STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 25 / ISSUE 17 / 04 MAY 2023 / £4.49

SHARES

WE MAKE INVESTING EASIER

HEAD TO HEAD

which stock is better?

BP

Barclays

Adidas

Coke

Estée Lauder

VS

Shell

Lloyds

Nike

Pepsi

L'Oréal

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Three important things in this week's magazine

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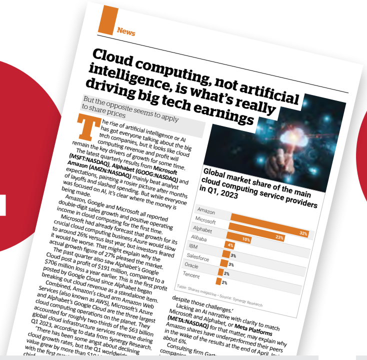


Everyone's talking about artificial intelligence, yet cloud computing is currently far more important to big tech earnings

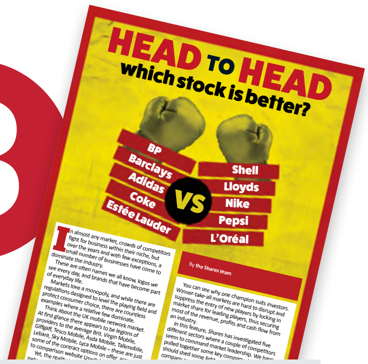
Microsoft, Alphabet and Amazon positively surprised the market with their latest results, showing further progress with cloud operations

2

Demand is growing for the private healthcare sector as people are fed up with trying to get an NHS appointment

Discover which stock stands to benefit from this trend and three other names which offered a lot of promise on the same theme but have failed to turn that into profit

3



There are a lot of direct rivals on the stock market – we show you ways to work out which company is best

Our 'Head-to-Head' article uses different ratios and data points to compare well-known names, while also considering strategy as part of the investment research process

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:

Chegg shares slump 40% and Pearson shares fall 10% over ChatGPT fears

Restaurant Group shares jump 10% after strong Q1 trading and increased margin guidance

Why Intel shares rallied despite posting its biggest ever quarterly loss

Chipotle's shares sizzle as first quarter results beat analysts' expectations

A unique investment philosophy

AGT
AVI GLOBAL TRUST

Nearly four decades of bottom-up fundamental investing.

Asset Value Investors (AVI) has managed the c.£1.1* bn AVI Global Trust since 1985. Our strategy has remained consistent for this period: to buy quality companies held through unconventional structures, trading at a discount. The strategy is global in scope, and we believe that attractive risk-adjusted returns can be earned through detailed research with a long-term mind-set.

The world is filled with challenges and volatility, with a war on European soil and rising interest rates alongside high levels of inflation. Despite the challenging market conditions, we continue to find good investment opportunities.

Our proprietary research process with a focus on mispriced assets that trade at a discount to net asset value enables us to filter through the numerous companies, to distil the market down to a more manageable universe.

AVI's well-defined, robust investment philosophy helps to guide investment decisions. An emphasis is placed on three key factors: (1) companies with attractive assets, where there is potential for growth in value over time; (2) a sum-of-the-parts discount to a fair net asset value; and (3) an identifiable catalyst for value realisation. A concentrated high conviction core portfolio of c. 30± investments allows for detailed, in-depth research which forms the cornerstone of our active approach.

Once an investment has been made, we seek to establish a good relationship and actively engage with the managers, board directors and, often, other key shareholders. Our aim is to be a constructive, stable partner and to bring our expertise - garnered over almost four decades of investing in asset backed companies - for the benefit of all. The approach is benchmark-agnostic, with no preference for a particular geography or sector which allows us to seek out the best opportunities anywhere in the world.

