STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

How ChatGPT could change the world

Why it matters and ways to invest in artificial intelligence

STOCK RALLY

Great start to the year for markets – where should you invest now?

Finding Compelling Opportunities in Japan

AJOT
AVI Japan Opportunity Trust

Asset Value Investors (AVI) has been finding compelling opportunities in Japan for over three decades. Despite a year filled with challenges and volatility, Japanese equities fared relatively well.

Many investors may be surprised to hear of Japan's resilience during what was a difficult year for global equity markets. After all, Japan has suffered from stagnant growth and an ageing population for a prolonged period of time. However, Japan has a relatively stable economy and the attitude towards corporate governance has improved significantly since the onset of 'Abenomics'. Japan is now the world's second largest activist market. Activist events have risen 110%* over five years, as pressure from shareholders continued to intensify. This was accompanied by a surge in corporate buybacks as cash was returned to investors.

Excess cash is one of the things that the investment team at Asset Value Investors (AVI) look for in Japan. AVI's portfolio of 20-25 stocks are all companies that have been thoroughly examined by the investment team to find value, quality, and an event to realise the upside. Key to the strategy is to build relationships with company management, actively working together to improve shareholder value. While AVI can launch public campaigns, it aims to work behind closed doors with management to find mutually beneficial solutions. The depth of the investment team provides AVI the resources to undertake detailed and targeted research.

In 2022, our engagement was mostly behind the scenes. Over 120 meetings were held with 26 portfolio companies and 24 detailed letters or presentations were sent to these companies. This engagement is well supported by the broader changes in the attitudes of Japanese management as they are encouraged by the Japanese Corporate Governance Code to better allocate capital. The result is long term sustainable improvements in returns for investors.

As anyone who has invested in Japan will know, change takes time. Discovering overlooked and under researched investment opportunities requires a long-term approach. A long-term time horizon aligns AVI with the interests of the management to work together on creating shareholder value.

The companies AVI invests in have cash on their balance sheets and attractive business models with either stable earnings or structural growth trends to ensure corporate value is growing.

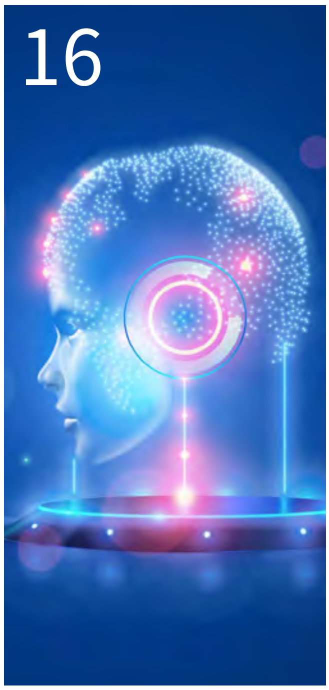
In 2018, AVI launched the now c. £149m* AVI Japan Opportunity Trust (AJOT). The strategy's first four years bears witness to the success of this approach, with a strong NAV total return and outperformance of its Japan small-cap benchmark. AVI's aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in Japan. We are optimistic about the macro environment in Japan. The weak Yen makes Japan highly cost-competitive, both for tourism and manufacturing. Our portfolio includes a variety of sectors, with strong exposure to the domestic Japanese economy. Inflation has returned after a 40-year absence and with wage growth and increased spending, we expect to see better allocation of capital and improved productivity, which would support returns for investors. AVI is well positioned to capture this long-term opportunity with a unique investment approach and established track record.

Discover AJOT at www.ajot.co.uk

*Source CLSA and AVI, as at 31 December 2022.

AVI
Asset Value Investors

Contents



Three important things in this week's magazine

1


Feature: Most and least consistent performers

Discover the stocks that delivered positive returns – even in the bad years

Eight stocks in the S&P 500 delivered positive returns every single year over the past decade, which includes several bad periods for the market

Discover their names and the most consistent performers in the FTSE 100 over the same period

2


Feature: Vanguard LifeStrategy

Why is Vanguard LifeStrategy so popular and is it a top performer?

Vanguard LifeStrategy might be popular, but it is by no means the best performing fund of its kind

We explore its popularity and reveal a few other equity and bond funds which have outperformed

3


How ChatGPT could change the world

Why it matters and ways to invest in artificial intelligence

This week's main feature explores the global phenomenon that is ChatGPT and how investors can access the hot theme of artificial intelligence

While you can't invest directly in the chatbot there are several alternative ways to put money into this space

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:

Adidas shares marked down 11% on €1.2 billion lost sales alert

International Biotechnology Trust manager gives notice to focus on core venture business

DX is down 7% on rival's High Court corporate espionage claim

Director Deals: Dunkerton increases Superdry stake; N Brown's largest shareholder buys more shares

How an averted gas crisis could help Europe avoid a recession

However, falling gas prices might make BP more addicted to oil and delay its renewables transformation

The latest projection from the European Commission is the Eurozone will avoid a recession in 2023, partially because the gas crisis has eased.

The benchmark for European gas is the Dutch TTF. Last month it traded at €55, below its levels before Russia's invasion of Ukraine.

Europe's ability to wean itself off Russian gas is a real success story, albeit aided by mild temperatures, and has longer-term implications. Analysis by Dutch bank ING suggests the region could exit the 2022/23 winter with storage facilities more than 50% full.

As it observes this would make hitting EU inventory targets of 90% by 1 November 2023 easier. ING's head of commodities strategy, Warren Patterson, says: 'Between 1 April and the end of October last year, the EU added in the region of 67 bcm (billion cubic metres) to storage.

'If we were to see similar storage levels at the start of the next heating season, the EU would only need to add around 43 bcm of gas this year.'

The Ukrainian conflict has shifted the focus to some extent from energy transition to energy security, though the two interlink as expansion of renewables would allow some countries to generate more of their own energy.

Dutch TTF Natural Gas first future month

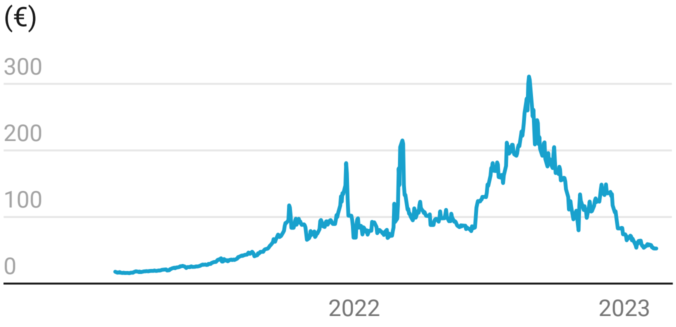


Chart: Shares magazine • Source: Refinitiv

This has provided cover for some mission creep on the net zero strategies of businesses like **BP (BP.)**. The company surprised many observers last week by paring back its original commitment to cut oil and gas output by as much as 40% by 2030. This was a key plank in the energy transition strategy outlined by chief executive Bernard Looney three years ago. Now the plan is for it to be 25% lower.

The temptation to water down this pledge is obvious when the company has just posted the highest profit in its history ($27.7 billion for 2022) – heavily underpinned by oil and gas production. Rivals which have made no commitment to cut their hydrocarbons output have also been posting record earnings. For example, **ExxonMobil (XOM:NYSE)** achieved the highest annual profit for a western oil firm at $55.7 billion.

While investors will welcome the strong shareholder returns which accompany these bumper profits, BP needs to be wary of being diverted from its net zero mission, both because of potential regulatory and political risks if it does so and for more commercial reasons too. As the recent drop in gas prices shows, commodities are volatile so diversification is important.

At least BP is increasing spend on its transition business – areas like biofuels, charging, renewables and hydrogen – by $8 billion over the next eight years. [TS]

AstraZeneca boasts record share price high with big plans to deliver new drugs

Strong performance has justified the rejection of Pfizer's 2014 takeover attempt

Shares in the UK's largest listed company **AstraZeneca (AZN)**, last month hit a new all-time high at £118.02 and its latest update suggests everything is going well for the business.

Fourth quarter and full-year results published on 9 February beat market estimates and came in towards the top end of company guidance accompanied by an upbeat outlook for 2023.

AstraZeneca is expected to initiate more than 30 late-stage trials in 2023 of which 10 have the potential to generate peak sales of more than $1 billion. Chief executive Pascal Soriot said the company obtained 34 new drug approvals in 2022 and is on track to deliver at least 15 new drugs before 2030.

For reference, in 2022 AstraZeneca had sales of $44.35 billion and adjusted net income of $10.3 billion. The sheer size of the business requires new blockbuster drugs to be developed to move the growth needle.

One potential fly in the ointment for 2023 is the significant expected decline in Covid-19 related sales. This will restrict total sales growth to a mere low to mid-single digits, according to the company. The US regulator has removed emergency use status for AstraZeneca's antibody Covid-19 drug Evusheld due to its ineffectiveness against certain variants of the virus.

Meanwhile, sales of the Oxford-AstraZeneca vaccine Vaxzevria are expected to be minimal. Sean Conroy, an analyst at Shore Capital, estimates no sales from the vaccine in 2024. The good news is that lower Covid-19-related sales improves group margins. Conroy has increased his gross margin assumptions to reflect the favourable sales mix.

The ramp-up of late-stage trials in 2023 and build-up of marketing expenses ahead of new drug launches is expected to increase operating costs for the group in the low to mid-digits.

Despite lower overall sales growth AstraZeneca has guided for core earnings per share growth in the high single digits to low teens for 2023. Conroy lowered his prior estimate by 7% to bring it in line with consensus at $7.31, implying growth of around 10%.

Longer-term, analysts expect the strong pipeline of new drugs across AstraZeneca's cancer and cardiovascular franchises to bear fruit and sustain above-sector earnings growth. [MG]

AstraZeneca vs FTSE All-Share

Total return index, rebased to 100

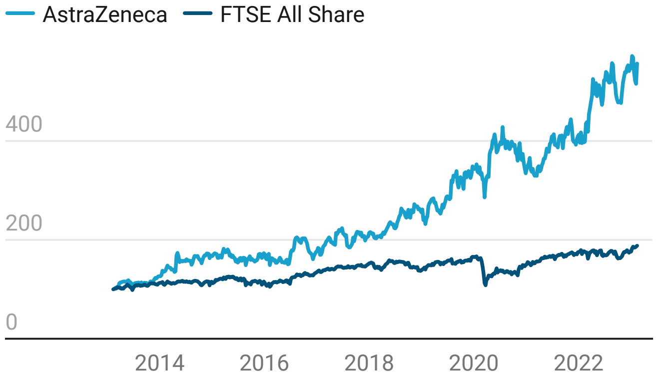


Chart: Shares magazine • Source: Refinitiv

AstraZeneca has been one of the best performing shares over the past decade, up 287% compared with 30% for the FTSE All-Share. On a total return basis, the outperformance is even more pronounced. AstraZeneca has returned 447% with dividends reinvested versus 85% from the FTSE All-Share, according to FE Analytics data.

Coca-Cola serves up revenue beat while faster growth is stirring at Keurig Dr Pepper

Higher selling prices continue to dominate the beverages industry as companies seek to offset cost pressures

Coca-Cola's **(KO:NYSE)** shares rose 2% to $60.60 on 14 February after the beverages group served up fourth quarter revenue ahead of Wall Street expectations, as thirsty consumers continued to swallow price hikes across its formidable portfolio of drinks.

Despite what chief executive James Quincey described as a 'dynamic operating environment' and a 1% dip in global unit case volumes, price hikes of 12% helped Coca-Cola's net revenue 7% higher to $10.13 billion in the three-month period, ahead of the $10.02 billion Wall Street was expecting, with organic sales fizzing up 15%. However, a currency headwind meant adjusted earnings per share was flat at $0.45.

The $262 billion business's brands span iconic soft drink Coke as well as Sprite, Schweppes and Costa. It has increased its dividend for the last 60 years, is now forecasting organic revenue growth of 7% to 8% for 2023 and better-than expected comparable earnings per share growth of 4% to 5%. 'We are keeping consumers at the centre of our innovation and marketing investments,' insisted Quincey, 'while also leveraging our expertise in revenue growth management and execution.'

Smaller drinks rival **Keurig Dr Pepper (KDP:NASDAQ)** will report its fourth quarter results on 23 February and is likely to show similar trends – price hikes to offset higher costs. Trefis estimates point to quarterly sales of around $3.8 billion, representing 12% year-on-year growth.

Formed through 2018's merger between Keurig Green Mountain Coffee and Dr Pepper Snapple, the company makes and distributes coffee brewers and single-serve coffee pods under the Keurig and Green Mountain brands as well as soft drinks including the iconic Dr Pepper – America's oldest major soft drink, established one year before Coca-Cola – as well as Snapple and Canada Dry.

Keurig Dr Pepper's third quarter results showed an 11.4% year-on-year revenue rise to $3.62 billion as the cold drinks portfolio continued to perform 'exceptionally well'. At the time, management insisted the coffee business, which has recovered steadily from supply chain disruption, was 'poised to deliver strong sales and earnings growth' in the fourth quarter.

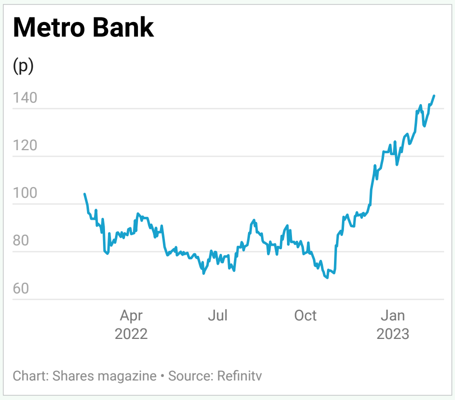
In common with other soft drinks groups, Keurig Dr Pepper continues to diversify its portfolio into faster-growing beverage categories, having recently gained a foothold in the performance energy drinks market through a strategic partnership and investment in Nutrabolt.

