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How tracker funds can make your life easier

PROPERTY BARGAINS Why now could be a good time to invest in real estate stocks


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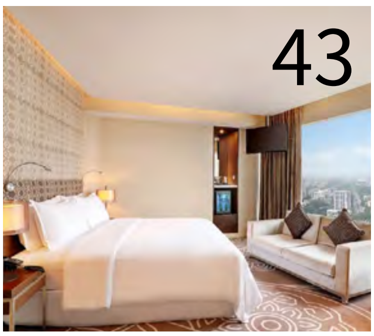
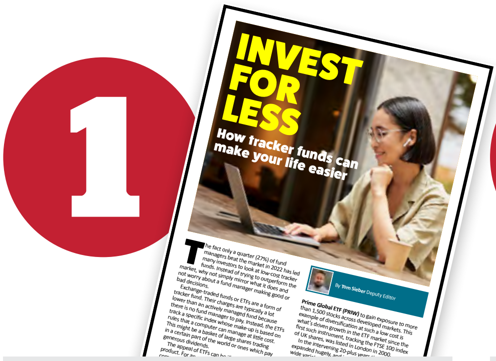
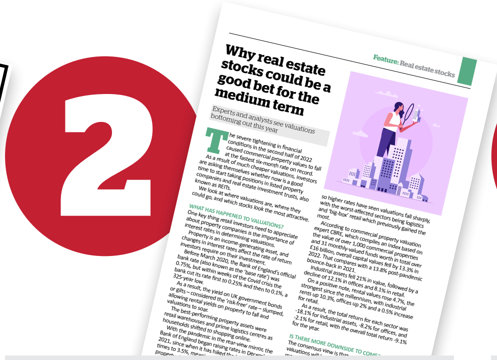


Three important things in this week's magazine



You can save a lot of money on charges by investing in tracker funds.

This week's main feature looks at the cheapest ways to invest in markets, themes and more via ETFs. There's something for everyone and it's easy to build a diversified portfolio with just a handful of products.



Now might be a good time to look for opportunities in the commercial property space.

Discover the reasons why experts are turning more bullish on the space and the stocks that look attractive.

Take more notice of broker 'sell' ratings than ones that say 'buy'.

Going against the crowd takes more conviction and therefore 'sell' ratings are worth analysing, particularly when most brokers are bullish on a stock.

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:

More to go in airlines' recovery says Liberum, EasyJet shares most attractive

Marston's shares gain 8% as investors cheer strong Christmas trading

Why 13% dividend hike puts spotlight on Greencoat UK Wind's dividend appeal

Sosandar shares strut 10% higher as Sainsbury's clothing tie-up excites

AGT
AVI GLOBAL TRUST

A unique investment philosophy

Finding value overlooked or misunderstood by the market

Asset Value Investors (AVI) has managed the c.£1.1bn* AVI Global Trust (the "Trust") since 1985. The strategy over that period has been to buy quality companies held through unconventional structures and trading at a discount to estimated underlying net asset value; the strategy is global in scope, and we believe that attractive risk-adjusted returns can be earned through detailed research with a long-term mind-set.

The companies we invest in include family-controlled holding companies, closed-end funds, other asset-backed special situations and, most recently, cash-rich Japanese companies. The approach is benchmark-agnostic, with no preference for a particular geography or sector.

AVI has a well-defined, robust investment philosophy in place to guide investment decisions. An emphasis is placed on three key factors: (1) companies with attractive assets, where there is potential for growth in value over time; (2) a sum-of-the-parts discount to a fair net asset value ("NAV"); and (3) an identifiable catalyst for value realisation. A concentrated core portfolio, with the current top 10 holdings accounting for nearly 60% of NAV, allows for detailed, in-depth research which forms the cornerstone of our active approach.

Once an investment has been made, we seek to establish a good relationship and actively engage with the managers, board directors and, often, families behind the company. Our aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in asset-backed companies–for the benefit of all.

AGT's long-term track record bears witness to the success of this approach, with a NAV total return well in excess of its benchmark. We believe that this strategy remains as appealing as ever and we continue to find plenty of exciting opportunities in which to deploy the Trust's capital.

Discover AGT at aviglobal.co.uk

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*As at 31 October 2022

Past performance should not be seen as an indication of future performance. The value of your investment may go down as well as up and you may not get back the full amount invested. Issued by Asset Value Investors Ltd who are authorised and regulated by the Financial Conduct Authority.

AVI
Asset Value Investors

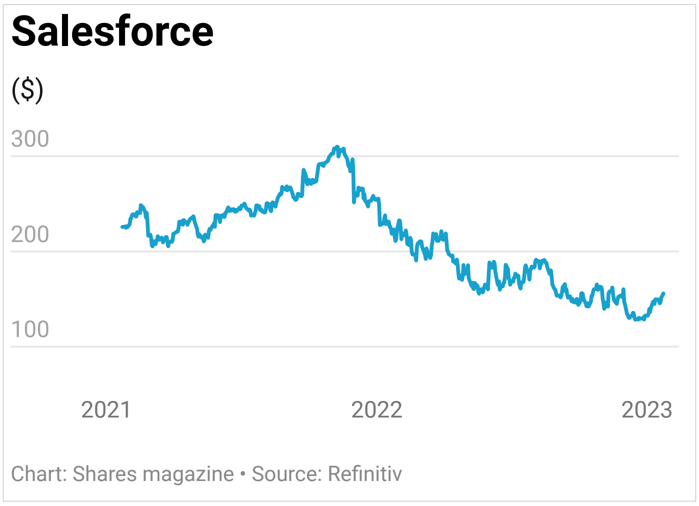
Activist investors give big boost to Salesforce and Restaurant Group

A ray of hope for anyone holding underperforming shares is the arrival of a shareholder who will shake things up

It's been a rough period for shareholders of software provider **Salesforce (CRM:NASDAQ)** with the shares halving since November 2021.

Some relief came on 23 January after the *Wall Street Journal* reported activist investor Elliott Management had taken a multi-billion-dollar stake. The shares gained more than 2% adding to the 14% gains already notched-up in 2023.

Managing partner Jesse Cohn told *Reuters* 'We look forward to working constructively with Salesforce to realise the value befitting a company of its stature.'



Elliott targets companies it believes have good fundamentals and prospects but where management have 'dropped the ball' causing the company to fall short on delivering its full potential.

The activist took a stake in pharmaceutical firm **GSK (GSK)** in April 2021. It pushed for management change and supported the demerger of consumer healthcare division **Haleon (HLN)** which was listed on the stock market in July 2022.

In the case of Salesforce Cohn said the company was 'one of the preeminent software companies in the world'.

Elliott is the second activist investor to target Salesforce in the past year. In October 2022 Starboard Value announced a 'significant' stake. In an investor presentation the investor said it was pleased with the $50 billion 2026 sales target but was disappointed by the 42% operating margin target, considering a peer group average of 50%.

Like many technology companies which overexpanded during the pandemic Salesforce announced this month it was laying off around 10% of its workforce and closing some offices.

Elsewhere, hedge fund and activist investor Oasis Management has taken a 5% stake in Wagamama and Frankie & Benny chain owner **Restaurant Group (RTN)** according to a *Financial Times* report (20 January). The stake was purchased in November 2022.

The Hong Kong-based investor last hit the headlines in the UK after building a near 20% stake in Mr. Kipling cake maker **Premier Foods (PFD)** and campaigning to oust its CEO.

Hospitality was one of the worst-hit sectors during the pandemic while the cost-of-living crisis has hampered Restaurant Group's recovery. Rising interest rates have also provided a challenge.

Restaurant Group extended its borrowing facilities in December by two additional years out to April 2028 and has agreed extra headroom with lenders to operate with a higher debt to EBITDA (earnings before interest, tax, depreciation, and amortisation) ratio.

In addition, the company has capped its interest costs to reduce the risk of interest changes over the next four years. The revised debt package means the firm had upwards of £140 million of cash headroom as at 21 December. [MG]

Could Procter & Gamble's latest update spell trouble for its UK rivals?

There is an important read-across to Unilever and Reckitt which will soon update the market

US consumer health and hygiene giant **Procter & Gamble (PG:NYSE)** delivered what initially looked like a positive set of second quarter results, beating revenue estimates and increasing its full year organic growth forecast.

However, P&G shares fell to two-month lows as investors were spooked by falling sales volumes and a continued rise in input costs.

Despite meeting Wall Street estimates with earnings per share of $1.59 and slightly beating sales forecasts, the firm revealed a 6% drop in second-quarter volumes driven by falling consumption and a big hit to margins from increased raw material costs and a negative product mix.

The firm also said given 'continued significant cost headwinds from commodity and materials costs' and foreign exchange impacts, it expected earnings per share to be towards the lower end of its guidance range for the current year.

The question investors will be asking is whether UK firms such as **Unilever (ULVR)** and **Reckitt (RKT)** can avoid the same pitfalls when they report in a couple of weeks' time, and even if their results are good will the shares respond positively?

Procter & Gamble

($)

Chart: Shares magazine • Source: Refinitiv

In October, Unilever posted a forecast-beating 10.3% increase in third-quarter sales due to record price increases and raised its full-year revenue growth guidance to 'above 8%', so that is the first figure investors will scrutinise when the firm reports its annual results on 9 February.

Price hikes came at the expense of unit sales, which declined 1.6% in the quarter, and the company braced the market to expect 'more negative underlying volume growth' in the final three months of the year.

Chief executive Alan Jope also maintained his target of a 16% operating margin and guided investors to expect the return on sales to rise further this year due to strong pricing, an improved product mix and cost savings, so the margin outlook will be just as important as the results.

Reckitt also delivered better than expected third quarter sales and predicted full year revenue growth would be at the top end of its 6% to 8% range of guidance.

Price and product mix improvements of 12% came at the expense of a 4.7% decline in volumes and meant overall revenue growth slowed sharply from the second quarter, although the continuing strength of the US dollar provided a further tailwind to sales when reported in sterling.

When Reckitt reports on 17 February, as well as the top line investors will be looking to see how much further costs have risen as the firm has repeatedly cautioned higher input prices will affect its profit margins. [IC]

Expert predicts further bad news for popular investment trust Scottish Mortgage

There are reasons to expect further pain in the coming months

Shares in **Scottish Mortgage Investment Trust (SMT)** are down by one third in value over the past 12 months at 746.6p, having sold off due to the impact of high inflation and rising interest rates on long duration assets including the 'world's most exceptional growth companies' it invests in.

Scottish Mortgage became an investor favourite after delivering a staggering net asset value (NAV) total return of 2,921% between November 2008 and November 2021. But the Baillie Gifford-run trust is now the second worst one-year share price total return performer in the Association of Investment Companies' Global sector with souring sentiment reflected in a near-12% share price discount to NAV.

Scottish Mortgage

Chart: Shares magazine • Source: Refinitiv

Investec Securities has urged clients to 'sell' Scottish Mortgage in a research note (19 January 2023), warning the next few months may bring 'the second leg' of the sell-off in riskier growth assets. That would be bad news for Scottish Mortgage, whose holdings include gene-sequencer **Illumina (ILMN:NASDAQ)** and Elon Musk-led **Tesla (TSLA:NASDAQ)** and SpaceX, the latter privately owned.

Investec worries Scottish Mortgage's balance sheet is overstretched, with gearing of 17% at the highest level for a decade. It points out private investment exposure is at full capacity, with the trust currently unable to make follow-on or new investments in this part of the market.

Investec is also concerned the reduction in private company valuations 'may gather momentum as audited year-end numbers begin to feed through for those funds where there is a valuation lag', a major risk given that private companies speak for 35.9% of portfolio NAV.

And with central banks struggling to control inflation, the global economy is at risk of tipping into recession with an acceleration in quantitative tightening set to further drain liquidity.

'Over the next few months, this environment could bring further strong headwinds for Scottish Mortgage's "growth at unreasonable prices" philosophy, with the manager favouring stocks with growth of an explosive nature,' says Investec.

Despite such headwinds, Scottish Mortgage's optimistic managers Tom Slater and Lawrence Burns remain focused on the long-term and are sticking to the trust's key interests – digitisation of society, the intersection of biology and technology, and the energy transition.

Meanwhile, investment bank Stifel argues the 'cliff-edge' in NAVs implied by wide discounts among private equity trusts may be avoided. When the market sees beyond the peak in interest rates, it believes there could be increased buying interest and a sharp rebound in the valuations of funds investing in private equity and mid/small caps.

Also offering some optimism is Wedbush Securities' Dan Ives, who predicts technology stocks in general will surge about 20% this year, with layoffs across the sector marking 'the first major step' toward stabilising this crop of recently struggling stocks. [JC]

How Saga shares have more than doubled in three months

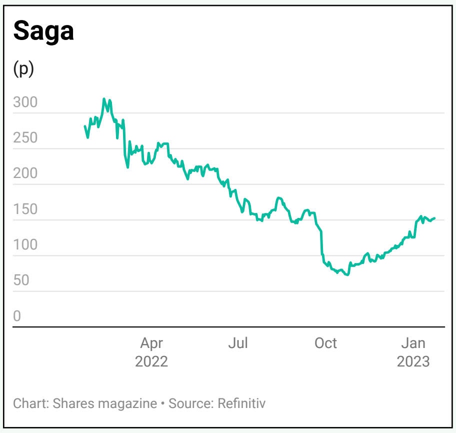
Over-50s travel and insurance firm has recovered from record lows

Over-50s travel and insurance group **Saga (SAGA)** has rebounded strongly of late, gaining 120% in just three months.

This increase in the share price is from all-time lows below 100p and the shares are still, once you adjust for a 2020 share consolidation, down more than 90% on the price at which they listed in 2014.

This isn't really a recovery of Saga's own making and has been led by wider positivity towards the travel space. The company, often the author of its own misfortune, did post a relatively reassuring update on 24 January, though a 10-fold increase in revenue for its travel and cruises business is still expected to translate into a small loss in the 12 months to 31 January. The insurance underwriting division is also set to be loss-making.

Saga is considering a sale of the underwriting business with the proceeds used to pay down borrowings. While this could boost sentiment, it might not make too much of an impression in its £721.3 million net debt pile given a large portion of the underwriting function for its insurance business had been outsourced. [TS]



Thungela loses its crown as coal prices fall back

The miner has gone from stock market winner to loser

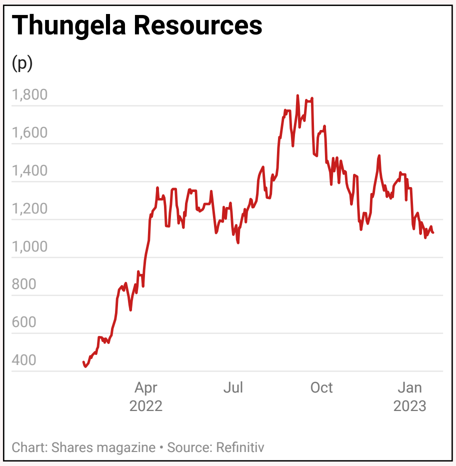
Having been one of the best performing shares in 2022, South African coal miner **Thungela Resources (TGA)** has now lost momentum.