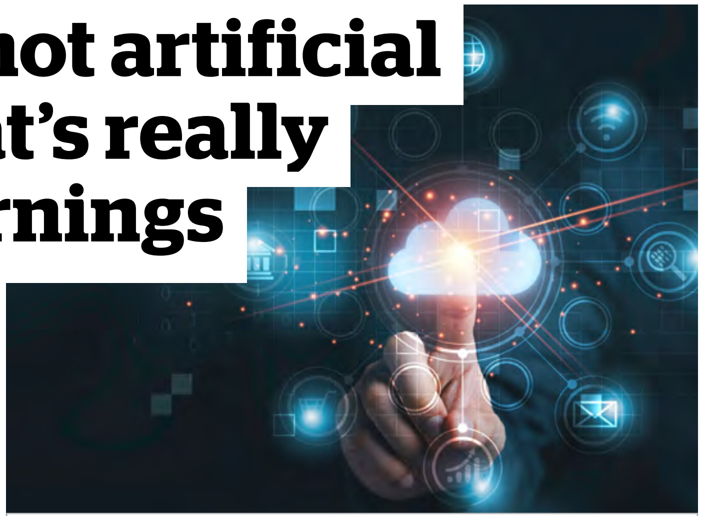
AGT's long-term track record bears witness to the success of this approach, with a NAV total return well in excess of its benchmark. We believe that this strategy remains as appealing as ever and continue to find plenty of exciting opportunities in which to deploy the trust's capital.

Discover AGT at www.aviglobal.co.uk

‘Gross Assets at 31 January 2023
±As at 31 January 2023, holdings >1% of NAV

AVI
Asset Value Investors

Cloud computing, not artificial intelligence, is what's really driving big tech earnings



But the opposite seems to apply to share prices

The rise of artificial intelligence or AI has got everyone talking about the big tech companies, but it looks like cloud computing revenue and profit will remain the key drivers of growth for some time.

The latest quarterly results from **Microsoft (MSFT:NASDAQ)**, **Alphabet (GOOG:NASDAQ)** and **Amazon (AMZN:NASDAQ)** mainly beat analyst expectations, painting a rosier picture after months of layoffs and slashed spending. But while everyone was focused on AI, it's clear where the money is being made.

Amazon, Google and Microsoft all reported double-digit sales growth and positive operating income in cloud computing for the first time.

Microsoft had already forecast that growth for its crucial cloud computing business Azure would slow to around 26% versus last year, but investors feared it would be worse. That might explain why the actual growth figure of 27% pleased the market.

The past quarter also saw Alphabet's Google Cloud post a profit of $191 million, compared to a $706 million loss a year earlier. This is the first profit posted by Google Cloud since Alphabet began breaking out cloud revenue as a standalone item.

Combined, Amazon's cloud arm Amazon Web Services (also known as AWS), Microsoft's Azure and Alphabet's Google Cloud are the three largest cloud computing operations on the planet. They accounted for roughly two-thirds of the $63 billion global cloud infrastructure services revenue during Q1 2023, according to data from Synergy Research.

'There has been some angst about declining cloud growth rates, but the Q1 worldwide market value grew by more than $10 billion compared with the first quarter of 2022,' said John Dinsdale, chief analyst at Synergy Research. 'Clearly the relatively weak economy has caused some enterprises to more closely review spending on cloud services, but the market continues to grow despite those challenges.'

Global market share of the main cloud computing service providers in Q1, 2023

Amazon	32%
Microsoft	23%
Alphabet	10%
Alibaba	4%
IBM	3%
Salesforce	3%
Oracle	2%
Tencent	2%

Table: Shares magazine • Source: Synergy Research

Lacking an AI narrative with clarity to match Microsoft and Alphabet, or **Meta Platforms (META:NASDAQ)** for that matter, may explain why Amazon shares have underperformed their peers in the wake of the results at the end of April, losing about 6%.

Consulting firm Gartner estimates that companies will funnel over half of their IT spending into cloud technology by 2025, and that chunk could be even higher if AI really takes off. It's no wonder that investors are laser-focused on the growth trajectories of these cloud businesses.

There will be plenty more spending on AI, which looks likely to swallow more cash than it generates for now, and investors shouldn't expect AI numbers to be broken out any time soon. [SF]

HSBC shares leap as profits triple and firm announces $2 billion buyback

Greater shareholder returns may not mollify major investor Ping An

After a mixed reception to UK bank earnings in recent days – with shares in **Barclays (BARC)** up more than 5% while **NatWest (NWG)** shares fell nearly 4% – investors were unsure what to expect when Europe's biggest lender by market value, **HSBC (HSBA)**, reported its results on 2 May.