This followed a $50 million investment for a minority stake in American non-alcoholic craft beer market leader Athletic Brewing and the acquisition of non-alcoholic ready-to-drink cocktail brand Atypique.

Non-alcoholic beer accounts for more than 85% of overall sales in the rapidly growing non-alcoholic beer, wine and spirits category as a growing cohort of consumers cut down on their alcohol consumption. [JC]

Risk-hungry investors drive Metro Bank shares to 12-month highs

High gearing to rising rates and a lenient regulator have helped the rally



Traders who took a punt on 'challenger' lender **Metro Bank (MTRO)** at 70p in October last year, just ahead of its third-quarter trading update, will be high-fiving themselves this week.

With a fortnight to go before it reports full-year earnings on 2 March, the shares have more than doubled in price and show no signs of slowing their advance thanks to steadily rising revenue and margin forecasts.

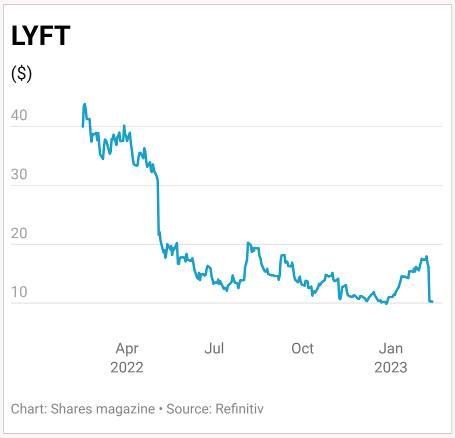
With a significantly lower net interest margin than its high-street rivals, the company has benefited disproportionately as the Bank of England has ratcheted up interest rates from 0.25% to 4%.

Higher cash-flow generation has relieved some of the pressure on the company to raise capital to meet the minimum statutory requirement, as has the regulator's decision to extend Metro Bank's 'grace period' until 2025, meaning the threat of a heavily dilutive rights issue is off the table for now.

Even the most bearish analysts have finally thrown in the towel, with the last 'sell' recommendation being scrapped just over three months ago. [IC]

Lyft in name only as quarterly loss stuns investors

Shares in the ride-hailing app provider crash 36% after massive earnings miss



Investors have been encouraged by many technology companies now having a sharper focus on growing profits rather than simply chasing growth at any price, but ride-hailing app **Lyft (LYFT:NASDAQ)** seems to have missed the memo.

The San Francisco-based company posted its worst one-day share price fall since its 2019 stock market listing after it dramatically missed earnings forecasts for the three months to 31 December. Analysts had predicted $0.15 per share net profit but were shocked by losses of $0.74. Lyft also said first-quarter 2023 revenue would come in below analyst expectations.

That saw Lyft's share price dive 36% on 10 February to entirely wipe out year-to-date gains and led analysts at US broker Wedbush to call into question whether the company's business model can scale in a profitable way.

It is 'a winner take-all ride-share market with **Uber (UBER:NYSE)** the winner and Lyft looking like the major loser with a murky path forward,' said analysts Daniel Ives and John Katsingris. [SF]

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS

17 February: Allianz Technology Trust, NatWest, Segro
21 February: HSBC, InterContinental Hotels, Standard Chartered
22 February: Conduit, Hochschild Mining, Lloyds, Primary Health Properties, Rio Tinto, Synectics, The Renewables Infrastructure Group
23 February: Anglo American, BAE Systems, Drax, Driver Group, Greencoat UK Wind, Hellenic Telecom Industries, Hikma Pharmaceuticals, Howden Joinery, Morgan Sindall, Serco, Spectris

HALF-YEAR RESULTS

20 February: Tristel, Wilmington
21 February: Blancco Technology, Finsbury Food, Springfield Properties
22 February: Avingtrans, Transense Technologies
23 February: Genus, Hays, Made Tech

TRADING UPDATES

21 February: Safestore

Lloyds

The bank is expected to report strong earnings but loan activity may have weakened in the final quarter

When **Lloyds (LLOY)** updated the market on trading for the nine months to September 2022, there was no hint of the turmoil which was about to erupt in financial markets or the sudden spike in borrowing rates.

Higher rates are generally good for banks, but shocks to the system aren't which means Lloyds' fourth quarter and full-year results on 22 February will be closely watched by the market.

It will be instructive to see how companies and consumers reacted to the higher interest rate environment and whether Lloyds' loan book took a knock in the final three months of the year.

After its third-quarter earnings beat expectations, Lloyds raised its full-year net interest margin and return on equity targets, and analysts expect chief executive Charlie Nunn to announce pre-tax profits of more than £7 billion as well as, potentially, a sizeable share buyback given the bank's strong capital position. [IC]

Rolls-Royce

A £2 billion disposal programme was completed in September improving the balance sheet

At the start of 2022 analysts were penciling in over £400 million of full-year net profit for **Rolls-Royce (RR.)** but that has since collapsed to £57 million.

Despite this gloomier earnings situation, the shares have gained more than 25% over the past three months suggesting optimism over the recovery potential for the business. In November the company maintained guidance and noted large engine flying hours were up 65% year-to-date.

Investors will be keen to hear how 2023 is shaping up with tailwinds from a China reopening and increased defence spending. [MG]

Nvidia

Forthcoming results could be a major test for the recent share price rally

From chips shortage to a supply glut, things have changed rapidly in the semiconductors space in recent months and investors will be watching how this may have impacted **Nvidia's (NVDA: NASDAQ)** earnings when it reports on 22 February.

Consensus already anticipates a 21% year-on-year decline for sales to $6 billion and 38% drop in earnings per share at $0.81 respectively. Yet its share price has surged 50% so far this year as investors have been flocking to stocks that were heavily sold off in 2022. This share price momentum could run out of steam if Nvidia delivers a downbeat outlook statement. [IC]

Home Depot and Walmart

The two US companies should provide insight into consumer confidence

Next week will hopefully give us an idea of how positive middle America is feeling about life as we get reports from two of the country's most iconic retailers.

DIY chain **Home Depot (HD:NYSE)** posts its latest results on 21 February, with analysts forecasting earnings per share of $3.27 for the fourth quarter against $3.21 previously and $16.63 for the full year.

However, the firm's 93-year-old, billionaire founder Bernie Marcus has hardly endeared himself to younger customers, claiming 'nobody works any more' and 'woke people have taken over the world'.

The same day, the world's biggest retailer **Walmart (WMT:NYSE)** is expected to post earnings per share of $1.51 for the fourth quarter and $6.09 for the year, a drop of 5% on the previous year. [IC]

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

17 February: Deere & Company, Daimler, CenterPoint Energy

20 February: Nordson

21 February: Home Depot, Molson Coors Brewing, Palo Alto Networks, Walmart

22 February: NVIDIA, Ebay, Etsy, Bath & Body Works

23 February: American Tower, Cheniere Energy Partners, EOG Resources, Keurig Dr Pepper, MercadoLibre, Moderna, NetEase, Warner Bros Discovery

Attractive fundamentals and valuation make Grainger a long-term buy

The build-to-rent specialist has locked in growth for several years

GRAINGER (GRI)
Price: **256p** Market cap: **£1.9 billion**

With UK mortgage rates having risen on top of energy and food costs, it is no surprise more people are delaying buying a house and choosing to rent a property instead.

Established in 1912, **Grainger (GRI)** is one of the UK's largest professional landlords operating a portfolio of around 10,000 homes with an estimated market value of £3.2 billion.

Its private rented portfolio is 98.7% occupied, while like-for-like rental growth in the four months since the start of October was 6.1% against 3.2% in same period a year ago, keeping pace with wage inflation.

Rather than relying on outside contractors, Grainger builds its own properties, so it can choose the best locations with the best amenities, and it can make its buildings ESG-compliant. That means low maintenance costs and high sustainability, which are important factors for tenants nowadays.

The firm's aim is to double the size of its portfolio in the next few years, and it already has a pipeline of 7,000 new build-to-rent homes with a value of £1.8 billion.

Of these, 1,640 homes are set to be completed this year across seven cities in England and Wales making 2023 a record year for development and investment.

Thanks to its 'Connected Living' joint venture with Transport for London, 1,240 homes will be built on land owned by TfL which already has full planning consent.

The firm mainly finances its development using debt, but reassuringly its loan-to-value position is just 33% while 97% of borrowings are hedged with an average interest cost of 3.1% and there are no maturities on debt before 2027 at the earliest so financially the firm is extremely solid.

It also part-finances new-build properties through the sale of older, vacant rental assets, and despite the challenges facing housebuilders there is a buoyant, liquid market for private rental homes.

For the year to September 2022, net rental income rose 22% to £86.3 million, ahead of market forecasts, while adjusted earnings rose 12% to £93.5 million and net tangible assets per share rose 7% to 317p or 33% more than the share price at the time.

'Whilst the outlook is clearly clouded by macro and political uncertainties, the rental market remains exceptionally strong given an acute shortage of stock and strong demand — which will only be reinforced by the recent fall in house sales in response to the hike in mortgage costs. We therefore continue to see Grainger as a safe haven in an uncertain world,' say the team at Numis.

Meanwhile, Andy Murphy at Edison argues the current price to book ratio of 0.99 is 'substantially below historic value' and implies inflationary headwinds and the macro-economic uncertainty are already priced in. [IC]

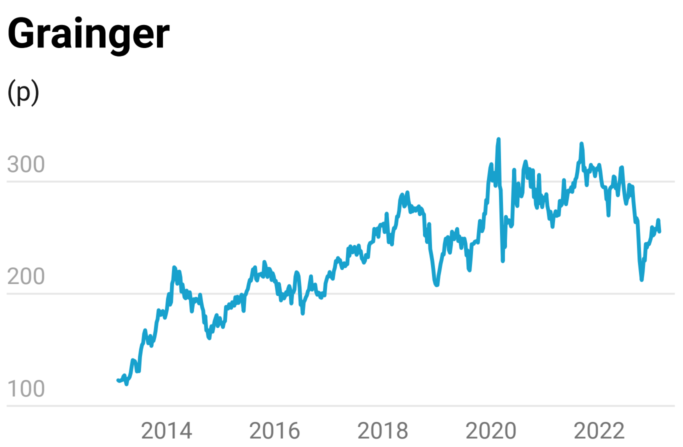


Chart: Shares magazine • Source: Refinitiv

Buy Canadian Natural Resources: the best oil and gas firm you've never heard of

Owned by growth and income funds it generates lots of cash to fund returns to shareholders

CANADIAN NATURAL RESOURCES

(CNQ:TSX) Price: C$81.46 Market cap: C$90 billion

The prosaically named **Canadian Natural Resources (CNQ:TSX)** generates lots of cash which underpins a generous and progressive dividend policy and it provides investors with exposure to some of the highest quality oil assets in the world.

The company has increased its dividend for 23 consecutive years, despite intervening volatility in commodity prices. A recently updated policy says it will allocate 80% to 100% of free cash flow as incremental returns to shareholders, in the form of dividends or share buybacks, when net debt is at or below a threshold of $8 billion. Last reported net debt was $12.4 billion.

Based on consensus forecasts the shares trade on a price to earnings ratio of just under nine times and offer a dividend yield of more than 4%.

The stock's recent addition to the portfolio of growth fund **Blue Whale (BD6PG78)** and its position in income-focused investment trust **Middlefield Canadian Income (MCT)** demonstrates the breadth of its appeal.

Middlefield fund manager Dean Orrico says: 'The company has very high insider ownership and a culture of accountability, which in our opinion results in superior and asymmetric shareholder outcomes in terms of capital allocation, asset execution, return of capital, balance sheet strength, M&A and dilution and ESG (environmental, social, governance) performance.'

Canadian Natural Resources' core assets are situated in Alberta's oil sands. These are large deposits of bitumen – extremely heavy crude oil. The environmental impact of exploiting these deposits has attracted criticism but one factor which is heavily in their favour is their low decline rates and the long and predictable life of reserves.

Production costs are also relatively low – the company's breakeven oil price of $30 per barrel gives it plenty of headroom at current prices of $80 per barrel. Maintenance costs are also low.

Across its portfolio, which also includes conventional oil and natural gas fields as well as pipelines and other infrastructure, the company has more than five billion barrels of oil equivalent of reserves with a life running into three decades.

A risk worth weighing is potential political pressure over the amount of water and energy and associated emissions required to develop oil sands. Canadian Natural Resources is attempting to address these concerns with its position in the Pathways Alliance, an association of Canada's six largest oil sands producers aiming to achieve net zero by 2050. [TS]

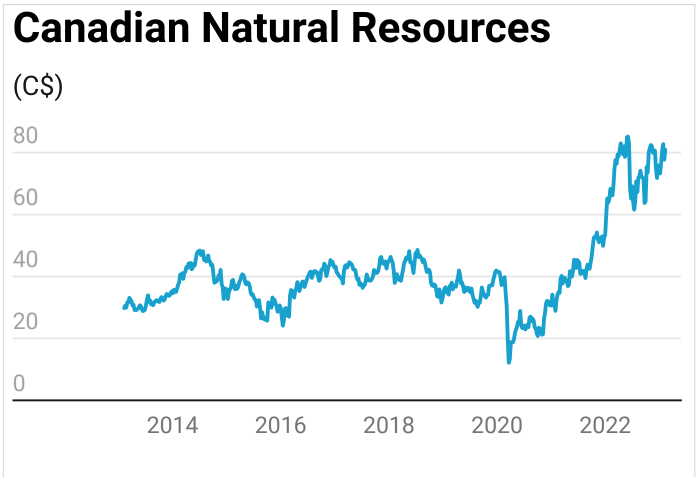


Chart: Shares magazine • Source: Refinitiv

Take profits in Disney after the shares run ahead of the fundamentals

The shares have made a terrific start to the year, but may have got ahead of themselves

Walt Disney $108.10

Gain to Date: 26%

We chose **Walt Disney (DIS:NYSE)** last December as one of *Shares*' 2023 picks of the year. We highlighted the 45% share price decline during 2022 as an 'outstanding' opportunity to buy into one of the world's best loved brands.

