (DC)**.

Oft-touted IPO candidate The Hut, the online health and beauty retailer behind the Myprotein sports nutrition brand, could also benefit. Among others, Stewart believes Black Friday losers will have included quirky fashion brand **Ted Baker (TED)**, whose website was down for hours at the start of Black Friday.

CONSIDERING THE 'COMPS'

One factor to consider in predicting the performance of a retailer is its festive performance last time out, as this tells you how easy or tough prior year comparatives will be to beat.

In 2015, **Marks & Spencer (MKS)** delivered its best ever Christmas in food, although like-for-like Clothing & Home sales fell 5.8% in the third quarter due to unseasonal weather and poor availability.

Rival Next's festive performance also suffered due to warm weather, though tougher competition for online arm NEXT Directory also had an impact. Clothing market conditions remain testing, yet there is potential for either retail giant to exceed the market's subdued expectations.

Companies enjoying weak 'comps': Next, Marks & Spencer, Sainsbury's, Game Digital

Argos, now part of the **Sainsbury's (SBRY)** stable, saw like-for-like sales melt by 2.2% due to volatile Black Friday trading, so could surprise to the upside with the help of same-day home delivery service FastTrack. One wildcard worth watching is **GAME Digital (GMD)**, the video games specialist whose Christmas 'comps' are so poor it might just serve up a positive festive surprise in January.

In contrast, **Debenhams (DEB)** faces demanding festive comparatives following last year's record Christmas, like-for-like sales up 3.7% in the seven week Christmas period to 9 January.

Luxury winners: Burberry, Hotel Chocolat

Sofas seller **Scs (SCS)** delivered strong growth in orders over the key Christmas and January sales period last time out, a performance which won't be easy to top, while **Majestic Wine (WINE:AIM)** trades against exacting 7.3% like-for-like growth in its legacy Majestic Retail business for the ten weeks to 4 January 2016.

Beneficiaries of bumper spending by overseas shoppers and a focus on gifting are likely to include luxury leader **Burberry (BRBY)** and premium chocolate brand **Hotel Chocolat (HOTC:AIM)**, while the incoming cold snap is positive for Superdry brand-owner **SuperGroup's (SGP)** outerwear ranges.

SHARES' FABULOUS FESTIVE FIVE

Dixons Carphone (DC.) 332.10p

DEMANDING COMPARATIVES are worth noting at electricals-to-telecommunications retailer **Dixons Carphone (DC.)**, which achieved 5% growth in like-for-like sales over the 10 weeks ended 9 January 2016. This reflected a record Black Friday and share gains in all markets for the merged retail titan. But another strong festive trading period looks in store for the Carphone Warehouse-to-Currys PCWorld brand-owner. Dixons Carphone's sheer scale and scope of its consumer electronic products range leaves it well placed to sustain positive top-line momentum and profit over the festive season. And with price hikes for electricals set to rise in the New Year, consumers are likely to jump on Dixons Carphone's heavily discounted televisions, laptops, mobiles and white goods over the extended promotional period. Shares in Dixons Carphone are also going cheap, having been marked down due to the uncertainties of the impact on the UK economy following the vote for Brexit, though the retailer is more than simply a UK or European play, rolling out stores in the US under a joint venture with **Sprint (S:NYSE)**. Based on Liberum's year to April forecasts of 30.8p of earnings and a 10.6p dividend, Dixons Carphone trades on a forward PE of 10.8 and offers a well-covered yield of 3.2%.

Boohoo.com (BOO:AIM) 121.5p

'I THINK **Boohoo.com (BOO:AIM)** will be one of the top performing apparel sites this week,' explained

Panmure Gordon's Michael Stewart on Black Friday. 'Boohoo has had momentum for the last couple of quarters and that should continue.' The fast-fashion online retailer's heavy investment in IT systems and ecommerce platforms leaves it set fair for Christmas. Deep discounts on affordable dresses, tops, jackets and footwear should prove popular with a youthful, web-savvy customer base growing in the UK, Europe and US and drive further forecast upgrades following January's Christmas trading statement. For the year to February, Panmure forecasts growth in earnings from 1.1p to 1.9p, rising to 2.5p thereafter.