In the event, despite a fairly messy set of numbers, the first quarter turned out to be stronger than expected, allowing the bank to bring forward its buyback plan and restart dividend payments.

The shares gained 5.5% to 605p, adding more than £5 billion to the bank's market value and returning it to the top three position in the FTSE 100 index, ahead of consumer goods giant **Unilever (ULVR)**.

Pre-tax profits for the three months to March more than trebled to $12.9 billion from $4.2 billion in the same period a year ago, way above market forecasts of $8.7 billion, helped by higher interest rates and a couple of positive one-off items including a $1.5 billion paper gain on the acquisition of Silicon Valley Bank's UK operations.

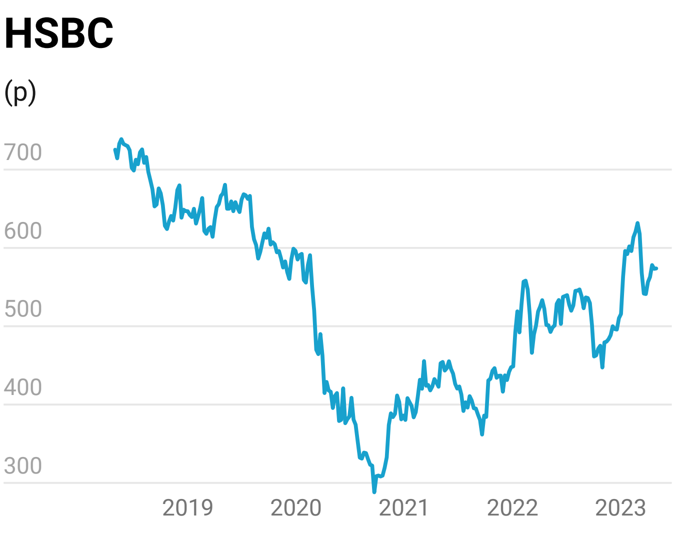


Chart: Shares magazine • Source: Refinitiv

Revenue climbed 64% to $20.2 billion driven by higher net interest income across all the bank's global businesses, although in an interview with *Bloomberg* chief executive Noel Quinn accepted 2023 was probably the year the contribution from rising interest rates 'topped out'.

Adjusting for the reclassification of its French assets and a gain from buying Silicon Valley Bank UK, deposits were actually down slightly during the quarter but not enough to worry investors.

The firm said it would pay $0.10 per share in dividends for the first quarter, the same level as it distributed before the pandemic, and announced a $2 billion buyback.

The bank had planned to introduce the buyback in the second half, but a combination of better results and pressure from its major shareholder, Chinese insurer **Ping An (2318:HKG)**, to improve returns resulted in the CEO bringing it forward by six months.

'With the good momentum we have in our business, we expect to have substantial future distribution capacity for dividends and share buybacks,' insisted Quinn.

Whether a return to dividends and the promise of 'jam tomorrow' will be enough for Ping An to moderate its calls for change is hard to tell, but we suspect shareholders could still see fireworks at the bank's annual general meeting on 5 May.

One major London investor revealed to *Shares* last week they were 'broadly supportive' of the Chinese firm's call to break up HSBC and let it focus purely on Asia, and with the French and Canadian businesses still kicking around the pressure could grow in the coming weeks to split. [IC]

Could the sustained rise in food prices become a political issue?

If companies keep looking to profit in an inflationary environment there could be push back

In the words of Paul Donovan, UBS's chief economist who is not known for mincing his words, like Fight Club, the first rule of price gouging is you do not talk about price gouging.

'The profit-led inflation story has been fueled by corporate results showing profit-led inflation. As these stories move from the financial press to social media, companies must weigh whether short-term margin expansion compensates for the risk of customer resentment at paying higher prices,' says Donovan.

UK food-price inflation was more than 17% in the four weeks to mid-April, according to grocery market data from Kantar, making it 10 months in a row that prices have risen by 10% or more.