We expected the return of Bob Iger as CEO in November 2022 to reinvigorate the creative side of Disney and give the 'House of Mouse' its mojo back. We also said a review of the company's cost structure could provide a big catalyst for the shares.

> "Earnings per share of $0.99 was 27% ahead of analyst estimates"

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

In the company's first set of results since the return of Iger, quarterly earnings to 31 December significantly beat market expectations. Earnings per share of $0.99 was 27% ahead of analyst estimates.

Disney+ subscriptions stood at 161.8 million compared with estimates of 161.1 million.

A price hike for Disney's streaming services was expected to cut subscriptions by more than three million, but the service proved stickier with losses of 'only' around 2.4 million.

The direct-to-consumer business made a loss of $1.1 billion which is lower than expected and an improvement on the $1.5 billion in the prior quarter.

The parks and experiences operation was particularly strong as the recovery from the pandemic continued with revenues growing 21% to $8.7 billion.

Looking to boost creativity and increase profitability, the company announced a restructuring of the firm into three divisions while cutting seven thousand jobs and slashing costs by $5.5 billion.

The media and streaming businesses will now operate as Disney Entertainment while the ESPN division will house the TV network and ESPN+, leaving the parks and experiences operation as the third leg of the business.

Iger said the company plans to reinstate the dividend by the end of the calendar year funded in part by the cost cutting initiatives.

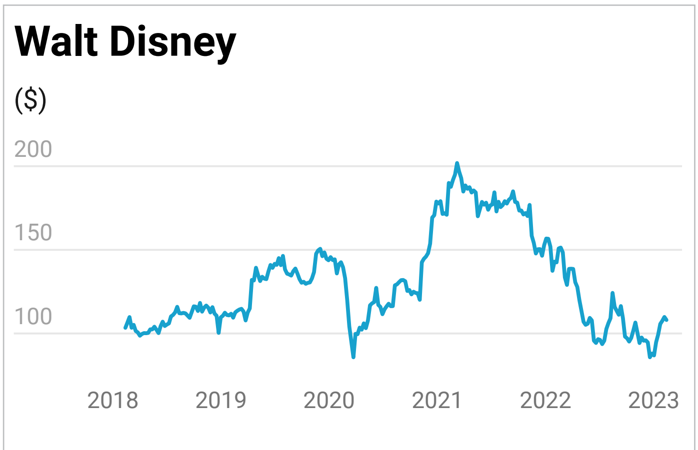


Chart: Shares magazine • Source: Refinitiv

WHAT SHOULD INVESTORS DO NOW?

Although the shares could go higher, a lot of the benefits from the restructuring have now been priced into the shares while the challenges faced by the streaming business remain a risk. Take profits while the going is good. [MG]

Time to sell cyber stake to Kape'd crusader Teddy Sagi

A takeover offer has resulted in a 24% gain on our investment idea in less than three months

Kape Technologies
(KAPE:AIM) 291.5p

Gain to Date: 24%

An under-the-radar growth option that gave investors direct exposure into the booming cybersecurity space – that was how we described **Kape Technologies (KAPE:AIM)** back in November 2022 when we said to buy at 235p.

We anticipated the market waking up to the opportunity in time, but it now appears that major shareholder Teddy Sagi isn't prepared to wait.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

Sagi owns a near-55% stake in the business and has been a long-time backer of its buy-and-build growth strategy. On 13 February, Sagi's Unikmind investment vehicle tabled a 285p per share cash offer to take the business private.

The investor has been putting pressure on the board since December 2022, when he first approached the board with a rejected 265p per share deal. The entrepreneur has made no secret of his view that Kape's growth strategy, which relies on further acquisitions and likely regular cash injections, would be best served away from the glare of public markets. Given the volatility of growth stocks over the past 15 to 18 months, he has a point.

> "It is difficult to see Sagi offering more money without rival interest"

By sweetening his original offer by an extra £8.5 million, Sagi believes he can win over enough independent investors to seal the deal. He needs to get 75% of shareholders to support his offer to force it through.

Kape Technologies

Chart: Shares magazine • Source: Refinitiv

WHAT SHOULD INVESTORS DO NOW?

Kape plans to talk to other shareholders to gauge views, then make a recommendation, but *Shares* believes investors are better off being proactive. Given that Kape shares have traded as high at 455p in late 2021, some investors may feel short-changed by the tabled offer, a valid position in our view.

Yet it is difficult to see Sagi offering more money without rival interest, of which there is no evidence. That convinces us that the best course of action, for readers who followed our original buy call, is to sell in the market now and bank a very decent 24% profit for less than three months' work. [SF]

ADVERTISING PROMOTION

Fidelity INTERNATIONAL

Fidelity Special Values PLC
An AJ Bell Select List Investment Trust

Portfolio manager Alex Wright's contrarian approach to the trust thrives on volatile and uncertain markets, when stocks are most likely to be misjudged and undervalued.

Investing mainly in the UK, and supported by Fidelity's extensive research team, Alex looks to invest in out-of-favour companies, having spotted a potential trigger for positive change that he believes has been missed by others.

Turning insight into opportunity

Equity markets at both home and abroad have experienced significant volatility in recent months. While lower valuations could represent a great buying opportunity, it's also essential to recognise that not every undervalued situation is special. Some unloved stocks are cheap for good reason.

Special situations investing requires rigorous analysis and due diligence to back each position and this kind of proprietary research has long been the cornerstone of our investment approach. Our network of over 400 investment professionals around the world place significant emphasis on questioning management teams to fully understand their corporate strategy. They also take time to speak to clients and suppliers of companies in order to build conviction in a stock.

It's a consistent and disciplined approach that has worked well; the trust has significantly outperformed the FTSE All Share Index over the long term both since Alex took over in September 2012 and from launch over 27 years ago.

To find out more visit www.fidelity.co.uk/specialvalues

Past performance

	Jan 2018 - Jan 2019	Jan 2019 - Jan 2020	Jan 2020 - Jan 2021	Jan 2021 - Jan 2022	Jan 2022 - Jan 2023
Net Asset Value	-6.5%	11.4%	-8.3%	30.1%	5.4%
Share Price	-3.1%	9.2%	-6.7%	29.8%	-4.5%
FTSE All Share Index	-3.8%	10.7%	-7.5%	18.9%	5.2%

Past performance is not a reliable indicator of future returns.

Source: Morningstar as at 31.01.2023, bid-bid, net income reinvested. ©2023 Morningstar Inc. All rights reserved.
The FTSE All Share Index is a comparative index of the investment trust.

ELITE RATED™ by FundCalibre.com

Important information

The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The Trust can use financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations.
The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies and the securities are often less liquid.

Investment professionals include both analysts and associates. Source: Fidelity International, 30 December 2022. Data is unaudited. The latest annual reports, key information documents (KID) and factsheets can be obtained from our website at www.fidelity.co.uk/its or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity. The Alternative Investment Fund Manager (AIFM) of Fidelity Investment Trusts is FIL Investment Services (UK) Limited. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0223/380131/SSO/0523

How ChatGPT could change the world

Why it matters and ways to invest in artificial Intelligence

By **Steven Frazer** News Editor

Everything investors need to know about one of the hottest topics in tech for years

ChatGPT is the hot topic around the world. It's therefore no surprise investors are now wondering whether generative AI (artificial intelligence) is the next big thing in technology, and if so, which companies are best positioned to ride it.

After years of research, it appears AI is reaching a tipping point, capturing the imaginations of everyone from students saving time on their essay writing to leaders at the world's largest tech companies. Excitement is building around the possibilities that AI tools unlock, but what exactly these tools are capable of and how they work is still not widely understood.

This, in our view, suggests that an investment fund with a firm focus on the wider AI world is the best way to invest right now, if you're so

inclined. *Shares'* top pick is the **WisdomTree Artificial Intelligence ETF (INTL)**, more on which later.

A lot has happened in the past month, with **Microsoft (MSFT:NASDAQ)** providing $10 billion of financial backing for OpenAI, the not-for-profit developer of ChatGPT set up by Elon Musk, his fellow **PayPal (PYPL:NASDAQ)** founder Peter Thiel, LinkedIn co-founder Reid Hoffman, and several others.

Microsoft's ambitions to integrate ChatGPT into its Bing search engine and collaborate on future development projects down the line could be evidence of an accelerating AI arms race as the giants of technology tussle for AI pole position.

Last week, shares of Chinese AI designer **Baidu (9888:HKG)** jumped 15% as the company said it will launch its own AI chatbot project named 'Ernie bot' in English, or 'Wenxin Yiyan' in Mandarin. Baidu said it will likely complete internal testing in March before being made public.

Google, owned by **Alphabet (GOOG:NASDAQ)**, made its move in the brewing AI war by unveiling a suite of AI enhancements to its maps and search functions, including lengthy textual

Funds and ETFs for AI exposure

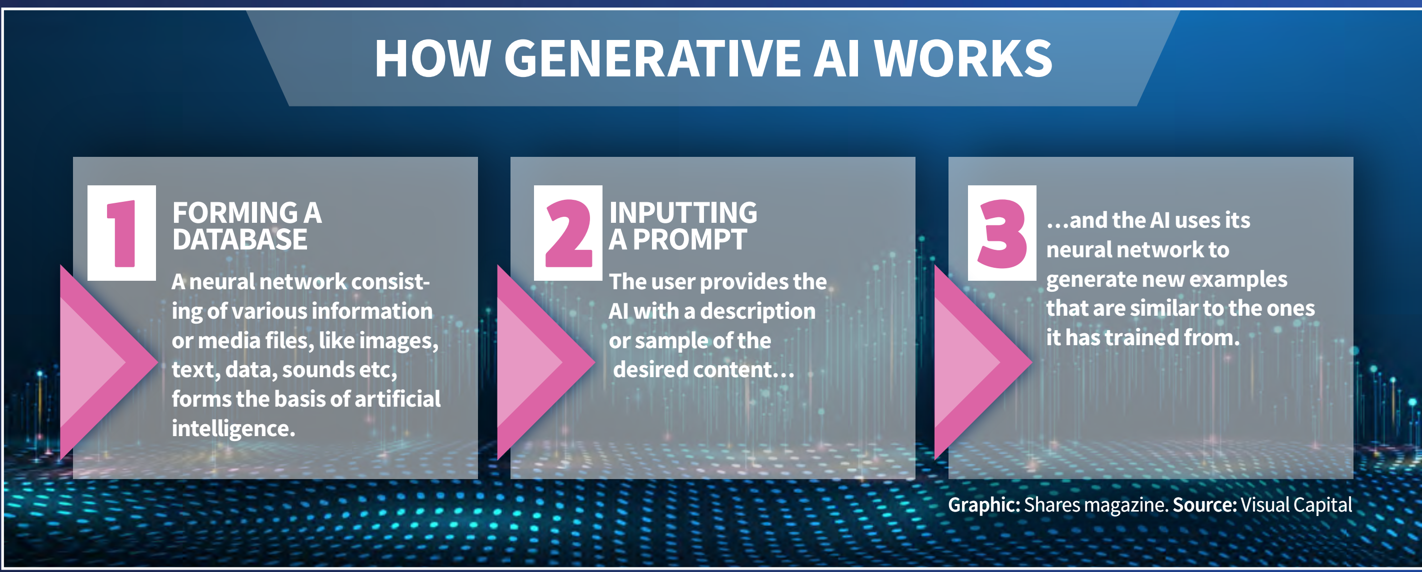
Funds	Ongoing charges	Three-year annualised returns
Allianz Global Artificial Intelligence (BDHSN20)	1.13%	**10.3%**
Polar Capital Automation & Artficial Intelligence (BF0GL54)	0.9%	**8.8%**

ETFs	Ongoing charges	Three-year annualised returns
WisdomTree Artificial Intelligence (INTL)	0.4%	**13.3%**
L&G ROBO Global Robotics & Automation (ROBG)	0.8%	**11.3%**
Lyxor MSCI Robotics & AI (ROAI)	0.4%	**9.3%**
L&G Artificial Intelligence (AIAG)	0.49%	**9.1%**
Global X Robotics & Artificial Intelligence (BOTZ)	0.5%	**N/A**

Table: Shares magazine • Source: AJ Bell, Morningstar

responses to subjective queries. Unfortunately, the 8 February launch event for Google's ChatGPT competitor Bard descended into farce, swiping more than $100 billion off Alphabet's market value.

Bard confidently asserted that the James Webb Space Telescope snapped 'the very first image of planet outside our solar system', or



Graphic: Shares magazine. **Source:** Visual Capital exoplanet, although the milestone was hit 17 years before the JWST launched. Doh!

Even though this was embarrassing for Alphabet, Bard's confident wrongness isn't uncommon in generative AI, and ChatGPT's ability to be boldly inaccurate is already well documented.

Critics will say this demonstrates the tools aren't ready to be integrated into search engines yet. But teething problems are par for the course in new tech design and these sorts of mistakes can be tested out over time, and reliability and value improved as the AI systems 'learn'.

According to *Reuters,* Chinese e-commerce companies **JD.Com (9618:HKG)** and **Alibaba (BABA:NYSE)** are also working on plans to integrate generative AI into products and services.

Generative AI systems work by analysing patterns in a huge mass of text and making predictions about what words come next, rather than analysing and synthesising ideas, like our brains do.

Applications are, potentially, wide-ranging:

IMAGES: Generative AI can create new images based on existing ones, such as creating a new portrait based on a person's face or a new landscape based on existing scenery

TEXT: Generative AI can be used to write news articles, poetry, and even scripts. It can also be used to translate text from one language to another

AUDIO: Generative AI can generate new music tracks, sound effects, and even voice acting

This works well in some environments, not so well in others. The current capabilities of ChatGPT and its ilk might well help sleep-deprived college students ace term papers, but can it write a joke?

