STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 26 / ISSUE 04 / 01 FEBRUARY 2024 / £4.49

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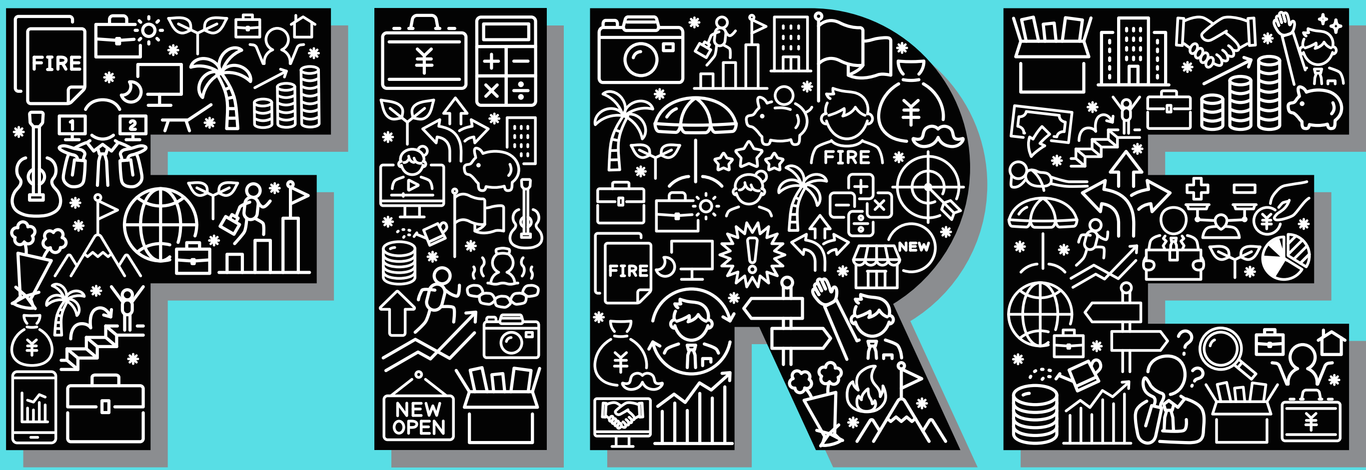

FINANCIAL INDEPENDENCE RETIRE EARLY

IS THE MOVEMENT A PLAN WORTH PURSUING OR A PIPE DREAM?

PFIZER What next for Covid vaccine winner as shares hit 10-year lows?

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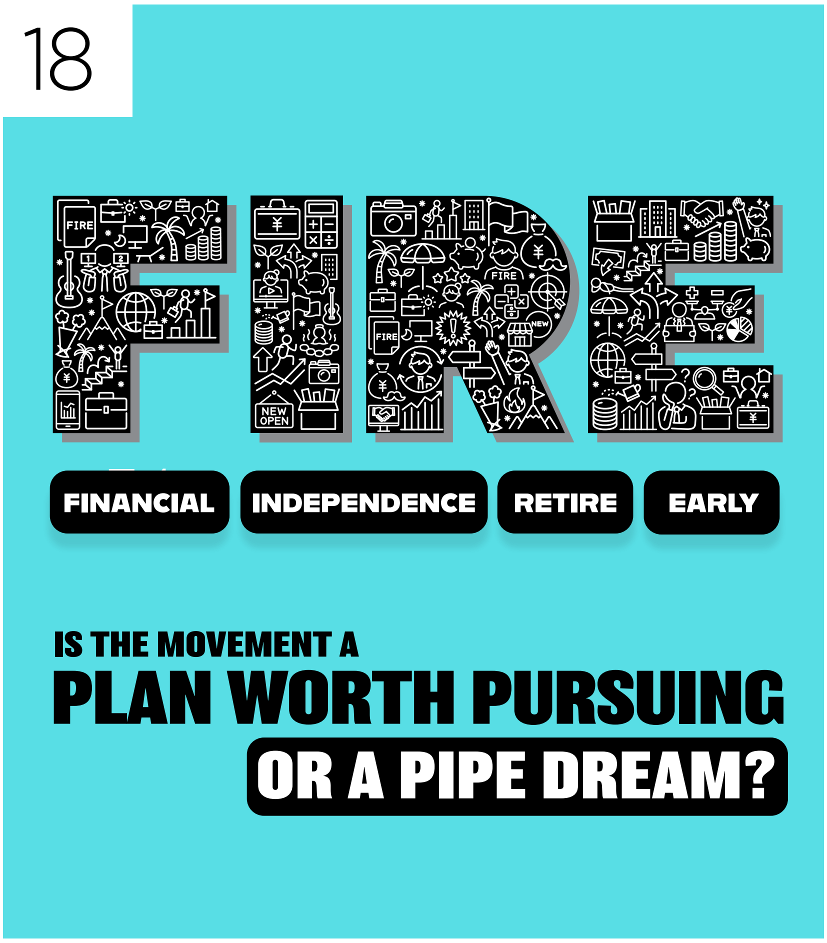

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Three important things in this week’s magazine

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FIRE – financial independence, retire early

Examining the practicalities behind the emerging movement with reference to real-world examples of FIRE proponents and expert opinion.

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Get beneath the surface of the cosmetics industry

Why the ‘lipstick effect’ is supporting the sector and the names which are best placed for 2024.

3

What will it take to lift Pfizer from 10-year lows

Pharmaceuticals firm has endured a difficult time coming out of the pandemic as demand for Covid-related vaccines and treatments has waned.

Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we’ve written a variety of news stories online that do not appear in this magazine, including:

WPP shares lifted by medium-term financial targets upgrade and £250 million AI investment

Pets at Home warns on profits as accessories trends remain soft

Premium drinks group Diageo suffers as consumers trade down

Speedy Hire shares drop 17% on full year profit warning


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Chinese stock market rocked by $330 billion Evergrande liquidation

Government introduces support package for stocks and short-selling curb

China is once again in the spotlight after a Hong Kong high court pulled the plug on negotiations to save the world's most indebted property developer **China Evergrande (6666:HKG)**.

Shares in Evergrande were suspended at HK$0.16 and are unlikely to reopen again after a judge ruled 'enough is enough' and appointed liquidators to work through the company's $333 billion of liabilities.

Most of the firm's debt is owned by mainland Chinese companies, although around $20 billion is thought to be owned by offshore investors and there will a great deal of interest in how they are treated.

Evergrande was founded in 1996 and lent heavily on borrowing to fuel its growth, becoming the largest dollar-debt borrower among its peers and at one stage the country's biggest developer by sales.

In 2020 it had a liquidity 'scare' and promised to halve its debt to $100 billion by 2023, but in 2021 it was late paying interest on some of its bonds and in December that year it missed payments altogether.

Negotiations have been ongoing ever since, and it was widely thought the Chinese government would eventually step in with some kind of bailout, so the decision to wind the company up will send reverberations through the economy.

Construction accounts for as much as 25% of Chinese GDP (gross domestic product), and Evergrande has tens of thousands of units either built but unoccupied or under development meaning the process of liquidating its assets will take years.

Considering the ongoing weakness of the housing market, a fire sale of assets is likely to depress prices even further and damage homebuyer confidence further, not to mention the knock-on effect on the rest of the quoted property sector.

As well as its real estate business, Evergrande owned a services company and an EV (electric vehicle) maker, which had yet to actually make any EVs, and both will likely have to be liquidated to pay creditors.

The Chinese authorities have already cut the reserve requirement for banks, to encourage them to lend, and promised stimulus measures to prop up the ailing economy which has yet to recover from the strict 'zero-Covid' restrictions applied during the pandemic.

This weak growth momentum has translated into a near-60% fall in the MSCI China index since early 2021, while Japan's Nikkei index hits 34-year highs and the S&P 500 index hits new record highs.

Reports recently began circulating that state-owned companies would commit around $300 billion of offshore money to buy Chinese stocks listed in Hong Kong.

Now, the government has introduced a ban on short-selling in a further attempt to stop the stock market's slide with further measures promised. [IC]

Pfizer beats earnings expectations but still has a lot to do to recapture former glories

Shares trading around decade lows in the run up to fourth quarter update

Pharmaceutical firm **Pfizer (PFE:NYSE)**, whose name has been synonymous with Covid-19 vaccines and treatments, is showing signs of life after a very difficult period for the company and its share price.

Languishing around 10-year lows in the run up to its fourth update on 30 January, the company managed to beat analysts' gloomy expectations.

With the shares trading at less than half their pandemic highs around $60, shareholders might have been hoping for a larger reaction to the numbers but the lack of any upgrade to 2024 guidance, reflecting a new and probably welcome spirit of conservatism among management, and a miss on revenue may have kept a lid on enthusiasm.

Adjusted earnings per share came in at $0.10 against a consensus $0.18 while revenue was down 41% and a smidge below the consensus forecast at $14.25 billion. The culprit for the downwards trajectory in sales is waning demand for its Covid-related products. The company has also been hit by setbacks including a halt to the development of twice-daily formulation experimental obesity drug Danuglipron after seeing significant side effects.

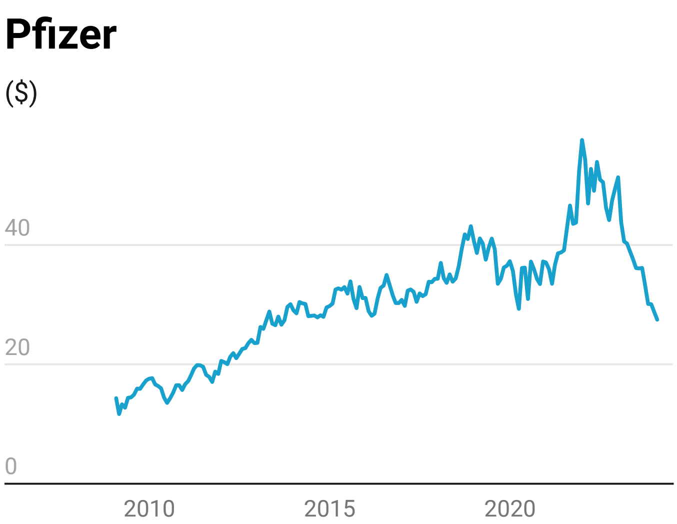


Chart: Shares magazine • Source: LSEG

Obesity drugs are a boom area for the pharma industry and have helped propel the share prices of Pfizer's rivals like **Novo Nordisk (NOVO-B:CPH)** and **Eli Lilly (LLY:NYSE)**. Pfizer is looking to take costs out of the business, largely by making cuts in research and development but this could exacerbate a looming problem for the business, of which more later.

The recent completion on the purchase of Seagen for $43 billion bolsters the company's presence in oncology. The flagship drug in the Seagen portfolio is probably Padcev which has been approved for first-line bladder cancer. Berenberg forecasts peak sales of $3.5 billion. The overriding attraction of Seagen was probably its ADC (antibody-drug conjugate) platform.

Pfizer believes this can revolutionise cancer therapies in the same way as the mRNA technology employed by Pfizer and **Moderna (MRNA:NASDAQ)** for their respective Covid vaccines has transformed this area of medicine.

However, Pfizer is not the only participant in the ADC space and it could face mounting competition here.

An oncology-focused investor event on 29 February may help convince markets Pfizer has renewed growth potential. However, it has a lot to do to forestall a big drop off in sales in the second half of this decade as drug patents expire. Even plugging in Seagen, Berenberg still doesn't think the patent expiry hole can be plugged after 2028. Until the market is convinced the company can reignite its sales potential a valuation much above the current 12.1 times 2024 earnings may remain out of reach. [TS]

Luxury goliath LVMH shows resilience but Diageo serves up sobering results

Sector updates show dispersion in fortunes as affluent consumers grow more selective

Post-Christmas updates from the industry demonstrate that not all luxury goods companies are created equal, with sector players experiencing contrasting fortunes as the post-pandemic boom normalises and well-heeled shoppers prove more selective.

On 25 January, the world's largest luxury goods group **LVMH (MC:EPA)** confounded investors' gloomy expectations by delivering better-than-expected fourth quarter organic sales growth of 10%. This reassured investors about the sector's resilience and triggered a rally in the shares, dragging rivals **Hermes (RMS:EPA)**, **Richemont (CFR:SWX)** and **Burberry (BRBY)** up in sympathy.

LVMH's Q4 growth rate represented an improvement on the 9% growth seen in the third quarter amid resilient demand for the conglomerate's high-end products over Christmas, although growth for 2023 as a whole slowed versus 2022.

Controlled by French billionaire Bernard Arnault, LVMH is diversified across multiple higher positioned brands including Louis Vuitton, Christian Dior, Givenchy, Tiffany, TAG Heuer and Hennessy cognac, which spark desire among its well-heeled clientele.