According to the ONS (Office for National Statistics), food and non-alcoholic beverage prices rose even faster in March, with inflation hitting 19.2%, up from 18.2% the previous month, the highest rate in 45 years.

The ONS data shows the price of basic food stuffs soaring in March, with bread and cereal prices up nearly 20%, pork prices up 25% and milk, cheese and egg prices up a shocking 30%.

Consumers are doing the best they can, saving money every way possible, from trading down in terms of where they shop to buying cheaper products and using loyalty schemes.

Discount retailer Aldi reached a landmark last month, taking a 10% share of the UK grocery market for the very first time – two years ago its share was just 8% and five years ago it was little more than 5%.

Between them, Aldi and Lidl now account for 17.7% of UK grocery till receipts or more than £1 in every £6 we spend.

As well as using discounters, shoppers are managing their budgets by buying own-label products, with sales up 13.5% in the 12 weeks to mid-March and sales of the cheapest 'value' own-label lines soaring by 46% on the same period last year.

Normally the cure for high prices is high prices, but consumers aren't able to turn the tables on food and drink companies by not eating.

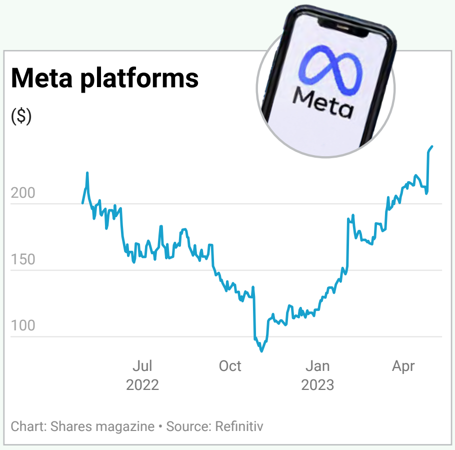
In France, finance minister Bruno Le Maire has strong-armed the retailers into capping many food prices to 'the lowest possible level' until mid-year making the April to June quarter 'anti-inflationary'.

A similar strategy in the UK seems unlikely given the Government's political hue, but a senior official at the Bank of England has already warned companies they need to accept lower margins to avoid persistent inflation.

Maybe, as Donovan suggests, this is the point where consumers step up on social media to name and shame companies into cutting prices, or at least holding off from further raising prices. [IC]

Meta Platforms blazes recovery trail thanks to AI and cost cuts

Facebook, WhatsApp and Instagram-parent is emerging as a leaner, meaner, social media machine



Facebook, WhatsApp and Instagram-parent **Meta Platforms (META:NASDAQ)** continues to see its share price move higher, luring investors back to its growth story at pace. The shares were among the strongest S&P 500 performers during the past week, rallying 15% but this is only part of a near-175% tear that goes back to November 2022.

No longer betting the house on the metaverse, Meta is now embracing artificial intelligence for new revenue streams and, perhaps most importantly in the short-term, swinging the axe at its hefty costs which is bolstering financial performance and starting to rebuild investor confidence.

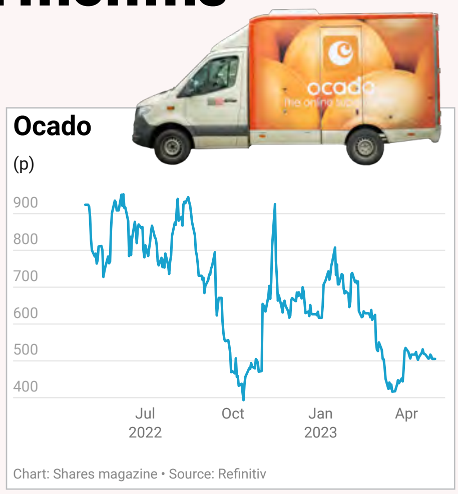
Signs of recovery in Meta's advertising business are helping to dispel concerns about the continued relevance of its core social media platforms. On 28 April, the company announced first quarter earnings per share of $2.20 on revenue of $28.65 billion, compared to the $2.02 and $27.61 billion expected by analysts.

Advertising revenue rose to $28.1 billion year-on-year from $27 billion, good going given the advertising slowdown. Advertising impressions across the company's apps jumped 26%, but average price per advert fell 17% year-on-year, pressured by increasing competition.