The stock has fallen by nearly 40% in value over the past four months as coal prices have weakened as weather conditions in parts of Europe have been milder than expected, thus hurting demand.

Analysts at Liberum say the stock is 'cheap' under all likely scenarios, despite weaker coal prices and problems with South Africa's rail network which is impacting deliveries to a major port. Its base case is 15 million tonnes of coal sales in 2023 at the $170 per tonne price at which you can buy coal in the market today.

If achieved, it expects Thungela to pay out dividends equal to a 28% yield. Should the miner only sell 10 million tonnes of coal – Liberum's bear case – at $120 per tonne, the analysts still believe shareholders would get an 8% yield.

Clearly the risk of a further decline in the coal price could pull down the shares even more, so investors must consider capital gains and losses in addition to the potential income. [DC]



UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS
30 January:
SThree
1 February:
Glencore, GSK
2 February:
Shell

HALF-YEAR RESULTS
31 January:
ITM Power, NWF
2 February:
Renishaw

TRADING UPDATES
27 January:
Industrials REIT, Paragon Banking
30 January:
DP Eurasia, Computacenter
31 January:
Hochschild Mining, Pets at Home
1 February:
Entain, Gem Diamonds, Vodafone
2 February:
Airtel Africa, BT, Cranswick, JTC

Questions for BT

THE TELECOMS GROUP NEEDS TO START PROVIDING SOME ANSWERS IF IT IS TO KEEP SHAREHOLDERS ON SIDE

Telecoms group **BT (BT.A)** has a mountain to climb if it is going to keep shareholders satisfied with its third quarter update on 2 February and its promised price hike.

The firm's Q2 results raised more questions than they answered, according to analysts at Berenberg, such as whether the growth in average revenue per consumer customer is sustainable, has weakness in the Enterprise business bottomed and does the decline in Openreach's broadband base represent 'a new normal'?

As well as providers answers to these questions, the company needs to assure the market it will stick with a plan to raise prices in March by 14% or CPI plus 3.9%, as permitted by the regulator, in the face of an all-too-likely political storm. [IC]

Shell time

HIGHER GAS PRICES A BOON BUT WINDFALL TAXES MAY BITE

Energy giant **Shell (SHEL)** has already published a raft of forecasts for production and costs across its business ahead of its fourth quarter results on 2 February, which suggest a decent lift to earnings from its LNG (liquefied natural gas) division while lower oil prices will impact refined products.

It has indicated windfall taxes in the UK and Europe could be as much as $2 billion, which will no doubt feature in any commentary on its previously communicated plan to invest £25 billion in the UK. [IC]

All eyes on Amazon

FOURTH QUARTER EARNINGS EXPECTATIONS WERE SIGNIFICANTLY DOWNGRADED LAST OCTOBER

Investors will be keen to see if e-commerce giant **Amazon (AMZN:NASDAQ)** lowered expectations enough after significantly downgrading its fourth quarter earnings outlook in October. The results will be published on 2 February.

Revenues are expected to be between $140 billion to $148 billion with operating income ranging from zero to $4 billion.

Consensus full year earnings estimates have tumbled from a profit of $1.34 billion to a loss of around $1.2 billion according to Refinitiv data. Earnings for 2023 are forecast to bounce back to almost $17 billion.

Amazon has been forced to retrench following overexpansion during the pandemic which saw its workforce more than double to 1.6 million. In January the company announced 18,000 job cuts and a hiring freeze as it prioritises cost control and profitability. [MG]

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

27 January:
American Express, Chevron

30 January:
NXP

31 January:
Exxon Mobil, Pfizer, McDonald's, United Parcel Service, Caterpillar, AMD, Stryker, Mondelez, Marathon Petroleum, General Motors, Phillips 66, MSCI, Spotify

1 February:
Meta Platforms, Novo Nordisk, Alibaba, Novartis, Altria, Vertex, Boston Scientific

2 February:
Apple, Alphabet, Amazon, Eli Lilly, Merck & Co, Roche, Bristol-Myers Squibb, Conoco Phillips, Starbucks

Why advertising revenue will be in focus when Meta reports

WHY MARK ZUCKERBERG'S UNLOVED META MUST START TO DELIVER

Meta Platforms' (META:NASDAQ) fourth quarter results update on 1 February will be scrutinised by investors to see if the company achieved guidance for quarterly revenue in the $30 billion to $32.5 billion range. That will depend on whether weaker advertising spend has impacted its Facebook and Instagram social media platform earnings.

Revenue softened 4% year-on-year to $27.2 billion in the third quarter of 2022 and Meta is coming under increased investor scepticism surrounding its metaverse strategy, as well as concerns over governance and privacy regulation. [JC]

Why you can be confident in soft drinks and snacks giant PepsiCo

The Pepsi-to-Walkers crisps wonder should prove resilient as it continues to serve up strong growth

PEPSICO
BUY
(PEP:NASDAQ)
Price: $169.88
Market cap: $234.1 billion

A recent rising market tide has lifted all boats, with shares in many cyclicals and lower-quality businesses moving higher. But given the difficult year shaping up for the global economy, high-quality, cash-generative companies with defensive characteristics are the best stocks to own for the duration of 2023 and beyond.

A perfect example of this is soft drinks-to-snacks giant **PepsiCo (PEP:NASDAQ)**. This US multinational boasts brand strength, pricing power and a track record of beating earnings forecasts then raising guidance.

Despite an impressive long-run share price chart moving up and to the right over many years, PepsiCo has recently dipped to create a good entry point. It is a terrific total return stock, having raised the dividend for 50 consecutive years and with the company now buying back up to $10 billion worth of stock over the next three years.

Guided by CEO Ramon Laguarta, PepsiCo's portfolio of super-resilient brands spans everything from eponymous soft drink Pepsi to Gatorade, Mountain Dew, Frito-Lay, Quaker Oats, Walkers and Tropicana. Copious cash generation enables PepsiCo to sustain investment in brand innovation and marketing to extend market share gains.

High inflation continues to squeeze consumer spending around the globe, yet PepsiCo has been able to flex its pricing power muscles and pass elevated raw material costs onto shoppers without denting demand. Treats such as fizzy drinks or crisps are affordable repeat purchases which can get consumers through the stresses of everyday life.

And brand loyalty is strong in this area; even if prices go up, people are less likely to turn to supermarket own-brand products or other cheaper alternatives when the craving for a PepsiCo product strikes.

PepsiCo has protected profitability by raising prices successfully and there is now scope for margins to expand as commodity input costs go down.

Following strong third quarter results (12 October 2022) showing organic sales growth of 16%, PepsiCo raised its year-to-December 2022 organic revenue growth guidance from 10% to 12% and its constant currency earnings per share growth forecast from 8% to 10%. Fourth quarter and full year results will be published on 9 February.

According to Stockopedia, you'll have to pay up for PepsiCo's defensive earnings and cash flows as the stock trades on a 12-month forecast rolling price to earnings ratio of 23.3. However, this rating is a discount to a high of 31.9 times scaled in 2021 and PepsiCo also offers a 2.8% dividend yield. It is also worth noting that investors who've previously bought PepsiCo 'on the dip' over the years have been richly rewarded as the stock has subsequently continued on its upwards trajectory. [JC]

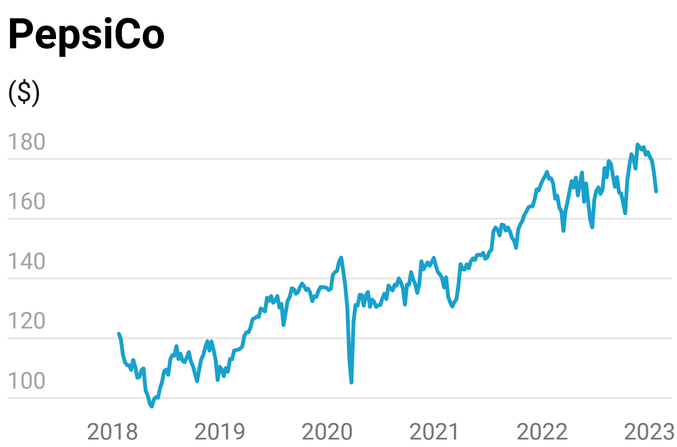


Chart: Shares magazine • Source: Refinitiv

Income seekers should snap up the 8% yield at this Asia-focused trust

Henderson Far East Income invests in companies with sustainable and rising pay-outs

HENDERSON FAR EAST INCOME (HFEL)

Price: 288p

Net assets: £416 million

Investors looking to build a diversified portfolio with an emphasis on income ought to look at **Henderson Far East Income (HFEL)**, an investment trust which is currently yielding more than 8% and has raised its dividend annually for the last 15 years.

While Asia may not occur straight away as a predictable source of cash flows and income, profits and dividends have been growing strongly and the region is expected to grow faster than the rest of the world this year.

> **Asia is hugely diverse with hundreds of strong dividend-paying companies to choose from**

Structural reforms put in place since the crisis in the late 1990s mean Asian economies and companies are on a much better footing than in the past with stronger balance sheets and low levels of unhedged foreign debt.

Combined with high margins and positive economic growth, the dividend growth story has become an intriguing one for investors, according to manager Mike Kerley.

'Asia is hugely diverse with hundreds of strong dividend-paying companies to choose from. Given they tend to be under-researched relative to other stock markets, it presents hidden gems for actively managed trusts such as Henderson Far East Income to find,' he says.

Dividends in Asia are expected to rise by 8% to a record £333 billion in 2023, yet companies are still quite conservative in their financial management with pay-out ratios (the percentage of net income paid in dividends) averaging just 39% versus 47% for the rest of the world over the past five years, meaning there is 'plenty of wiggle-room to grow' says Kerley.

In the past few months, the trust has reduced its exposure to Taiwanese technology stocks, after weak results in the sector pointed to an oversupply of chips and falling margins. It has added a Chinese consumer goods company and a copper miner, which was neatly timed given the strong run in the copper price of late.

The trust currently has close to a one-third weighting in financial stocks, which pay good dividends and are benefiting from rising interest rates, followed by a 14% weighting in telecoms, a 13% weighting in real estate and an 11% weighting in energy.

Unusually for a Far East-focused trust, China isn't the key focus: on a country basis, just over one-fifth of the portfolio is invested in South Korea and a similar amount in Australia, with China accounting for less than one-fifth of assets.

The trust has a 1.01% ongoing charge, trades at a small premium to net asset value and has recently broken out of a multi-year downward trend which suggests investors should look sooner rather than later. [IC]

Henderson Far East Income

Chart: Shares magazine • Source: Refinitiv

Our big reason for investing in Spirent is gone so best to walk away

Sentiment towards telecoms testing firm sours as it warns on 2023

Spirent (SPT) 226.6p

Loss to date: 17.6%

We flagged the appeal of telecoms testing firm **Spirent (SPT)** at 275p on 12 January, seeing it as a smart way to play the rollout of 5G mobile network infrastructure. Sadly, a 20 January trading update materially undermined this hypothesis.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

Spirent provides testing, analytics and security services to the telecommunications space and it was a warning of hesitancy on the part of this customer base which really rocked sentiment towards the company and saw the shares drop more than 20% at one point, falling way below our entry point.

The Crawley-based business at least confirmed guidance for 2022 – with profit slightly ahead of the market consensus of $127 million – a 7.2% year-on-year increase. The order book was also up 7% in the year. However, delays are now expected to see a 'heavier than usual' second-half weighting for 2023.

> **"meaningful outperformance of 4% consensus revenue growth expectations less likely this year"**

Broker Canaccord Genuity painted a bleaker picture noting that the 9% organic growth in the first three quarters of 2022 creates a demanding comparison for the next nine months.

It adds: 'Our analysis further indicates capex spend by Spirent's largest customer group, the US service providers (20%-plus of sales), has peaked and will likely decline by a double-digit percentage over the next couple of years. Factoring in likely further operating/capital expenditure budget tightening among Spirent's other customers, in our view, makes meaningful outperformance of 4% consensus revenue growth expectations less likely this year.'

Chart: Shares magazine • Source: Refinitiv

WHAT SHOULD INVESTORS DO NOW?

If spending by Spirent's largest customers on 5G has peaked for the time being, then a central part of our reason for recommending the shares has gone. In these circumstances it seems sensible to take our medicine (painful as it is) and walk away with 17.6% loss. Particularly as there appear limited catalysts in the short term which could get the share price moving again. [TS]

Kepler | Trust Intelligence

THIS IS AN ADVERTORIAL

Coming into its own

Infrastructure as an asset class holds considerable appeal for investors against a volatile backdrop for broader markets…

Infrastructure is an asset class which can provide a high level of security to investors and trusts investing in 'availability-style' infrastructure assets are an attractive and defensive variant within this theme.

'Availability-style' infrastructure assets are typically a type of public-private -partnership (PPP), where private investment is used to develop and manage public social infrastructure assets, like roads, hospitals or schools. Once a project is complete and meets a set of pre-defined standards (meaning the infrastructure is 'available' for use), the investors in the assets keep receiving what are known as 'availability payments' as long as the asset remains available for use.

These contractual payments vary in duration, but it's common for them to last for between 25–35 years and to have high quality inflation linkage. Perhaps the most appealing facet of investment in these infrastructure assets is the fact that payments are government backed.

Availability-style infrastructure assets contrast with demand-based infrastructure assets, where the investor takes on the risk of how much the infrastructure will be used and thus how much revenue it generates. For example, an investor may fund public transport systems or toll roads that end up being used more or less than anticipated, and so will generate more or less cash for investors than originally expected. This problem can become especially acute when an asset experiences a big shock to demand, such as during the pandemic lockdowns or during a recession.

This is a big part of the reason the team at **BBGI Global Infrastructure (BBGI)** only invest in availability-style critical social infrastructure assets with high-quality inflation linkage. The trust, which is internally managed and led by co-CEOs Duncan Ball and Frank Schramm, has been operating for over a decade and invests in these types of high quality availability-style infrastructure assets that are backed by government contracts in highly rated investment grade countries.

The portfolio, valued at £1.1bn, is currently diversified globally and across 56 critical social infrastructure investments, with exposure to several different asset classes. Approximately half of the portfolio is in transportation, with the remainder in infrastructure assets in healthcare, correctional facilities, education, clean energy and affordable housing.