In contrast, rainwear-to-leather goods seller Burberry is a mono-brand business which issued a post-Christmas profit warning (12 January) amid ongoing sales deceleration, while **Watches of Switzerland (WOSG)**, the high-end timepieces and jewellery-focused firm, also downgraded guidance after a disappointing Christmas.

Premium drinks companies such as **Diageo (DGE)** and spirits rival **Pernod Ricard (RI:EPA)** offer exposure to similar themes as the luxury sector, but their gross margins are lower and they appear less immune to economic downswings than 'genuine' luxury companies of which LVMH is the perfect exemplar.

Johnnie Walker-to-Smirnoff maker Diageo's first half results (30 January) missed expectations at the top and bottom line amid weak sales in the Americas to leave question marks hanging over its true luxury credentials as consumers feel the squeeze.

Net sales dropped 1.4% to $11 billion in the six months to 31 December 2023, primarily driven by a 23% drop in Latin America and Caribbean sales driven by customers trading down to cheaper alternatives which triggered November's profit warning.

Diageo's sales in North America were down 1.5% as it maintained its focus on pricing and margins in order to drive what it calls 'high-quality share growth' in its largest region. 2024 is likely to be tough for the drinks giant, which guided to a year-on-year organic operating profit decline expected for the second half, although Diageo does foresee a gradual improvement in its organic sales growth rate in the second half. [JC]

Contrasting fortunes in the luxury sector

Rebased to 100

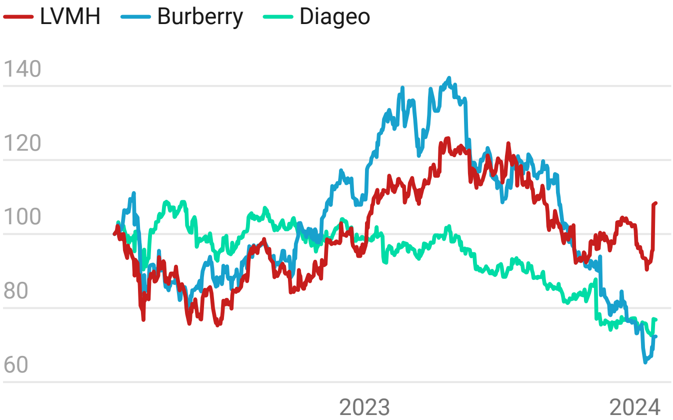


Chart: Shares magazine • Source: LSEG

InterContinental Hotels continues to benefit from strong travel demand

Booked revenue for groups and meetings was 37% higher than 2019

Shares in global hotels operator **Intercontinental Hotels (IHG)** have put in a stellar performance since the onset of the pandemic, gaining 175% since March 2020.

Over the last 12 months the shares have continued to notch-up new highs and are up around a third compared with a 2% drop in the FTSE 100.

Stronger than expected trading has been a key driver with consensus analyst earnings forecasts rising close to double digits over the last year according to Refinitiv data.

At the third quarter trading update (20 October) the Holiday Inn hotels operator said travel demand remained healthy.

RevPar (Revenue per available room) increased 10% compared with 2022 which marked the fifth quarter of sequential improvement exceeding pre-pandemic highs.

The company highlighted strong room occupancy levels across the group of 72%, around one percentage point behind 2019 which further confirms the 'near complete' return to pre-Covid levels of demand.

Intercontinental Hotels

(p)

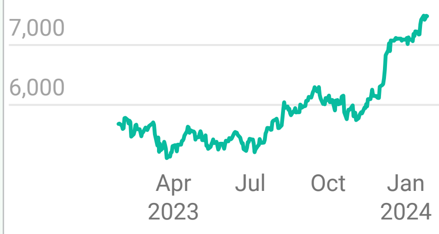


Chart: Shares magazine • Source: LSEG

After announcing a $750 million share buyback in February 2023 which is largely completed, IHG will have returned $1 billion to shareholders in the year including dividends.

It is equivalent to 10% of IHG's market capitalisation at the start of 2023. Full year results are expected to be announced on 20 February. [MG]

Why shares in fashion victim Superdry have slumped 50% year-to-date

The hard-pressed jackets-to-hoodies seller is having to cut its cloth amid alarmingly weak sales

It has been a dire start to 2024 for **Superdry (SDRY)**, the Julian Dunkerton-steered fashion brand whose shares are down almost 50% year-to-date, extending one- and five-year losses to 86% and 96% respectively.

The latest downward lurch reflects a pre-Christmas profit warning (19 December 2023) pinned on the challenging retail market and one of the warmest autumn seasons on record which persisted through the Christmas period, impacting demand for Superdry's autumn/winter 2023 ranges.

Downbeat first half results (26 January 2024) confirmed a woeful festive period with group sales down 13.7% in the 12 weeks to 20 January 2024 amid heavy sector-wide discounting, although Superdry did benefit from some 'more encouraging trends during the recent cold weather period'.

The retailer also announced it had lost its fourth finance director in five years with Shaun Wills to step down next month and hand over his spreadsheets to Giles David.

On 29 January 2024, Superdry confirmed press speculation that it was working with advisors to explore the 'feasibility of various material cost saving options' with media reports suggesting a radical restructuring involving significant numbers of store closures and job cuts was under consideration.

Superdry

(p)

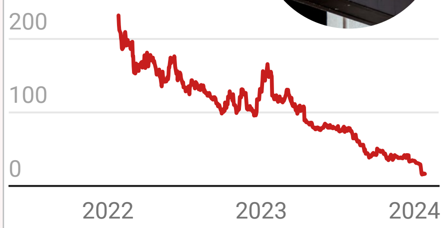


Chart: Shares magazine • Source: LSEG

Superdry is set to deliver more than £40 million in savings this financial year, ahead of the initially-stated £35 million target, with 'more than £20 million of those savings already achieved in H1'. [JC]

Vodafone trading update could include positive share-price catalyst

Mobile operator faces regulatory issues at home

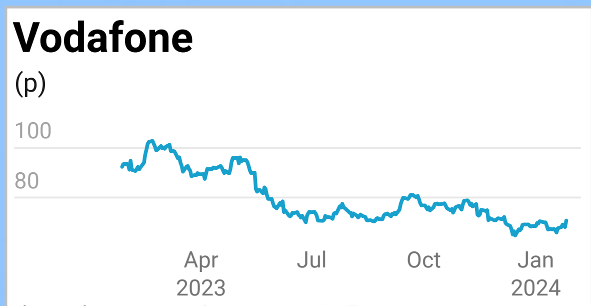


Chart: Shares magazine • Source: LSEG

Investors in mobile operator **Vodafone (VOD)** will be keen to hear at next week's third-quarter trading update (5 February) whether a deal for its Italian business is in the offing.

Swiss operator **Swisscom (SCMN:SWX)** and French firm Iliad have both expressed an interest, with Iliad valuing Vodafone Italia at a cool €10.5 billion including debt.

This follows news last month of the first successful test of advanced 5G uplink technology in Europe, with upload speeds of up to 273Mbps, and the signing of a 10-year strategic partnership with tech giant **Microsoft (MSFT:NASDAQ)** to develop cloud and AI (artificial intelligence) services.

So far this year, Vodafone shares are up 1p or 1.4% to 69.6p, but over the last year they have lost 23% as the telecom sector has fallen out of favour.

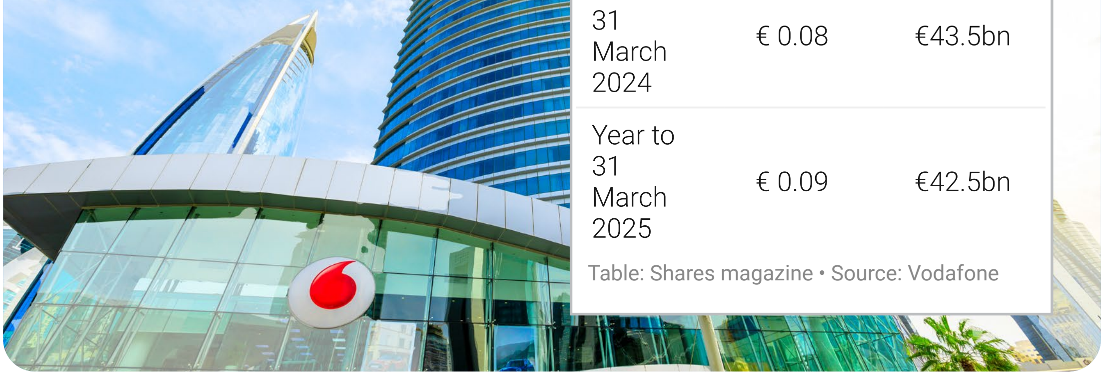
News on the home front has been less positive, too, with Ofcom announcing it would look into inflation-linked contract price hikes operated by Vodafone and its rivals.

The regulator argues inflation-linked price rises cause 'substantial amounts of consumer harm' by complicating the process of shopping for a deal and making competition less effective.

Meanwhile, the CMA (Competition and Markets Authority) is investigating Vodafone's proposed merger with Three over concerns it could lead to higher bills for customers.

The deal, announced last year, would create the UK's largest mobile operator by far with 27 million customers, and Three chief executive Robert Finnegan claims the tie-up will give customers faster, more reliable coverage 'without paying a penny extra'.

However, the Unite union has estimated bills could surge by up to £300 if the merger is approved. [IC]



What the market expects of Vodafone

	EPS	Revenue
Year to 31 March 2024	€ 0.08	€43.5bn
Year to 31 March 2025	€ 0.09	€42.5bn

Table: Shares magazine • Source: Vodafone

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS

5 February: Porvair

7 February: British American Tobacco, Unilever, AstraZeneca

FIRST-HALF RESULTS

7 February: PZ Cussons, Barratt Developments, Ashmore Group

8 February: Redrow

TRADING ANNOUNCEMENTS

8 February: Compass, Tate & Lyle

McDonald's expected to serve up another quarter of steady growth

Company is seen as a winner whatever happens to the economy

Investors will be looking forward to tucking into fourth-quarter results from fast-food giant **McDonald's (MCD:NYSE)** on 5 February to see whether despite higher interest rates US consumers are still hungry for its value-for-money offering.

'It's hard to see McDonald's not winning in any consumer environment,' says Wedbush analyst Nick Setyan, while Andy Barish at Jefferies named the stock a top pick for 2024 calling it 'the best defensive and offensive play in restaurants'.

Still, the company faces several challenges including input-cost inflation, a boycott in the Middle East, which has had a meaningful impact on sales, and a stuttering performance in China, its third-largest market.

McDonald's has been successful in the past in passing on price increases to cover rising costs without significantly affecting demand, but should the economy slow dramatically, negatively affect consumer spending, it has discounting strategies to capture market share through value offerings.

Chart: Shares magazine • Source: LSEG

It also has a strong loyalty program with around 25 million active members, which is driving digital sales and increased frequency, and its expansion into small-format, beverage-led sites in the US with its CosMc concept appears to be a hit with consumers going by early reports.

McDonald's shares had a rough ride last year on fears the popularity of GLP-1 weight-loss drugs could lead to a collapse in sales, but that seems a distant prospect and the price has recovered close to its all-time highs. [IC]

What the market expects of McDonald's

	EPS	Revenue
Q4 forecast	$2.82	$6.45bn

Table: Shares magazine • Source: Zacks

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

2 February:
Exxon Mobil, AbbVie, Chevron, Bristol-Myers Squibb, Regeneron Pharma, Cigna, Aon, Imperial Oil, Virtus, Wisdom Tree, Cass

5 February:
McDonald's, Vertex, Air Products, Simon Property, Estee Lauder, Palantir, ON Semiconductor, Symbiotic, Tyson Foods, Aecom Technology, Crown, Rambus, Bellring, FMC,Hasbro, Timken

6 February:
Eli Lily, Amgen, Gilead, Chipotle Mexican Grill, Fortinet, Carrier Global, Ford Motor, Centene, Prudential Financial, Xylem, Snap, Willis Towers Watson, Cincinnati Financial, Jacobs Engineering, Atmos Energy, Aspen, American Financial, Microstrategy, FirstService, Freshworks, Hamilton Lane, Universal, Nordic Semiconductor

7 February:
Meta Platforms, Walt Disney, Uber Tech, ARM, Paypal, Sun Life Financial, Roblox, Orix

8 February:
Softbank Group, Motorola, DexCom, Hershey, T Rowe, VeriSign, FirstEnergy, Warner Music, Masco, IPG

Central bank statements likely to be key to short-term market direction

With no change in interest rates on the cards attention will turn to the rhetoric

Even though hopes for early interest rate cuts have been dialed back since the start of the year, the focus this week will still have been on the central bank meetings in the US and the UK with analysts trying to decipher the commentaries for clues as to future policy intentions.