Shares put this to the test via ParagraphAI, one of the many chatbot apps available to download for free on the Google Play store. It is powered by ChatGPT.

We asked ParagraphAI to create a joke involving a nerd, a giraffe and a telescope. Here's what came back:

A nerd was walking through the zoo when he noticed a giraffe looking through a telescope. The nerd asked the giraffe what he was doing and the giraffe replied, 'I'm looking for intelligent life, but so far I haven't found any!' The nerd laughed and said, 'That's because you're looking in the wrong place!'

OK, so comedians probably won't be replaced by generative AI anytime soon, but many industries are already being transformed. Take the standard call centre, for example. As you'll know from contacting your bank or broadband provider, call centres are already packed with automation, where platforms direct your enquiry by voice responses, or by punching numbers into the keypad.

Such systems, provided by the likes **Twilio (TWLO:NYSE)**, **Zendesk (ZEN:CVE)**, **Five9 (FIVN:NASDAQ)**, and UK-listed pair **Netcall (NET:AIM)** and **Eckoh (ECK:AIM)**, are efficient, if not always satisfying for customers, but it does free up time for staff to focus on the soft skills they are usually better at rather than mundane tasks that would send most people to sleep.

The same goes for RPA, or robotic automation process software, releasing workers from the data input treadmill. In this space UK investors may recall Warrington-based Blue Prism, a UK-listed company until November 2021 when it agreed a £1.2 billion private equity takeover. There's also US-listed **UiPath (PATH:NYSE)**, and the privately-owned Automation Anywhere.

CAN CHATGPT HELP WITH INVESTING?

Focusing on industries such as healthcare, industrials, consumer goods and financials might be sensible options outside of the tech sphere most likely to tap substantial benefits from AI, through efficiency gains or new revenue opportunities.

For example, we'd expect some bigger hedge funds and asset management firms to experiment with AI. How this will impact the asset management industry, or retail investors for that matter, is anybody's guess, but it is bound to affect it in a big way. You might draw parallels with quant-driven strategies that are now responsible for a big proportion of institutional assets under management.

That said, it seems likely that people will stay in charge of decision-making, given the limitations (certainly today) of using ChatGPT for investment analysis. *Shares* asked the chatbot what will be the most rewarding way for retail investors to invest in generative AI, and ParagraphAI gave the following answer.

'The most rewarding way for retail investors to make investments in generative AI is to identify and invest in companies that are actively researching and developing new generative AI technologies.

'These companies are likely to be at the forefront of the industry and have the potential to generate significant returns on investment.

'Additionally, retail investors should look for companies that are actively collaborating with other industry leaders to develop new AI-based products and services. By investing in these companies, retail investors can benefit from the growth of the industry and the potential for high returns.'

While this was a broadly coherent response it lacked any detail. It seems journalists who write about stock market investments are safe, for now.

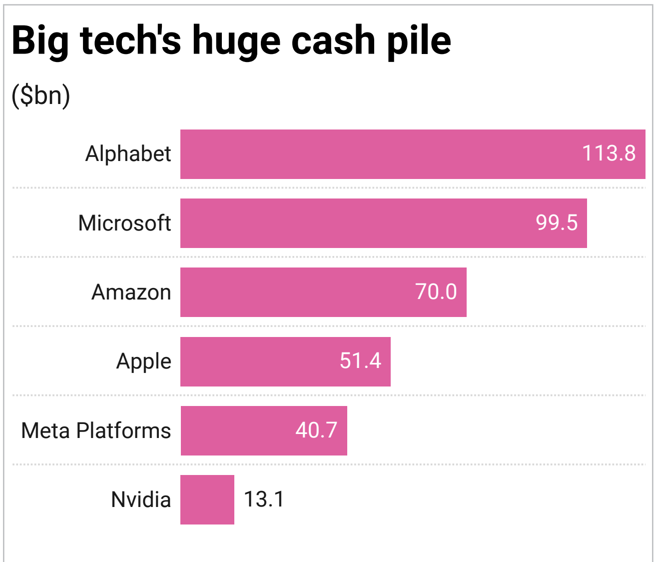


Chart: Shares magazine • Source: Koyfin

We would expect big tech companies to dominate early AI development. The likes of Microsoft, Alphabet, **Meta Platforms (META:NASDAQ), Amazon (AMZN:NASDAQ)** and **Apple (AAPL:NASDAQ)** have deep enough pockets and vast enough cash flows to comfortably fund new ideas long before they start making meaningful sales and profits.

Chip designers, such as **Nvidia (NVDA:NASDAQ)**, **Qualcomm (QCOM:NASDAQ)** and **Micron Technology (MU:NASDAQ)**, are already designing the semiconductor infrastructure to allow AI to happen, so represent another way to play the chatbot/AI theme.

There are also bound to be important AI companies that haven't even been founded yet, while others will see AI completely change the foundations of their businesses, possibly in unforeseen ways.

Let's not get ahead of ourselves. Despite all the hype, AI is still in its infancy and faces years of further development, and investors have time on their side.

The blaze of excitement we are witnessing now is typical of new tech waves, starting with huge initial excitement, followed by the buzz dying down as it dawns that progress will take longer, and need much bigger funding than previously anticipated. Gradually, interest picks up again, usually in a more measured way.

Cathie Wood's **Ark Invest (ARKK:NYSEARCA)** is right behind AI. The tech fund believes that as AI chatbots become more sophisticated and able to process queries at scale, costs will decline, enabling mass adoption. Ark believes that by 2030 ChatGPT will be capable of handling 8.5 billion queries per day, the capacity at which Google Search currently operates.

We'll let readers decide for themselves whether Cathie Wood's backing is a blessing or a curse for AI.

SHARES' TOP PICK FOR INVESTING IN AI CHATBOTS

WisdomTree Artificial Intelligence ETF GBP

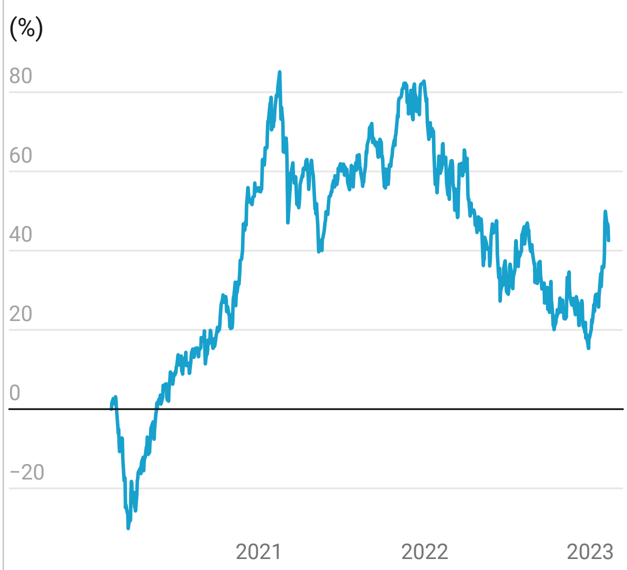


Chart: Shares magazine • Source: FE Analytics

WISDOMTREE ARTIFICIAL INTELLIGENCE ETF (INTL)

Price: **£40.945**

Last year was the ETF's first negative calendar year of returns since it was launched in November 2018, but even after 35% decline through 2022, it has still more than doubled in price since inception. The fund is more than 20% ahead so far in 2023.

The WisdomTree Artificial Intelligence ETF is benchmarked to the Nasdaq CTA Artificial Intelligence index whose constituents cover wider the AI theme.

For example, the ETF provides exposure to **Autostore (iIG:FRA)** which is a French warehouse automations specialist, **PROS Holdings (PRO:NYSE)** which provides a SaaS (software-as-a-service) platform that helps retailers understand consumer habits, and **Workday (WDAY:NYSE)** which offers enterprise applications in the cloud.

The portfolio is diversified across the globe, with 57% in the US, about 20% in Japan and Taiwan, the rest elsewhere. Ongoing charges are 0.4%.

Janus Henderson
INVESTORS

WHY ASIA IS THE BEST PLACE TO FIND GROWING DIVIDENDS

Mike Kerley, Portfolio Manager of **Henderson Far East Income**, discusses how he navigated the challenges of 2022, the reopening of China, how businesses are managing higher input costs, and the dividend outlook for the Asia Pacific region.

Asian markets faced challenges in 2022, as rising inflation, higher interest rates, and growing concerns of a recession dampened investor sentiment. North Asian markets, which are more dependent on exports and have greater exposure to technology, were particularly hard hit, while their southern counterparts were more resilient. However, as 2023 begins, there is reason for optimism. China has begun to lift lockdown restrictions and inflation and interest rates in many economies in the region are starting to subside.

These are the views of the author at the time of publication and may differ from the views of other individuals/teams at Janus Henderson Investors. Any securities, funds, sectors and indices mentioned within this article do not constitute or form part of any offer or solicitation to buy or sell them.

Past performance does not predict future returns. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

The information in this article does not qualify as an investment recommendation.

Great start to the year for markets – where should you invest now?

US stocks still look expensive whereas UK and Japanese shares look like bargains

With markets having enjoyed a solid start to 2023, investors have become more optimistic about equities and bonds. While there are good reasons to be more upbeat, it's important to understand what could go wrong as well as right in the months ahead.

Markets are up because investors believe inflation is at, or close to, its peak. Commodity prices such as oil and natural gas have pulled back from their 2022 highs, and there is hope that central banks are near the top of their interest rate rise cycle.

These factors have led investors to become more 'risk on' with their investment choices. Companies with both good and bad news are rising, yet at some point soon the market could pay more attention to fundamentals such as sales and profits, so don't assume the rising tide is going to keep lifting all boats.

If US earnings forecasts are wrong (too high) then we could see another wobble on the country's major indices like the S&P and Nasdaq because valuations in that region remain elevated. 'US stocks are trading on 18 times earnings now, versus a 15.7-times average,' says Richard Champion, deputy chief investment officer at Canaccord Genuity Wealth Management. He is one of several investment experts who are cautious about the US near-term but see merits longer term. 'After all, US firms are more profitable and have stronger growth than many other parts of the world,' adds Champion.

Andrew Hardy, investment director at Momentum Global Investment Management, also takes the view that having exposure to the US in a portfolio is wise on a longer-term basis as the region offers a 'broad, deep universe' of stocks. However, he is worried the US is currently further behind in terms of economic contraction and has an underweight position to the country in his portfolios.

Investors have been keeping a close eye on the impact that higher interest rates are having on consumers and businesses. While the UK has so far avoided being in a technical recession (two straight quarters of negative growth), the latest CPI figures from the US show high inflation is proving to be stickier than many people thought.

Markets are expecting the Federal Reserve to raise US rates a bit further and cut by the end of the year. Hardy says failure to see a rate cut in 2023 is less of an issue to equities than if the Fed keeps raising rates.

This potential scenario is a key reason why many investment experts still prefer 'jam today' value stocks rather than 'jam tomorrow' growth ones, even though the latter have started to rally after a miserable time in 2022.

The UK and Japan stand out as attractive places to find value stocks, particularly because so many investors dislike these regions. In reality, FTSE 100 companies have proved to be fairly robust while Japanese firms are paying more attention to running their business for profit and increasing shareholder returns including dividends.

'Investor sentiment is negative towards the UK and Japan yet buying cheap assets when there is fear and pessimism is often a good long-term move,' says Hardy. I'm inclined to agree.

FTSE 100

Chart: Shares magazine • Source: Refinitiv

Why buying Ocado shares could be a more volatile ride than you think

Anyone considering the grocery retailer needs to understand the rules

With **Ocado (OCDO)** shares currently worth around a quarter of their value this time two years ago, investors might be wondering if the stock could finally be worth buying.

While it is tempting to think all the bad news must be in the share price by now, we feel we need to warn potential buyers about the perils of owning the shares. To say that investors need an appetite for risk simply doesn't do it justice.

MORE DR. JEKYLL THAN MR HYDE

Over the course of the last few months, *Shares* has noticed that shares in the online grocery specialist have behaved erratically, with daily price swings two or more times the amount of the FTSE 100 index for no apparent reason.

Even more intriguing, there seems to be no obvious pattern to the stock's behaviour meaning it often goes in the opposite direction to the index with no clear explanation.

To explore the phenomenon more closely, we analysed each day of trading over an 18-month period from the start of August 2021 to the end of January 2023.

First, we measured the daily movement in the share price and compared it to the daily moves in the FTSE 100.

Not only did Ocado shares go down in value more often than the index – a total of 201 out of 392 trading days or 51% of the time compared with 168 days or 43% of the time for the FTSE 100 – but they also lost much more than the index on down days.

In terms of volatility, Ocado shares have lost 1.5% or more on 131 of 392 days – roughly a third of the period in question – with an average loss on those days of 4.2%.

By comparison, the FTSE has only lost 1.5% or more on just 22 occasions in the last 18 months with an average drawdown of only 2.2%.

It is a similar story on good days, with Ocado registering 106 daily moves of 1.5% or more to the upside and an average gain on those days of 4.5% against 19 days for the FTSE and an average gain of just 2%.

What is more, volatility in Ocado shares has increased sharply of late with the last six months accounting for almost half of the 1.5% or more down days – including more than 20 daily moves of more than 5% and the biggest one-day loss of 16.8% – so not only is the frequency of losses increasing but so is the magnitude.

By contrast, the biggest daily loss for the FTSE was 3.9% – the same magnitude as its biggest gain, which came a day later – yet on both of those days in February last year, following the invasion of Ukraine, Ocado shares were barely changed.

IS OCADO THE NEW GAMESTOP?