Tesco (TSCO) 211.75p

FOR THE SIX weeks ended 9 January 2016, **Tesco (TSCO)** reported 1.3% growth in UK like-for-like sales, benefiting from lower prices and improved customer service. This metric that doesn't look unduly tough to beat given the renewed momentum behind the business under CEO Dave Lewis. Tesco has emerged as something of a consumer champion following its 'Marmitegate' victory, has returned to growth should make further win back additional market share this Christmas. Under UK & Republic of Ireland boss Matt Davies, the UK's biggest retailer has just delivered its biggest ever Black Friday event, slashing prices across electrical and home products as well as toys.

Marks & Spencer (MKS) 335p

UNLOVED RETAIL bellwether **Marks & Spencer (MKS)** delivered its best ever festive performance in food last year, sales up 17% in the key Christmas week, although like-for-like General Merchandise (now Clothing & Home) sales were poor. Third quarter like-for-likes fell 5.8% due to warm weather and poor product availability. So expectations are set low this Christmas, giving Marks & Spencer an opportunity to beat soft clothing comparatives and hopefully, deliver another robust turn in food as shoppers treat themselves to its premium food ranges. Sentiment towards M&S is poor in the wake of weak half year results (8 Nov) but new CEO Steve Rowe has outlined a sensible strategy to return M&S to sustainable profitable growth.

Card Factory (CARD) 244.72p

DISCOUNT gifts-to-greetings cards purveyor **Card Factory (CARD)** faces demanding comparatives, having enjoyed strong growth in non-card products last year. Yet we still see the retailer as a likely festive winner and share price weakness as a buying opportunity. Card Factory's cards and gifts ranging from Christmas hats and stockings to calendars and mugs should fly off the shelves as consumers look to deliver Christmas on a budget. Led by new CEO Karen Hubbard, Card Factory has invested in improving the quality of its ranges and its new cardfactory.co.uk site is growing from a low base. (JC)

SIDESTEPPING THE UK TO GET CONTINENTAL EUROPE EXPOSURE



TRUST OFFERS GENUINE DIVERSIFICATION AS IT TARGETS QUALITY GROWTH STOCKS

Assuming 'Brexit means Brexit' and the UK leaves the European Union, these islands may be viewed as more separate from continental Europe as an investment bloc.

Most funds are pan-European and include UK stocks alongside their mainland European counterparts. **Henderson EuroTrust (HNE)** is one of only a handful of investment trusts which offers exposure to Europe while entirely excluding the UK.

It is therefore an interesting selection for a UK investor seeking to add genuine geographic diversification to their portfolio.

STRONG TRACK RECORD

The investment trust has a good track record of outperforming its benchmark and of delivering dividend growth.

The £229m trust has been managed by Tim Stevenson for more than 20 years. He's been at its manager Henderson for three decades.

After a tumultuous year of political shocks Europe is bracing itself for several key votes in the coming 12 months. This includes an Italian referendum on political reforms and elections in France and Germany.

The failure of many pollsters to predict both the 'Leave' vote in the UK's referendum on EU

membership and the victory of President-elect Donald Trump means levels of uncertainty and stock market volatility could be high as investors fret about the possible election of a populist outsider such as France's Marie Le Pen.

'This may sound irresponsible,' Stevenson says, 'but it isn't necessarily changing the way I invest. I'm definitely concerned about it but I'm not convinced the rhetoric of the right-wing press in the UK is giving an accurate picture of the situation in Europe.'

FULLY INVESTED

Stevenson explains he is fully invested at present. 'In a way,

I'd like to be more cautious but Europe has lagged for such a long time there doesn't seem much point. If you put the politics to one side, and I accept the politics can make you pretty bearish, and look at what is happening in Europe, the economies are actually doing OK.

'Unemployment is coming down, growth is returning, and there's a gradual shift away from aggressive austerity to increased fiscal spending. The glass is as much half full as it is half empty and if you look at the companies, they are doing really well.'

Typically running a concentrated portfolio in the region of 50 holdings, he doesn't like the idea of 'a great long list of 120 to 140 names' says that would lead you as an investor to be indecisive.

BOTTOM-UP APPROACH

The approach focuses on bottom-up stock picking rather than a top-down thematic approach. 'I like to say that we offer exposure to the 50 most interesting investments in Europe at any one time,' he says.

Although Stevenson sees risks from a rotation out of quality into cyclical names, and has added to a previously underweight position in the banking sector, he reckons the quality growth companies in which he is invested do not look significantly overvalued.

Quoting consensus forecasts, he says his portfolio is set to deliver average earnings per share growth of 11% on a one-year view against 2.7% for the benchmark.