Meta sees brighter times ahead, guiding for revenue in a range of $29.5 billion to $32 billion in the second quarter, above previous Wall Street estimates of $29.47 billion. [SF]

Shares in Ocado are down 44% in 12 months as the company closes key facility

Closure of Hertfordshire warehouse is the latest blow to a struggling business



Unwelcome news follows more unwelcome news for online grocery specialist **Ocado (OCDO)**.

Back in February the company reported half a billion-pound loss for 2022 and warned that basket sizes in its UK retail joint venture with **Marks & Spencer (MKS)** were shrinking.

Over the past year, its shares are down 44% to 504p. And, when the online grocer revealed on 25 April that it was to shut its original customer fulfilment centre at Hatfield in Hertfordshire, putting 2,300 jobs at risk, it was time for Ocado investors to brace themselves again.

The news was snuck out after the traditional rush of stock market announcements and represented something of a surprise given the company had given little indication of its intention to close the facility in its recent updates to the market.

Shore Capital analyst Clive Black says: 'We feel for those losing jobs in Hatfield. We hope that reality dawning will make Ocado Retail and Ocado Group more realistic and so potentially more financially sustainable. Ocado has been a remarkable story where the extended good fortune, luck, may be running out.'

Disclaimer: The author (Sabuhi Gard) owns shares in Ocado.

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS
May 10: Anexo, Directa Plus, Airtel Africa, Vertu Motors

HALF-YEAR RESULTS
May 9: Treatt
May 10: Compass, ASOS
May 11: Grainger

TRADING UPDATES
May 5: InterContinental Hotels, RHI Magnesita
May 10: Balfour Beatty, Videndum, Rolls-Royce

FIRST QUARTER RESULTS
May 5: International Consolidated Airlines
May 9: Kosmos Energy
May 10: TBC Bank Group

Can embattled retailer ASOS bounce back into fashion with investors?

The online fast-fashion retailer is wrestling with weak consumer demand and cash flow pressures

Half-year results on 10 May from **ASOS (ASC)** will give investors a read into how 20-something fashionistas are coping with the cost-of-living crisis, as well as an update on progress against new CEO José Antonio Ramos Calamonte's 'Driving Change' turnaround strategy.

Last October, the online fast-fashion retailer reported an alarming 90% drop in pre-tax profits for the year to August as margins were squeezed by higher costs and an increase in product returns as customers struggled with the disposable income squeeze.

In its post-Christmas update (12 January 2023), the £737 million business reported continued weak trading, though ASOS said it continued to expect 'significantly improved' profitability and cash generation in the second half of the financial year to August 2023 and beyond, but only after incurring a first-half loss.

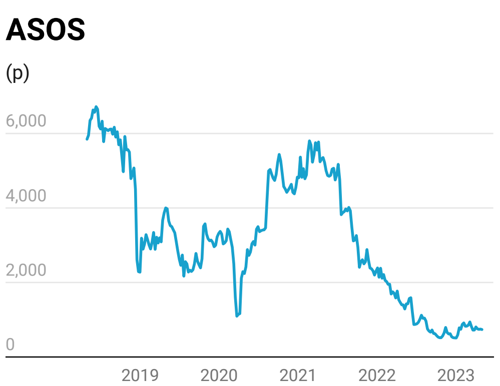


Chart: Shares magazine • Source: Refinitiv

Are we near the bottom for ASOS' earnings slump?

Year to August	Sales (£bn)	EPS (p)
2022 (A)	3.94	28.1
2023 (F)	3.87	5.4
2024 (F)	4.07	64.1
2025 (F)	4.36	82.6

A= Actual, F= Forecast
Table: Shares magazine • Source: Liberum Capital, Bloomberg

One of the London stock market's most-shorted stocks, ASOS has reportedly been targeted by feared UK short-seller Shadowfall Research, nicknamed 'the dark destroyer', on the basis its short-term need for cash could necessitate a further equity raise at a significant discount.