Having exposure to these assets would likely appeal to the more safety-conscious investor under most circumstances. However, as we seem very likely to be heading into a recession, investing in assets that can produce a regular stream of revenue, backed by government contracts, can start to look a lot more attractive and secure.

Compounding this is the fact that the contracts which BBGI has with its counterparties have revenues with high-quality inflation-linkage. This means income from the trust's investments are protected in real terms even in inflationary environments. Moreover, the income streams won't be subject to any changes in demand that may result from the economic impact of inflation or a recession.

This is not to say that availability-style assets are risk-free. Failing to keep infrastructure projects available for use, for example, means availability-style payments are not guaranteed. These risks can largely be mitigated through facilities management and insurance agreements. It is also worth noting that BBGI continues to have a high level of asset availability of 99.9%.

Another risk is interest rate hikes which, like government bonds, are putting pressure on valuations across the board. A couple of factors are helping mitigate the impact of interest rate rises for BBGI now and moving forward. One is that BBGI has only a marginal exposure to refinancing risk as the projects themselves are typically either financed on a long term basis with the debt term closely matching the concession term.

Also the individual portfolio companies tend to have substantial cash holdings, which generate an increased income as banks increase the rates of interest they pay. BBGI at a corporate level has mostly remained ungeared over the past decade, but periodically draws upon its £230 million revolving credit facility (maturing in 2026) to acquire assets, which it then repays through equity issuance, avoiding the issue of cash drag. Lastly, the high quality inflation linkage across BBGI's revenues also works as a partial hedge against rising inflation.

Taking all these factors into account, BBGI's holdings could be capable of riding out a recession well. The trust is in a position to continue delivering attractive income, even if interest rates rise, inflation continues and the general economy remains soft. Whether or not this will actually happen in practice remains to be seen. But as we enter a period of economic uncertainty, it seems fair to suggest that highly-rated governments will honour their contractual obligations and make availability payments to the suppliers of critical infrastructure like BBGI, even as other business and funds may end up struggling.

Click **here** to read our latest research on BBGI Global Infrastructure…

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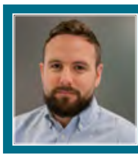
INVEST FOR LESS

How tracker funds can make your life easier



By **Tom Sieber** Deputy Editor

The fact only a quarter (27%) of fund managers beat the market in 2022 has led many investors to look at low-cost tracker funds. Instead of trying to outperform the market, why not simply mirror what it does and not worry about a fund manager making good or bad decisions.

Exchange-traded funds or ETFs are a form of tracker fund. Their charges are typically a lot lower than an actively managed fund because there is no fund manager to pay. Instead, the ETFs track a specific index whose make-up is based on rules that a computer can manage at little cost. This might be a basket of large shares trading in a certain part of the world or ones which pay generous dividends.

The appeal of ETFs can be illustrated by a single product. For an ongoing charge of just 0.05%, compared with a rough average of around 1% for actively managed funds, investors can use **Amundi Prime Global ETF (PRIW)** to gain exposure to more than 1,500 stocks across developed markets. This example of diversification at such a low cost is what's driven growth in the ETF market since the first such instrument, tracking the FTSE 100 index of UK shares, was listed in London in 2000.

In the intervening 20-plus years the market has expanded hugely, and investors can now invest in a wide variety of markets using ETFs including bonds, property, commodities and even specific themes and investment styles.

In this article we look at the different options and highlight some of the cheapest products. In a separate article, we select some ETFs to create a diversified portfolio from scratch.

Cheapest ETFs for the UK market

UK large caps	Code for the 'inc' version	Code for the 'acc' version	Ongoing charge
Luxor Core UK Equity All Cap	LCUK	n/a	0.04%
HSBC FTSE 100 UCITS ETF	HUKX	n/a	0.07%
iShares Core FTSE 100 ETF	ISF	CUKX	0.07%
Vanguard FTSE 100	VUKE	VUKG	0.09%
UK mid caps			
Vanguard FTSE 250	VMID	VMIG	0.10%
iShares FTSE 250	MIDD	n/a	0.40%

This is a selection and only includes ETFs with £100 million or more in assets

Table: Shares magazine • Source: JustETF, 19 January 2023

For many people ETFs are a useful way of tracking the big domestic and overseas indices. A starting point for lots of UK investors will be the FTSE 100 and the **iShares Core FTSE 100 (ISF)** is both the longest standing UK ETF and one of the most widely held. It charges just 0.07%.

Competition in this area of the market means there isn't a huge amount to choose between the different ETFs when it comes to cost. Though because of the big fees ETF providers must pay the index providers like FTSE and MSCI, products not tracking mainstream indices can be cheaper.

Lyxor Core UK Equity All Cap (LCUK) follows the Morningstar UK NR index – targeting the top 97% of stocks on the UK market by size – and its charges are even lower than the iShares FTSE 100 product at 0.04%. **L&G UK Equity UCITS ETF (LGUK)** has ongoing charges of 0.05% and tracks the Solactive Core United Kingdom Large & Mid Cap index. It is excluded from our table due to only having £69 million in assets.

For the most part the underlying holdings and performance of these alternative indices will be broadly like their more established counterparts.

Some investors may prefer to play UK stocks through an ETF which tracks the FTSE 250. This mid-cap index has a more domestic focus than the FTSE 100 and has performed better over the long run. There is a clear difference in cost, with **Vanguard FTSE 250 (VMID)** the cheapest.

What is an ETF?

An exchange-traded fund or ETF is a fund which trades on a stock exchange. Like any other fund, they diversify an investor's money across a range of underlying holdings contained within an index thus spreading the risk.

Because they are traded on the stock market, they can be dealt online at a live market price throughout the day, just like regular shares. ETFs are also exempt from stamp duty.

Cheapest ETFs for the US market

ETF	Code for the 'inc' version	Code for the 'acc' version	Ongoing charge
Invesco S&P 500	SPXP	SPXD	0.05%
L&G US Equity	n/a	LGUG	0.05%
iShares Core S&P 500	IUSA	CSP1	0.07%
Vanguard S&P 500	VUSA	VUAG	0.07%

This is a selection and only includes ETFs with £100 million or more in assets

Table: Shares magazine • Source: JustETF, 19 January 2023

For the US, most mainstream ETF products are focused on the S&P 500 index. From a diversification perspective this makes sense. The alternative US indices include the Dow Jones Industrial Average where the weighting of stocks – how much the movement of an individual share influences the direction of the wider index – is done according to share price rather than market value.

The Dow's composition is also opaque with constituents qualifying by being 'leaders of the US economy' and it has a smaller allocation to the big tech companies than the S&P 500. The other big US index is the Nasdaq, which is even more dominated by technology, so the S&P 500 provides a middle ground between the two.

Cheapest ETFs for the European market

ETF	Code for the 'inc' version	Code for the 'acc' version	Ongoing charge
Lyxor Core EURO STOXX 50	n/a	MSED	0.07%
Lyxor Core STOXX Europe 600	n/a	MEUD	0.07%
Xtrackers EURO STOXX 50	XESX	n/a	0.09%

This is a selection and only includes ETFs with £100 million or more in assets

Table: Shares magazine • Source: JustETF, 19 January 2023

Why a UK investor cannot buy US-listed ETFs

While it is easy to buy US-listed shares, the same does not apply to US-listed ETFs.

A UK investor cannot buy a US-listed ETF because the products lack the type of information documents required under European rules.

There are ETFs tracking Europe-wide indices and you can also use ETFs to access emerging markets though fees are higher, particularly if you want to target individual markets thanks to the more limited liquidity and accessibility of stocks in the developing world.

Cheapest ETFs for emerging markets

ETF	Code for the 'inc' version	Code for the 'acc' version	Ongoing charge
Lyxor MSCI Emerging Markets	E127	LEMA	0.14%
Lyxor MSCI Emerging Markets ex-China	n/a	EMXC	0.15%
iShares Core MSCI Emerging Markets IMI	EMGU	EMIM	0.18%

This is a selection and only includes ETFs with £100 million or more in assets

Table: Shares magazine • Source: JustETF, 19 January 2023

Cheapest ETFs for global markets

ETF	Code for the 'inc' version	Code for the 'acc' version	Ongoing charge
Amundi Prime Global	PRWU	PRIW	0.05%
Lyxor Core MSCI World	n/a	LCWL	0.12%
SPDR MSCI World	n/a	SWLD	0.12%
Vanguard FTSE Developed World	VEVE	VHVG	0.12%
Xtrackers MSCI World	XWDL	n/a	0.12%

This is a selection and only includes ETFs with £100 million or more in assets

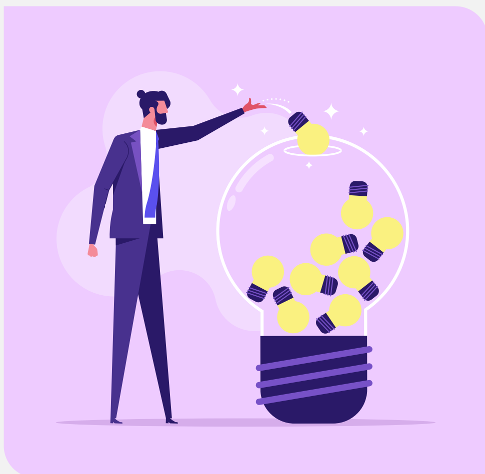
Table: Shares magazine • Source: JustETF, 19 January 2023

Why size is important with ETFs

It's worth bearing in mind when looking at an ETF with only limited assets (such as less than £100 million) that the product is at risk of being closed if it cannot attract more interest.

These sub-scale ETFs may also have more limited liquidity which leads to a larger spread between the price at which you can buy and sell.

If you are holding an ETF for the long term this might not make a huge difference, however you may well want to rebalance your portfolio if the proportion of stocks to other asset classes has moved above or below your targeted level and here small differences in the cost of trading can add up over time.



THEMES, SECTORS AND OTHER AREAS

There are ETFs which provide exposure to specific sectors, trends and themes as well as other asset classes like bonds.

When it comes to thematic ETFs, there is less competition, so costs tend to be higher. The size of an ETF is also more of a consideration as some products attract limited assets because of their niche appeal. If an ETF cannot gain scale, such as having assets worth more than £100 million, there runs the risk of it being shut down by the provider.

Cheapest thematic ETFs

Lyxor Net Zero 2050 S&P 500 Climate	PABS	0.07%
UBS Global Gender Equality	GENE	0.20%
VanEck Semiconductors	SMH	0.35%
Wisdomtree Artificial Intelligence	INTL	0.40%
Wisdomtree Battery Solutions	CHRG	0.40%
WisdomTree Cloud Computing	WCLD	0.40%
iShares Digital Security	LOCK	0.40%
iShares Digitalisation	DGTL	0.40%
iShares Electric Vehicles and Driving Technology	ECAR	0.40%
iShares Healthcare Innovation	DRDR	0.40%
iShares Automation & Robotics	RBTX	0.40%
L&G Clean Energy	RENG	0.49%

This is a selection and only includes ETFs with £100 million or more in assets

Table: Shares magazine • Source: JustETF, 19 January 2023

The performance of thematic ETFs has been mixed and there is an argument that a more nuanced, active approach can be a better way of capturing returns from long-term trends. Also, by the time a trend has entered the mainstream to the extent that ETF providers have launched products to tap into it, many of the obvious stocks positioned to harness it may have already rallied.

There are lots of ETFs with an ESG (environmental, social and governance) focus. Some are deliberately geared towards themes in this area while others track versions of existing indices which have been screened using sustainability criteria.

iShares' range of thematic ETFs are some of the largest, addressing some of the risks around fund size, and include **iShares Automation & Robotics**

How do you get income from an ETFs?

ETFs are normally set up for either income or accumulation. The 'inc' or income version of ETFs pay out distributions to holders as cash. 'Acc' or accumulation ETFs effectively reinvest the dividends for you. So, you need to make sure you buy the right version of the ETF if you want to receive the income as cash.

Some ETFs won't offer a choice of income or accumulation versions of their fund. If there is no choice, it typically means any dividends will be paid out in cash.

Cheapest sector ETFs

ETF	Code	Ongoing charge
Xtrackers MSCI USA Banks	XUFB	0.12%
Xtrackers MSCI USA Consumer Staples	XSCS	0.12%
Xtrackers MSCI USA Health Care	XUHC	0.12%
Xtrackers MSCI USA Information Technology	XSTC	0.12%

Cheapest bond ETFs

ETF	Code	Ongoing charge
Amundi Prime Euro Corporates	PRIC	0.05%
Amundi Prime Euro Govies	PRIR	0.05%
Lyxor Core UK Government Bond	GILS	0.05%
Invesco US Treasury Bond	TRSG	0.06%

Cheapest commodity ETFs

ETF	Code	Ongoing charge
Invesco Physical Gold	SGLD	0.12%
iShares Diversified Commodity Swap	ICOM	0.19%

This is a selection and only includes ETFs with £100 million or more in assets

Table: Shares magazine • Source: JustETF, 19 January 2023

(RBOT), **iShares Digital Security (LOCK)** and **iShares Global Clean Energy (INRG)**.

iShares Automation & Robotics is, for example, considerably cheaper than **L&G ROBO Global Robotics and Automation (ROBG)** with an ongoing charge of 0.4% compared with 0.8% for the latter product. The five-year return for the iShares product is also better at 40.7% compared with 31.7% for the L&G ETF.

Sector-based ETFs often track broad industry categories and typically they don't follow UK stock market groupings but are more likely to be global, US or regional sectors.

ETFs have been a useful way for ordinary investors to access the bond market, something it is difficult to do directly. Most of the products in this space provide exposure to baskets of government bonds or investment-grade corporate bonds.

There is also a range of exchange-traded products which track the price of individual commodities and sometimes a basket of them. Instruments offering exposure to gold are particularly popular. Real estate ETFs track stocks with exposure to this sector rather than investing directly in the properties themselves.

STYLES

It is possible to use ETFs to capture different investment styles or factors. Arguably these products blur the line between active and passive management.

Dividend ETFs which would appeal to income investors are more established. There are ETFs which track baskets of high-yielding stocks such as **iShares UK Dividend (IUKD)** and others that focus on dividend growth like **SPDR S&P Global Dividend Aristocrats (SPDR)**.

Increasingly there are ETFs which are growth or value-focused and some which include stocks with share price momentum, or businesses with attributes which make them higher quality.

There are also several multi-factor products which select investments based on a range of different factors. **iShares Edge MSCI World Multifactor (FSWD)**, for example, tracks firms in developed markets selected according to value, momentum, quality and size.