In the UK, the Bank of England is widely expected to leave rates unchanged at 5.25% on the basis that inflation – while it is heading in the desired general direction thanks to lower energy prices – is still some way off the official 2% target.

At the previous MPC (Monetary Policy Committee) meeting there were no votes to cut rates, three votes to raise rates and six votes to hold them unchanged.

The EY ITEM Club, which uses the same model of the UK economy as the Treasury, forecasts rates staying at 5.25% until May due to central bank wariness over high services inflation and the potential impact of April's increase in the national living wage.

It's a similar story in the US, where expectations for rate cuts have also been pushed back, despite inflation having come down much faster, due to the resilience of the US economy and in particular consumer spending.

As one commentator put it after the fourth-quarter real GDP (gross domestic product) figure came in at 3.3% against forecasts of 2%, the economy isn't headed for a 'soft landing' so much as no landing at all.

It's little wonder therefore the major US stock indices are trading at new all-time highs.
As for what lies ahead, there could be some volatility around the US payroll and non-farm output figures on 2 February, but next week focus moves back to the UK with January retail sales data, Halifax house prices and the construction industry PMI (purchasing managers index) likely to be the main highlights. [IC]

Macro diary 1 February to 7 February 2024

Date	Economic Event	Previous Month
01-Feb	Bank of England Interest Rate Decision	5.25%
	UK January Manufacturing PMI	46.20%
	US January ISM Manufacturing PMI	47.40%
02-Feb	US Average Hourly Earnings	0.40%
	US Non-Farm Payrolls	216k
	US Q4 Non-Farm Productivity	5.20%
05-Feb	UK BRC January Retail Sales	1.90%
	UK January Composite PMI	52.50%
	Euozone January Composite PMI	47.90%
	US January Composite PMI	52.30%
06-Feb	UK January Construction PMI	46.80%
07-Feb	UK January Halifax House Prices	1.70%

Table: Shares magazine • Source: Morningstar, central bank websites

Next Central Bank Meetings & Current Interest Rates

Date	Event	Previous
07-Mar	European Central Bank	4.50%
20-Mar	US Federal Reserve	5.50%
21-Mar	Bank of England	5.25%

Table: Shares magazine • Source: Morningstar, central bank websites

Trainline is growing rapidly and has a big European opportunity ahead of it

The stock can maintain its new-found share price momentum

Trainline
(TRN) 325p

BUY

Market cap: £1.49 billion

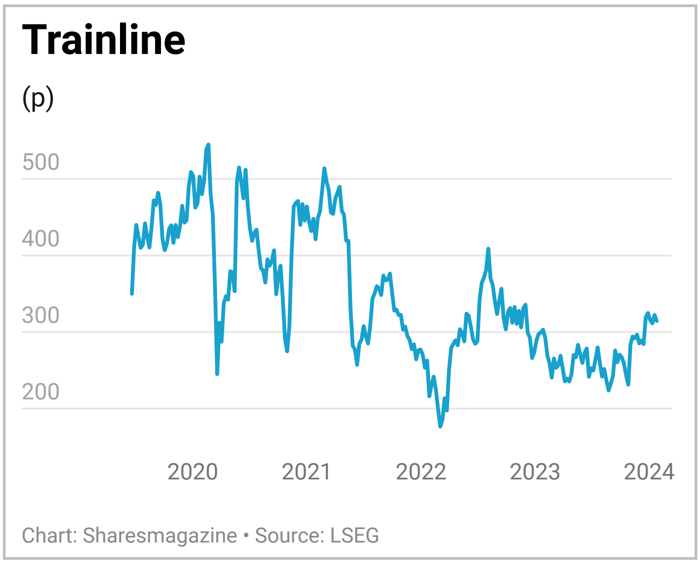
After a hesitant start to life as a public company we think **Trainline (TRN)** is firmly on track for growth and investors should buy into the momentum.

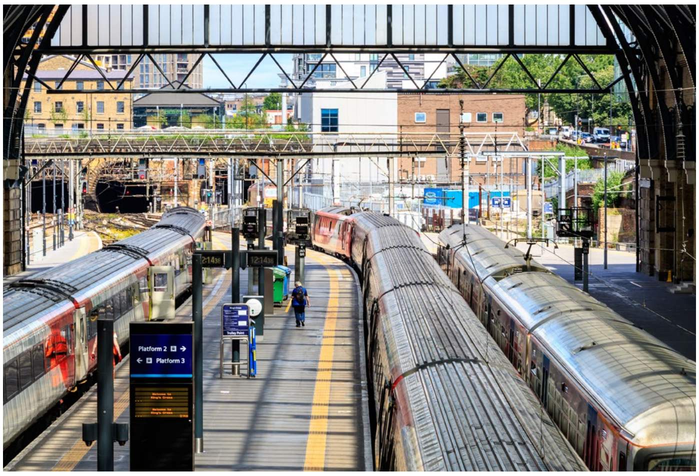
The shares enjoyed a resurgence at the end of 2023 rising as much as 22% to 349p in one day after the UK government said it would not create its own 'Great British Railways' ticket retailing website and app.

This came as a great relief to Trainline and its shareholders, as were it to go ahead it would have created a direct competitor and threatened market share.

Now the way is clear for the market to focus on the growth opportunity ahead of the company in the UK and, increasingly, continental Europe.

The company makes money by earning a commission and fees on ticket sales and generating revenue from advertising and ancillary services like insurance.





WHAT HAS RECENT TRADING BEEN LIKE?

In September 2023, Trainline reported better-than-expected first-half results and announced a maiden £50 million buyback.

Group net ticket sales for the six months to 31 August were up 23% to £2.65 billion and the company remains popular with commuters and day-trippers preferring to book online rather than visiting their local ticket office. Operating free cash flow was £77 million, up £48 million year-on-year.

For the full year to February 2024 the company tightened its group guidance towards the upper end of the range with adjusted earnings before interest taxation depreciation and amortisation (EBITDA) of between 2.15% and 2.25% of net ticket sales.

In November, Trainline raised its outlook for full-year revenue growth to between 15% and 20% and for net ticket sales growth to between 17% and 22%.

GAINING MARKET SHARE IN THE UK

The firm has a 60% share of the UK online market, and a recent article by UK consumer watchdog *Which?* reported consumers could save over 50% by booking train tickets online through Trainline and other ticketing sites – creating a big driver for people to use the platform.

Gaining market share in the UK is not the only lever for growth – there is scope to expand further

Trainline aboard the growth train

Compound annualised growth rate (CAGR) sales 2024-2026	9.7%
Compound annualised growth rate (CAGR) earnings per share 2024-2026	17.1%

Table: Shares magazine • Source: LSEG, Berenberg

into the European market. The greater reliability and affordability of rail travel on the continent makes this a compelling opportunity.

Trainline observes its European division has achieved 'solid double-digit revenue growth and moving towards breakeven over the medium term'.

International consumer net ticket sales increased by 24% year-on-year, but growth in Spain and Italy was closer to 50%.

Shore Capital analysts observe: 'There is a growing market share opportunity with increased carrier competition and industry investment. Favourable up-to-date news flow in this area includes Trainline appointing Marie Lalleman as a non-executive director, who has deep knowledge of European consumer behaviour and data-driven strategy, and that Spanish rail network Renfe (as requested by the European Union) is now allowing ticketing platforms to access content and real-time data.'

INVESTING IN TECHNOLOGY TO ENHANCE CUSTOMER EXPERIENCE

Helping to future proof the business, Trainline is investing in its technology to enhance the customer experience. The company has rolled out digital season tickets and estimates almost a third of the UK rail network is fully digital season ticket enabled.

Other initiatives include a new weekly price calendar and a 'Strike Safe' feature telling customers whether the journey they are searching is likely to affected by rail strikes.

Trainline has also struck up partnerships with platforms like Just Park (parking), Booking.com (hotels) and Karhoo (taxis).

A key risk facing the business is a lack of barriers to entry. In the UK the company has a well-established brand and the technology and investment underpinning the platform. The former factor potentially offers less protection in Europe, where Trainline is not so entrenched, and a state-backed ticketing operation – with name recognition and potentially zero commission – could still emerge in the future.

The shares aren't cheap at around 25 times 2025 earnings but there is scope for earnings to grow pretty rapidly from a low base, with the company only breaking into profitability in the year to February 2023. Berenberg has earnings per share increasing from 7p for that 12-month period to 12p in the current financial year. [SG]

Trainline forecasts

Year to February	Revenue	EBITDA	Adjusted pre-tax profit	Net cash/debt
	£ million	£ million	£ million	£ million
2022A (actual)	188.5	39	-2	-90.3
2023A	327.1	86.1	39.8	-100.4
2024F (forecast)	386.8	113.4	54.1	-56.2
2025F	432.4	130.3	62.9	-38.2
2026F	469.7	147.7	83.8	-13.2

Table: Shares magazine • Source: Company data, Shore Capital

Centamin's earnings growth potential makes it a compelling play on gold

Valuation looks attractive with prices for the precious metal holding above $2,000 per ounce

Centamin
(CEY) 97.7p

BUY

Market cap: £1.13 billion

A key reason to hold gold in a diversified portfolio is protection against economic and geopolitical uncertainty and there is plenty of both around in 2024. This is helping to sustain prices for the precious metal above $2,000 per ounce.

As well as direct exposure to the gold price, investors could consider buying a gold miner where operational progress can provide upside on top, albeit with operational risk attached.

We think Egyptian gold producer **Centamin (CEY)** represents an attractive opportunity on this basis. Chief executive Martin Horgan tells *Shares* the company is heading into the final stretch of a three-year investment programme which has set the company up for a 'pretty good' 2024, 're-establishing costs at the lower half of the industry curve'.

AISC (all-in sustaining costs), a key metric for the gold mining sector, came in a touch below guidance in 2023 at $1,220 per ounce.

The majority of the company's recent investment has been concentrated at the company's flagship asset – the 50%-owned Sukari gold mine in Egypt's eastern desert. Horgan acknowledges the company's privileged position of being paid for its gold in US dollars – removing any exposure to currency risks. Added to this, the company has been operating Sukari since 2005 and producing gold since 2009 – a period which has seen several spells of instability in Egypt.

Broker Canaccord Genuity is forecasting the company could achieve record earnings in 2024 off the back of its spending programme thanks to higher production and lower costs. Based on Canaccord's forecasts, the shares trade on a 2024 price to earnings ratio just 5.6 times. They also offer a healthy prospective yield of 4%.

The income stream on offer at Centamin is bolstered by an enviably strong balance sheet position with the company reporting net cash of $93 million as at the end of 2023.

One detractor from the Centamin investment case is the lack of diversification, with its fortunes almost entirely tied to Sukari. There could be a key milestone for the group in this respect later this year with the anticipated final investment decision on the Doropo project in Cote D'Ivoire. In the event of Doropo being given the green light, Canaccord believes it could be in production as early as 2027.

This, and evidence the company is on track to hit its targets of 470,000 to 500,000 ounces of gold production and AISC of $1,200 to $1,350, could, through the course of the year, act as catalysts for the stock. [TS]

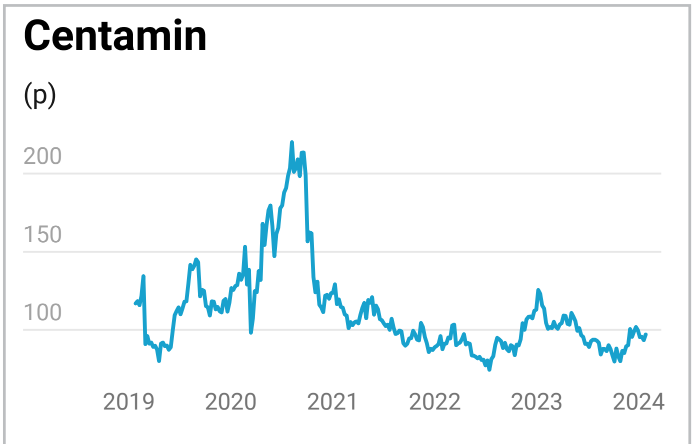


Chart: Shares magazine • Source: LSEG

Why Keywords Studios could perform even better in 2024

The video games industry is forecast to grow by 3% this year

Keywords Studios
(KWS:AIM) £16.14

Profit to date: 26.5%

Chart: Shares magazine • Source: LSEG

In September we said investors should snap up shares in leading video games service provider **Keywords Studios (KWS:AIM)** while they were depressed.

A big fall in the PE (price to earnings) ratio of growth shares in reaction to rising interest rates saw Keywords' rating pushed down to almost single digits.

We argued the stingy PE failed to recognise Keywords' continued growth potential and its dominant market position. Pleasingly, the shares are up 26.5% compared with a 1% gain for the FTSE AIM index over the same period.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

The company provided a full-year trading update (25 January) which showed revenues grew 17% in constant currencies to around €780 million.