Give the lack of correlation with the FTSE – we couldn't even establish a mathematically meaningful negative correlation, where Ocado shares had an equal and opposite reaction to the index – there is clearly something else driving the daily price moves.

We suspect the answer lies partly in the fact the company is profitless, and like many profitless US-listed companies it has gained 'meme stock' status.

In the more than 12 years since the company joined the market, it has yet to deliver an annual

Comparison of daily volatility

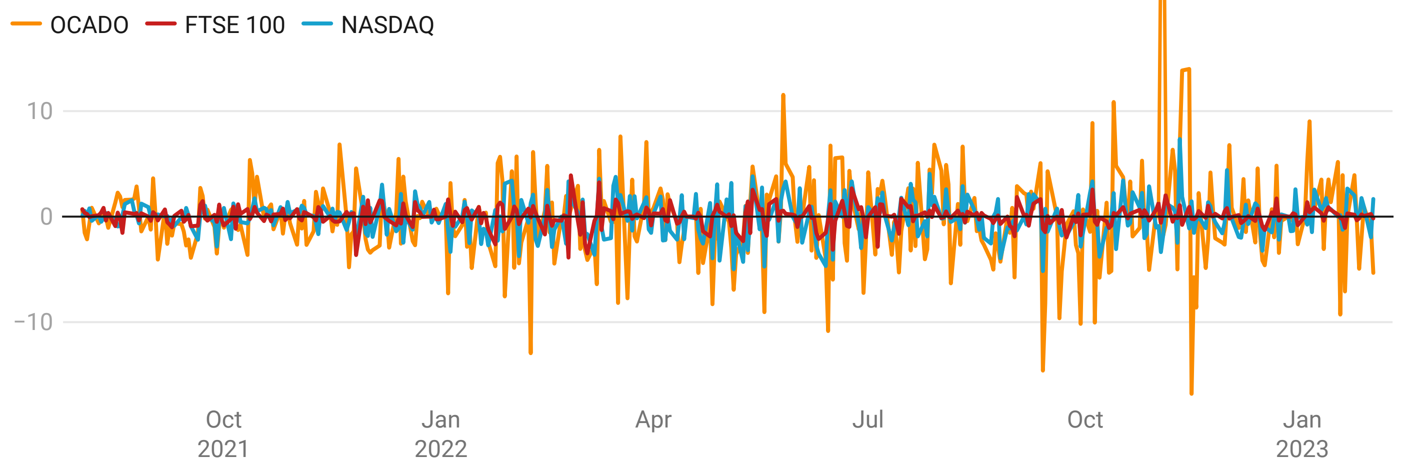


Chart: Shares magazine • Source: Refinitiv

profit although operating earnings always seem to be tantalisingly just around the corner according to management.

Should we compare the daily gyrations in the Ocado share price not with the FTSE 100 but with something much more risk-on, such as the Nasdaq 100 index?

At first glance, the Nasdaq is a better fit as it shows not only a higher proportion of down days overall but a higher number of 1.5% or more moves up and down than the FTSE.

Also, the magnitude of daily swings in the Nasdaq looks more like that of Ocado and the volatility of the index has increased markedly in the last six months although not quite to such an extreme level.

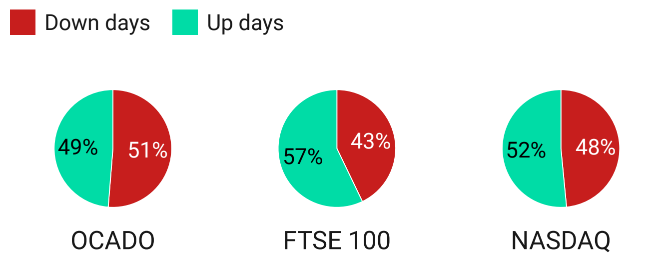
There is also a greater correlation between big daily moves up or down in Ocado and big moves in the Nasdaq: for example, in the week the benchmark jumped more than 9% (in November last year), Ocado shares put on 28%.

Yet there are still too many unexplained moves in the share price over the past 18 months for us to feel entirely comfortable saying Ocado is simply a proxy on the Nasdaq.

The bottom line for anyone considering buying the stock is it is much higher risk than it appears at first glance, and it seems to be driven more by sentiment than by fundamentals.

The share price is so volatile and unpredictable that unless you have nerves of steel and are prepared to put up with seeing your investment whittled away, it is not a stock we would recommend owning.

Volatility of Ocado, FTSE 100 and Nasdaq 100



	OCADO	FTSE 100	NASDAQ
Average Gain	4.5%	2.0%	2.5%
Big down days	131	22	72
Average Loss	-4.2%	-2.2%	-2.6%
Biggest up day	38.6%	3.9%	7.4%
Biggest down day	-16.8%	-3.9%	-5.2%

Covers period 1 August 2021 to 31 January 2023.

Table: Shares magazine • Source: Refinitiv

By **Ian Conway** Companies Editor

Why is Vanguard LifeStrategy so popular and is it a top performer?

There are plenty of alternatives to the popular fund range and many of them have delivered better returns

One of the most popular funds among UK investors is Vanguard's LifeStrategy, a collection of so-called 'one-decision' funds which investors can tailor to their own risk attitude and investment goals. Fans of the product say it is 'the only fund you'll ever need', so just why are people drawn to it?

Each LifeStrategy fund has exposure to a different mix of between 6,000 and 20,000 shares and bonds, which in theory reduces overall risk as shares typically generate a higher return but carry a higher risk and bonds typically deliver lower returns with a lower risk.

Vanguard LifeStrategy 80% Equity Fund (B4PQW15) is a mix of 80% shares and 20% bonds and is aimed at those investing over a long time-horizon with a reasonable appetite for risk. It has a low ongoing charge of 0.22% which is highly competitive.

Part of the reason for the low charge is that LifeStrategy is a fund of funds – in other words it gets most of its exposure to shares and bonds indirectly by investing more than 90% in other Vanguard passive funds which track an index.

How two funds compare

(% change in price)

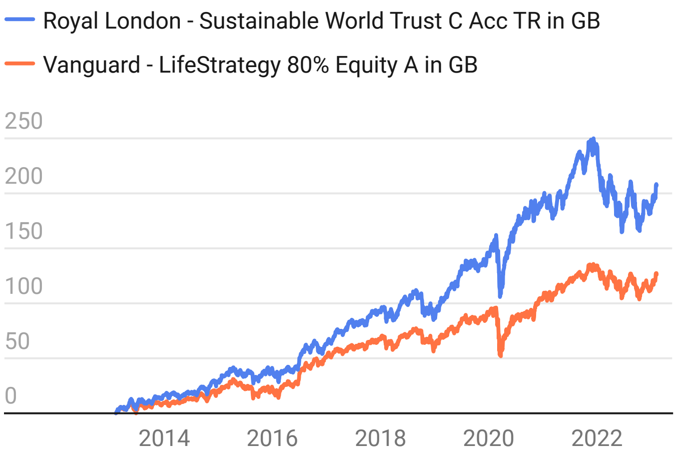


Chart: Shares magazine • Source: FE Fundinfo

With total assets of £8.6 billion, the fund is around 19% invested in the Vanguard FTSE UK All Share Unit Trust, another 19% in the Vanguard FTSE Developed World ex-US Equity Index Fund and 19% in the Vanguard US Equity Index Fund.

Within the equity portion of the fund there is also exposure to Continental Europe and emerging markets, while in the bond portion there are holdings in UK government bonds, including index-linked securities, and global bonds, all owned indirectly through index funds.

Historically, the performance of stocks and bonds has been uncorrelated, which means when one is up the other is down, so by combining the two the aim is to get a smoothed return with lower risk than just owning stocks.

The Vanguard 80% fund has beaten its sector average performance on a total return basis (with dividends reinvested) over the past one, three and five years, including during the pandemic-induced market turmoil.

However, it's not the only fund of its kind, with 217 products in the Investment Association's Mixed Investment 40%-85% Shares sector. Neither is it the top performer.

For example, **Orbis Global Balanced Standard (BJ02KY2)** and **VT AJ Bell Moderately Adventurous (BYW8VL7)** both outperformed the Vanguard fund on a three-year basis, while **Royal London Sustainable World Trust (B882H24)** has beaten it over three, five and 10 years, according to FE Fundinfo.

While it's impossible to say if these funds will beat Vanguard's product in the future, it does underline the message that popular doesn't always mean best.

By **Ian Conway** Companies Editor

Schroders

Investment Trusts:
“30-baggers”: why the UK has more than its fair share

There are many “old” economy names among the select group of UK companies which have appreciated in value by 30 times or more. Jean Roche, Manager of the Schroder UK Mid Cap Fund plc investment trust explains that “boring” industries have the potential to produce some very exciting investments.

We are constantly encouraged to take note of the UK economy’s weak manufacturing sector, lack of investment and an absence of innovation. Nevertheless, for those willing to look beyond the headlines, we find a surprising array of world-class industrial companies on the UK stock market which have produced matching world-class returns for their investors.

Such companies feature prominently among the UK’s “30-baggers”, by which we mean UK quoted companies which have returned at least 2,900% - or 30 times over 30 years.

They range from Rotork and Spirax-Sarco Engineering – makers of specialist pumps for a variety of industries – to Renishaw, whose metrology devices ensure strict tolerances for safety critical and precision industries. These devices can measure a 27-metre aircraft wing to 0.3 millimetres, which is equivalent to the width of a human hair over the length of a swimming pool.

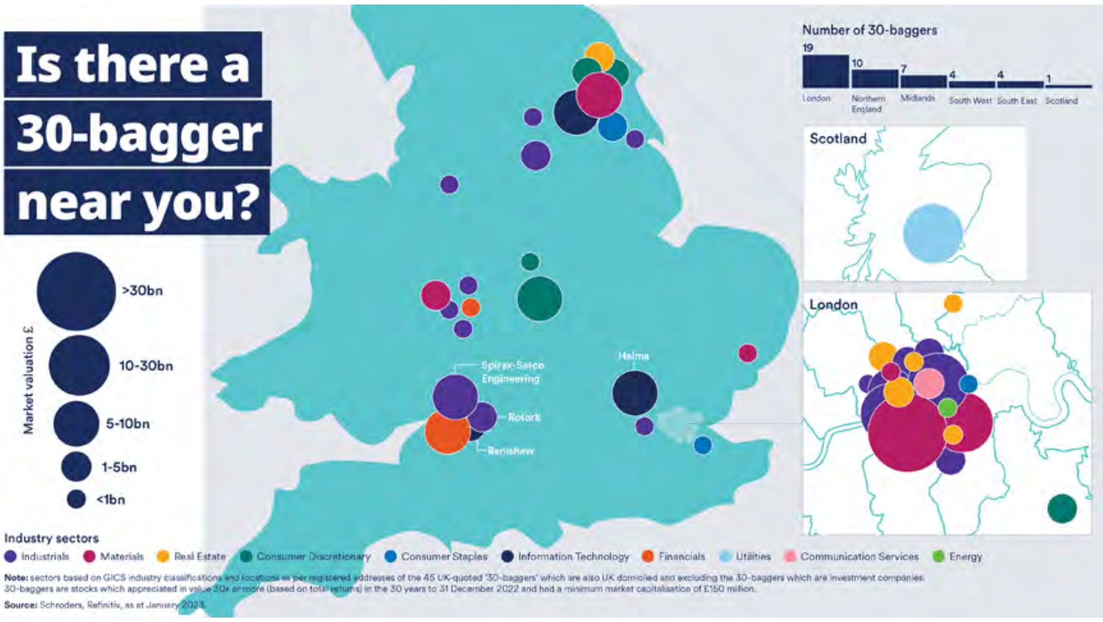
As investors in UK mid-sized companies, this makes us very optimistic for the future.

Boring “old” economy industries - exciting investments

Given a low base from which to achieve growth it’s no surprise investing in smaller companies can potentially be very rewarding. Being too small, however, can mean not getting noticed. This is why many UK companies start to come onto the radar of international investors only when they enter the upper echelons of the mid-sized bracket. Many UK ’30-baggers’ delivered most of their gains as mid-sized businesses, including Spirax-Sarco and health and safety specialist Halma.

Like Renishaw, Halma successfully straddles the industrial/technology spheres with high tech safety critical devices which serve major global industrial end markets.

While both Spirax and Halma are now constituents of the FTSE 100, in the late 1990s they were nestled in relative obscurity at the bottom of the FTSE 250.



We find a plethora of 30-baggers in, so-called, boring, “old” economy industries. More than a third of the 30-baggers fall into the broader industrials sector, where we see regional clusters such as in the south west where inventive founders at Renishaw and Rotork were able to draw on Bristol’s aerospace heritage, for example.

Some will suggest

that investors have fewer technology companies to choose from on the UK stock market. It should be clear to the reader by now, though, that there are numerous companies, including industrials like Renishaw, which have clear technology aspects. We also see a high count of technology enablers and, crucially, adopters among the 30-baggers, not to mention a number of 30 bagger technology focused investment trusts.

The key takeaway from our data is that to earn exceptional returns over a very long period, it is vital to own businesses that are less susceptible to disruption.

The importance of discipline in deploying capital

That's not to say we believe companies can't use selective acquisitions to smooth the path towards reinventing themselves, when circumstances demand. We refer to this as "embracing disruption". One-third of UK 30-baggers were serial acquirers. These businesses tended to acquire smaller companies rather than "bet-the-company" M&A.

Companies that repeatedly acquire small businesses gain expertise in selecting, negotiating and integrating deals. They often face less competition on smaller acquisitions with fewer private equity and international trade buyers bidding – all this might help explain, in part, why 30-baggers have been so sparing when issuing shares.

Issuance of shares is the equivalent of selling small portions of the shareholders' company. When shares are issued, regardless of whether this is for management compensation or for acquisitions, investors should ask if they are receiving as much in value as they are giving away. Careful use of their paper currency has spared minority investors like us from the risk of dilution and it has contributed to above average revenue-per-share growth for the 30-baggers.