ETF	Code for the 'inc' version	Code for the 'acc' version	Ongoing charge
Cheapest income ETFs			
Fidelity US Quality Income	FUSI	FUQA	0.25%
iShares MSCI Europe Quality Dividend	EQDS	n/a	0.29%
Vanguard FTSE All-World High Dividend Yield	VHYL	VHYG	0.29%
SPDR S&P UK Dividend Aristocrats	UKDV	n/a	0.30%
Cheapest growth ETFs			
Lyxor Russell 1000 Growth	n/a	RSGL	0.19%
iShares Euro Total Market Growth Large	IDJG	n/a	0.40%
Cheapest value ETFs			
iShares Edge MSCI USA Value Factor	IUVD	IUVF	0.20%
iShares Edge MSCI World Value Factor	IWVG	IWFV	0.30%

This is a selection and only includes ETFs with £100 million or more in assets

Table: Shares magazine • Source: JustETF, 19 January 2023

The quick and easy way to build a diversified portfolio using cheap tracker funds

We select six ETFs providing exposure to stocks, bonds, commodities and property

One of the most compelling attributes of exchange-traded funds, also known as ETFs, is they allow investors to create a diversified investment portfolio from scratch rapidly, easily and inexpensively.

If you bought a product tracking the MSCI World index you could arguably do this at the click of a single button – and by doing so you would gain exposure to more than 1,500 stocks. But that index is not enough for a diversified portfolio.

The unpredictability of markets and the fact the large US market dominates global indices means there is a case for having money in a broader spread of geographies and asset classes.

A GOOD STARTING POINT

Let's build a portfolio using ETFs which might appeal to someone in their 30s and 40s and who doesn't need the money for at least 10 years.

For purposes of illustration, let's say you start with a £10,000 pot and choose to put half of that money into developed market shares. You might want to split it £4,000 into an ETF tracking the MSCI World and £1,000 into a FTSE 250 ETF.

While the FTSE 100 is the London's market's flagship index, the mid-cap FTSE 250 has more of a domestic focus and has also performed better than its large-cap counterpart over the long term.

This reflects some of the key qualities of mid-cap investments. They typically have more significant growth potential than FTSE 100 firms and are not as widely followed by analysts so there is a greater possibility of them surprising on the upside with earnings, but they are also not as volatile as small caps and are more likely to pay dividends.

WHAT ELSE MIGHT GO IN THE PORTFOLIO?

You could put £2,000 or 20% of the sum into emerging markets stocks, to gain exposure to long-term growth drivers linked to positive demographics – i.e., a large working age population – and an emergent middle class.

That would leave £3,000 to split evenly between other asset classes including bonds, to help cushion some of the volatility of the stock market, commodities and property.

To create our portfolio, we have focused on ETFs which offer low charges (with an average ongoing charge of just 0.15%) and sufficient scale (at least £100 million in assets).

Where possible we have included an accumulation class of ETF, which automatically

A beginner ETF portfolio: How to allocate £10,000

ETF	Code	Percentage of portfolio	£
Lyxor Core MSCI World ETF	LCWL	40%	**4,000**
Vanguard FTSE 250 ETF	VMIG	10%	**1,000**
Lyxor MSCI Emerging Markets ETF	LEMA	20%	**2,000**
iShares Core Global Aggregate Bond ET	AGGU	10%	**1,000**
iShares Diversified Commodities Swap ETF	COMM	10%	**1,000**
Van Eck Global Real Estate ETF	TREG	10%	**1,000**

Table: Shares magazine • Source: JustETF, data to 23 January 2023 reinvests any income from underlying investments. This assumes the portfolio is for someone with a long investment horizon who may not need income from their investments in the short term.

SELECTING APPROPRIATE ETFS

There are six constituents in our ETF portfolio – someone looking for a slimmed down, simplified version could consider halving that number by allocating 70% to the MSCI World ETF alone, 20% in the bond product and 10% in the property vehicle.

Lyxor MSCI World ETF

(LCWL) £11.29

Ongoing charge: 0.12%

This ETF tracks the performance of more than 1,500 large and mid-cap stocks across 23 developed market countries including **Microsoft (MSFT:NASDAQ)** and **Johnson & Johnson (JNJ:NYSE)**. On a 10-year view the annualised return from the underlying index is more than 8%.

Vanguard FTSE 250 ETF

(VMIG) £33.25

Ongoing charge: 0.1%

This tracks the FTSE 250 index – in effect the 250 next largest companies after the FTSE 100 on London's Main Market. Its largest allocation is to financials, but it is more diversified than the FTSE 100 with a large exposure to industrials too. Top constituents include mining services specialist **Weir (WEIR)**, renewable energy trust **Greencoat UK Wind (UKW)** and engineering firm **IMI (IMI)**.

Lyxor MSCI Emerging Markets ETF

(LEMA) £38.48

Ongoing charge: 0.14%

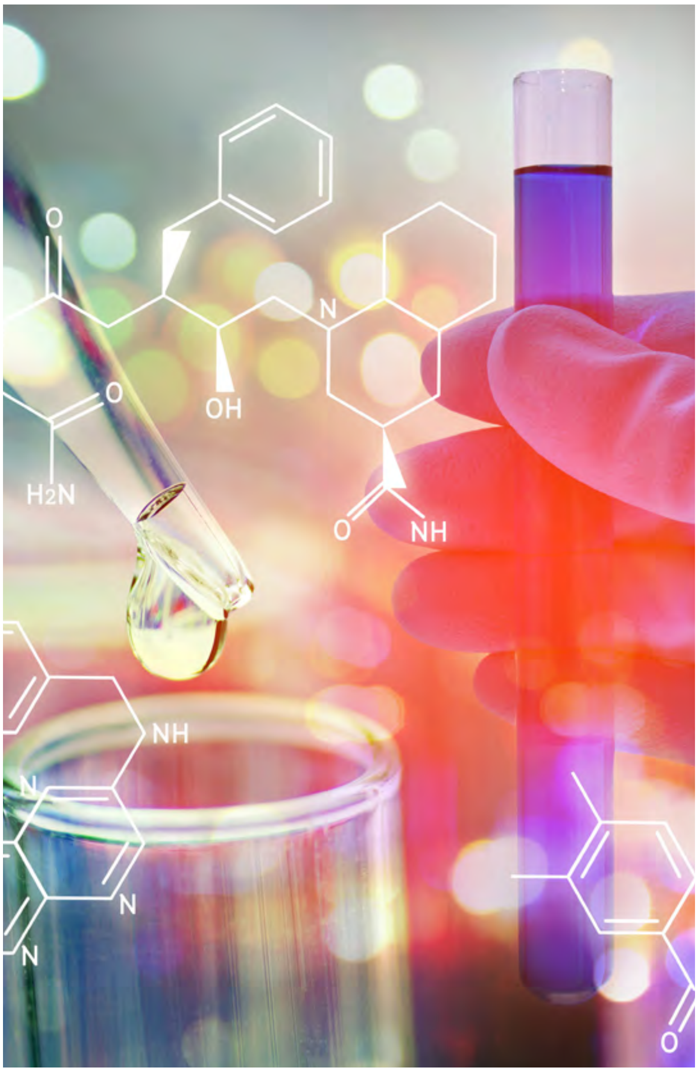
This is among the cheapest ETFs offering exposure to the emerging markets space. It tracks the MSCI Emerging Markets index which includes the world's leading chip manufacturer **Taiwan Semiconductor (2330:TPE)**, Chinese e-commerce group **Alibaba (BABA:NYSE)** and Indian tech firm **Infosys (INFY:NSE)**. In the 22 years up to the end of 2022 the annualised return from the MSCI Emerging Markets index has outpaced the developed market MSCI World at 7.5% versus 5.4%.

iShares Core Global Aggregate Bond ETF

(AGGU) £4.16

Ongoing charge: 0.1%

Looking to match the performance of the Bloomberg Barclays Global Aggregate Bond index, this ETF offers exposure to both government and corporate bonds. This includes the debt of pharmaceutical giant **AbbVie (ABBV:NYSE)** and US bank **Morgan Stanley (MS:NYSE)**.

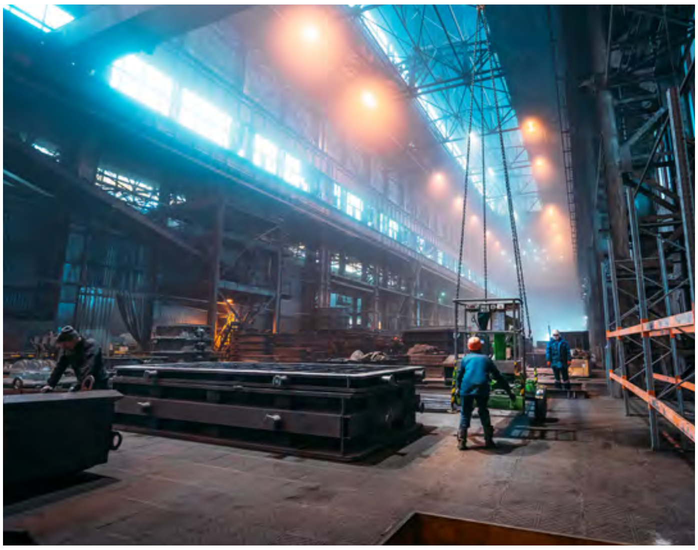


iShares Diversified Commodities Swap ETF

(COMM) £5.76

Ongoing charge: 0.19%

At a stroke this product provides access to commodities like oil and gas, agricultural commodities, industrial metals and gold – benefiting from growing demand linked to population growth as well exposure to the metals and other commodities required to help deliver a transition away from fossil fuels.



Van Eck Global Real Estate ETF

(TREG) £32.27

Ongoing charge: 0.2%

Like all property-based ETFs this invests in listed property companies – conveying the advantage that the underlying investments are easy to buy and sell and enabling it to keep costs low. It follows the GPR Global 100 index – which tracks 100 developed market real estate firms. Members of the index include US real estate investment trust **Prologis (PLD:NYSE)**. Property offers income as well as diversification and, as a so-called real asset, often performs well during inflationary periods.

Foreign currency ETFs explained and how exchange rates affect performance

Investing outside the UK creates foreign currency exposure which can both help and hinder returns

Holidaymakers will be familiar with exchanging pounds for euros and dollars when making trips abroad. A weak pound can make that trip more expensive, or a strong pound can result in extra cash to spend.

Exchange rates also impact investing in overseas markets, but unlike the holidays example a weak pound has a positive benefit for investors as we explain in this article.

Exchange-traded funds or ETFs often have different currency classes available which gives investors greater choice but deciding which one is best can seem daunting.

Don't be put off, because the listing currency doesn't make much difference to the return investors receive. It's the currency of the underlying investments in the ETF that matters.

Before getting into the details, it is worth emphasising currencies are notoriously difficult to predict. So much so that analysts don't bother trying to forecast future exchange rates when drawing up their company earnings estimates.

Historically currencies have been more volatile (annual price variability or fluctuation) than bonds or fixed interest securities and less volatile than shares.

HOW DOES IT WORK?

Currencies can help performance and be a source of return as well as a risk. Let's start with a single company example.

If Jim purchased 100 shares of **Tesla (TSLA:NASDAQ)** at \$130 for \$13,000 his investment platform provider should convert the US price into pounds and deduct exchange rate fees and commissions.

Let's say Jim received an exchange rate of \$1.23 dollars to the pound. The cost before charges is £10,569.

If the pound weakens (buys fewer dollars) from \$1.23 to say \$1.05 in a year's time Jim will earn a bigger return due to the increased value of the dollar. Let's say Tesla shares rise 20%.

The sale price of Tesla would be \$156 a share giving US proceeds of \$15,600 and a dollar profit of \$2,600 (20%). But when converted back into sterling Jim would receive \$15,600/\$1.05 which is £14,857.

So, in pounds Jim's profit would be £14,857 minus £10,569 which is £4,287, or 40%, doubling his dollar return.

These dynamics apply to all overseas investments which need to be converted back into pounds including ETFs that hold foreign stocks.

But ETFs offer investors the choice of buying foreign currency classes such as a US dollar class or sterling class.

In the former, investors incur exchange rate costs to convert pounds into dollars. In the latter, they don't. But ultimately the pounds need to be converted by the fund to be invested into US shares.

Buying the GBP class saves exchange rate fees when converting the purchase and sales from dollars back into sterling.

VUSA VS VUAA

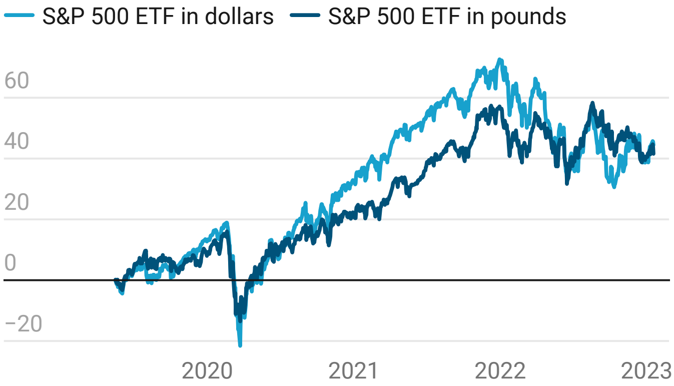


Chart: Shares magazine • Source: FE Analytics

For example, the **Vanguard S&P 500 ETF (VUSA)** priced in pounds has returned 51.2% over the last five years. The same ETF priced in US dollars **(VUAA)** has returned 48.9%.

When considering global funds there are more currencies impacting performance, but the principles are the same. A weak pound will enhance returns and a strong one will detract.

Another thing to consider is that because global funds are exposed to several currencies, they tend to naturally hedge each other as rising currencies are offset by falling ones.

It is possible to buy GBP hedged ETFs which aim to remove underlying currency effects. But they do not eliminate all the risk and they can cost more because hedging can be expensive. ETFs which are hedged will have 'GBP Hedged' in the description.

BONDS ARE DIFFERENT

Investors do not buy bonds for capital growth but rather for their stable income and portfolio stabilisation qualities. Bond prices tend to move up when equities move down, but this isn't always the case as 2022 showed.

Global bond ETF providers usually hedge foreign currency exposure to minimise the risk of wiping out the relatively low fixed return and reduce volatility.

By **Martin Gamble** Education Editor

Schroders

Investment Trusts: a rare opportunity in UK small and mid-sized companies

UK equities were more resilient than many other world markets in 2022. Within the market, investors displayed a clear preference for larger, more international FTSE 100 companies. The extent of the underperformance of small and mid-caps ("smids" for short) is rare and, in the past, such periods have usually been followed by longer spells of outperformance.