The outcome fell slightly shy of market expectations due to the Hollywood strikes, which had a €20 million or 2.6% impact, and a small adverse foreign exchange movement.

Excluding these items, underlying organic growth increased approximately 9% which was in line with medium-term guidance. During the period, the company completed five 'high quality' acquisitions for a maximum consideration of €225 million.

Encouragingly, the firm said it expected to report 'strong' adjusted operating profit of €122 million, representing a margin on sales of 15.6%, which is above the consensus.

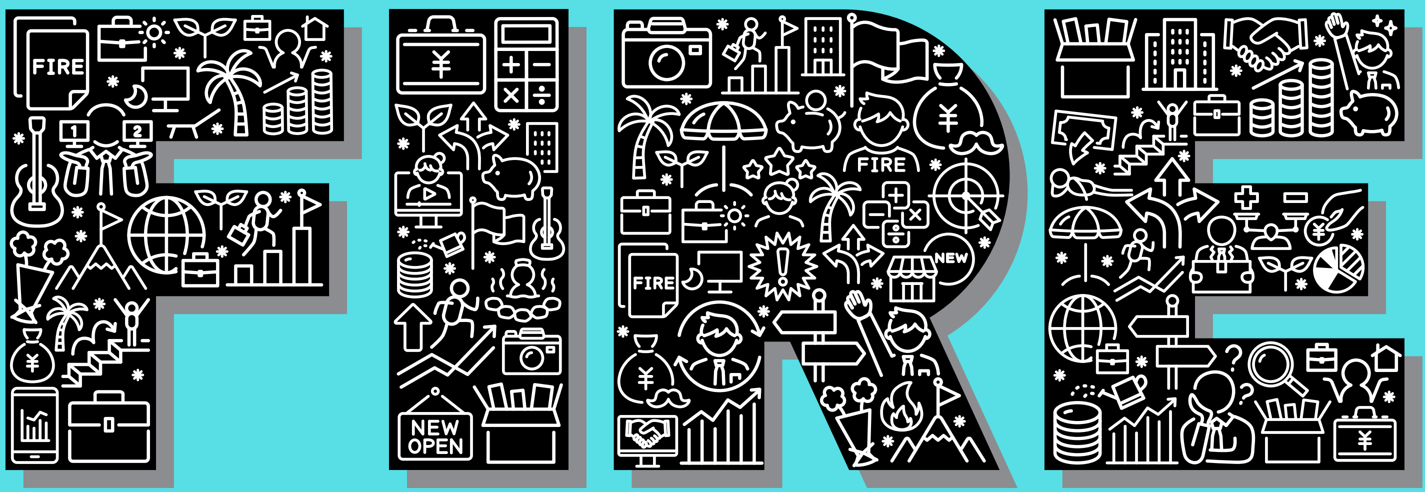
The better-than-expected result is attributable to cost-saving measures and operating efficiencies across the group.

Looking forward, the company expects to deliver 'strong' revenue and profit growth in 2024 driven by mergers and acquisitions as well as organic growth while maintaining operating margins above 15%.

Organic growth is expected to accelerate in the second half as Hollywood works through the backlog of projects and the industry's appetite for new content returns.

WHAT SHOULD INVESTORS DO NOW?

A resilient performance against a difficult backdrop for the video gaming industry demonstrates the quality of the group's business model. The company continues to increase market share and consolidate its leading position. We remain positive on the shares. [MG]



FINANCIAL INDEPENDENCE RETIRE EARLY

IS THE MOVEMENT A PLAN WORTH PURSUING OR A PIPE DREAM?

By **Martin Gamble** Education Editor

Discover how real-world proponents of this mantra are looking to take control of their own financial destiny

Many people dream of retiring early to pursue their real passions before they get too old to enjoy them. Is it just a pipedream or could it be a reality for some people?

This feature explores the pros, pitfalls and practicalities of the so-called FIRE movement which is gaining increasing traction. A recent AJ Bell Money & Markets podcast discussion on the subject provoked a strong response from listeners which suggests the FIRE movement has struck a nerve within a certain cohort of investors.

Throughout the article we share a selection of the opinions and first-hand experiences of real investors who are, to a greater or less extent, part

of the movement (though in the interests of their privacy, real names have been changed).

WHAT IS THE FIRE MOVEMENT?

The acronym stands for financial independence, retire early and it was born in the US more than 30 years ago after authors Vicki Robin and Joe Dominguez coined the phrase in their book *Your Money or Your Life*.

In its simplest form financial independence isn't about being rich but having enough stashed away to provide financial security. It's about taking back control and living on your own terms.

As one correspondent William explains: 'Just about everyone retires at some point. There is nothing special about the dates set by the government or the actuaries. Plan your own. Financial independence allows you to choose what you want to do – that might mean continuing in the same job.'

ACHIEVING A PLAN TO RETIRE EARLY

Phil decided very early on in his career that he didn't want to keep working until he was 65 and hatched a plan in his 20s with the goal of retiring in his 40s.

He knew he would have to put a good chunk of money aside each month to reach his goals. Fortunately, Phil was in a position where he only spent half of his monthly salary to maintain his lifestyle.

'I never sacrificed experiences like holidays,' Phil told the AJ Bell Money Markets podcast. For material things like an expensive car, he settled for a decent car instead.

Phil seemingly never missed an opportunity to squirrel away extra cash into his investment portfolio. Take his mortgage for example.

When he took the mortgage interest rates were 13% and although they subsequently fell towards 3% Phil maintained his higher repayments which meant he was able to pay off the mortgage in his mid-to-late thirties.

In turn this gave him more disposable income to add to his pension pot. Phil is now a few years into his retirement. Planning early and investing half his monthly salary has so far worked out well.

While there is not one single manifesto or handbook for the FIRE movement there are several key principles underpinning it:

- Save as much of your income as you can (potentially up to 70%);
- Live very frugally (make do and mend, buy second hand, limit impulse purchases);
- Pay off any debts, including your mortgage;
- Invest spare funds in low-cost tracker funds to benefit from the returns of the stock market.

Many bloggers on social media pushing the FIRE movement make it sound easy to achieve but that does not paint an accurate picture. If you have children, for example, then putting a large chunk of your income aside may not be realistic.

For most people, the best way to think about FIRE may be as something you can take some inspiration from rather than follow religiously. The idea of squirreling away as much cash as you can is a good one. Going through your regular outgoings to work out where you could be making savings – even if it is only once or twice a year – is an excellent discipline to get into.

Paying off debts where you are able to is also a worthwhile goal, particularly in the current high interest rate environment, as is keeping your costs down when investing.

Some FIRE proponents do not give up work entirely, they may continue to work part time. The key ambition is to create a level of financial flexibility which allows you to make your own choices.

> **"Paying off debts where you are able to is also a worthwhile goal, particularly in the current high interest rate environment"**

THE EXPERT VIEW

Director of public policy at AJ Bell, Tom Selby, says one of the most important aspects of an early retirement plan is the idea of sustainability. Making a realistic plan which provides security against life's inevitable ups and downs is crucial to enjoying the benefits of early retirement.

It may seem an obvious point but

AN IFA VIEW

Independent financial adviser Lena Patel says more clients are asking if they can retire early.

Before launching into cash flow modelling and looking at levels of income Patel asks clients to define what early retirement means for them.

'It is important to have a vision of what retirement means,' says Patel. The reality is that people don't think much about what makes them happy and how to lead a fulfilling life after stopping work.

Patel believes more education is needed and could be provided earlier on in life to encourage people to make plans for how they want to live later.

Putting cash away which is attached to reaching specific life goals is more powerful than simply encouraging a client to feed their pension pot. Making sacrifices are easier to stomach when they are attached to non-financial rewards.

Happiness for some people means slowing down and working part time rather than stopping altogether. For others it may involve going on more holidays or pursuing latent passions.

As always, personal circumstances play a big role is shaping what is possible. Those with children at school or university are in a completely different situation to single parents.

Patel believes the FIRE movement has legs with more people looking to take control of their own futures as the retirement age is pushed further into the future.

ENJOYING RETIREMENT IN SPAIN

Andy is 63 and his wife is 62 and they retired 11 years ago to relocate from the UK to Spain. They maintain a good lifestyle living off the income generated from SIPPs, offshore Spanish-compliant bonds and pensions from previous employers.

'We have managed to live within our income generated from these sources and our assets have still grown from our original inputs. We look forward to receiving our state pensions in a few more years but see this as a bonus and not something to be relied on,' says Andy.

bear in mind that if you want to retire before you turn 50, assuming you start work at 20, retirement may last longer than your working life.

The earliest someone can access their private pension is 55 which increases to 57 years of age from 2028. Someone retiring before that needs to find other forms of income such as ISAs and buy-to-let rental income.

The state pension is accessible from 66 years of age and currently stands at £10,600 a year. For investors planning further into the future it is worth pointing out that the state pension age increases to 67 from 2028 and 68 from 2046.

Selby reminds investors that the earlier they access a pension pot, the less amount of time investments have to grow and benefit from the compound returns offered by financial markets. Leaving a pension untouched for a further 10 years could make a considerable difference. For example, a pension pot growing at 7% a year will nearly double over a decade.

Some people may be able to live off the annual dividends and fixed income payments out without selling any investments. This leaves the capital in the portfolio unencumbered so it can keep growing.

> **"The earliest someone can access their private pension is 55 which increases to 57 years of age from 2028"**

The sizeable increase in interest rates over the last two years has made a big difference for investors seeking income.

IGNORE DIVERSIFICATION AT YOUR PERIL

Investment performance is an important ingredient in achieving financial freedom. Whatever an investor's risk appetite, it rarely pays to ignore the benefits of diversification.

Spreading investments across different companies, sectors, geographies, and assets reduces overall portfolio volatility. One of our previous examples, Phil, has a cautionary tale which underlines the risk of putting too many eggs into one basket. Intent on putting as much as he could into his investment portfolio Phil added to an already generous company share purchase scheme.

The company he worked for was then taken over by US security systems company Tyco International in an all-share transaction. He had no idea what was about to happen next, but the company became embroiled in one of the largest fraud scandals in the US in the early noughties.

CEO and chair Dennis Kozlowski

and finance chief Mark Swartz were prosecuted for stealing $600 million from corporate coffers and subsequently went to jail.

The shares that Phil owned plunged almost 80% overnight and it taught him a lesson about the virtue of spreading his investments and the pitfalls of too much concentration.

WHY RETIRING MAY BE HARDER THAN YOU THINK

People will always find ways to fill their time, so boredom is rarely a factor but dealing with the mental side of retirement should not be taken lightly. Phil said he found it difficult in the first few years after stopping work and did some part-time jobs to help him cope mentally. It was less about the lost income and more about the loss of his professional identity.

'I can't emphasise enough it is a tough transition,' cautions Phil. Spending years developing professional skills which are then 'tossed away' could feel like the equivalent of a physical loss.

"Too much time on our hands. Summer is fine, not so much the winter months"

Another early retiree, Jeff, had a similar experience saying he 'missed work' in the first few months after retirement in 2021. 'Too much time on our hands. Summer is fine, not so much the winter months,' laments Jeff.

'Our experience over the past two years, is less with financial worry, but more to do with being active as we have been our whole lives. Yes, we are holidaying more but we find we don't wish to go on endless cruises.'

ROY TAKES RISKS TO ESCAPE THE RAT RACE

Roy is in his late 60s and quit the 'rat race' in 2012. He started investing in the 1990s. The 1997 Asian financial crisis which began in Thailand before spreading to other countries and raised fears of a global financial meltdown.

UK bank shares got caught in the crosshairs and Roy borrowed half a year's pay to buy shares in **Barclays (BARC)** and **NatWest (NWG)**.

His thinking was that 'at worst' he would be paying an affordable loan for a few years. In the event, Roy made an 80% profit in around nine months.

Roy repeated the same trick a few years later during the dotcom bust and once again borrowed half a year's pay to put into the stock market. He walked away with a 110% profit in 18 months.

Looking through the rubble left by the collapse of the split capital investment trust market Roy was able to pick up some amazing bargains as the survivors were paying huge dividends while growing underlying capital.

After the 2007/8 financial crisis Roy was able to pick up UK housebuilders **Taylor Wimpey (TW.)** and **Barratt Developments (BDEV)** on the cheap and made around 150% over two to three years.

Roy's last big gambit came in 2014 when he sank a whole year's net pay into online fashion retailer **Boohoo (BOO:AIM)** around three months after it listed on AIM via an IPO (initial public offering).

Within a few months Roy was staring at a 50% loss after the company disappointed investors in its debut trading statement. Roy decided to 'tough it out' and three years later sold out for a 300% profit.