Enticing investment potential right now

Disciplined use of capital in combination with good scope to find growth niches among mid-sized UK companies (we estimate there to be 87 different sub themes in the FTSE 250) has translated into opportunity for investors.

What makes us especially excited about investing in UK mid-sized companies for the mid term, right now, however, is the statistically rare period of FTSE 250 underperformance versus the FTSE 100 in the past year. Such periods have, on average in the past, been precursors to ones of strong future outperformance (Schroders, when comparing the FTSE 250 ex IT index vs. FTSE 100 index. based on rolling 12 month performance from 30 September 1990 to 31 December 2022)

Click here to find out more about the Schroder UK Mid Cap Fund plc

Letting dividends do their compounding magic

36-year-old Richard is reaping the benefits of being early with his investment journey

Learning good habits at an early age can pay dividends later in life, as Richard from North Somerset has found out. The investor regularly reinvests dividends from his portfolio to compound his returns.

Rather than spend the cash now, he would rather use it to buy more shares so the next round of dividends might be even bigger than the last.

Richard is 36 years old and works as a locum for a pharmacy. His father taught the healthcare specialist the importance of regular savings and encouraged him to set up a savings plan when he started work aged 18.

At the time banks offered a decent rate of interest so Richard began putting away cash each month with the intention of building up enough to fund a deposit for a house.

When interest rates started to fall in the 2000s Richard was concerned his money was not working hard enough and went into his local bank branch to voice his concerns.

The bank suggested he contact a financial adviser. They recommended that Richard invest part of the cash he had built up into the stock market so it could work harder. In the following years he put the money to work via equity funds while also keeping a cash reserve.

SEEKING PROFESSIONAL ADVICE

During the global financial crisis in 2008 Richard became concerned when he saw the value of his funds falling, so once again contacted the financial adviser.

The advice from the qualified expert? Consider investing more money because history suggests the stock market will recover and move higher. He liked this idea, so when people were panicking and selling shares, Richard was steadily buying more.

That proved an important lesson because a couple of years later the stock market was again moving higher. The experience instilled in Richard a long-term mindset.

Fast forward to the Covid-19 pandemic and Richard instinctively knew what to do when stock markets crashed in the spring of 2020.

Richard put money into **Baillie Gifford US Growth Trust (USA)**. From the March 2020 low the share price of the investment trust nearly tripled in the space of 11 months.

Believing the gains would not be sustainable Richard sold a portion of his shares to lock in gains while leaving the rest invested.

Having originally invested £16,000 he was able to sell a portion worth £20,000 and keep the remaining £10,000 stake invested in the fund. Richard then decided to ring-fence around £4,000 of the proceeds to invest in individual stocks.

RIDING THE UPS AND DOWNS

The pharmacy locum says he liked the idea of putting money into the Baillie Gifford trust and other growth-oriented trusts because of his age. He reasoned he could afford to take more risk to achieve faster growth because he had time to ride out any bad periods in the stock market.

The pandemic was also the trigger for the investor to dabble in individual shares as well as funds. Once Richard started investing in individual shares, he found value investing was far more satisfying than growth investing. However, he still used the bulk of his annual savings each year to add to growth-oriented trusts.

He says: 'Receiving dividends and reinvesting them allows you to see compounding at work because you end up owning more shares. By contrast, growth shares often do not pay a dividend and you must rely on capital growth.'

OIL AND GAS INTERESTS

One share which Richard has purchased and then topped up is Nigerian oil and gas company **Seplat Energy (SEPL)**. He says he likes the 8%-plus dividend yield and the quarterly payout.

Richard purchased the shares before the energy crisis at around 70p per share and as of 9 February 2023 they trade at 110p. He also invested in oil and gas groups **Shell (SHEL)** and **BP (BP)** but sold out of Shell to buy more shares in Seplat.

Shares in **Bloomsbury Publishing (BMY)** were purchased for the investor's portfolio at around 250p per share, with Richard citing the regular and special dividends. The stock has since jumped to 440p.

Richard's Investment Portfolio

Investment Funds and Trusts	Share Portfolio
Abrdn Asia Pacific and Japan Equity	Bloomsbury Publishing
Baillie Gifford US Growth	BP
Fidelity Emerging Markets Quality Income ETF	Central Asia Metals
Fidelity Special Situations	Diageo
FTF Martin Currie Japan Equity	Focusrite
Fundsmith Equity	Games Workshop
IFSL Marlborough Special Situations	Loungers
IFSL Marlborough UK Micro Cap Growth	ME Group
JPM Emerging Markets	Next
LF Lindsell Train UK Equity	Seplat Energy
Lindsell Train Global Equity	Shield Therapeutics
Merchants Trust	The Works.co.uk
Seraphim Space Investment Trust	Thungela Resources
Slater Recovery	Vistry
TM Tellworth UK Smaller Companies	Whitbread

Source: Investor's own records

A recent investment for Richard was copper, zinc and lead producer **Central Asia Metals (CAML:AIM)** which cost him 220p per share. This is another stock with a reputation for paying generous dividends.

Richard sees the role of the individual share portfolio as complementary to his fund and investment trust holdings. He prefers smaller and mid-cap shares as they are less likely to feature in the funds he owns, so there is minimal danger of duplication in his portfolio.

Richard owns **Whitbread (WTB)** shares exclusively for their shareholder benefits which include a free breakfast at Premier Inn, saving him around £10 each time he stays at the hotel chain.

FINDING IDEAS

To find investment ideas Richard reads *Shares* magazine, *Yahoo Finance* and applies screening tools he has developed using Stockopedia's website.

Although he is satisfied with the performance of his share picks it does not always go to plan. One failure is global cinema operator **Cineworld (CINE)** which Richard purchased at 22p per share but now sit at 4p per share. What looked attractive turned out to be a value trap, explains the investor.

Richard says owning this stock has taught him to pay closer attention to the amount of debt a company has on its balance sheet.

One aspect of investing Richard would like to improve is knowing when to sell. He said he feels he is better at buying and seeing opportunities rather than spotting the risks.

While saving up for a house deposit was his original goal for squirreling money away, circumstances changed. Having broken up with his partner, Richard has subsequently moved back to his childhood home.

He is now giving more help to his father around the house and hopes he will inherit this property later in life. That has enabled him to follow his interests and spend more quality time with his family and not have to stress about liquidating his investments to fund a property deposit.

DISCLAIMER: Please note, we do not provide financial advice in case study articles, and we are unable to comment on the suitability of the subject's investments. Individuals who are unsure about the suitability of investments should consult a suitably qualified financial adviser. Past performance is not a guide to future performance and some investments need to be held for the long term. Tax treatment depends on your individual circumstances and rules may change. ISA and pension rules apply.

By **Martin Gamble** Education Editor

Discover the stocks that delivered positive returns – even in the bad years

Companies in control of their own destinies are far less vulnerable to market downturns

Investors instinctively know sectors such as utilities, consumer staples and healthcare are defensive and have historically provided shelter during stock market turbulence. Yet the analysis usually focuses on sector performance alone.

This article takes a different approach and seeks to identify stocks within the S&P 500 and FTSE 350 indices which have had the least number of down years over the past decade while also delivering good returns with less share price turbulence.

2022 WAS A WAKE-UP CALL

It has been a great decade for investors with the S&P 500 delivering a double-digit annualised return equivalent to almost a three-fold gain. The FTSE 350 has delivered a more modest 6.4% annualised return equivalent to just under two times the original investment.

However, there have been three years over the past decade when the major indices have stumbled with 2022 being the most damaging. The S&P lost 19% while the FTSE 350 (the FTSE 100 and FTSE 250 combined) retreated a modest 3% as the commodity heavy FTSE 100 provided a defensive cushion against rising inflation. The year was a reminder that stock markets do not always go up in a straight line.

The other two periods which saw indices stumble were 2018 and 2015 but these were relatively shallow downturns. What's interesting to us is whether any stocks bucked the general trend.

FINDING THE STOCKS

We looked at calendar returns over the past decade for the constituent stocks of the S&P 500 and FTSE 350 (excluding investment trusts) indices.

There isn't anything special about the 12 months defined by the calendar, but it is commonly used to measure stock returns. Using Sharepad data, stocks were ranked by the number of years they delivered a positive return.

We calculated the share price return over the 10-year period as well share price variability. A useful metric here is standard deviation. A low number is better than a high one as it shows returns are relatively smooth.

Smoother returns are not only better for investors' mental wellbeing but also their investment returns. For example, a stock which loses 33% of its value needs to rise by 50% to get back to where it started.

Often the steady grower wins the race in the long run because its drawdowns (peak to trough percentage moves) are shallower while it matches market rallies during expansions.

As the accompanying tables show, the least volatile stocks tend to be the best performers and the most consistent.

FTSE 350 most consistent stocks over past 10 years

Company	Number of 'up' years	Annualised Returns (%)	Annualised Volality (%)
JD Sports Fashion	9	37%	58%
Liontrust Asset Management	9	24%	47%
Halma	9	18%	25%
Diploma	8	18%	26%
4imprint	8	29%	38%
Intermediate Capital	8	13%	35%
Dechra Pharmaceuticals	8	18%	31%
Cranswick	8	12%	23%
Future	7	20%	81%
Games Workshop	7	31%	88%

Table: Shares magazine • Source: Sharepad, Shares magazine. Volatility = standard deviation of annual returns (lower is better)

FTSE 350 least consistent stocks over past 10 years

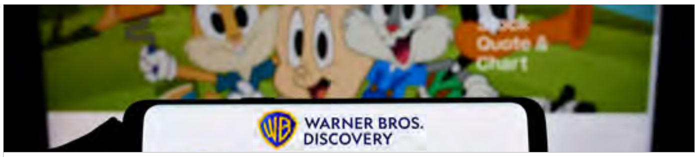
Company	Number of 'up' years	Annualised Returns (%)	Annualised Volality (%)
Hunting	2	-9%	54%
Tullow Oil	2	-28%	51%
Wood Group	2	-16%	23%
Harbour Energy	3	-27%	44%
Marks & Spencer	3	-8%	33%
Pennon	3	-1%	24%
PZ Cussons	3	-7%	14%
Senior	3	-3%	37%
Ferrexpo	4	-7%	179%
FirstGroup	4	-3%	28%

Table: Shares magazine • Source: Sharepad, Shares magazine. Volatility = standard deviation of annual returns (lower is better)

S&P 500 most consistent stocks over past 10 years

Company	Number of 'up' years	Annualised Returns (%)	Annualised Volality (%)
Dollar General	10	19%	15%
Gartner	10	22%	33%
TJX	10	14%	16%
Jack Henry & Associates	10	16%	15%
Cintas	10	27%	17%
UnitedHealth	10	26%	13%
Humana	10	20%	13%
Elevance Health	10	22%	20%
Microsoft	9	26%	24%
Mastercard	9	22%	26%

Table: Shares magazine • Source: Sharepad, Shares magazine. Volatility = standard deviation of annual returns (lower is better)



S&P 500 least consistent stocks over past 10 years

Company	Number of 'up' years	Annualised Returns (%)	Annualised Volality (%)
Lumen Technologies	2	-21%	26%
Simon Property	3	-4%	35%
AT&T	4	-7%	21%
Franklin Resources	4	-5%	25%
International Business Machines	4	-4%	15%
Verizon Communications	4	-1%	12%
Walgreens Boots Alliance	4	0%	29%
Warner Bros Discovery	4	-22%	34%
Wynn Resorts	4	-4%	50%
Juniper Networks	5	5%	21%

Table: Shares magazine • Source: Sharepad, Shares magazine. Volatility = standard deviation of annual returns (lower is better)

MOST AND LEAST RELIABLE FTSE 350 NAMES

As a group the top 10 most consistent shares have given investors an average compound annual growth rate of 22% a year. This is equivalent to a seven-fold return.

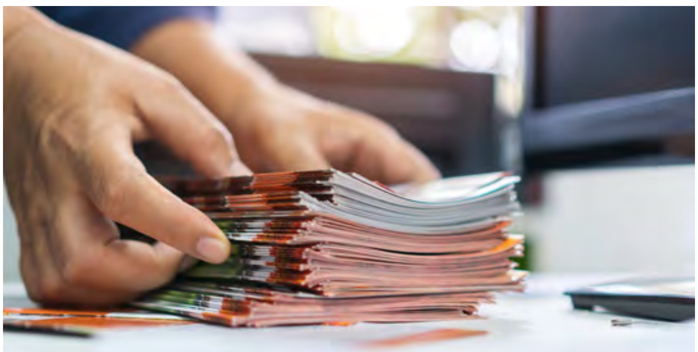
In contrast, the 10 least consistent shares as a group have only given positive annual returns three times out of 10 and destroyed shareholder value by a compound annual rate of -11% a year.

The most consistent FTSE 350 stocks are trainers seller **JD Sports (JD.)**, fund manager **Liontrust Asset Management (LIO)** and provider of health, safety and environmental equipment monitoring services, **Halma (HLMA)**. All three have delivered positive share price returns in nine out of the past 10 years.

JD Sports has delivered the strongest return (37% a year geometric average), but this has come with wilder swings in the share price as seen by its volatility of 48% which is twice that of specialist distributor **Diploma (DPLM)**.

A different way to look at consistency of returns is to compare them with volatility. Dividing return by volatility produces a risk-adjusted return which shows return per unit of risk.

Shares with a higher risk-adjusted return give investors a less bumpy ride. Promotional products company **4imprint (FOUR)** comes out on top on this measure (28.9/38=0.75) with Halma a close second.