The average earnings multiple for his list of invested stocks

is 17.3 times, only a modest premium to the wider market's 15.3 times.

Weak sentiment has prompted an increase in the discount to net asset value (NAV) so far in 2016 but Stevenson says he is not a fan of pursuing large scale buybacks to address this issue, as it would eat into his liquidity.

POISED TO DELIVER

Ryanair (RYA:ID), which is listed in Dublin as well as London, was reintroduced into the portfolio of late with Stevenson describing it as a long-term winner with an excellent cash generation.

Another relatively recent addition is Swiss plumbing systems supplier **Geberit (GEBN:VTX)**.

FAST FUND FACTS

Henderson EuroTrust

Ticker: HNE

AIC Sector: Europe

Benchmark: FTSE World Europe ex UK

Share price: 910p

Estimated NAV: 979.6p

Discount: -7.1%

Yield: 2.89%

Source: Henderson Global Investors

TOP TEN HOLDINGS (AS AT 31 OCT 2016)

Fresenius Medical Care	3.30%
Fresenius	3.30%
Geberit	3.20%
Nestle	3.20%
SAP	2.90%
Deutsche Post	2.90%
Partners Group	2.80%
Novartis	2.60%
Amadeus IT Group	2.50%
SGS	2.40%

Source: Henderson Global Investors



He also likes **Deutsche Post (DPW:DE)** thanks to its ownership of leading mail logistics business DHL, which ties it in to growth in e-commerce.

'I'm afraid the idea of **Amazon (AMZN:NDQ)** flitting backwards and forwards with drones and single item deliveries isn't realistic; it just can't work on that kind of scale so I think the existing guys can do well.'

Turnover in the trust is particularly low at present but Stevenson's approach has a bias to the long-term. For example, the owner of high street fashion chain Zara, **Inditex (ITX:BME)**, has been part of the portfolio since its IPO in 2001.

The manager has sold some names which have disappointed including paper company **SCA (SCA:STO)** and German TV station **ProSieben (PSM:DE)**.

There has been some rotation within sectors such as a position in Swedish oil company **Lundin Petroleum (LUPE:STO)** exited in order to move into **Total (FP:EPA)** to gain access to the latter's dividend.

Watch out if you reinvest cash into pensions

Over-55s taking phased retirement or redundancy could be hit under pension proposals

People aged 55 and over who have enjoyed the flexibility offered by pension freedom could soon see their choices restricted under proposals put forward by the Chancellor.

In his Autumn Statement on 23 November, Philip Hammond said the current Money Purchase Annual Allowance (MPAA) – the amount people can invest back into their pensions after withdrawing money – will be cut from £10,000 to £4,000 from April 2017, subject to consultation.

WHAT IS THE MPAA?

The MPAA is the maximum amount of money you can pay back into your pension each year once you've taken income.

It isn't triggered when you take your 25% tax-free cash lump sum, but comes into effect if you withdraw income thereafter. Any money you pay back into your pension over the allowance won't benefit from pension tax relief.

Unlike the standard annual allowance – the amount people can pay into pensions before they start taking income – you can't carry forward any unused MPAA from previous tax years.

WHO WOULD THIS AFFECT?

The scenario of drawing an income and then paying money



**THE RULES
ARE CHANGING
WITH REGARDS
TO INVESTING
MONEY BACK INTO
PENSIONS**

back into a pension sounds strange, but there are several situations when you might want to do this.

The first practice is the one the Government wants to stamp out – when people withdraw money and pay it back into their pension in order to benefit from double tax relief.

This is the reason the MPAA was first introduced when pension freedom was launched in April 2015; the proposed reduction suggests the £10,000 limit was an insufficient disincentive.

Another group who will be hit are those who want to cash in a small pension pot. Cashing in a pension pot of £10,000 or under won't trigger the MPAA, but it will be triggered if the pot is larger than £10,000 and is being accessed via the Uncrystallised Fund Pension Lump Sum (UFPLS). The UFPLS allows you to access funds as a lump sum; 25% will be tax-free and the rest is taxed as income.

NEW RESTRICTIONS

Patrick Connolly, head of communications at financial advice firm Chase de Vere, says it is common for individuals to use the UFPLS to pay off their mortgage or treat themselves to a holiday. These people will now be restricted to paying £4,000 a year into their pension.