Most of the proceeds were used to repay his buy-to-let mortgage which today provides Roy with a 4.5% annual yield on its current value and 12% on its purchase price. It is worth saying the risks Roy took would not be suitable for most investors and investing with borrowed money is never advisable.

Roy describes himself as being in the middle band of the FIRE community, which he says is between subsistence and overt wealth.

FACTORING IN LIFE EXPECTANCY

New data from the ONS (Office for National Statistics) shows that average life expectancy for both men and women in the UK has dropped significantly since the pandemic.

Life expectancy at birth was 78.6 years for men and 82.6 years for women in 2020-to-2022, down from 79.3 years for men and 83 years for women in 2017-19.

This means life expectancy at birth has dropped to the same levels seen in the period from 2010 to 2012 for women and slightly below for men over the same period.

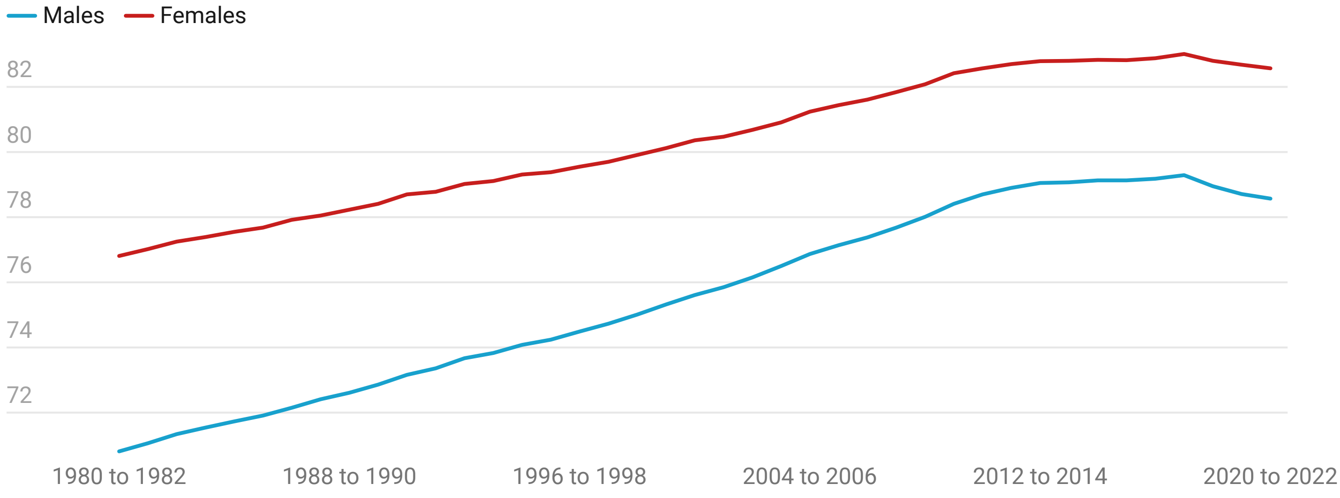
The same change has been seen in life expectancy for people aged 65 which has fallen by 22 weeks and 15 weeks for men and women respectively.

It is unclear if the previous growth trend will reassert itself but with scientific advances in healthcare coming thick and fast, it would be unwise to bet against it.

In 2020, the number of people reaching 100 increased 20% from the prior year to reach a new high of 15,384 souls. Over the prior two decades the number of UK centenarians has increased by 58%.

Life expectancy at birth for males and females, UK

between 1980 to 1982 and 2020 to 2022



1. The 2020 to 2022 life tables for Scotland are provisional. The figures for the 2010 to 2012, to 2020 to 2022 for Scotland and for the UK will be superseded once rebased populations are available from Scotland's 2022 Census. The impact of these revisions is likely to be small for estimates of life expectancy for the UK because of the relative size of Scotland's population compared with the UK.

Chart: Shares magazine • Source: National life tables - life expectancy in the UK: 2020 to 2022 from the Office for National Statistics

HOW MUCH IS ENOUGH?

Our earlier contributor Phil knows how much income he needs each year and if everything goes to plan, he expects his pension pots to run out of cash when he reaches the ripe old age of 104. (See the section on life expectancy to get an idea of Phil's odds.)

That may seem like an optimistic scenario in one sense, (living a long life) but cautious in the sense Phil could potentially spend more cash each year.

Here it is worth repeating Tom Selby's wise words on sustainability. Phil's plan provides peace of mind even in the event of some unexpected bills.

The rule of 25 is a popular method used by some

investors to estimate when they have enough to retire. It says an investor needs a pension pot which is 25 times future expected annual expenditures.

US financial advisor William Bengen devised the plan based on a 30-year retirement time frame. It may not be suitable for investors retiring at 40 who expect to live into their 80s.

The idea is that taking 4% out of a pension pot each year will see it last around 30 years. It has the advantage of being easy to understand. As an example, an investor targeting an annual income of £40,000 a year before tax in retirement would need a minimum £1 million portfolio (£40,000 x 25).

On the other hand, there are no guarantees. Bengen's original analysis showed it worked about 90% of the time. It also makes no distinction between withdrawing income and capital. Selling shares to take income reduces the capital value of a portfolio and reduces the future level of income, everything else being equal. Another wrinkle to consider is the rising cost of living.

A portfolio which grows above the rate of inflation maintains the spending power of the income that is generated and allows a retiree to keep up with rising costs. Until the onset of the pandemic, inflation had been negligible for more than a decade. That has since changed dramatically and today inflation is a significant factor to consider.

Let's say inflation remains at around 4% a year for the next decade. In effect, this will reduce the real value of a pension pot by half.

Dean is a reluctant member of the FIRE movement having been forced to retire early due to being made redundant at the start of the pandemic.

'Expect the unexpected, black swan events are now not uncommon,' cautions Dean.

UK CPI
(annual percentage change)

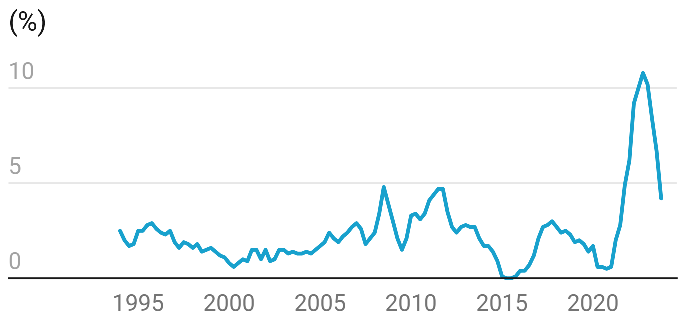


Chart: Shares magazine • Source: LSEG

"No wonder these FIRE bloggers are young – they are also naïve – I suspect they just want to make money and haven't really understood middle age"

'Do a worst-case scenario cash flow statement and then sense check it. If I have done a cash flow analysis in 2020 or 2021, I certainly would not have accounted for the price of food to have risen 30% (between October 2021 and October 2023) and still be rising at over 10%.'

'No wonder these FIRE bloggers are young – they are also naïve – I suspect they just want to make money and haven't really understood middle age,' says Dean.

James is 43 years old and achieved FIRE in 2021 and moved his family from London to the countryside which freed him of the mortgage. Plans to stop working have been put on the backburner for now.

'With the current period of high inflation, our annual expenses have risen a lot and our pot is no longer big enough to see us all the way to the end (using the 4% rule).

'I see having a good job as an excellent offset to high inflation so have decided to carry on doing four days for the time being,' adds James.

DISCLAIMER: AJ Bell, referenced in this article, owns Shares magazine. The author (Martin Gamble) and editor (Tom Sieber) own shares in AJ Bell.

How the global cosmetics sector can provide a foundation for portfolio growth

Why there's lots to like about the beauty space and who the beneficiaries of the 'lipstick effect' are

Despite well-documented cost-of-living pressures, consumers continue to set aside cash for affordable luxuries such as cosmetics which make them feel good about their appearance and add a little glamour to their lives.

In contrast to the slowing growth being reported by the large luxury goods groups, companies which sell makeup, skincare and haircare products and other beauty and wellness wares are doing rather well.

One reason for this is the resilience cosmetics tend to exhibit through economic cycles, often referred to as 'the lipstick effect', based on the evidence that consumers are willing to treat themselves to little luxuries during tough times, although Covid-induced lockdowns did result in a sales decrease for key market players.

According to Statista Market Insights, the attractive global beauty and personal care market, of which personal care is the largest segment, is forecast to generate sales of $646.2 billion in 2024 and grow at a compound annual growth rate (CAGR) of 3.3% between 2024 and 2028. Meanwhile, research firm Euromonitor finds the total mass beauty market was worth $218 billion in 2022 and is expected to grow to $255 billion over the next three years.

WHAT ARE THE GROWTH DRIVERS?

Growth drivers for cosmetics include the widespread increase in the use of skincare and personal care products along with a burgeoning global ageing population: older consumers are increasingly using anti-ageing treatments and hair dye to change how they look, for example.

Rising financial independence among women and increasing beauty awareness among men are additional drivers, and there are head-turning long-run growth opportunities for cosmetics companies in emerging markets including China, where the beauty market's recovery from the pandemic has been slower than expected thus far.

Other market drivers include social media, where influencers on Instagram and TikTok can boost demand for new cosmetics products, not to mention consumers' growing preference for organic products over those with chemical bases. It is also worth noting the global cosmetics market is increasingly seeing customers switch to more value-orientated brands.

WHAT ARE THE IMPORTANT METRICS TO FOCUS ON?

Key metrics to monitor with beauty and cosmetics companies include revenue growth, an indicator of rising or falling demand for their products, and

Valuations of popular UK, European and US cosmetics stocks

Company	Ticker	Share price	Forecast PE	Prospective dividend yield
L'Oreal	OR:EPA	€ 425.40	35.1	1.5%
Estee Lauder	EL:NYSE	$130.9	53.8	2.1%
Ulta Beauty	ULTA:NASDAQ	$479.9	18.7	n/a
Oddity Tech	ODD:NASDAQ	$45.7	37.0	n/a
Warpaint London	W7L:AIM	390p	21.3	3.0%
Revolution Beauty	REVB:AIM	29.4p	n/a	n/a
THG	THG	65.7p	n/a	n/a

N/a indicates the companies do not make a profit or a pay a dividend. PE = price to earnings

Table: Shares magazine • Source: Stockopedia, Google Finance

gross margin, as high gross margins demonstrate a company has pricing power and provide more of a buffer to absorb rising raw material costs.

Other indicators worth watching include free cash flow, a measure favoured by legendary investor Warren Buffett, as well as return on invested capital (ROIC), which gives a sense of how well a company is using its capital to generate profits.

And don't forget to scrutinise the accounts of beauty businesses for the amount they spend on product research and development and advertising, since cosmetics is a fiercely competitive industry in which market leaders must sustain heavy investment in innovation and marketing to keep rivals at bay.

WHICH COMPANIES ARE LISTED ON THE STOCK MARKET?

Arguably the two most iconic companies in the space are French personal care powerhouse **L'Oreal (OR:EPA)** and its US counterpart **Estee Lauder (EL:NYSE).** The former's stunning share price rise recently enabled the reclusive Francoise Bettencourt Meyers, heir to the L'Oreal empire, to become the world's first woman to be worth over $100 billion according to the Bloomberg Billionaires Index.

As highlighted in his annual letter to **Fundsmith Equity (B41YBW7)** shareholders, in 2023 Terry Smith sold the fund's stake in Estee Lauder, 'whose mishandling of the demand/supply situation in China following reopening post Covid and in the travel retail market revealed serious inadequacies in its supply chain', although Smith insisted L'Oreal remains 'a long-term favourite whose handling of the China market contrasts sharply with that of Estee Lauder'.

Other prominent overseas-listed players include Olay-to-SK-11-owner **Procter & Gamble (PG:NYSE)** and **Coty (COTY:NYSE),** the beauty products maker behind the CoverGirl, Rimmel and Max Factor brands in the midst of a turnaround under chief executive Sue Nabi. Meanwhile, **Ulta Beauty (ULTA:NASDAQ)** is America's biggest beauty retailer, while the fast-growing mass market cosmetics brand **e.l.f. Beauty (ELF:NYSE)** continues to take market share.

A relatively recent issue across the pond is the rapidly-growing **Oddity Tech (ODD:NASDAQ),** a holding in investment trust **Smithson (SSON).** The Israeli company behind the Spoiled Child and Il Makiage brands made its Wall Street debut last year (19 July 2023) at $35 and the shares are trading 23% above that level at $43 at the time of writing.