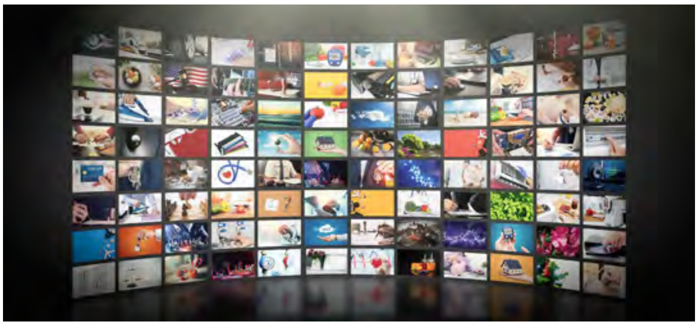


A STOCK TO BUY

If we had to choose one stock which had the potential to continue performing consistently, it would be **Games Workshop (GAW)**. The designer, manufacturer and distributer of fantasy miniatures has built up a dedicated and loyal fan base over many decades. Its enthusiastic army of Warhammer customers bring in new players by word of mouth and by developing online videos and content.

The business model is simple and effective. By controlling the whole value chain from manufacturing to distribution the firm can leverage its considerable intellectual property and maintain efficiency and pricing power. It only makes its own products.

High returns on capital reflect the strength of the customer proposition and Games Workshop's leading market position. The opportunity to sell more miniatures and monetise intellectual property is significant. The tie-up with **Amazon (AMZN:NASDAQ)** to make a TV series and film from the Warhammer 40K universe has the potential to open up the franchise to a much wider audience.



Multi-media platform company **Future (FUTR)** has the lowest risk-adjusted return (20.1/81=0.25) from the list. Although investors have made good returns over the decade, they were front-end loaded. Since peaking in 2021 at £38.80, the shares have since lost 60% of their value.

THE US WINNERS

Within the benchmark S&P 500 there are six shares which have an unblemished record over the last decade. Collectively the top 10 most consistent shares have delivered an annualised return of 21%, equivalent to 6.7 times original investment.

At the other end of the spectrum the least consistent have delivered a positive return less than half the time and collectively have destroyed shareholder value to the tune of 6% a year.

The best performer has been uniform rental company **Cintas (CTAS:NASDAQ)** which has delivered an annualised return of 27% with minimal volatility (17%) which means it has a risk-adjusted return of 1.59 (27/17).

Coming a close second is tech giant **Microsoft (MSFT:NASDAQ)** and diversified healthcare firm **UnitedHealth (UNH:NYSE)**. Because the latter's return has lower volatility (13%) it has a superior risk-adjusted return of 1.95.

Readers may wonder why electric vehicle maker **Tesla (TSLA:NASDAQ)** doesn't make the list given that its shares have the best return over the last decade, giving investors a 54-fold gain or 49% a year on average.

However, the shares have lost value in two years out of 10 (losing 50% in 2022) and experienced huge volatility of 245% which means the shares have a risk-adjusted return of 0.2 (49/245). In other words, Tesla stands out as having the best return within the S&P 500 but is easily the riskiest.

Gaming chip maker **Nvidia (NVDA:NASDAQ)** comes a close second with the shares rising 53-fold over the last decade but with much lower volatility than Tesla (80%) to give a risk-adjusted return of 0.61 (40/80).

The appearance of healthcare companies is perhaps understandable, but the fact there are two consumer cyclical firms on the list is more surprising.

Discount retailer **Dollar General (DG:NYSE)** sells seasonal items and home products. This is not a glamour stock by any measure, but its consistent performance is notable. An annualised return of 19% and volatility of 15% gives it a risk-adjusted return of 1.24.

Discounted brands seller **TJX Companies (TJX:NYSE)** which trades as TK Maxx in the UK has delivered consistently strong returns to shareholders of 14% a year on average.

By **Martin Gamble** Education Editor

How can I invest in the earnings power of everyday necessities?

Shares shines the spotlight on the main players in the personal and household goods sector

Rising interest rates designed to cool inflation are squeezing consumers' disposable incomes around the globe with spending on big ticket and discretionary items coming under pressure.

Yet spending on everyday necessities, mass daily-use items that billions employ every day, is holding up rather well. That's good news for the makers of mundane products which consumers trust and depend upon; think toothpastes, toilet rolls, razors, shampoos, deodorants, bleaches and headache tablets.

There is a theory that consumers are happy to part with their cash, even in the toughest of economic environments, to access recognisable personal care and household brands. In turn, this gives the companies that make and supply them predictable revenues, pricing power and in many cases, high profit margins, which they can sustain through hefty marketing and development spend.

However, the cost-of-living crisis is forcing shoppers to trade down to supermarket own-label products according to many of the UK's biggest grocers. This means personal care and household goods specialists must tread a fine line between passing on high raw material and other costs to consumers through price hikes and not raising them too high that demand suffers.

Investors taking a long-term view with a stock may be able to look past a slowdown in near-term sales growth. Many experts believe any recession-like environment might only last for a short-term period and therefore consumers may return to the brands they love in time.

WHAT ARE THE IMPORTANT METRICS TO FOCUS ON?

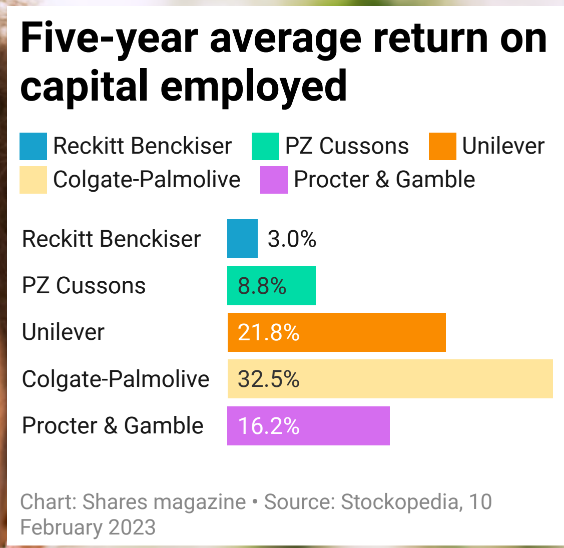
Key metrics to study with personal care and household goods companies include like-for-like sales volumes, an indicator of rising or falling demand for their products, and also gross margin, calculated by dividing gross profit (revenue minus the cost of those sales) by revenue and multiplying the figure by 100 to get a percentage.

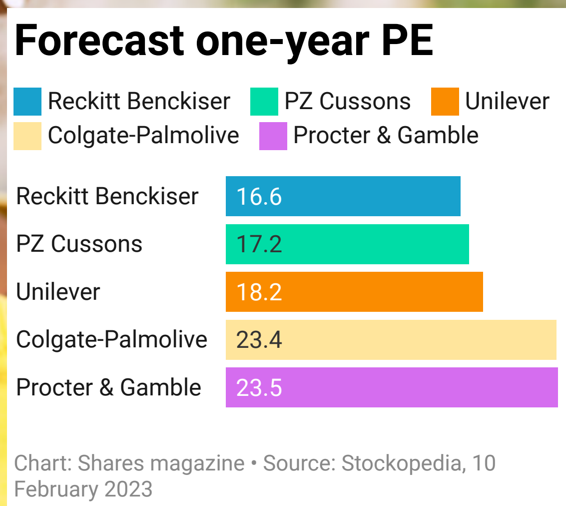
High gross margin companies have more of a buffer to handle rising costs as this usually means their wares are in demand and often essential to consumers, which gives them pricing power during inflationary periods.

Other sector metrics worth monitoring include free cash flow, a measure favoured by famous investors including Warren Buffett and Terry Smith, and return on capital employed.

WHICH COMPANIES CAN I INVEST IN?

The UK stock market is home to **Unilever (ULVR)**, **Reckitt (RKT)**, **Haleon (HLN)** and **PZ Cussons (PZC)**





COMPARING KEY METRICS

In terms of the major sector players' metrics, Colgate-Palmolive has the highest five-year average return on capital employed at 32.5%, versus Unilever on 21.8% and Procter & Gamble on 16.2%, according to Stockopedia data.

A good rule of thumb is that a return on capital employed of 15% or more reflects a decent quality business and this is almost certain to mean it generates a return well above its weighted average cost of capital (a metric which is based on the expected return from a company's shares and the interest cost on its debt).

Colgate-Palmolive's high return on capital employed perhaps explains why it commands the second highest rating in terms of its forecast one-year price to earnings or PE ratio, just behind Procter & Gamble.

Recent company-specific challenges leave Unilever and PZ Cussons trading at significant PE discounts to their US peers on 18.2-times and 17.2-times respectively, while Reckitt appears the cheapest on a forward PE basis, reflecting concerns over downtrading and last year's shock resignation of well-regarded CEO Laxman Narasimhan, a departure that came at a time when investor confidence in Reckitt's turnaround was improving.

Key sector players – Share price returns

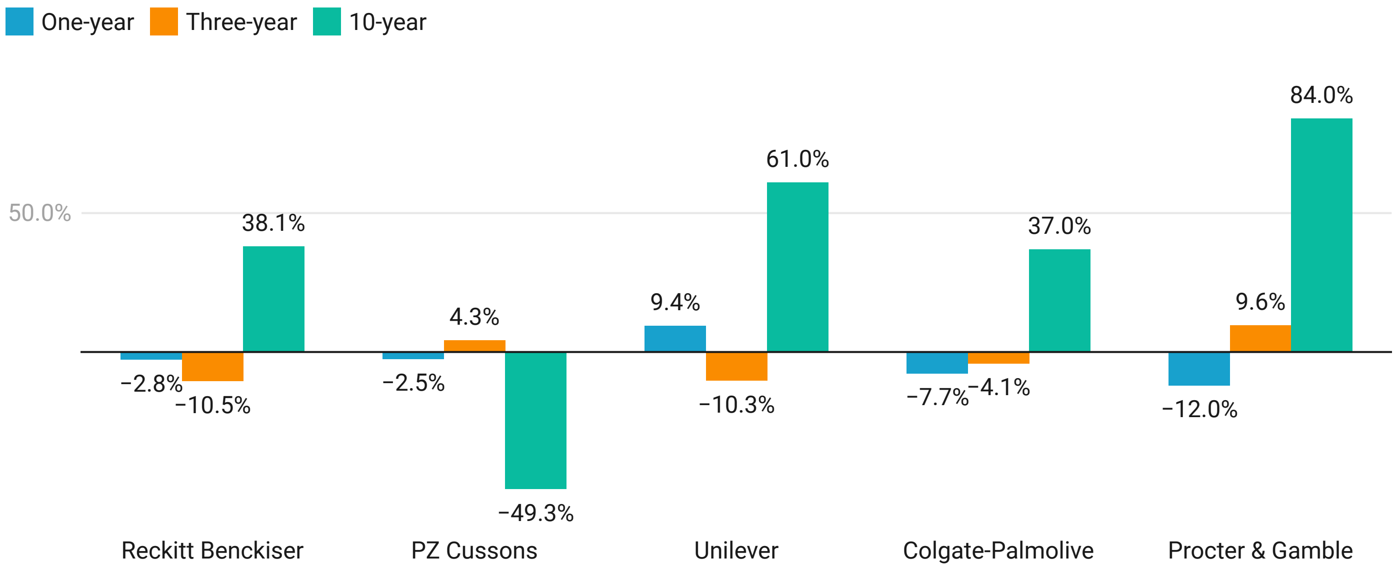


Chart: Shares magazine • Source: Morningstar, data to 10 February 2023

which all supply everyday essentials.

Unilever is famed for its food dressings and ice creams, but the FTSE 100 company is also a personal care, home care and beauty/wellbeing products powerhouse whose everyday brands span OMO (or Persil depending on where you live) and Domestos bleach to the Sunsilk hair brand, Sure deodorants and Comfort fabric conditioner.

Reckitt is a cash-generative, dividend-paying consumer goods group which supplies health and hygiene brands ranging from Nurofen, Strepsils and Durex to Dettol, Lysol, Harpic and Vanish.

Haleon (HLN) recently demerged from **GSK (GSK)** last summer and is behind a range of headache tablets and toothpaste products including Panadol, Sensodyne and Advil.

PZ Cussons owns trusted brands such as Carex hand wash, Morning Fresh washing up liquid, Imperial Leather soap and tanning product St. Tropez. Moving from a turnaround to a transformation phase under CEO Jonathan Myers, PZ Cussons' latest half-year results broadly met expectations with adjusted pre-tax profit rising 8% to £34.5 million. While the halving of profitability in Europe and Americas wasn't welcomed by the market, there is a clear path back to longer-term levels of profitability over the next 12 to 18 months.

Within the small cap ranks, there's private label cleaning products maker **McBride (MCB)**, a struggling distributor of everything from laundry detergents and dishwasher tablets to surface cleaners and aerosols that often finds itself squeezed between giant branded rivals and major retailers.

Theoretically, the £40 million business should benefit from consumers trading down from more expensive products, but indebted McBride has been impacted by high input cost inflation and the shares are down more than 50% over one year.

It's still early days for its recovery story. McBride reported a return to profitability at the adjusted earnings before interest and tax level in the final two months of 2022.

Heading in the opposite direction with a 44% one-year share price gain is **Accrol (ACRL:AIM)**, the toilet rolls, kitchen rolls and wet wipes supplier benefiting as the cost-of-living squeeze drives growth in its main market, the discount retailers, and private label products.

WHAT ABOUT RELEVANT STOCKS LISTED OVERSEAS?

US-listed options include **Procter & Gamble (PG:NYSE)**, the world's largest manufacturer and distributor of branded personal care and home care products whose brands include Gillette razors, Pampers nappies and Tide detergent.

While commodity inflation headwinds are easing and Procter & Gamble has seen limited consumer downtrading so far, volumes have deteriorated and investment bank Berenberg expects organic sales growth to slow to 3.3% in the financial year ending June 2024, the lowest since 2018.