The UK smids market encompasses more than 1,000 companies. They may be less well-known than companies in the FTSE 100, but that doesn't mean they're not world-leading companies capable of generating superior returns. There are plenty of well-run, innovative and disruptive UK smids, with market-leading positions in new and emerging industries.

Recovery prospects

The acute underperformance of UK smids in 2022 is piquing the interest of a variety of investors as they look to 2023. Historically, it is unusual for UK smids to underperform to the extent that they did last year. When it has occurred, a period of strong outperformance versus the FTSE 100 has usually followed.

In part, this is because underperformance often leads to more attractive valuations. Meanwhile, with a longer runway of growth ahead of them, investing in small and mid-sized businesses should ultimately deliver superior performance. Many academic studies have evidenced the premium returns on offer from smaller companies.

Opportunity knocks

It can be argued that UK stocks are cheap for a reason, and economic and political events clearly undermined confidence in 2022. Nevertheless, it is always worth remembering that it's during challenging periods that opportunities can be most plentiful.

Sue Noffke, Head of UK Equities at Schroders, sees a diverse range of attractive opportunities across both domestic and global-facing UK smids:

"We see opportunities in both the 'domestics' serving the UK consumer and business end user, and the many internationally-focused smids. There is no silver bullet to the issues facing the UK economy, where more than 20% of the working age population is economically inactive. Valuations, however, are very beaten up and the market does not seem to be discerning between the good and less good companies."

Ultimately, some of the higher quality businesses in this part of the market may prove vulnerable to bids. Mid cap companies may be in the sweet spot here, as Andy Brough, Head of the Schroders Pan-European Small and Mid Cap Team explains:

"Should we see a resumption of bids for cheap UK assets, mid cap companies can be the target of choice – not too big, but sufficiently large to make a difference for the acquirer. As companies are taken out it helps make room for the next tranche of exciting FTSE 250 entrants (only around 20 of the original constituents from 1999 are still in the index today) helping to create a dynamism perhaps not there in other areas of the market."

Schroder UK Mid Cap Fund plc
As the name suggests, the **Schroder UK Mid Cap Fund plc** may be viewed as an attractive way of accessing the opportunity in UK smids. The highly experienced team, led by Jean Roche, views the UK mid cap investment universe as the source of the UK's star businesses of tomorrow and has an impressive track record.

Jean Roche looks to build a high conviction portfolio of 40-50 resilient companies that are capable of delivering dependable long-term growth. She is not complacent about the economic challenges but is confident that the disciplined investment approach continues to deliver a portfolio capable of capturing the attractive opportunity that lies ahead.

Schroder Income Growth Fund plc
The current attractive opportunity in UK smids can also be embraced by portfolios with a broader mandate. Take the **Schroder Income Growth Fund plc**, for example. The Company has raised its dividend every year since its launch in 1995*, making it an attractive proposition for income-seeking investors.

It may invest anywhere across the UK market cap spectrum and the portfolio has a bias towards larger companies. Nevertheless, the investment opportunity in UK smids is well represented within the current strategy, with more exposure to this part of the market now than ever before.

Conclusion
There is clearly an exciting opportunity among UK small and mid-sized companies currently, but as is always the case, it is not without risk. The war against inflation is far from over. Even the best companies are struggling to pass on higher costs in a cost of living crisis of historic proportions.

Higher interest rates could be a major issue for companies with high levels of borrowings, especially if that debt needs to be refinanced soon.

However, many of the best UK smids have made it through the pandemic and, with the support of strong balance sheets and attractive starting valuations, they are well prepared to weather whatever storms lie ahead.

* Source: AIC/Morningstar, July 2022.

Fund risk disclosures
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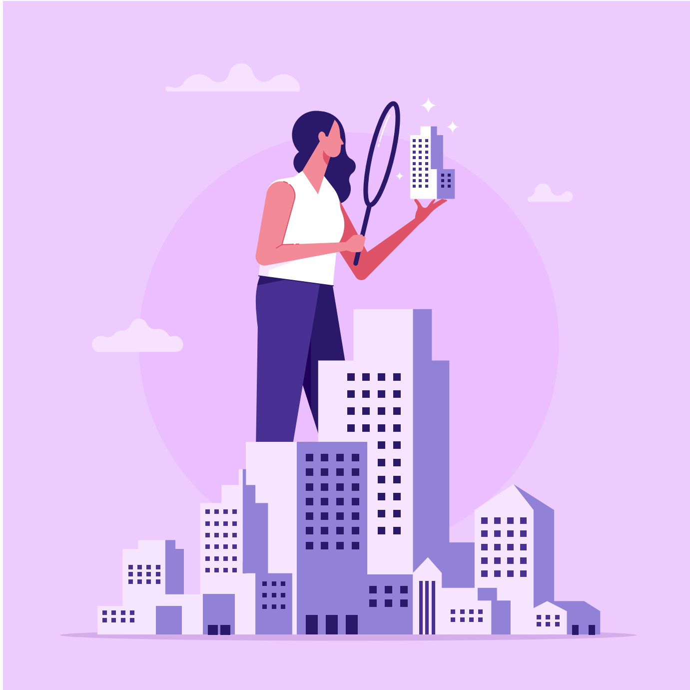
Why real estate stocks could be a good bet for the medium term

Experts and analysts see valuations bottoming out this year



The severe tightening in financial conditions in the second half of 2022 caused commercial property values to fall at the fastest six-month rate on record.

As a result of much cheaper valuations, investors are asking themselves whether now is a good time to start taking positions in listed property companies and real estate investment trusts, also known as REITs.

We look at where valuations are, where they could go, and which stocks look the most attractive.

WHAT HAS HAPPENED TO VALUATIONS?

One key thing retail investors need to appreciate about property companies is the importance of interest rates in determining valuations.

Property is an income-generating asset, and changes in interest rates affect the rate of return investors require on their investment.

Before March 2020, the Bank of England's official bank rate (also known as the 'base rate') was 0.75%, but within weeks of the Covid crisis the bank cut its rate first to 0.25% and then to 0.1%, a 325-year low.

As a result, the yield on UK government bonds or gilts – considered the 'risk-free' rate – slumped, allowing rental yields on property to fall and valuations to soar.

The best-performing property assets were retail warehouses and prime logistics centres as households shifted to shopping online.

With the pandemic in the rear-view mirror, the Bank of England began raising rates in December 2021, since when it has hiked the base rate nine times to 3.5%, meaning higher yields on gilts and property stocks.

Just as lower rates sparked a jump in valuations, so higher rates have seen valuations fall sharply, with the worst-affected sectors being logistics and 'big-box' retail which previously gained the most.

According to commercial property valuation expert CBRE, which compiles an index based on the value of over 1,000 commercial properties and 31 monthly-valued funds worth in total over £16 billion, overall capital values fell by 13.3% in 2022. That compares with a 13.8% post-pandemic bounce-back in 2021.

Industrial assets fell 21% in value, followed by a decline of 12.1% in offices and 8.1% in retail.

On a positive note, rental values rose 4.7%, the strongest since the millennium, with industrial rents up 10.3%, offices up 2% and a 0.5% increase for retail.

As a result, the total return for each sector was -18.1% for industrial assets, -8.2% for offices, and -2.1% for retail, with the overall total return -9.1% for the year.

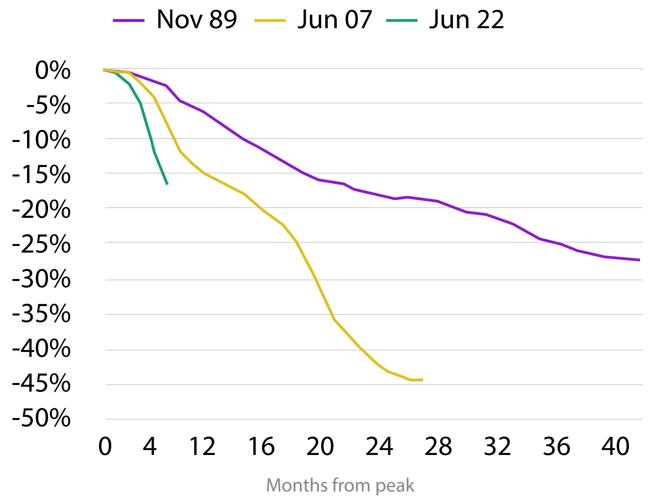
IS THERE MORE DOWNSIDE TO COME?

The consensus view is that commercial property valuations will keep falling this year due to more interest rate rises, a UK economy which is weakening if not already in recession and continuing macro-economic uncertainty due to the ongoing conflict in Ukraine.

There are still valuation concerns over parts of the retail sector exposed to the cost-of-living crisis

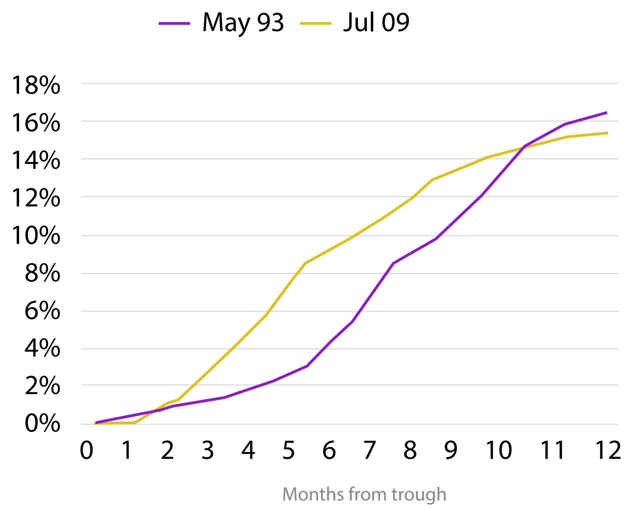
REPRICING OF ASSET VALUES

Capital values are falling faster this time



Source: MSCI, CBRE, Peel Hunt

The rebound in capital values post trough



Source: MSCI, CBRE, Peel Hunt

and parts of the office sector which need upgrading to meet new environmental standards, but most parts of the market are not overbuilt and there are supply shortages in some areas.

Therefore, the jury is out over how much further valuations will fall this year before confidence returns, but CBRE notes there is still an abundance of debt and equity capital available and towards the end of last year prices were beginning to firm, attracting buyers into the market.

Analysts Matthew Saperia and James Carswell at Peel Hunt are optimistic the bottom is near given the speed with which values have already fallen.

'The quicker we reach the bottom the quicker investment activity will restart and the quicker we will find clarity on valuations and NAVs (net asset values). It feels to us like we could be close, and the sector is typically quick to rerate in such circumstances,' they argue.

'The sector-wide share price implied property yield sits at 6.3% on an equivalent basis, offering a significant spread over the risk-free rate,' they add, while the quality and exposure of the listed sector is 'far superior to the broader benchmark'.

Richard Shepherd-Cross, managing director of **Custodian Property Income REIT (CREI)**, which invests in smaller commercial properties across the country, believes valuations have overshot to the downside in many cases.

'There is an expectation that commercial property yields should show a premium over gilts, the risk-free rate, but don't overlook rental growth.

'Certain sectors could be oversold if growth isn't factored in, and there is a very strong case for rental growth in smaller lot-size industrial and logistics assets, regional offices where clients are offered a high level of service and amenity, and in some retail locations where values have fallen too far.'

COULD THERE BE TAKEOVERS?

Michael Nicholson, Peel Hunt's head of mergers and acquisitions, believes higher operating costs combined with higher interest rates highlight 'the merits of scale' for many UK companies.

Historically, the main acquirers of UK firms over the past five years have been North American, but in the property sector most deals have been domestic such as last year's merger proposal between **Shaftesbury (SHB)** and **Capital & Counties Properties (CAPC)**.

While deals have been few and far between since Covid, share-price premiums for transactions have been healthy at around 25% reflecting the big discounts to net asset value in the sector and a tendency by sellers to leave the door open to attract competing bids.

The Peel Hunt team believe private equity firms are likely to be looking at UK property, and we note that US investment giant **Blackstone (BX:NYSE)** has been active raising capital and deploying it in property assets in the past year.

Discounts across property investment trusts

	Price (p)	NAV 12-month average discount (%)	NAV discount now (%)
Property - Europe			
Phoenix Spree Deutschland	242	−34	−51
Tritax EuroBox	64	−33	−46
Abrdn European Logistics Income	70	−16	−38
Schroder European Real Estate	80	−24	−36
Property - UK Commercial Diversified			
CT Property Trust	68	−34	−44
UK Commercial Property	59	−31	−42
Balanced Commercial Property Trust	87	−27	−38
Abrdn Property Income Trust	67	−31	−36
Schroder Real Estate IT	49	−31	−34
Alternative Income REIT	71	−17	−26
Value and Indexed Property Income	226	−18	−23
LXI REIT	114	−3	−17
Custodian REIT	94	−15	−17
AEW UK	100	−7	−4

Table: Shares magazine • Source: Winterflood, 20 January 2023

WHICH STOCKS LOOK ATTRACTIVE?

While the listed property sector covers many specialist areas, we believe the best option for retail investors is to keep it simple and go for a big stock with quality asset-backing such as **Land Securities (LAND)**.

The company offers exposure to a broad spread of UK property, which makes it a good play on an economic recovery. It is a FTSE 100 constituent which means its shares are liquid enough to buy (and sell, if needs be), and it has a solid balance sheet.

It also has the kind of assets which high-end tenants are looking for, says Montfort's managing director of real estate Andrew Teacher, such as The Forge, a 139,000 square-foot Grade A London office building which is the UK's first net-zero commercial office development.

'Companies have realised that if they want to get people back into the office, as well as providing an attractive place to work they need it to be located in an area where there is plenty going on,' argues Teacher.

It's also not beyond the realms of possibility that Land Securities becomes a takeover target, suggests Peel Hunt's Saperia.

'The company has a portfolio of prime UK assets valued at £9 billion, but in the grand scheme of things that's nothing compared to the value of the global real estate market and there is plenty of cash out there looking for a home.'

Peel Hunt has turned positive on **Assura (AGR)** which owns buildings used as GP surgeries, as robust a tenant as you could imagine. It says the stock offers a yield in the region of 5.6% and has an improving rental growth outlook.