Oddity has bold plans to shake up the legacy beauty industry and replace the in-store experience by using data and artificial intelligence to develop brands and generate tailored product recommendations. Continental selections include Nivea-owner **Beiersdorf (BEI:ETR),** and don't forget that one of the world's oldest cosmetics concerns emanates from the Far East, namely Japan's **Shiseido (4911:TYO).**

UK-listed options include **Unilever (ULVR)** and **PZ Cussons (PZC),** the former brands including Dove, Sunsilk and Clear as well as luxury colour cosmetics brand Hourglass and the Dermalogica skincare brand, the latter the owner of beauty brands including premium tanning line St.Tropez.

Yet another firm with exposure to the beauty and cosmetics space is **THG (THG),** the e-commerce company behind the Lookfantastic, Cult Beauty and Dermstore websites as well as the Perricone, ESPA and Biossance beauty brands, whose Ingenuity platform has recently won work for industry big beast L'Oreal.

VALUE-ORIENTED PLAYERS LOOK WELL-PLACED

Lower down the market cap scale, the stunning earnings upgrade cycle continues at affordable colour cosmetics supplier **Warpaint London (W7L:AIM),** owner of the W7 and Technic colour cosmetics brands.

Another small-cap name is **Revolution Beauty (REVB:AIM),** the self-styled 'multi-channel mass beauty innovator' whose Revolution brand you'll find in Boots and Superdrug. Revolution Beauty has been a disaster since joining the stock market in 2021, although a new management team is turning the business round and share price weakness has created an opportunity for online fashion group **Boohoo (BOO:AIM),** which wants to be a bigger beauty market player, to build a 27.13% stake, so watch this space.

TWO STOCKS TO BUY

L'Oreal
(OR:EPA)

Share price: €425.40

Paris-based personal care powerhouse L'Oreal's shares are testing all-time highs in a testament to the attractions of the beauty giant, which include its successful innovation pipeline, strong brands, pricing power, high returns on equity and a record of outperforming global beauty market peers.

While a prospective price to earnings ratio of 35.1 may appear punchy, it is actually a discount relative to the world's largest cosmetics company's peak PE levels. Led by chief executive Nicolas Hieronimus, the skincare, haircare, makeup and fragrance firm's flotilla of brands span L'Oreal Paris and Yves Saint Laurent as well as Maybelline New York, Garnier and luxury beauty brand Aesop, the latter with significant growth potential in China and travel retail.

In the third quarter to September 2023, L'Oreal shrugged off macroeconomic uncertainties to deliver another period of double-digit growth with like-for-like sales up an eye-catching 11.1% driven by strong performances from its consumer products and dermatological beauty divisions. The dermatological beauty market opportunity excites, since consumers eager to slow the ageing effects on their skin are spending on L'Oreal products such as La Roche-Posay.

Warpaint London
(W7L:AIM)

Share price: 390p

An affordable-cosmetics seller with strong earnings and share-price momentum, Warpaint London supplies its wares to retailers including **Tesco (TSCO),** Boots, New Look and Superdrug as well as **Five Below (FIVE:NASDAQ),** and sells online via its own website, and through Amazon and Tmall, China's most-visited B2C (business-to-consumer) online retail platform.

Asset-light, since manufacturing is outsourced to allow for competitive pricing and rapid production, cash-generative and dividend-paying, Warpaint delivered its fourth upgrade to year-to-December 2023 guidance after a bumper fourth quarter including Christmas. The colour cosmetics star turn upgraded its 2023 sales forecast to £89.5 million, and with gross margins remaining robust, said pre-tax profit will be 'not less than £18 million', up from previous guidance of 'in excess of £16 million'.

With a net cash balance sheet and no debt, Warpaint has the financial strength to support its growth ambitions and the forward earnings multiple of 21.3 is undemanding despite the stunning share price appreciation over the past five years and with further upgrades looking likely. House broker Shore Capital describes Warpaint's growth as 'in the foothills of its medium to long-term potential'.

By **James Crux**
Funds and Investment Trusts Editor

What to do if your investment trust merges or shuts

The key considerations including tax and how to redeploy funds

In 2023 we saw a wave of corporate activity in the investment trust sector, dominated by mergers and closures. Eight companies closed their doors, while four mergers took place, with a further four announced that are due to take place this year, according to the Association of Investment Companies.

WHY INVESTMENT TRUSTS MERGE OR CLOSE

Investment trusts might close or merge for a number of reasons. In some cases, it boils down to poor fund manager performance, or adverse market conditions. Investment trusts assets can also fall to a low enough level, or liquidity become so poor, that the trust is prevented from operating effectively.

Activist investors can play a role too. If a trust is trading at a healthy discount, there's a profit there to be made by big investors buying shares and agitating for a wind-up, which would mean them receiving a sum closer to the net asset value of the trust and then moving on to the next target with their profits.

If a trust winds up the underlying assets don't simply disappear of course, they are there to be sold off and the value returned to you, minus costs. The sale price might not be tip top seeing as trusts winding up are in effect forced sellers, and if the assets in question are large and illiquid there might not be a long queue of potential buyers.

If your trust closes then you need to redeploy your capital, so the main thing to do is to choose a new investment. This needn't be an investment trust; it could be an open-ended fund too. Either way, look for a trust or fund with a similar investment strategy if you want to stay invested in the same area, and also pay attention to the pedigree of the manager. If you decide you want to look for opportunities in a different market, then the world is your oyster. If your trust was held outside of an ISA you might consider making the new investment within a tax shelter to protect future dividends and capital gains from tax.

If a trust is winding up there will inevitably be costs involved in the sale of a portfolio which will be borne by the shareholders of the trust. This might tempt you to jump ship early by simply selling your holding and getting it invested in a new fund or trust as soon as possible, but you do need to be careful here. If the trust is trading at a substantial discount you may benefit by waiting for the assets to be sold and the cash returned, as this could well be done at a price nearer to the net asset value. This is a bit of a judgement call if it's a small discount, which may simply reflect the market's assessment of what the closure costs will be.

TAKE A FRESH LOOK

If your trust merges, then you need to reassess the new investment proposition with a critical eye. It's best to do this as if starting with a blank sheet of paper. Ask yourself if you would be keen to invest in the trust if you didn't already have a holding in it as a result of the merger. If not, then it makes sense to reinvest your money in a fund or trust you have more confidence in. The key things to run your eye over are the investment strategy of the newly merged trust, the quality of the fund manager, and the annual charges. These may or may not be the same as the investment trust you held before the merger, but either way they are worthy of scrutiny.

Mergers and closures can also potentially open you up to tax, in particular capital gains tax (CGT). It's important to note that tax implications are determined by your personal circumstances and if you're in any doubt, you should seek professional advice. If you hold a trust outside a SIPP or ISA and it winds up and returns cash to you, then you are potentially liable to CGT if you have made a gain. Equally if it has made a loss you can usually use it to offset gains you have made elsewhere. This tax year investors have a £6,000 allowance for gains that can be made free of CGT, which is falling to £3,000 from 6 April.

MANAGING TAX LIABILITIES

If two trusts merge and you receive shares in a new trust, normally there wouldn't be a capital gains tax liability at this juncture, but you would carry the cost of your original investment across to judge whether you have made a chargeable gain when you finally come to sell the new trust. If you get a combination of cash and shares as part of a merger, then there may be some capital gains tax liability on the cash element. If you sell out of a trust because it is merging, that counts as a liquidation and any gain will be potentially taxable.

Holding investment trusts in a SIPP or ISA is the best way to shelter them from tax, whether they are winding up or not. If you know a trust is winding up and are facing a large tax bill, you might consider transferring some of your holding to a spouse or civil partner beforehand, as this move doesn't incur a tax charge.

That way you can use two capital gains tax allowances, and there may also be a benefit if they are a lower earner, as higher rate taxpayers get charged CGT at a rate of 20% on gains from shares, whereas this is only 10% for basic rate taxpayers. Clearly when an investment trust merges or closes you need to give some thought to the investment implications, but you might save yourself some pennies by considering your tax situation too.

By **Laith Khalaf**
AJ Bell Head of Investment Analysis

Are pension funds about to swamp the market with unwanted private assets?

Report suggests as much as £200 billion of assets could be headed to market

The knock-on effects of the Truss government's disastrous 'mini-Budget' in late 2022, which caused panic-selling of bonds by pension funds and forced the Bank of England to provide tens of billions of pounds to stabilise markets, continue to work their way slowly through the financial system.

Whereas before the upheaval most defined-benefit (DB) funds were decades from being fully funded, thanks to the unprecedented rise in interest rates during 2023 many funds are now in a position where their assets are almost enough to cover their current and future liabilities.

As a result, they are keen to offload some of their less liquid assets such as private equity, private credit and infrastructure, much sooner than expected, with a potential knock-on effect on valuations.

Investment trusts invested in private assets already trade at a significant discount to NAV (net asset value) as the tables shows and it is possible the trends discussed in this article could exacerbate this. So, this complex issue should be on investors' radars.

AN 'INDELIBLE MARK'

The market upheaval which followed the 'mini-Budget' exposed serious weaknesses in what the pensions industry calls LDI or liability-driven investment, a strategy many funds had use to manage risk.

In an article for industry publication *Pensions Expert*, Paul Wood, founder of legal services firm C-PAID, said the LDI crisis had left 'an indelible

Average discount to NAV for investments trusts investing in private assets

Trust sector	Average Discount to NAV
Private Equity	**-34.2%**
(16 funds, £16bn of assets)	
Private Credit	**-18.3%**
(22 funds, £6.3bn of assets)	
Infrastructure	**-25.6%**
(9 funds, £16.4bn of assets)	

Private Equity excludes 3i (£19.5bn of assets, 26% premium to NAV). Private Credit includes direct lending, loans and bonds and structured finance. Average discounts calculated on an equal-weighted basis. All data correct as of 25 January 2024.

Table: Shares magazine • Source: AIC (Association of Investment Companies) mark on the pension landscape' and brought to the fore several underlying issues that had been simmering beneath the surface for years including the need to maintain some kind of buffer or reserve to cushion against unforeseen market volatilities.

A lot of funds decided to diversify their investments away from bonds into less liquid 'alternative' investments like private equity, private credit and infrastructure, in theory so as to create more resilient portfolios capable of withstanding big market fluctuations.

Today, many DB funds – which promise to pay their members a fixed amount in retirement, unlike defined contribution (DC) funds where the amount paid out depends on the amount paid in and investment performance – are looking to offload these illiquid private assets due to their poor performance.

WALL OF SELLING

According to research by *Bloomberg*, DB funds are lining up to sell as much as £200 billion of holdings in alternative assets in the next few years rather than over the next two decades to reduce their risk profile.

However, in their haste, these funds may have to accept knock-down prices which are not only negative for their returns but negative for the wider alternatives space.

'We are seeing prices that are genuinely below asset value. There is effectively a forced sale going on,' says Simeon Willis, chief investment officer at actuarial and consulting firm **XPS Pensions (XPS)**.

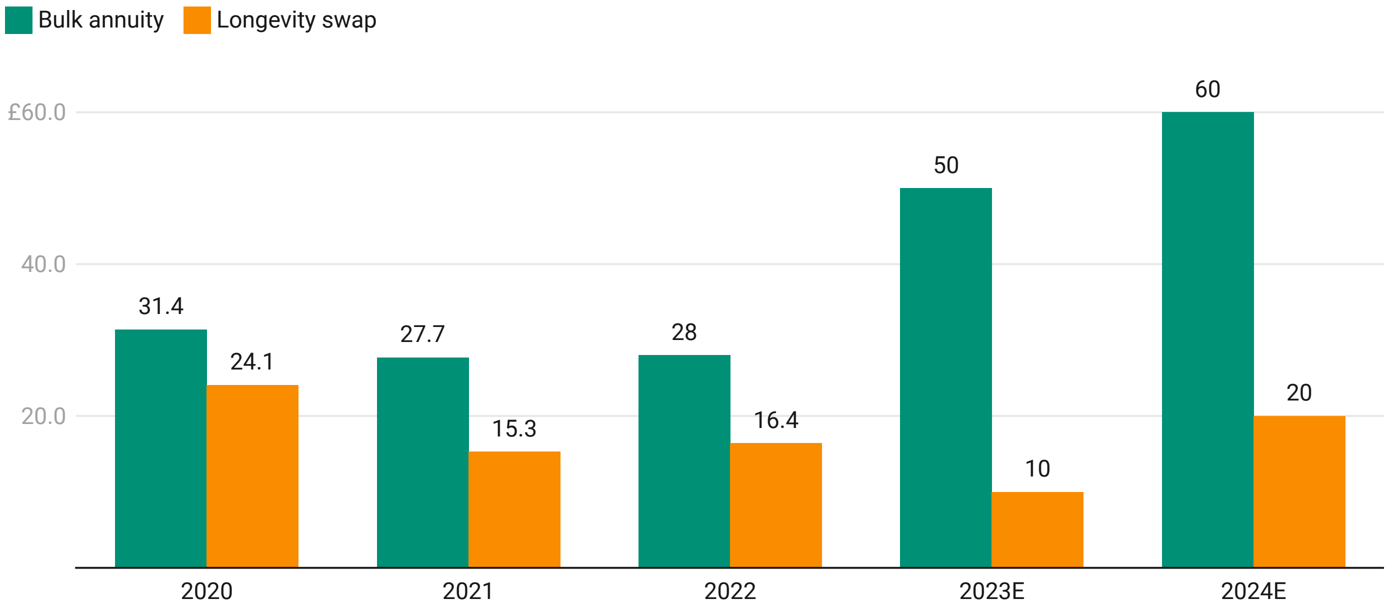
Another specialist quoted by *Bloomberg* describes being approached by dozens of funds in the last six months all looking to sell assets in the secondary market.