Then there is **Colgate-Palmolive (CL:NYSE)**, the household, personal care and pet nutrition products maker and world market leader in oral care, which accounts for nearly half of its sales.

Elsewhere, **Kimberly Clark (KMB:NYSE)** is relevant to the theme of everyday essential items. The tissue and hygiene products group owns brands such as Kleenex facial tissue, Andrex toilet paper and Huggies disposable nappies.

CAN I PLAY THE THEME THROUGH FUNDS?

There aren't pureplay funds for this sector, but there are some which include it as part of a broader theme.

For example, tracker fund **Xtrackers MSCI World Consumer Staples UCITS ETF (XDWS)** has positions in Procter & Gamble and Unilever, representing 9.2% and 3.26% of the fund respectively, and charges 0.25% a year.

In the investment trust universe Nick Train's **Finsbury Growth & Income (FGT)** has 9.4% of its assets in Unilever. **Troy Income & Growth (TIGT)** had 32% of its assets in consumer staples as of 31 December 2022, with Unilever the largest position at 7.9% of assets and Reckitt representing 5.7% of the portfolio.

Colgate-Palmolive remains one of the largest equity positions in Dan Loeb's Third Point, the hedge fund UK investors can access through **Third Point Investors (TPOU)**.

Third Point argues Colgate-Palmolive offers 'defensive growth at a reasonable valuation', while activist investor Loeb 'continues to see the potential for shares to deliver an attractive risk-adjusted return over the coming years' and believes Colgate is 'on the road to delivering more predictable returns moving forward'.

Third Point notes organic growth remains strong and expects that to translate into earnings growth as execution improves, margins recover and external pressures ease.

TWO STOCKS TO BUY

PROCTER & GAMBLE

(PG:NYSE) $138.57

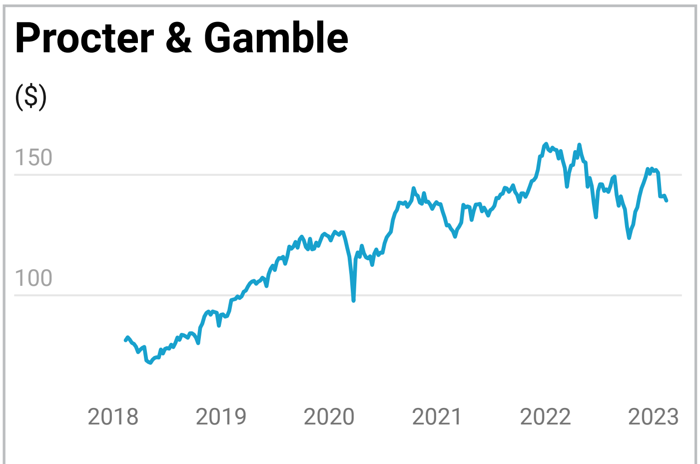


Chart: Shares magazine • Source: Refinitiv

While second quarter results (19 January 2023) showed organic sales growth slowed to 5% from 7% in the previous quarter, Procter & Gamble still raised its sales growth outlook for fiscal 2023 and maintained its earnings per share growth guidance range despite citing 'significant headwinds'.

The large cap consumer defensive has posted some of the best growth in the sector in the past few years and increased its dividend for 66 years in a row.

Behind everyday products ranging from Pampers

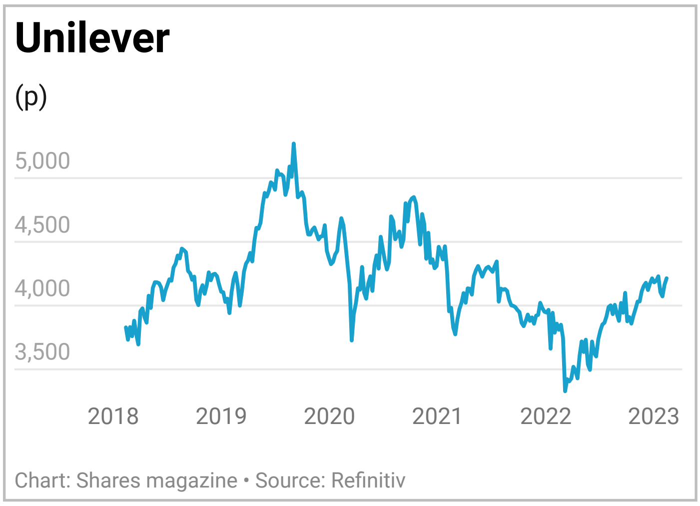
and Pantene to Lenor, Oral-B, Vicks and Tide, the Cincinnati-headquartered sells products in 180 countries and it has the hallmarks of a high-quality company. It boasts robust operating margins, rising free cash flow per share and a return on capital employed north of 20-times, on a trailing 12-month average basis.

Trading on 23.5 times forecast earnings, investors are being asked to pay a premium rating to own the shares. However, its track record warrants this premium.

Analyst coverage collated by Stockopedia reveals that 14 brokers have a 'buy' rating on the stock, while 12 have a 'hold' and only one has a 'sell' recommendation.

UNILEVER

(ULVR) £41.09



Undemanding relative to history, Unilever's prospective price to earnings ratio of 18.2 looks compelling for a business boasting wonderful brands, a strong emerging markets footprint and scope for big strategic, operational and financial improvements.

Its latest full-year results saw like-for-like sales grow by 9% as selling prices rose by 11.3% in response to input cost inflation, but volumes were down 2.1%, suggesting that Unilever needs to be careful not to raise prices too much higher without alienating its customer base.

Underlying sales growth at the firm's 'billion+ Euro brands' such as OMO, Rexona and Sunsilk rose by an encouraging 10.9%. For the current year, Unilever is predicting further stiff price rises in the first half to offset higher input costs, and another fall in volumes as a result, but believes a more measured second half increase in prices should lead to underlying sales growth 'in the upper half' of its 3% to 5% medium-term target.

Hein Schumacher will join as the new chief executive in July and will be busy on day one, given Unilever's falling margins, declining sales volumes and confused approach to strategy. Readers may wonder why the shares are worth buying given these negatives, but the key attraction is the ability to pick up the shares at a discount to many peers and to own as a 'repair and improve' story, led by the new CEO.

Schumacher has the support of activist shareholder Nelson Peltz who has been trying to drive change in recent months. The new CEO is likely to take a long hard look at Unilever's portfolio of over 400 brands, with disposals sure to follow.

Fundsmith founder Terry Smith believes the company should improve what it already has, and only then think about acquisitions and disposals.

The minimum age you can access a pension is changing – why does this matter?

It's important to understand how the rule changes will impact your financial planning

The earliest age a pension can be taken is going up to 57 in 2028. Those who are 50 now might not be aware the impact this will have on their decisions. Can you elaborate?
Steve

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

You are referring to the 'normal minimum pension age' (NMPA), which is the youngest age someone with a defined contribution pension can access their retirement pot.

The NMPA is currently set at age 55 and is scheduled to rise to age 57 in April 2028, the same date the state pension age is due to increase to 67. That means if you are roughly aged 50 or younger today, the earliest you can access your pension in most circumstances will be 57.

The NMPA is then expected to remain 10 years lower than the state pension age, meaning it should increase again to 58 in April 2046 (when the state pension age is due to rise to 68).

If you have a defined benefit scheme, the age at which you receive your retirement income – and any tax-free lump sum entitlement you choose to take – will usually be determined by your scheme's 'normal pension age' (NPA). Some schemes will allow you to take your income early, usually at a lower rate.

It is not possible to take your state pension early, although you can defer taking it if you want to.

The Government has created a complex set of

rules to manage the transition to an NMPA of 57. Rather than apply the increase across the board, it has proposed creating a 'protection' regime so savers in a scheme which gave an 'unqualified right' to a NMPA below age 57 on 11 February 2021 can retain that earlier pension access age. This will be known as a 'protected pension age'.

If people with this protection subsequently make an individual transfer to another (non-protected) scheme, the transferred funds will be able to keep the lower NMPA – although any benefits held in the receiving scheme before the transfer, or new contributions, will have a NMPA of 57 from April 2028.

People with a protected pension age who transfer as part of a 'block' with at least one other member of the same old pension scheme to the same new scheme at the same time will be able to retain the lower NMPA for all their funds in the new scheme, including any new contributions in.

Think carefully about what you are going to do with the money if you do access it early (such as in your late 50s), and how making the withdrawal today could impact the future sustainability of your retirement plan. If you are unsure, speak to a regulated financial adviser to better understand your options.

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.

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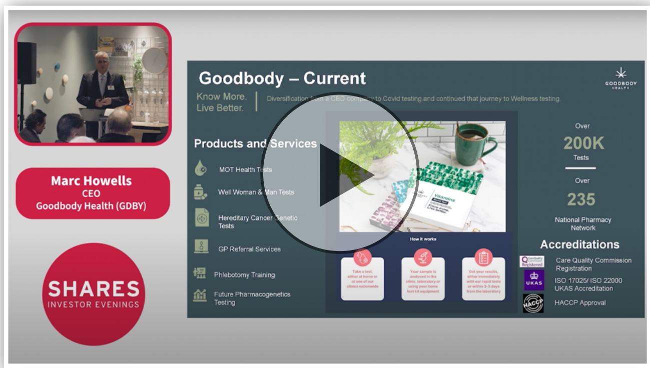

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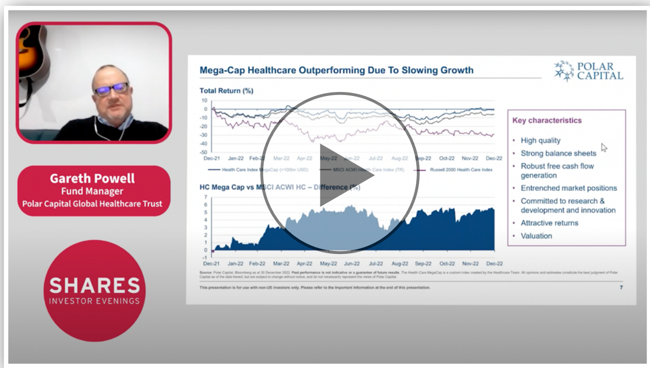

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What is Britcoin, will it replace cash and is it a good idea?

We look at the development of the digital pound and what it could mean for consumers and businesses

The Government has announced it is moving forward with the development of a digital pound, which has been widely dubbed 'Britcoin'.

A final decision on whether to launch the digital currency has not been taken yet, and if it does come to pass, it will happen towards the end of this decade.

In the meantime, the Bank of England is going to make preparations, and is currently consulting on the design of a digital pound. While it may yet be some time off, if and when it does arrive, 'Britcoin' could have wide-ranging implications for businesses and consumers.

If you're scratching your head about what a digital pound might look like, you certainly won't be alone, as this is a very nascent area of how the ledger technology that underpins cryptocurrencies might be used in the more mainstream financial arena.

IS THIS A NEW CURRENCY?

Probably the most important thing to acknowledge is that the Government is not launching a new currency; a digital pound will be worth the same as the pound in your pocket, or in your bank account.

Unlike bitcoin, its value won't fluctuate wildly, though it will be subject to sterling's ebb and flow on international currency markets. This is probably one reason the Government isn't using the neat moniker 'Britcoin', because it implicitly associates the project with a volatile asset class where fraud and failure has been rife.

WHY IS IT BEING LAUNCHED?

There are two main reasons the Government is looking at developing a digital pound, and both are sound. The first is that other countries are looking at building this technology, and the private sector is also possibly muscling in on the act with stable coins, which are like crypto assets but linked to the price of existing, more stable currencies.

The Bank of England is legitimately concerned that new forms of monetary value like this could loosen its grip on the financial system and prevent it from managing the economy.

The second reason is that a digital pound could improve the payments system, resulting in faster, cheaper, and more sophisticated transactions for businesses and consumers.

An example might be smoother cross border payments, which historically have often involved hefty fees for currency exchange.

A cheaper, more automated payments system might allow micropayments to be taken for services, providing new possibilities in business models. For instance, it may become economical for a newspaper to charge you 5p for each article you read, rather than £10 for a monthly subscription, if that 5p can be transferred at a miniscule cost. A digital pound could also allow for programmable payments, so that money moves from your account on certain conditions. This could have applications for areas like paying utility bills or tax, or even saving £1 every time you spend £100.

WHAT ARE THE DOWNSIDES?

No sweeping innovation like a digital pound comes without risks. Chief amongst those is the effect on the banking sector and the potential for financial stability to be undermined.

The Government is already aware of this issue and has proposed some features for a digital pound that would help to mitigate these risks. For instance, 'Britcoin' won't pay any interest, so it shouldn't distort the savings market. The Government is also suggesting consumers can only hold a limited amount in 'Britcoin', at least to begin with, to prevent a run on any bank.

There are also concerns around privacy and financial inclusion. Although the Bank of England is likely to be the provider of the core infrastructure of a digital pound, it isn't proposing it will deal with consumers directly. Rather individuals will hold their 'Britcoins' in wallets provided by financial intermediaries who hold their data, and neither the Bank nor the Government will be able to see these.

This isn't so different to the current situation, where central banks issue money, and banks and payment providers transact with customers. So, on the face of it there seems little reason for people to be too worried about privacy issues, or at least any more worried than they are right now.

WILL IT EVENTUALLY REPLACE CASH?

Financial inclusion is more of an issue, but perhaps not a new one. The Bank of England is not suggesting that 'Britcoin' will replace cash, but clearly it is a further step in the digitalisation of finance, which has the potential to leave the less technologically savvy behind.

This is nothing new, because money has been becoming more digital for many years now, as cash use has declined.

The Government has said that it will consider financial inclusion in the design of 'Britcoin', and even look at ways it may help certain financially excluded groups, so the devil will very much be in the detail.

We can expect a lot more information from the Bank of England about the development of the digital pound. With a potential launch date towards the end of the decade, we will have plenty of time to digest it.

By **Laith Khalaf**
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