Last month, Numis flagged the appeal of **LXi REIT (LXI)** in a report on the property sector. LXi

Discounts across property investment trusts

	Price (p)	NAV 12-month average discount (%)	NAV discount now (%)
Property - UK Commercial Specialist			
Regional REIT	57	−22	−40
Ediston Property	64	−23	−32
Life Science REIT	73	−10	−28
Supermarket Income REIT	101	4	−12
Property - UK Healthcare			
Target Healthcare	82	−7	−26
Impact Healthcare REIT	103	−0	−11
Property - UK Logistics			
Tritax Big Box	151	−19	−38
Warehouse REIT	105	−12	−31
Urban Logistics REIT	137	−8	−24
Property - UK Residential			
Home REIT	38	−8	−65
Triple Point Social Housing	52	−25	−53
Civitas Social Housing	55	−30	−51
Ground Rents Income	48	−39	−48
Residential Secure Income	78	−6	−27
PRS REIT	86	−9	−25

Table: Shares magazine • Source: Winterflood, 20 January 2023

REIT recently merged with Secure Income REIT and Numis says the enlarged group has 98% of rents linked to inflation or subject to fixed uplifts, meaning rental growth should support earnings. Its tenants include Costa, Aldi, Lidl, Travelodge and Premier Inn.

Elsewhere, Teacher at Montfort says FTSE 250 buy-to-rent specialist **Grainger (GRI)** is misunderstood by the market. The firm provides high-quality, professionally managed rental properties and has a portfolio of over 9,600 homes with a market value of £3.2 billion, which makes it the UK's largest listed landlord.

With interest rates and therefore mortgage costs set to continue rising, more people are likely to want or need to rent a property rather than buy one, and the firm has a strong pipeline which will see it double in size in the coming years.

'Although household budgets are being squeezed, the one thing people are going to keep paying is their rent,' concludes Teacher.

By **Ian Conway** Companies Editor

abrdn

2022: what doesn't kill you makes you stronger

Ben Ritchie and Rebecca Maclean, Investment Managers, Dunedin Income Growth Investment Trust PLC

The painful adjustment to an environment of higher inflation and interest rates was the financial market story of 2022. A tough combination of the war in Ukraine, the legacy of the exceptional policy response to the pandemic and disrupted supply chains pushed prices higher for energy, agricultural commodities and, increasingly, labour. Central banks were forced to raise interest rates to curb these pressures.

These stresses were mostly felt in short-term inflation expectations, while longer-term expectations moved only slightly. Nevertheless, the short-term moves were severe. In the UK, inflation hit levels of 13-14%, the highest levels seen since the early 1980s. The Bank of England raised rates nine times from December 2021, pushing up gilt yields, peaking at the time of the shambolic Truss/Kwarteng mini-budget.

Whilst this created an extremely difficult backdrop for stock markets, 2022 was not without its success stories: the UK's larger companies were flattered by a weaker sterling (a significant share of their revenues comes from overseas) and by the strong performance of commodity-related sectors. However, the domestically-focused FTSE 250 saw double-digit falls for the year.

Sector performance was significantly influenced by the interest rate cycle. Companies with high debt, or little pricing power struggled as the economic environment weakened and borrowing costs soared. Energy was the year's stand-out performer, but there were other pockets of resilience, including healthcare, utilities and consumer staples. The worst-performing sectors were domestic cyclicals such as real estate, consumer discretionary and technology. There was a significant rotation away from growth and towards 'value' sectors.

Sentiment towards UK assets was volatile. There can be little doubt that the mini-budget left the UK on the naughty step for many investors. The subsequent Autumn statement stabilised the situation, but the UK is still viewed carefully for any signs fiscal discipline may be lapsing.

The trust in review

It was a year of two halves for Dunedin Income Growth Investment Trust (DIGIT). Amid the uncertainty during the first six months of 2022, our main focus was to test the thesis for all the companies in the portfolio against the new economic environment, and make any adjustments. Selectively, we added to existing holdings when share prices fell back and made a few selective sales. We exited GSK (formerly GlaxoSmithKline) and Haleon, for example and added to Unilever, Aveva and the London Stock Exchange. These are all good quality businesses with long-term growth prospects that had been sold down.

In the second half of the year, as more clarity emerged and markets adjusted to higher inflation and interest rates, we started to look more closely for new opportunities. This included switching out of Persimmon and adding Taylor Wimpey, adding insurance group Hiscox, while also introducing Oxford Instruments, a specialist industrial manufacturer of high tech industrial equipment. At the moment, we are finding the most significant opportunities among domestic cyclical companies, where share prices have

been hit hard. That includes companies such as Morgan Sindall and Marshalls.

The trust is well-balanced for defensiveness and recovery. It should be resilient if the economic environment worsens – the earnings and balance sheets for companies in the portfolio are likely to be more robust. However, if investors become more confident and enthused, we have been increasing our exposure to UK mid cap, domestically-focused businesses, so would hope to participate in that recovery. We are minutely focused on getting company selection right – if we do, share prices will follow.

The year ahead?

At the start of 2023, the market remains focused on inflation and interest rates: where will inflation level out? How quickly will it subside? Will it become embedded in wages? In all scenarios, markets will be watching central banks' next move. It is likely that, barring a significant shock, we are closer to the end than the beginning of the tightening cycle.

Perhaps this may even mean that investors will have a less intensive focus on interest rates and inflation this year. The market had a significant adjustment to make in 2022, but expectations now appear more settled. This may finally allow a greater focus on the specific characteristics of individual companies, after a year when inflation data and the latest guidance from the US Federal Reserve occupied investor attention.

We would certainly welcome more focus on individual businesses. This is where we spend our time, looking at how a business is performing from a revenue, profit, cash flow and dividend point of view. Broader market sentiment and macroeconomic data are important, but these factors tend to be unpredictable. In the year ahead, we hope to spend less time talking about inflation and more time talking about profitability.

Optimism versus pessimism

There are a wide range of outcomes for 2023 and we believe share price performance may vary considerably depending on the company and individual subsector. There are plenty of reasons for caution with UK consumers facing the rising cost of living, higher mortgage rates and interest costs. Similarly, forward-looking global economic indicators are negative, and some of the more economically sensitive sectors may have to lower their forecasts. The key questions though are how much of this is priced in and do companies have the strength of balance sheet and cash generation to trade through what may be difficult times ahead. In that regard we are optimistic that for those able to take a medium-term view that there are attractive opportunities emerging.

There also remain pockets of strength. For example, The US Inflation Reduction Act and the need to drive energy security will support sectors such as renewables across the world. Likewise there remains strong structural growth drivers in areas such as healthcare, speciality chemicals and financial services. We are also more optimistic on the prospects for consumers in emerging markets, particularly in Asia. Companies providing essential products and services to these end markets, with strong competitive positions and resilient financials should be well-placed to navigate an uncertain period ahead. Looking to balance the portfolio between exposure to both structural growth and selective cyclical opportunities is where we see the best combination of risk adjusted returns in 2023.

Companies selected for illustrative purposes only to demonstrate the investment management style described herein, and not as an investment recommendation or indication of performance.

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- The Company may charge expenses to capital which may erode the capital value of the investment.
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Editor's View: Daniel Coatsworth

The real catalyst for the FTSE 100 to hit a new record high

You could make 'very good money' from UK stocks, according to a well-respected fund manager

The FTSE 100 approaching a new record high puts the spotlight on UK stocks again. The index is full of shares which should thrive in the current environment – value stocks, energy producers, defensive sectors like tobacco and healthcare, and banks which benefit from higher interest rates. Valuations are cheap and dividends are generous. Key to pushing the UK market higher is luring back foreign investors.

Predictions of a big slowdown in economic growth this year due to recession don't help, neither does the recent turmoil within the UK Government. However, markets are forward looking, and so much bad news is already in the price.

Getting a good entry point is crucial in investing and one could argue that UK equities are incredibly cheap now. Just imagine if we started to see foreign investors load up on FTSE 100 stocks. That could provide the tailwind to take the index well above its May 2018 record high.

'The UK is incredibly unpopular in global terms, and I think there is only upside,' says Mark Slater, manager of **Slater Growth Fund (B7T0G90)**. 'It would take very little to really move the market if international investors switched on to the UK.

'Anyone who wants to be out of the UK is out so there is an awful lot of scope for upside surprise in the UK market. The precise timing is not something I think is worth agonising about. If you are looking three to five years ahead, I think people will make very good money.'

If interest rates stay elevated, then the growth stocks that populate the upper echelons of the US market could continue to find life hard. Value stocks should do better, and the UK has them in spades.

The UK became less attractive to international investors after the UK voted seven years ago to leave the EU. 'International investor aversion to the region intensified amid trading and regulatory uncertainty,' says Jo Rands, portfolio manager and research analyst at asset manager Martin Currie. 'Today, the UK valuation discount versus the rest of the world remains over 30% lower than it was in June 2016.'

The negativity has lingered, exacerbated by institutional investment decisions becoming more centralised. 'There has been an increasing preference for global allocations,' Rands explains. 'The US makes up circa 50% of the global benchmarks versus just 4% for the UK. This is evident when we consider actively managed asset flows over the past 36 months – UK equity asset classes have endured outflows of $79 billion versus inflows of over $300 billion for global equity asset classes over the same period.'

These UK outflows have resulted in bargains galore, so what would it take for foreign investors to reappraise the FTSE 100's constituents? Another bad year with US stocks might do it.

It seems increasingly likely the impact of an economic slowdown will cause many large US companies to miss earnings expectations, particularly if their margins are being squeezed by demand weakness and high staff costs.

There remains a compelling argument to own UK stocks and you want to already have a position before overseas investors flock back. As Mark Slater says, it's hard to say when that will happen, but the reasons for them doing so are growing day by day.

Russ Mould
AJ Bell
Investment Director

Which are the most and least popular stocks heading into 2023?

We reveal the names with the most amount of 'buy' or 'sell' ratings

Every year this column tracks the ratings put on stocks across the FTSE 100 and FTSE 350 by the investment banks which provide research on the UK equity market.

This time, the analyst community is the most bullish it has ever been since our first survey back in 2015, based on stock-specific, public recommendations.

As we enter 2023, 57% of all stock ratings are 'buys' and just 9% are 'sells' for constituents of the FTSE 100, the joint-highest and joint-lowest scores over the past nine years respectively and matching those of 2022. For the FTSE 350 index 63% of all recommendations are positive ratings and just 8% negative ones, the highest and joint-lowest since we began this survey in 2015.

Shares is not endorsing these views, but investors could be forgiven for wondering whether this is a signal to buy more London-traded stocks or a warning to cut exposure to UK equities.

Momentum players may feel inclined to go with the positive flow. Contrarians may take the

Analysts are more bullish than ever on FTSE 100 and FTSE 250 stocks as we enter 2023

FTSE 100

	Buys	Holds	Sells
2015	47%	39%	14%
2016	47%	40%	13%
2017	45%	40%	15%
2018	49%	37%	14%
2019	52%	36%	12%
2020	46%	38%	16%
2021	54%	35%	14%
2022	57%	33%	9%
2023	57%	34%	9%
Average 2015-2023	51%	37%	13%

FTSE 250

	Buys	Holds	Sells
2015	52%	38%	10%
2016	49%	40%	11%
2017	48%	38%	14%
2018	48%	40%	13%
2019	50%	40%	10%
2020	48%	40%	12%
2021	55%	35%	10%
2022	62%	31%	8%
2023	63%	29%	8%
Average 2015-2023	53%	37%	11%

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener. Data as of 6 January 2023

Russ Mould

AJ Bell
Investment Director

opposite view as they bear in mind legendary investor Sir John Templeton's maxim that 'bull markets are founded on pessimism, grow on scepticism, mature on optimism and die on euphoria.'

One way to research which path may be the best one to follow is the assess the efficacy of individual analyst recommendations.

HERD MENTALITY

This column has backtested the performance on the most and least popular stocks at the start of a year, as measured by the percentages of 'buy' and 'sell' ratings attributed to them by analysts.

The bad news is the analysts' top picks failed to beat the FTSE 100 index in every year between 2015 and 2022, apart from 2019.

This is not to poke fun. It just shows how hard picking individual stocks can be, even if it is your full-time job. The least popular FTSE 100 names from the 2022 group did badly as expected, with an aggregate total return of -20.5% against the +4.7% provided by the benchmark index. Knowing which names to avoid can be every bit as valuable as knowing which names to buy.

Analysts can take a little more satisfaction from how their labours worked out across the FTSE 350. When it came to the broader index, five of the 10 most popular names among analysts outperformed in 2022, although a couple of clunkers meant the group overall did worse than the FTSE 350. The least popular 10 stocks did terribly as forecast, with an overall negative total return of 28.2%. Only one of the 10 least popular names beat the FTSE 350, so the research was spot on.

HIGH CONVICTION

The conclusion must be that broker research needs to be treated with a degree of caution, certainly in the cases where stocks seem universally popular.

It is when analysts publish 'sell' ratings that they really stick their neck out. You can argue it is the picks when analysts go against the crowd that come with greater conviction and thus may be worthy of greater attention.

Anyone prepared to pick their own stocks rather than pay a fund manager or use an index-tracker fund to do it for them must do their own research on individual companies before they even think about buying or selling the shares.

Warren Buffett is spot on with his observation that, 'you cannot buy what is popular and do well.'

With that maxim in mind, investors might like to know which stocks are most liked – and disliked – by analysts at the start of 2023.

The tables list the names which investors may wish to analyse in greater depth, or simply avoid altogether, depending upon their view of the value of the research provided.