Following the MPAA reduction, a better way of paying off your mortgage might be to take a 25% tax-free lump sum from a larger pension pot so the allowance is not triggered.

For example, you could take £25,000 tax-free from a £100,000 pension pot without triggering the allowance, whereas cashing in a smaller £25,000 pension pot would trigger the allowance and only £5,000 would be tax-free.

THINKING ABOUT A STAGED RETIREMENT?

The rule change could also affect people who choose to take a staged retirement. A recent YouGov poll for Old Mutual Wealth found 30% of 50 to 75 year-olds expect a job to help fund their future retirement income needs.

Karena Woodall, consultant at Mattioli Woods, says many people who have reduced their working hours would have done so in the belief they could use their pension to supplement their income and still contribute up to £10,000 a year. Their ability to contribute to the future via a pension plan is effectively being restricted by 60%.

'What happens if the reduction to £4,000 results in them being subject to annual allowance charges? Mandatory scheme provisions require a tax charge of at least £2,000, based on the normal annual allowance of £40,000,' Woodall says.

MADE REDUNDANT THEN FOUND A NEW JOB?

People who have been made redundant at age 55 or older may also have started drawing an income, thus triggering the

**THE
RULE CHANGES
ARE PARTICULARLY
IMPORTANT TO ANYONE
WHO HAS BEEN
REDUNDANT AT AGE
55 OR OLDER, STARTS
DRAWING DOWN ON A
PENSION AND THEN
GETS A NEW
JOB**

MPAA. If they get a new job, their combined individual and company contributions could easily breach the new £4,000 annual limit.

'The reduction is significant for those who may find their circumstances change and they return to work or even take up a consultancy role,' says Claire Trott, head of pensions strategy at Technical Connection.

'They are earning income and may cease accessing their funds but there is no going back to the higher amount. It is unfair to penalise people who have been actively encouraged to flexibly access their benefits from age 55.

'Those that actually recycle any income into pensions is few and far between but these changes could adversely impact those that had no choice through redundancy or other reasons.'

PENSION PLANNING

Connolly says the MPAA reduction makes it even more important for people to think long and hard before taking pension benefits and understand the full implications of doing so.

If you have previously triggered the allowance, you'll

need to review how much you're investing into pensions in order to ensure your contributions are fully tax-efficient.

IS AN ISA THE SOLUTION?

If you have more than £4,000 to invest you could consider putting money into an ISA instead.

From April 2017, you'll be able to pay £20,000 into ISAs each year. This won't help you get around the issue of employer pension contributions, although Retirement Advantage's Andrew Tully says you could try asking for a higher salary instead of a pension contribution if you've triggered the MPAA.

Another alternative is to put the money into a venture capital trust (VCT) or Enterprise Investment Scheme (EIS), both of which offer up to 30% income tax relief, subject to various conditions such as holding the investments for many years.

Connolly says these are higher-risk investments and are only suitable for people who have a large portfolio, who have used up their pension and ISA allowances, and who are happy to take on more risk.

To avoid triggering the MPAA in the first place, Jon Greer, pensions expert at Old Mutual Wealth, suggests combining the use of pension tax-free cash with ISA withdrawals, tax-free bond withdrawals and capital gains (within the annual capital gains tax allowance). This will effectively extend the period over which higher future annual pension savings can be made.

'The best course of action is to take advice to consider how any pension withdrawals will impact your long-term ability to save into pensions,' Greer adds.

Autumn Statement brings stability for pensions

But there are still two important points to consider

Since 2010 savers have had to get used to a regular diet of cuts to pension tax perks and mounting complexity. Radical new freedoms have been introduced, an overhaul of the pensions tax regime proposed and a secondary annuities market unveiled (before being abruptly scrapped) in recent years.

Pensions reform used to move at a glacial pace. No longer. While rapid changes in policy are sometimes welcome and necessary, they can also give you the sense of the retirement goalposts being constantly shifted.

NO NEWS = GOOD NEWS

So for savers, the big news in last week's Autumn Statement was...no news! And in pensions, no news is generally good news.

Although the Treasury couldn't resist tinkering with the annual tax-free allowance for those who have accessed their pension flexibly from age 55, Chancellor Hammond's speech provided relative stability for savers.

Nonetheless, there were a couple of eye-catching announcements worth noting:

• Salary sacrifice tax perks curbed

Existing rules allow you to give up a portion of your salary in return for receiving benefits from your employer. Such



schemes, known as salary sacrifice, are popular because they allow both you and your employer to save money – namely by not paying tax or National Insurance on the salary you give up.