The endgame for many is once they are fully-funded – in other words once their assets are deemed sufficient to cover payments to current and future retirees – to sign a risk-transfer agreement with an insurance company, which will take over the assets and administer the fund from that point onward.

Transferring out allows companies and their pension trustees to access any surplus the fund may have built up and allows management to focus on running the business instead of worrying about its liabilities.

The issue is, insurers typically only want to take on schemes with low-risk assets like cash or government bonds, not risky, illiquid alternative assets.

Derisking by UK pension funds (£ billion)



Data correct as of 25 January 2024

Chart: Shares magazine • Source: Willis Towers Watson

WHAT DO THE EXPERTS THINK?

Given the size of the potential de-risking, *Shares* asked several private equity, credit and infrastructure investors for their thoughts.

Helen Steers, manager of £1.5 billion private equity investment trust **Pantheon International (PIN)**, explained how she was approaching the situation.

'These dynamics have already fueled some interesting deal flow in the private equity secondaries market where we are seeing high-quality deals at attractive pricing.

'This is particularly the case for manager-led deals, which is where the private equity managers themselves instigate deals to provide liquidity options for the investors in their funds. This includes single-asset secondaries which tend to target our managers' individual "trophy" companies and remain an area of focus for Pantheon International.'

However, says Steers, not all manager-led deals are created equal. With an increasingly large volume of deals entering the secondary market, experienced investors like Pantheon are being extremely selective regarding asset quality and manager quality as well as the alignment of interest between the manager and new investors.

'It is also worth noting there is a distinction between new deals and secondary market valuations — which reflect current financing conditions and risk-off sentiment — and valuations for existing portfolio companies which we have seen trading resiliently across our portfolio and for which financing pressures are less prevalent', adds the manager.

Sadly, no-one from the private credit or infrastructure sectors was willing to go on the record.

According to *Bloomberg*, based on data compiled by the Pension Protection Fund and estimates by market experts, some 5,000 pension funds managing £1.4 trillion now have between 14% and 20% of their portfolios invested in 'hard-to-sell assets'.

Some funds are estimated to have as much as 40% of their assets in private holdings, meaning they could have to sell at a considerable discount to book value if they really wanted to do a deal with an insurer.

'They're still holding a lot of illiquid assets thinking they have years to get out of them, but they don't,' says Charlie Finch, partner at consultants Lane Clark and Peacock.

'In most cases, you can sell illiquids on the secondary market but you're looking at a haircut of 20%, and maybe 40%, which is painful,' adds Finch.

AN £80 BILLION MARKET THIS YEAR

Anglo-American insurance group **Willis Towers Watson (WTW:NASDAQ)** estimates the UK DB pension market could see £80 billion in de-risking transactions this year following what it describes as 'significant improvements in pensions scheme funding' in 2023.

In its annual report on the sector, the firm expects £60 billion in bulk annuity deals and £20 billion in longevity swaps making 2024 the biggest year on record for pensions de-risking.

'It's clear that funding improvements have turbo-charged the pensions de-risking market and, from a capacity perspective, we have already seen that the insurance market is capable of scaling up to meet demand,' says Jenny Neale, a director in WTW's pensions transactions team.

Also, after the first 'superfund' transaction was cleared by the regulator last November – under which 9,600 members of the Sears Retail Pension Fund were transferred to Clara Pension Trust – WTW believes more deals this year 'could pave the way for future momentum' in the superfund transfer market.

By **Ian Conway** Deputy Editor

Editor's View: Tom Sieber

Is inflation already below target in the US?

The soft-landing narrative may have greater support but there are still risks for markets to navigate

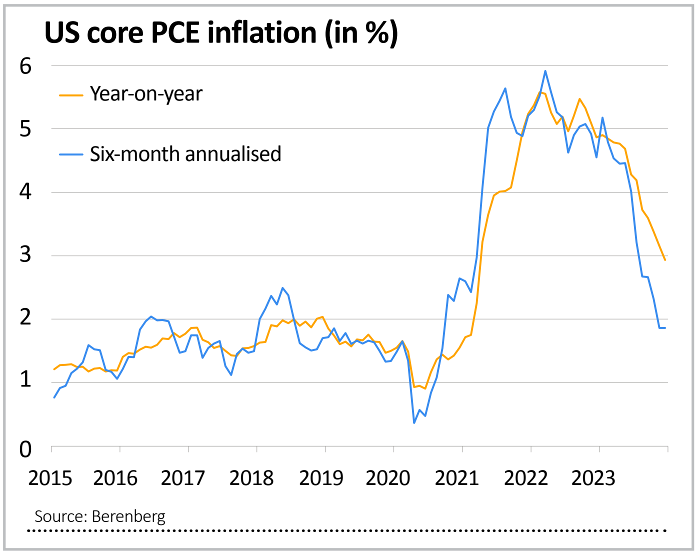
Ever since the inflation genie was let out of the bottle in 2021, the market has been obsessed with how quickly it can be brought back under control and back within central bank targets. On at least one measure, US inflation may already be within the 2% limit targeted by the Federal Reserve.

The Fed's preferred measure of inflation is core PCE (personal consumption expenditure) – which strips out the impact of more volatile food and energy prices. As the chart shows, Berenberg calculates that on a six-month annualised basis this dipped below 2%, hitting 1.9% in November and December.

Berenberg chief economist Holger Schmieding says: 'To understand the pattern, consider the three major causes of the preceding surge in US inflation. It started with the excessive fiscal boost during the pandemic. While lockdowns and social distancing curtailed access to services, US households tried to spend their stimulus cheques by ordering more goods online than China and others could produce and the global shipping industry could deliver at the time. This drove up prices.

'Thereafter, the post-pandemic rebound in the economy met a constrained supply of labour as some workers had withdrawn from the labour force, causing a spike in labour costs. Finally, the surge in energy prices in 2021 and early 2022 worked its way through the production chain into prices for non-energy goods and services. As a result, the core PCE settled at a year-on-year rate above 5% from November 2021 to November 2022.'

Schmieding affords some credit to the Fed for 'belatedly' switching to a restrictive stance but says the major reason for the changed inflation picture is a return to normality with the three factors he discusses 'largely one-offs which have run their course'. On this basis there seems little case for the Fed maintaining rates at current levels for too much longer – even if the US economy has proved more resilient than feared.



This is encouraging for equity investors, given rate cuts should be supportive to stocks. However, there are other risks to consider. One is whether Schmieding (and others) are right that the three major drivers of inflation over the last few years are truly one-offs or if they are more structural in nature.

There is also the near-term risk associated with another spike in energy prices and shipping costs thanks to escalating tensions in the Middle East. This could add to inflationary pressures once more. Evidence of this and the knock-on effect for consumers may not be apparent for some time – which could be weighing on the minds of monetary policy makers.

Finally, the fortunes of the world's largest and most liquid market – the US – are heavily concentrated on a small collection of big tech stocks where valuations and expectations are both elevated. Even beyond these influential names, plenty of Wall Street shares are trading at or in sight of record highs. The question we now face is whether the landing can be soft enough to justify such exuberance.

Can you trade stocks within a pension?

Explaining the flexibility you can enjoy with your retirement pot

Given you cannot make withdrawals from a pension until you reach age 55 (rising to 57 in 2028) it is unsurprising some people assume you cannot actively manage any investments within your pot.

At *Shares* we have had correspondence from people over whether you can trade stocks within a pension so in this article we explain how buying and selling investments can be as simple as it is in other types of investment accounts.

Not only *can* you take an active hand in investments for your retirement but you *should* as your goals and investment time horizon change. Just how active you might be is an issue we will discuss later on.

There are several different categories of pension. These include workplace pensions: including defined benefit (DB) schemes (also known as final salary pensions) and defined contribution (DC) schemes, as well as personal pensions of which a self-invested personal pension (SIPP) is the most relevant for our purposes.

A SIPP gives you the most flexibility to trade in and out of investments and operates very much like a Stocks & Shares ISA or standard share dealing account.

You can trade a wide range of investments within your SIPP not just stocks. Options include funds, investment trusts, exchange-traded funds (ETFs), bonds and gilts.

CAN I MAKE REGULAR INVESTMENTS?

You can make regular investments through your SIPP; on the obvious prerequisite you have enough money in your cash account to pay for them.

Most mainstream investment platforms will allow you to invest in a range of shares, funds, trusts and ETFs regularly at a discounted rate.

SIPPS: WHAT CAN'T YOU INVEST IN

- Commercial or residential property
- Insurance company bonds
- Private (unquoted) company shares
- Works of art, cars etc.
- Loans
- Gold bullion

HOW OFTEN CAN YOU TRADE WITHIN YOUR SIPP?

You can trade as little or as often as you want through your SIPP, but you will incur costs by doing so. You might expect to pay around £10 for trading shares, ETFs or trusts, and less if you trade regularly, with typically a much lower cost for trading funds. Costs can make a significant difference to returns over a long period so it is certainly something to bear mind if you plan to buy and sell investments in your SIPP on a regular basis.

For some investors this will mean it makes more sense to invest in low-cost, diversified ETFs or tracker funds and other investments which are intended to be bought and held for the long term.

By **Sabuhi Gard** Investment Writer

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César Sánchez, CFO

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Sovereign Metals (SVML)

Sapan Ghai, Chief Commercial Officer

Sovereign Metals is a mineral exploration company. It is engaged in the mineral exploration, identification, and appraisal of resource projects.

Touchstone Exploration (TXP)

Paul Baay, CEO

Touchstone Exploration is a UK listed but Canadian-based, international upstream oil and gas company currently active in the Republic of Trinidad and Tobago. It is one of the largest independent onshore oil producers in Trinidad, with an experienced management and executive team that have a track record of delivering value to shareholders.

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Retail sector: why it is important and four major challenges ahead

We learned a lot from recent Christmas trading updates about the nation's shopkeepers

The retail sector accounts for £104 billion of the FTSE 350 index by value of its 22 constituents, making it of significant importance to the UK stock market and to any investor with exposure to UK equities.

The fortunes of retailers can tell us about the state of the consumer and in turn provide clues on economic activity. Therefore, even if you do not have exposure to individual stocks in this sector, it is important to monitor what retailers are saying.

The current outlook is far from rosy, despite pockets of good news such as inflationary pressures easing. Christmas trading updates imply the consumer is still cautious about spending and recent inflation figures coming in higher than expected have kicked the idea of near-term interest rate cuts down the road.

The message from the latest batch of trading updates has been fairly clear – consumers are happy to buy stuff that is essential, an affordable treat or an experience but they are thinking long and hard about anything more expensive or not vital.

That is evident in the latest Barclays consumer spending report which found that retail spending in December struggled to maintain the momentum seen in November, partially because booking holidays and trips to the cinema were more popular places for people's money than three core retail items: clothing, electronics and home improvement.

Here are four challenges facing the retail sector for the year ahead:

SLOWDOWN IN SALES GROWTH

Marks & Spencer (MKS), B&M (BME), JD Sports (JD.) and **Greggs (GRG)** were among the retailers to report a slowdown in sales growth in their post-Christmas trading updates. This extends a trend already in place in late 2023 where Zara-owner **Inditex (ITX:BME)** and Asda were among the retail names to suffer the same fate.

Daniel Coatsworth: Retail Sector

A sales growth slowdown puts pressure on companies to be cleverer with their marketing and to ensure they have the type of products people want to buy. That must offer stuff that is excellent value for money where the customer feels like they are getting something decent for their cash.

They need to get it right from the moment the customer walks through the door and that extends to service, in-store décor and product availability. For those with an online offering, the website or app needs to be easy to navigate and orders dispatched swiftly.

Retailers have put up prices over the past few years as they passed on inflationary pressures to the customer. This strategy may not work in 2024 as inflationary pressures are easing and certain companies do not want to exploit their customer base by asking them for even more money per item. For example, there are reports that Marks & Spencer will not push up its clothes prices this year. Not necessarily good for its profit margins, but good for the customer and keeping the latter satisfied is vital for retailers in the current environment.