Having strengthened the leadership team, new broom Calamonte is reducing ASOS' inventory and slashing costs as he looks to stem the flow of cash which is bleeding out of the hard-pressed fashion purveyor. [JC]

Iger looks to continues his revamp of Disney with streaming reset

Entertainment giant to report under new structure for the first time

Entertainment giant **Walt Disney (DIS:NYSE)** reports its second quarter earnings on 10 May and the market will want evidence that chief executive Bob Iger is already seeing the fruits of his turnaround plan.

Iger returned to run Disney at the end of 2022 after his previous successor Bob Chapek foundered. He has a two-year mission to clean up the House of Mouse.

The market responded positively to his appointment and suggestions for change, leading the share price to rally. However, a positive market reaction to better-than-expected first quarter earnings proved short-lived.

Iger is cutting jobs, an obvious starting point when looking to reset a business, as he looks to push the Disney+ streaming operation to profitability by the 2024 financial year.

The upcoming quarterly numbers will represent the first time Disney has reported under the new simplified structure instituted by Iger with three core business segments: Disney Entertainment, ESPN and Disney Parks, and Experiences and Products.

In the background a battle with Florida governor Ron De Santis rumbles on over Disney's stance on LGBTQ+ issues and the state's so-called 'Don't Say Gay' bill, with the conflict now moving to the courts.

Whether this will prove a distraction to the company's turnaround efforts and what impact it has on the brand remains to be seen. [TS]

What's expected from Disney?

Q2 forecasts	
EPS	**$0.93**
Revenue	**$21.8 billion**
Same quarter a year ago	
EPS	**$1.08**
Revenue	**$20.3 billion**

EPS = earnings per share

Table: Shares magazine • Source: Yahoo Finance, Walt Disney

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

May 5: Warner Bros Discovery, Brookfield Business, Newmark, Moneygram, National Healthcare

May 8: Berkshire Hathaway, PayPal Holdings, BionTech, Tyson Foods, Credicorp, Lucid Group, Aecom Technology, Treehouse Foods, Alpha Bank, Brighthouse Financial, Beam, New Mountain Finance, Argo Group, Rover, Hudson Pacific,

May 9: Duke Energy, Air Products, Electronic Arts, Fox Corp, Warner Music, Jackson Financial

May 10: Walt Disney, Manulife Financial, Roblox, EON

May 11: Merck, Airbnb, Fairfax Financial, Krispy Kreme

Pick affordable MJ Gleeson to play a recovery in the housebuilding sector

Improving sentiment and potential new support for first-time buyers should lift the shares

There are a few chinks of light starting to shine through for the UK housebuilding sector which has been under a heavy cloud for some time.

Companies are reporting modest improvements in sales rates and the latest Nationwide housing market survey showed a surprise 0.5% month-on-month rise in prices after seven consecutive months of falls.

These nuggets, together with suggestions we might see a new Help to Buy policy unveiled by the Conservative Government later this year, provide good reasons for investors to take another look at the housebuilding sector.

We think the wider improvement in sentiment could lead to a reappraisal of the merits of Sheffield-headquartered housebuilder **MJ Gleeson (GLE)**.

It could easily benefit from a new Help to Buy scheme given many of its customers include first-time buyers. The company has long focused on affordability – with its homes aimed at the lower end of the market in the North of England and Midlands. The average asking price on its properties in the financial year ending June 2022 was £167,000 compared with the current UK average of nearly £300,000.

The clarity and success of its affordability strategy meant Gleeson's shares have often traded at a premium to those of its larger rivals with their broader focus. However, this is no longer the case. Names like **Taylor Wimpey (TW.)** and **Persimmon (PSN)** are trading at or above book value while Gleeson is at a 10% discount according to data from Stockopedia.

Gleeson's 3.4% yield is slightly lower than the peer group but recent cuts to its dividend have been less severe than those seen elsewhere, which speaks to a more sensible and sustainable dividend policy.

The company has always emphasised it was not reliant on the previous Help to Buy scheme, however, fresh support for first-time buyers would certainly be supportive to earnings given this cohort is forecast by Liberum to account for more than 70% of homes sold by Gleeson in the current financial year.