FTSE 100: Biggest percentage of 'buy' ratings in 2022

	Buy	Hold	Sell	Buy %	2022
					Total return
CRH	8	0	0	100%	(12.9%)
Vodafone	23	2	0	92%	(19.5%)
British American Tobacco	18	2	0	90%	28.5%
Entain	17	2	0	89%	(21.0%)
Taylor Wimpey	17	1	1	89%	(36.9%)
National Grid 	14	1	1	88%	(1.3%)
Flutter Entertainment	20	2	1	87%	(4.0%)
AstraZeneca	26	2	2	87%	32.5%
DCC	13	0	2	87%	(30.1%)
Barratt Developments	17	3	0	85%	(41.4%)
Total					**(10.6%)**
FTSE 100 total return					**4.7%**

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener. Refers to number of analysts with buy, hold or sell ratings per stock

FTSE 100: Biggest percentage of 'sell' ratings in 2022

	Buy	Hold	Sell	Sell %	2022
					Total return
Abrdn	1	5	8	57%	(14.9%)
Rightmove	4	5	8	47%	(14.9%)
Sage	7	8	7	32%	(10.4%)
Hargreaves Lansdown	8	4	4	25%	(34.0%)
Ocado	8	8	5	24%	(53.2%)
Antofagasta	4	9	4	24%	23.6%
Dechra Pharmaceuticals 	4	3	2	22%	(50.0%)
Rolls Royce	5	9	4	22%	(24.2%)
Admiral	6	5	3	21%	(20.4%)
Severn Trent	2	9	3	21%	(6.7%)
Total					**(20.5%)**

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener. Refers to number of analysts with buy, hold or sell ratings per stock

FTSE 350: Biggest percentage of 'buy' ratings in 2022

	Buy	Hold	Sell	Buy %	2022 total return
OSB Group	13	0	0	100%	(8.4%)
Serco	13	0	0	100%	17.2%
Future	10	0	0	100%	(66.7%)
TBC Bank	9	0	0	100%	50.4%
CRH	8	0	0	100%	(12.9%)
Chemring	8	0	0	100%	2.3%
National Express	8	0	0	100%	(49.5%)
888 Holdings 	7	0	0	100%	(71.2%)
Diversified Energy	7	0	0	100%	24.2%
IG	6	0	0	100%	1.7%
Total					**(11.3%)**
FTSE 350 total return					**0.8%**

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener. Refers to number of analysts with buy, hold or sell ratings per stock

FTSE 350: Biggest percentage of 'sell' ratings in 2022

	Buy	Hold	Sell	Sell %	2022 total return
TUI	2	3	7	58%	(43.7%)
Frasers	1	1	2	50%	(7.9%)
Rightmove	4	5	8	47%	(14.9%)
Hammerson	1	9	8	44%	(26.3%)
Renishaw	4	2	4	40%	(21.7%)
Domino's Pizza 	3	2	3	38%	(34.2%)
Sage	7	8	7	32%	(10.4%)
Carnival	3	4	3	30%	(58.1%)
Johnson Matthey	7	7	6	30%	7.9%
Ashmore	4	6	4	29%	(10.9%)
Total					**(22.0%)**

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener. Refers to number of analysts with buy, hold or sell ratings per stock

FTSE 100: Biggest percentage of 'buy' ratings at start of 2023

	Buy	Hold	Sell	Buy %
CRH	7	0	0	100%
Shell	18	1	0	95%
Endeavour Mining	14	1	0	93%
JD Sports Fashion	13	1	0	93%
Smurfit Kappa	10	1	0	91%
Prudential	18	0	2	90%
Entain	17	2	0	89%
Glencore	17	2	0	89%
3i	8	1	0	89%
Beazley	15	2	0	88%

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener. Refers to number of analysts with buy, hold or sell ratings per stock

FTSE 100: Biggest percentage of 'sell' ratings at start of 2023

	Buy	Hold	Sell	Sell %
Abrdn	3	3	9	60%
Kingfisher	3	9	7	37%
Rolls Royce	4	7	5	31%
Sainsbury's	3	6	4	31%
Bunzl	5	8	5	28%
Ocado	7	6	5	28%
Severn Trent	4	5	3	25%
Sage	10	6	5	24%
Vodafone	8	8	5	24%
Rightmove	8	9	5	23%

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener. Data as of 6 January 2023. Refers to number of analysts with buy, hold or sell ratings per stock

FTSE 350: Biggest percentage of 'buy' ratings at start of 2023

	Buy	Hold	Sell	Buy %
Centamin	10	0	0	100%
Future	10	0	0	100%
Grafton	9	0	0	100%
Network International	9	0	0	100%
Diversified Energy	8	0	0	100%
Energean	8	0	0	100%
CRH 	7	0	0	100%
Hill & Smith	7	0	0	100%
IG Group	7	0	0	100%
NCC	7	0	0	100%

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener. Data as of 6 January 2023. Refers to number of analysts with buy, hold or sell ratings per stock

FTSE 350: Biggest percentage of 'sell' ratings at start of 2023

	Buy	Hold	Sell	Sell %
Abrdn	3	3	9	60%
Ashmore	4	2	5	45%
TUI	0	4	3	43%
Kingfisher	3	9	7	37%
easyJet	9	3	6	33%
Rolls Royce	4	7	5	31%
Sainsbury's	3	6	4	31%
ASOS	6	15	9	30%
Bunzl	5	8	5	28%
Ocado 	7	6	5	28%

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener. Data as of 6 January 2023. Refers to number of analysts with buy, hold or sell ratings per stock

Why InterContinental Hotels is turning investor heads

Asset-light model and exposure to reopening China to drive progress

Warren Buffett says the best businesses are ones that can sustainably grow without needing to raise extra money, and on this basis **InterContinental Hotels (IHG)** ticks the right boxes.

The company is one of the world's largest hotel businesses, operating brands such as InterContinental, Crowne Plaza, Holiday Inn, and more. With about 888,000 rooms globally, it is estimated to have a market share of more than 4%.

What sets it apart from many other hotel chains is its asset-light model. Where many peers own their bricks and mortar, most of InterContinental Hotels' rooms are run on a franchise basis, with 99% of rooms operated under franchised agreements or managed on behalf of third-party hotel owners. That means the company does not own an extensive real estate portfolio.

As a result, it has relatively low running and maintenance costs, making InterContinental Hotels more robust in a slowing economy.

The model has paid off superbly for investors in the past. If you'd put £5,000 into the stock 10 years ago and reinvested dividends, the stake would now be worth £18,820 versus £9,199 from a FTSE 100 tracker excluding fees, based on data from FE Analytics.

InterContinental Hotels' full year results are scheduled to be published on 21 February. Bank of America anticipates $381 million of free cash flow for 2022 from a 56% jump in operating profit to $834 million. Free cash flow is forecast to hit $526 million in 2023. This is the money left after keeping the business going to spend on dividends, share buybacks, debt reduction and acquisitions.

£5,000 invested in InterContinental Hotels 10 years ago would today be worth £18,820

Chart: Shares magazine • Source: Refinitiv

If Bank of America is correct, investors could be looking at $1.279 (103.5p) per share in dividends for the 2022 financial year versus $0.859 in 2021 and nothing from Covid-hit 2020. That's roughly a 2% yield.

Much of the anticipated progress in revenue per available room will be driven by a boom in travel across China where the company has substantial exposure.

InterContinental Hotels has a pipeline of approximately 278,000 new rooms, which is more than 30% of the current estate of hotel rooms already in use. Approximately one third (36%) of the new rooms are in China and the same again in the Americas (35%). Forty percent of the pipeline is already under construction.

Recent trading has been encouraging with revenue per available room above 2019 levels since July 2022. China has been well below pre-Covid times but there are hopes this will change as the economy starts to reopen thanks to pandemic restrictions being lifted. [SF]

By **Steven Frazer** News Editor

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Janus Henderson INVESTORS

UK equities – reasons for optimism in 2023

Portfolio manager Laura Foll provides the arguments for a modest rather than severe UK recession and discusses why UK smaller companies are currently looking attractive.

2022 was not the year that economists predicted. What was forecast to be a year of steady economic recovery following the pandemic was instead a year in which war returned to Europe. This brought significantly higher-than-expected inflation driven by higher energy prices, putting material pressure on real household disposable income and indirectly adding to disruption elsewhere in the UK economy, notably in the form of widespread industrial action. Cost of living pressures on the consumer, as well as disappointingly low business investment, means that the UK economy is already likely in modest recession, with market consensus for a slight economic contraction in 2023.

UK equities ended 2022 flat

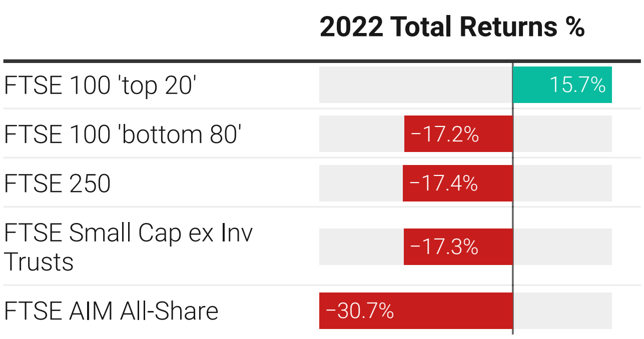
In this difficult economic backdrop, it is perhaps surprising that UK equities ended 2022 almost flat with the FTSE All-Share Index delivering total returns of 0.34% (Refinitiv Datastream, 12 months to 31 December 2022). A large part of this headline resilience, however, is due to the unusual sectoral make-up of the UK equity market, with a comparatively high concentration in companies that benefit from higher commodity prices. It has been these large natural resource companies (such as Shell, BP and Glencore) that have driven the majority of UK outperformance versus overseas equity markets in 2022. In contrast, outside of this narrow selection of stocks, on average UK share prices fell materially in 2022. This can be demonstrated by comparing the returns of UK companies by size, with only the top 20 companies in the FTSE 100 showing positive share price performance (Figure 1).

The sharp share price falls seen across small and medium-sized UK companies in 2022 can be explained by the fact that these companies on average, have more domestic exposure in terms of sales and earnings, and tend to be more economically sensitive. Therefore, as the market

KEY TAKEAWAYS

- In 2022, the largest commodity-related UK companies significantly outperformed small and medium-sized UK companies, which suffered due to their higher domestic exposure in terms of sales and earnings, as well as more economically-sensitive businesses.
- Factors including a build-up in consumer savings, low unemployment and healthy UK company balance sheets could mean that there is a greater likelihood of a modest, rather than severe UK recession.
- Our current focus is on UK smaller companies, which saw the steepest underperformance in 2022 and suggests to us that this is likely to be where the best investment opportunities can be found.

Figure 1: 2022 returns by UK company size groupings



Source: Bloomberg, calendar year 2022 total returns in GBP terms. Past performance does not predict future returns.

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attempts to 'price in' a more challenging economic backdrop, these companies bear the brunt of share price falls. The key question for us as fund managers, therefore, is whether the market has already adequately reflected upcoming earnings weakness, or whether there is further downside to share prices from current levels.

A modest rather than severe recession for the UK is likely

Forecasting the longevity and depth of any recession will always be challenging; attempting any degree of precision with economic forecasting is likely to be a fool's errand. That being said, when considering whether the UK equity market has adequately priced in economic weakness, there are two key variables to determine:

- What could be the depth and longevity of the recession?
- What is the starting point in terms of valuations?

For this particular recession, the key factors to consider are:

- There was a build-up of savings by UK consumers during the course of the pandemic that is yet to be fully spent. It remains unclear at what pace these savings will be drawn down, but it provides the consumer with a potential 'buffer' to withstand the cost of living pressures.
- The labour market is therefore entering the recession from a position of 'tightness', and ultimately the key factor in consumer spending power is whether someone retains their job.
- Bank lending has remained subdued since the Global Financial Crisis (GFC), with banks instead focusing on rebuilding their balance sheets and implementing strict affordability tests with regards to, for example, mortgage lending. This means that despite recent interest rate rises we are yet to see any notable balance sheet stress at major UK lenders (while there have been some pockets of stress seen elsewhere, such as the pension funds industry).
- UK-listed company balance sheets generally remain healthy. This is partly due to timing, as many companies raised financing during COVID, and they have yet to fully work through this additional capacity (with this recession coming unusually only two years after the last one).

We of course need to recognise that despite the above reasons for optimism there are significant external factors which we cannot possibly predict – the outcome of the war in Ukraine, for example. However, as fund managers we always operate with varying degrees of uncertainty and therefore need to take a view on the balance of probability. The above factors mean that, in our view, there is a greater likelihood of a modest, rather than severe, recession. This brings us onto where UK valuation levels currently sit.

UK stocks remain cheap

UK equities continue to trade at a significant valuation discount to overseas peers (MSCI UK Index versus MSCI World Index 12-month forward price-to-earnings (P/E). This valuation gap began to emerge in 2016 and is now wider than it has been in over 25 years – see Figure 2:

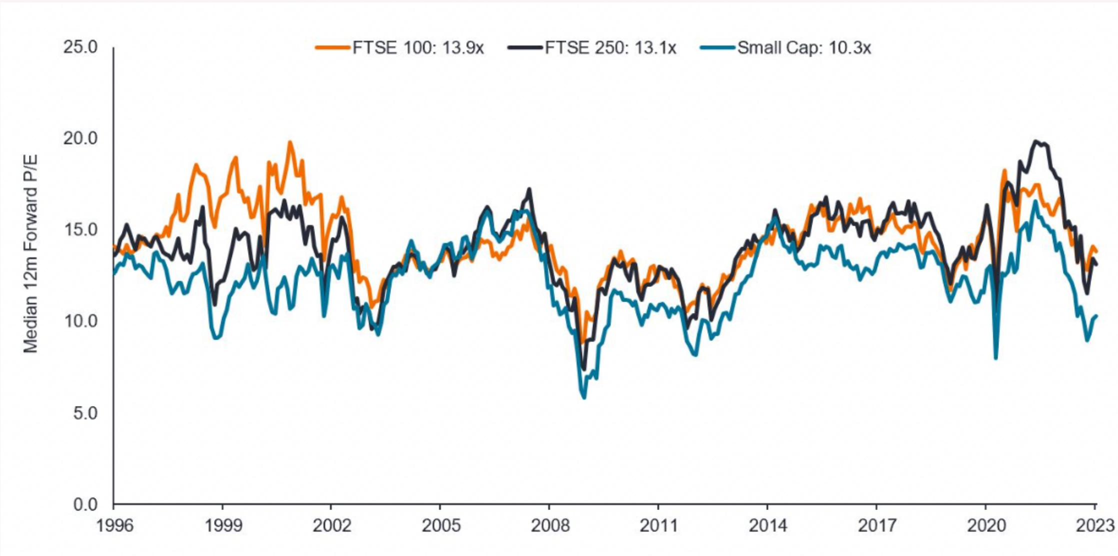
Figure 2: UK stocks' valuation gap to global peers widest in 25 years

Source: JP Morgan Research as at 3 January 2023. Past performance does not predict future returns.

As mentioned earlier, 2022 saw significant underperformance of small and medium-sized companies. Therefore, while UK equities as a whole trade at a discount to overseas peers, within the UK the lowest valuation is currently seen within the smallest companies (listed on the FTSE Small-Cap Index – see Figure 3).

Bringing all of this together, we could be entering a modest recession at a point where UK smaller company valuations are already trading at levels rarely seen outside of severe recessions such as the GFC and the pandemic. That does not mean there is not further potential downside to share prices, or that there will not be economic shocks to come, however it does suggest to us that a significant degree of economic 'pain' is already reflected in UK share prices. Our current focus is on UK smaller companies, which saw the steepest underperformance in 2022 and suggests to us that this is likely to be where the best investment opportunities can be found.

Figure 3: Smaller companies are the most undervalued



Source: Liberum, Refinitiv Datastream, as at 1 January 2023. Past performance does not predict future returns.