Salary sacrifice has become increasingly popular in recent years, with everything from bikes to laptops and mobile phones offered by employers. Fearful of a potentially significant loss of tax revenue, the Treasury has decided to remove the benefits of salary sacrifice in most circumstances – meaning these benefits will be taxed in the same way as income.

The change will come into force in April 2017, although arrangements relating to pensions (including the provision of regulated financial advice,) childcare, the cycling to work scheme and ultra-low emission cars are excluded.

Salary sacrifice deals in place before April 2017 will be protected until April 2018, and arrangements for cars, accommodation and school fees will be protected until April 2021.

• Pensions scammers targeted

Following a campaign led by financial adviser Darren Cooke and backed by AJ Bell, the Government will also consult on banning pensions cold-calling as part of a wider clampdown on fraudsters.

In addition, policymakers plan to hand providers more power to block transfers to dodgy schemes, and make it harder for such schemes to be set up in the first place.

This will hopefully mark the beginning of a process to make the retirement market safer for all investors.

TOM SELBY
Senior analyst, AJ Bell

FRIDAY 2 DECEMBER

FINALS

URBAN & CIVIC UANC

INTERIMS

BERKELEY BKG

AGMS

AXA PROPERTY APT

ECONOMICS

UK

CONSTRUCTION PMI

EU

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US

NON-FARM EMPLOYMENT CHANGE

MONDAY 5 DECEMBER

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EVGEN PHARMA EVG

PLASTICS CAPITAL PLA

RENEURON RENE

ECONOMICS

UK

SERVICES PMI

TUESDAY 6 DECEMBER

INTERIMS

CONSORT MEDICAL CSRT

IMAGINATION TECHNOLOGIES IMG

IOMART IOM

AGMS

DX DX.



BERKELEY

Deutsche Bank says there is anecdotal evidence that overseas buyers are returning to the London property market, buoyed by sterling's devaluation. This would be good news for London-focused housebuilder Berkeley (BKG) leading into its half results on 2 December. The investment bank says investors should focus on the 'cash due on forward sales' metric in the results.

ECONOMICS

BRC RETAIL SALES MONITOR

WEDNESDAY 7 DECEMBER

FINALS

REDHALL RHL

INTERIMS

KROMEK KMK

AGMS

BIOVENTIX BVXP

GATTACA GATC

UK MORTGAGES UKML

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INDUSTRIAL PRODUCTION

MANUFACTURING PRODUCTION

THURSDAY 8 DECEMBER

FINALS

CARETECH CTH

INTERIMS

POLAR CAPITAL POLR

AGMS

AB DYNAMICS ABDP

BILLING SERVICES GROUP BILL



IMAGINATION TECHNOLOGIES

Shares in graphics microchip designer Imagination Technologies (IMG) have surged through 2016, bolstered by the pound's plunge, the sale of its heavily loss-making PURE digital radio business, but mainly thanks to increasing takeover speculation. That may or may not play out but in the meantime investors need to know if the ship has been steadied and the company has returned to some form of growth. We'll find out on 6 December when it publishes half year results. (SF)



REDHALL

Engineer Redhall (RHL:AIM) is expected to report a break-even result with full-year numbers on 7 December after losses last year. Keep an eye out for new orders, in particular. Redhall reported a £21m manufacturing backlog at 17 October and is well positioned for nuclear new build work at Hinkley.

GULF KEYSTONE PETROLEUM	GKP
GLEESON MJ	GLE
GREEN REIT	GRN
PLEXUS	POS

EX-DIVIDEND

DEBENHAMS	DEB	2.4P
DFS FURNITURE	DFS	7.5P
F&C COMMERCIAL PROPERTY	FCPT	0.5P
ICAP	IAP	6.6P
3I GROUP	III	8P
INVESTEC	INVP	10P
K3 BUSINESS TECHNOLOGY	KBT	1.75P
NORTHAMBER	NAR	0.1P
NETCALL	NET	2.05P
NEXT	NXT	53P
OIL & GAS DEVELOPMENT	OGDC	\$0.14
PAN AFRICAN RESOURCES	PAF	0.88P
ROYAL MAIL	RMG	7.4P
WINCANTON	WIN	3P
WATERMAN	WTM	1.8P

ECONOMICS

UK

GOODS TRADE BALANCE

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KEY

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