INVENTORY MANAGEMENT

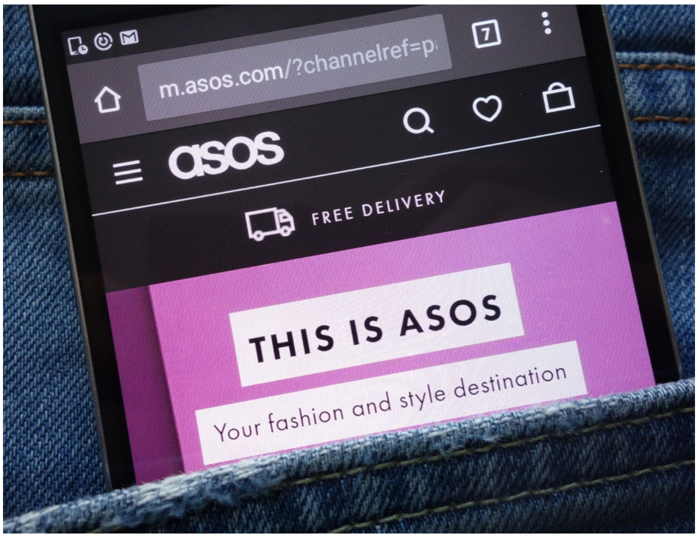
Certain retailers held the wrong types of products on their shelves at moments in 2023 after making bad calls on which items to have in stock or the weather failing to follow seasonal patterns.

Historically, fashion retailers have filled their shelves with coats and jumpers in September in anticipation of colder weather spurring shoppers to buy warmer clothes.

Climate change complicates matters and has resulted in mild autumns and wild swings in temperatures and precipitation during the summer, leaving retailers flummoxed.

They will need to adapt to sudden changes in the environment so as to avoid shelves of shorts and summer dresses going unsold when there are weeks of rain, and thick jumpers gathering dust while everyone enjoys mild conditions in September to December, for example.

Getting it wrong with inventory management puts retailers in a difficult position. Unsold stock takes up warehouse space and consumes working capital. Just ask **ASOS (ASC)** which has struggled with mountains of unsold clothes, forcing it to



launch sales to clear inventory and writing off up to £130 million in excess stock. Between its 2018 and 2022 fiscal years, ASOS's stock levels doubled and so did its discounts, hurting gross margins and profitability.

Retailers have moaned about the widespread promotional environment over the past few months. If a rival is slashing prices, others are under pressure to do the same to stay competitive. That is why retailers including **Next (NXT)** have been making a big song and dance if they have had full-price sales success, flagging any strength as a major win as it shows they have a position of power in the sector.

CONSUMER CONFIDENCE

The rise in interest rates has made consumers more wary about how they spend their money. In certain cases, there might not be any spare cash after settling up monthly bills which can lead to a reliance on credit and in a worse-case scenario, debt problems.

Any interest rate cuts this year may only provide minor relief to household finances. We are not going to suddenly see people with masses of extra money in their pocket as the pace of rate cuts could be slow. That means retailers still need to be on alert for tough market conditions and to offer value for money wherever possible.

Fragile consumer confidence suggests a difficult year ahead for big ticket retailers and sellers of goods that are nice to have, but not essential.

The property market is unlikely to bounce back to rude health the second we see a rate cut and so

sellers of home improvement products or home furnishings need to be prepared for similar trading conditions to last year.

Any extra money that consumers do get as a result of a rate cut might go towards paying down debt or straight into the holiday kitty, as travelling remains a priority for so many. Consumers would rather cut back on certain areas to ensure a week or two in the sun abroad than fritter money away on the high street.

INTENSE COMPETITION

The business world has followed the same pattern for centuries. If someone has a clever idea and makes a successful business out of it, another person will copy that idea in the hope of getting a slice of the pie.

Retail is chock-a-block with similar propositions, each having a different spin on fundamentally the same idea. Competition is intense and the weak will not survive, particularly when market conditions are tough.

ASOS and **Boohoo (BOO:AIM)** have suffered in recent years from the rise of Shein as it is difficult to compete against the Chinese seller on price. Currys is one of the last men standing on the high street when it comes to electricals as a wave of internet competitors try to eat the lunch of physical shops. Amazon has enjoyed a strong position in the UK retail space (and elsewhere in the world) but Temu, another Chinese e-commerce firm, now poses serious competition. The list goes on.

Certain brands are trying to reduce reliance on wholesalers and retailers by going direct to the consumer. This includes **Adidas (ADS:ETR), Birkenstock (BIRK:NYSE), Dr Martens (DOCS), L'Oréal (OR:EPA)** and **Nike (NKE:NYSE)** which have

their own e-commerce sites because they are looking to make a bigger margin on sales and learn more about the customer.

These brand owners are not cutting out wholesalers and retailers completely, merely adding an additional sales channel. Yet to the army of shops up and down the country it leaves a sour taste when certain key suppliers become direct competition.

A well-trodden path to fight back against competitive threats is to reward customer loyalty and provide an incentive to stay with the same retailer. This might be awarding loyalty points which convert into money off goods or access to cheaper prices if you scan your loyalty card. **Tesco (TSCO)** has used the latter approach as a key tool in its fight against Aldi and Lidl, and now **Sainsbury's (SBRY)** and Co-op have copied this strategy with their loyalty schemes unlocking cheaper prices.

Unfortunately for them, the Competition and Markets Authority is casting its eye on matters amid concerns that grocers are restricting the bulk of price promotions to loyalty scheme members.

By **Daniel Coatsworth**
AJ Bell Editor in Chief and Investment Analyst

Daniel Coatsworth: Retail Sector

RETAIL TRADING UPDATES SO FAR IN 2024

B&M: Reported a slowdown in sales growth but remained upbeat. Its French operations and Heron Foods arm were standout performers in the group.

CARD FACTORY: Had a good Christmas with an increase in the number of transactions and average basket value.

CURRYS: Said full-year profit would be ahead of market expectations despite a dip in sales over the 10 weeks to 6 January 2024 . Customers have been happily buying mobile phones, but not so many TVs and computers.

DFS: Reported challenging conditions but has increased market share.

DUNELM: Chugging along while also improving gross margins.

GEAR4MUSIC: Sales fell 6% in last three months of 2023, weighed down by weakness in its overseas operations. Hopeful of improving margins in 2024.

GREGGS: Earnings guidance unchanged despite reporting a slowdown in sales growth.

HALFORDS: The retailer suffered a sharp downturn in trading during December 2023.

JD SPORTS: Slowdown in sales growth blamed on consumer spending nervousness and a highly promotional market hitting margins.

MARKS & SPENCER: Food was the star of the show in its Christmas trading update but sales growth has slowed in food and clothing.

MARKS ELECTRICAL: Issued a profit warning after saying consumers remain price conscious and that gross margins are under pressure.

NEXT: Full-price sales better than expected, leading the retailer to increase full-year profit guidance.

PRIMARK (ASSOCIATED BRITISH FOODS): A strong Christmas helped make up for weakness in the preceding months.

SAINSBURY'S: Strong food sales offset by weakness in general merchandise.

SUPERDRY: Reported a 'difficult period' and said its financial performance had weakened.

TESCO: Chief executive Ken Murphy said it was Tesco's 'best Christmas yet' with a focus on value, quality and product innovation. The grocer upgraded full-year profit guidance for its retail operations.

TOPPS TILES: Like-for-like sales down 7.1% in the last 13 weeks of 2023. Blamed ongoing challenges to discretionary consumer spending. Sales to trade customers are proving more resilient than sales to homeowners.

WATCHES OF SWITZERLAND: Issued a profit warning, saying UK market had been tough.

WH SMITH: Issued an upbeat trading statement although no like-for-like sales growth in North America.

THE WORKS: Reported subdued demand over the festive period. Like-for-like sales down 4.9% in the 11 weeks to 14 January 2024.

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Do rule changes mean I can start paying into my pension again?

Our resident expert helps with a query about the lifetime allowance and fixed protection

I took out fixed protection years ago and stopped paying in contributions from March 2016.

My SIPP fund is now worth £1.5 million. I have heard the rules have changed and I can now start paying in? Is that right? And if so, do the usual rules apply to my pension fund and I can take a quarter of it as tax-free cash?

Also, I joined a new employer five years ago. I opted out of the pension scheme, but does this change mean I can now join?

Steve

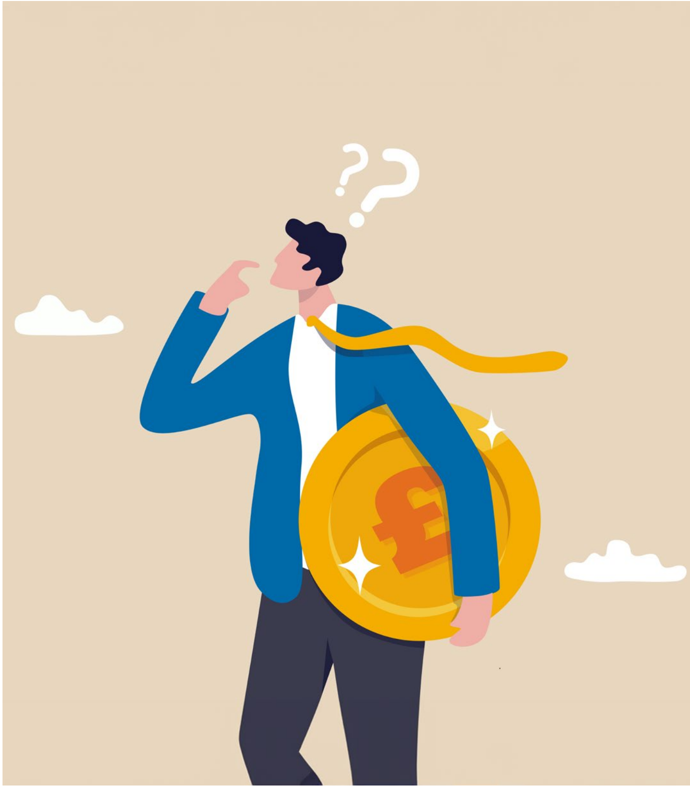
Rachel Vahey,
AJ Bell Head of Public Policy, says:

The lifetime allowance controls how much money you can take out of your pension tax efficiently. Up to April last year, if you took out more than the lifetime allowance there was a lifetime allowance tax charge applied to the excess.

The rules changed last April. For this tax year – 2023-24 – if you go over your lifetime allowance there isn't an additional tax charge to pay if you take the money as an income, for example as income drawdown. (But of course, you would still be taxed on any withdrawals as income.) If you take the excess as a lump sum, then that would face income tax at your marginal rate.

When the lifetime allowance was first introduced back in April 2006 it was set at £1.5 million. Over the next five years it rose steadily to £1.8 million in 2010.

However, successive governments cut the allowance – first to £1.5 million in 2012, then £1.25 million in 2014 and finally £1 million in 2016. Every time it was cut protections were put in place to prevent those with substantial funds losing out.



You chose to take one of these protections. Having fixed protection 2016 means you get to keep the old higher lifetime allowance of £1.25 million (instead of having to test your pension funds against today's lower amount of £1,073,100) and the maximum tax-free cash you can take is a quarter of that amount, £312,500.

However, to keep this higher lifetime allowance, no more contributions could be paid into your pensions from 6 April 2016 onwards. This included contributions from an employer under automatic enrolment. It looks like you have kept your end of that bargain.

WHAT 2023 CHANGES MEAN

In March 2023, the chancellor announced he was going to abolish the lifetime allowance. He started by scrapping any lifetime allowance charge (as I explained above), and the lifetime allowance will disappear completely from 6 April 2024.

As part of these changes, anyone who had registered for fixed protection before 15 March 2023 (as discussed there are three different types – 2012, 2014 and 2016) or enhanced protection can start to

pay into their pension schemes again.

Normally, people can take as tax-free cash (pension commencement lump sum) 25% of their pension fund up to the lifetime allowance of £1,073,100, that is a maximum of £268,275. Those who took fixed protection, however, get to keep their higher tax-free cash amount of (in the case of fixed protection 2016) £312,500.

So even though you could now pay more money into your pension you won't be able to take a higher tax-fee cash amount – you will still be restricted to £312,500. You will receive tax relief on contributions on the way in, and the money will be invested in a tax-efficient environment. But any money you take out as income will also be taxed.

FLEXIBILITY TO JOIN WORKPLACE SCHEME

However, lifting the ban on paying in contributions also means people with fixed or enhanced protection can now join their employer's pension scheme and benefit from receiving their employer's pension contributions as well as their own, which they won't have been able to do for the last decade or so. And that is worth considering.

They may be able to opt into the pension scheme at any point (and can check by asking the employer). But failing that the employer has to re-enrol them every three years.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **askrachel@ajbell.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

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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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