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- If a Company's portfolio is concentrated towards a particular country or geographical region, the investment carries greater risk than a portfolio diversified across more countries.
- Some of the investments in this portfolio are in smaller companies shares. They may be more difficult to buy and sell and their share price may fluctuate more than that of larger companies.
- This Company is suitable to be used as one component in several in a diversified investment portfolio. Investors should consider carefully the proportion of their portfolio invested into this Company.
- Active management techniques that have worked well in normal market conditions could prove ineffective or detrimental at other times.
- The Company could lose money if a counterparty with which it trades becomes unwilling or unable to meet its obligations to the Company.
- Shares can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result.
- The return on your investment is directly related to the prevailing market price of the Company's shares, which will trade at a varying discount (or premium) relative to the value of the underlying assets of the Company. As a result losses (or gains) may be higher or lower than those of the Company's assets.
- The Company may use gearing as part of its investment strategy. If the Company utilises its ability to gear, the profits and losses incured by the Company can be greater than those of a Company that does not use gearing.

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Why a £100,000 limit on ISAs is a bad idea

Savers and investors should be encouraged to put money aside, not presented with more complexities

Last week the Resolution Foundation put forward a radical proposal. The left-leaning thinktank believes the maximum anyone should be able to build up in an ISA is £100,000.

Its policy experts argued that too little is being saved and invested by low-income households leaving millions with little or no safety net to fall back on.

But it doesn't follow that the answer is to curb the tax breaks for today's savers and investors to fund additional tax incentives for those not currently saving. Robbing Peter to pay Paul is overly simplistic.

For starters, the proposal is complicated. The Resolution Foundation suggests no more money be paid into ISAs once the £100,000 threshold is reached, and any returns which exceed £100,000 would be taxed.

It isn't clear what would happen when the £100,000 is reached either. Will part of the ISA be converted into a dealing account? Or forcibly withdrawn by the account owner?

The Resolution Foundation also intends for this to apply retrospectively, moving the goalposts for those who have already built up this amount, in good faith.

Secondly, a lifetime limit on ISAs would penalise success. The average annual stocks and shares ISA contribution is £8,875, according to HMRC. Someone investing this amount each year and achieving 6% annual investment growth would hit the £100,000 cap in nine years. Even a more modest annual investment of £5,000 would hit the cap in 13 years.

And those who started investing early would be the most likely to exceed the £100,000 limit thanks to the wonder of compound growth. One of the golden rules of investing is to start as soon as possible, but a cap on ISAs would muddy the waters.

Finally, will this proposal really help anyone? The amount the Treasury could gain from investors with over £100,000 in ISAs will have to be spread very thin amongst the millions of people with no savings.

Put starkly, those who have more money, save. And those who don't have much can't afford to, regardless of the incentive on offer. A freedom of information request from AJ Bell revealed that just 2.5% of eligible people have used Help to Save, a scheme with 50% savings bonus for low-income households. Would throwing more money at it to give even bigger tax advantages really help to change behaviour?

Some 12 million people subscribe to an ISA each year. Let's not ruin the success of a simple and effective policy and punish millions of savers and investors by heaping on unnecessary layers of complexity.

By **Rachel Vahey** AJ Bell's head of policy development

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Why emerging markets could be on the cusp of a green revolution

The UN says the developing world will need $1 trillion per year of investment to build a net-zero economy

According to the United Nations Environment Programme Finance Initiative, emerging markets may need up to $1 trillion a year to build a net-zero economy. This is clearly a significant challenge but also brings significant investment opportunities and growth potential. Volatile energy prices in 2022 have helped to further incentivise development in this sphere.

The World Economic Forum has pointed to the crucial role that domestic banks in the developing world might play in leading a push towards sustainability. In a June 2022 report it noted: 'Helping local banks to define and implement a net-zero strategy can be a game-changer for the much-needed energy transition in the emerging markets. This will unlock the potential of new projects accelerating net-zero ambitions.'

The report adds: 'Globally, climate capital and expertise are there; however, to scale the equitable distribution of resources including capital, it's absolutely key to build local partnerships, and local banks are ably placed to provide that strength and ownership to achieve climate targets.'

There has been progress in terms of financing the big investment required to help decarbonise emerging market economies with the International Monetary Fund reporting that sustainable debt issuance in these economies more than tripled in 2021 to $190 billion. Flows into sustainable equity funds also rose to $25 billion.

The MSCI Emerging Markets ESG Leaders index contains companies with high performance on environmental, social and governance metrics compared with their peers.

Over the 10 years to 31 December 2022, it outperformed the MSCI Emerging Markets index with an annualised return of 3.6% against 1.8% from the broader benchmark.

The index has a significant weighting to financials, information technology and communication services.

MSCI Emerging Markets ESG Leaders index – sector breakdown

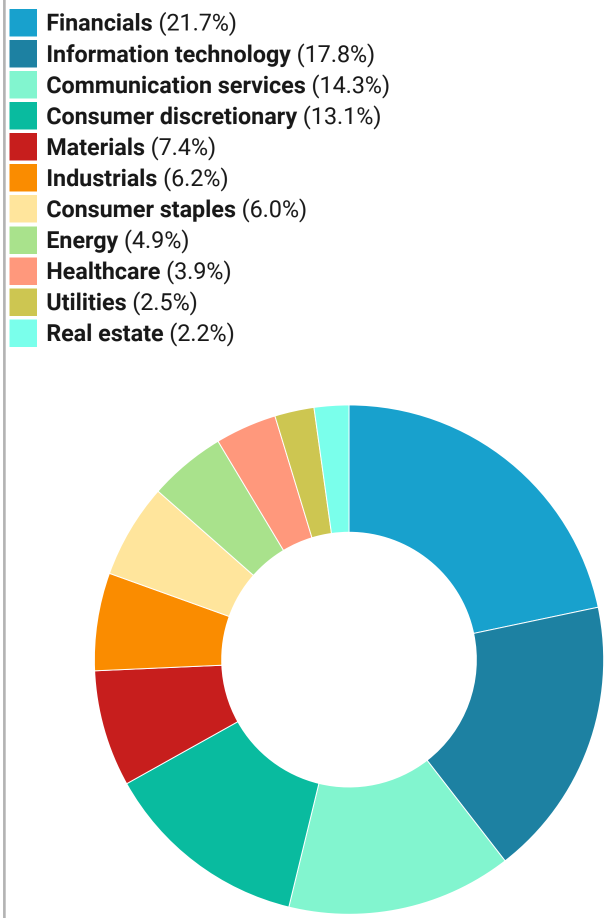

Chart: Shares magazine • Source: MSCI, data to 31 December 2022

This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit here

Emerging markets: Chinese reopening, a big renewables push and an earnings recovery

What the experts at Franklin Templeton see coming in 2023

1. China dismantles its zero-Covid policies: The removal of almost all Covid-19 restrictions in China is resulting in a wave of infections, with up to 80% of people in urban areas contracting the virus. As the wave subsides, economic activity is expected to normalise. Durable goods and financial services are likely beneficiaries of a resumption in normal patterns of human interaction and trade. A recovery in outward-bound tourism is expected to benefit economies in Asia, which prior to 2020 were the prime beneficiaries of the large number of Chinese tourists.

2. Acceleration in renewable energy investments: The 'new normal' of elevated fossil fuel prices is likely to incentivise emerging markets to accelerate decarbonisation efforts in order to reduce energy costs and meet their Paris Climate accord targets. This will create potential opportunities for emerging market investors. The battery industry – for both electric vehicles and battery electric storage systems – as well as the solar industry, stand out. China and South Korea are at the forefront of new battery technologies, commanding 83% global market share between January and October 2022. India is also investing heavily in the solar industry as it seeks to become self-sufficient in photovoltaic panel production.

3. Policy pivot: As we head further into 2023, we find many reasons to be constructive about emerging markets. Markets such as Chile and Indonesia have started to pause interest-rate hikes or scale back the magnitude of their rate hikes. We expect a policy pivot to revive consumption and spur economic growth as inflation slows. In addition, after a slowdown in earnings in 2022, there is a prospect for a recovery in earnings growth in 2023. We view China as a leader with a near-15% estimated growth, based on consensus expectations. However, we are of the view that earnings may continue to still be relatively weaker in China in the near term, with a recovery timed toward the end of 2023 instead. Nonetheless, a pickup in earnings revisions in emerging markets would signify better times ahead for earnings and in turn, equities.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

What is 'pound-cost ravaging' and how does it affect my pension?

It's an important concept to understand if you're taking money out of a retirement pot

Can you please explain 'pound-cost ravaging'? It's a term I've heard several times but have yet to fully grasp how it works or whether it's something I should be concerned about. I'm 64 and planning to start taking an income from my SIPP in 2025 (when I'll become entitled to a state pension worth around £10,000 a year). My SIPP is worth just over £200,000 and I've already taken my 25% tax-free cash.
Paul

Tom Selby, AJ Bell Head of Retirement Policy, says:

When you are building up a savings pot, experts often recommend drip-feeding money into investments to smooth out the impact of market volatility. This works because it avoids having to time the market. Instead, you buy into investments on a regular basis, usually monthly.

When markets dip, you can buy more units of an investment; when markets rise, the same amount of money buys you fewer units. The outcome of this approach is often referred to as 'pound-cost averaging'.

Taking a flexible income from your pension is called drawdown and the remainder of the pot stays invested. The benefits of drawdown include having the flexibility to manage withdrawals to suit your needs and giving your pot the opportunity to benefit from long-term growth.

However, drawdown also comes with risks. Let's say you're taking large withdrawals in the early years of retirement and your investments suffer big falls – something plenty of people will have experienced over the last 12 months or so. It's harder to regain the lost ground. This is often called 'pound-cost ravaging' and is best demonstrated with an example.

Take two 65-year-olds, Jack and Jane, with

pensions each valued at £200,000. Both are taking £15,000 a year out of their pots, rising each year by 2%.

Jack experiences investment returns in the first five years of: -10%, +4%, +4%, +4%, +4%. As a result, his pot is worth just over £125,000 at the end of that period.

Jane, meanwhile, experiences the same returns, but in a different order: +4%, +4%, +4%, +4%, -10%. At the end of the period, her pot is worth almost £135,000.

In other words, simply by experiencing bad investment performance in year one rather than year five, Jack has been left with a pension worth around £10,000 less than Jane.

This is one of the reasons it's important to keep your drawdown strategy under review and be prepared, if necessary, to adjust your withdrawals. This should help ensure your retirement income plan remains on track.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.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.

Premium Bonds prize fund has risen – but are they worth it?

We look at the pros and cons of the popular savings and investment product

NS&I has increased the prize fund on Premium Bonds once again, as it tries to keep up with the rates war in the savings market. The Government-backed provider has added £80 million in prizes each month, meaning this month it expects to pay out almost £300 million in prizes. From February it will further boost the prizes on offer, handing out more than £314 million each month.

However, the odds of winning haven't increased, and still stand at 24,000 to 1. It just means that if you do win a prize, it's more likely to be of a higher amount. So how does the prize fund work, is it worth buying Premium Bonds and are there particular people who would benefit more?

WHAT IS THE PRIZE FUND RATE?

NS&I produces the 'annual prize fund rate' to give savers a comparison for how Premium Bonds stack up against more conventional savings accounts that pay interest. This can be misleading, as it's based on the average prize you'd win if you had average luck. In reality, no one has average luck.

From February this prize fund rate will be 3.15%. What that figure means is that for every £100 held in Premium Bonds £3.15 is paid out of the prize fund, but only a few people will win the big prizes. Two people each month win £1 million, which means thousands of other Premium Bond holders will win absolutely nothing.

ARE PREMIUM BONDS WORTH IT?

It all comes down to personal preference. If you opt for a conventional savings account, you are guaranteed the headline interest. Currently, the highest rate you can get on an easy-access account is 3%. That means if you save £20,000, you'll get £600 in interest in the next 12 months.

If you put that money in Premium Bonds

Number and value of Premium Bonds prizes

Value of prizes	Number of prizes in December 2022	Number of prizes in February 2023 (estimated)
£1,000,000	2	2
£100,000	18	59
£50,000	36	117
£25,000	71	236
£10,000	178	590
£5,000	359	1,177
£1,000	4,379	12,573
£500	13,137	37,719
£100	731,225	1,280,509
£50	731,225	1,280,509
£25	3,496,500	2,376,161
	Total: £218,993,750	**Total: £314,347,875**

Table: Shares magazine • Source: NS&I

instead you could win £1 million but you could also get absolutely nothing. So, it comes down to whether you want a guaranteed return or are willing to gamble in the hope of winning big.

Another factor to bear in mind is that if you only have a very small sum saved with Premium Bonds you're not as likely to win. It's a bit like buying tickets for a raffle; if you only have one ticket in the pot it's less likely your name will come out of the hat, but if you have 1,000 tickets in there, you're much more likely to be picked. If you only have £100 saved in Premium Bonds your chance of winning is lower than someone with £1,000 or £10,000.

BUT WHAT ABOUT THE OTHER PERKS OF NS&I, ISN'T IT GOVERNMENT-BACKED?

With money held in a regulated bank or building society, £85,000 is protected by the Financial Services Compensation Scheme if the provider goes bust. In this situation you'll automatically get your money back.

The £85,000 limit is per person, per financial institution. However, some people with more savings than this amount won't want the hassle of spreading the cash across multiple banks or building societies. In this situation, it's worth noting that the Government will guarantee everything you invest in NS&I products including Premium Bonds, not simply up to £85,000.

HOW ABOUT THE FACT THAT THE PRIZE WINNINGS ARE TAX FREE?

The other big perk of Premium Bonds is that any winnings are tax free. The appeal of this waned when the Personal Savings Allowance was introduced, which meant that the first £1,000 of savings interest was tax free for basic-rate taxpayers and the first £500 for higher-rate taxpayers. Additional-rate taxpayers get no allowance.

It means that many people don't pay tax on their savings interest. However, with interest rates rising and more people being pushed into the next income tax bracket, more people will start to pay tax on their savings now. Therefore, the tax-free element of Premium Bonds has regained some appeal. But you must weigh up whether it's worth the risk of getting potentially no return.

PREMIUM BONDS CHECKLIST

- ✓ Premium bond holders can see if they've won a prize by going to the NS&I website or by using Amazon's Alexa voice-activated service
- ✓ Winners can receive the prizes by cash or opt to automatically reinvest the money into new Premium Bonds
- ✗ Prizes worth more than £5,000 are not automatically paid out. Instead, winners will be sent a claim form by post to complete – apart from those lucky enough to win £1 million who will receive a visit from a NS&I representative in person
- ✗ Premium bonds cannot be held in an ISA or personal pension

By **Laura Suter**
AJ Bell Head of Personal Finance

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