MJ GLEESON
(GLE)
Price: 437.9p
Market cap: £257 million

Gleeson could also take market share from other housebuilders as a less rosy economic backdrop and higher mortgage costs pull more potential purchasers into its orbit. Increasing costs of renting are also an incentive for people to get on the property ladder. This should help the company return to volume growth.

Alongside first-half results published on 16 February Gleeson reported a recovery in sales rates after the shock delivered by the mini-Budget, albeit below typical levels for the start of the year.

Alongside its housebuilding arm, Gleeson has a South of England-focused strategic land operation which progresses land through the planning system. [TS]

Chart: Shares magazine • Source: Refinitiv

Good time to position for Franchise Brands' next growth leg while the shares are down

The market seems to be missing the potential benefits from a recent acquisition

FRANCHISE BRANDS
(FRAN:AIM)
Price: 167p
Market cap: £314 million

Franchise Brands' (FRAN:AIM) acquisition of Pirtek Europe gives it a springboard to scale its European footprint and accelerate growth of its existing business-to-business services.

The combined group will become one of the world's largest business-to-business franchise groups with over 310 franchisees operating across 10 countries.

The share price recently fell 25% to reflect a discounted equity raise (at 180p) used to partially finance the acquisition. The shares have since dropped further and sit 32% below where they traded before the Pirtek deal. This looks anomalous given the deal is expected to be earnings accretive in the first year of ownership. Earnings per share should increase 11% in 2023 and 18% in 2024, according to Allenby Capital forecasts.

Shares believes the share price weakness presents a great opportunity for savvy investors to jump on board for the next leg of Franchise Brands' exciting growth journey.

Investors get immediate exposure to an established franchise operation covering multiple areas including plumbing, grease management and pumps as well as the potential to unlock significant organic growth via a broader service offering, cross-selling opportunities and geographic expansion.

Pirtek is an established high quality European provider of mission critical, emergency response (one hour) on-site hydraulic hose replacement and related services from a fleet of 838 vans. It has built a diverse portfolio of tens of thousands of customers across several end markets.

Since listing on AIM in 2016, Franchise Brands has grown adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) almost 12-fold, from £1.3 million to £15.3 million with growth evenly split between organic gains and acquisitions.

The business is steered by Stephen Hemsley, the man who helped make the UK franchise operations of Domino's Pizza a big success.

The firm's key brands have big opportunities to grow their market share. For example, Franchise Brands owns commercial kitchen services group Filta, which was purchased in March 2022 and operates principally in the US where it has little competition. System sales are $100 million compared with a potential market opportunity of $925 million, according to analyst Sam Dindol at Stifel.

Franchise Brands has taken on £110 million of debt to part-fund the Pirtek acquisition and for working capital and organic growth. Management expects to fully repay the debt over five years while growing the enlarged business. Net debt to EBITDA is expected to fall from 2.3-times to 0.3-times in 2026.

Over time this means shareholders get rewarded as more cash flows into their pockets through dividends instead of the banks. [MG]

Stay patient as GSK continues to deliver better than expected growth

The stock remains cheap versus its peers but the news flow is improving

GSK (GSK) £14.59

Gain to date: 2.9%

Global biopharma company **GSK (GSK)** is one of *Shares*' 2023 picks of the year, where we said to buy last December at £14.18. We believe the shares' discount to the sector will narrow as concerns around Zantac-related litigation recede and management continues to deliver operational improvements.

The stock currently trades on 9.4 times forecast earnings for 2024 versus approximately 16-times for its peer group.

A large class action suit claiming heartburn drug Zantac causes cancer was dismissed in December 2022 on the basis it lacked scientific evidence. Another bellwether trial is due to be heard in July 2023.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

GSK has continued to demonstrate strong momentum with first quarter sales and earnings beating analysts' expectations on 26 April, driven by strong growth across the vaccines franchise.

Chart: Shares magazine • Source: Refinitiv

On a group basis, adjusted earnings per share grew by 7% year-on-year in constant currencies. The company's shingles vaccine Shingrix saw sales increase 11% in constant currencies to £833 million, driven by geographical expansion and market growth. Sales of meningitis vaccine Bexsero grew 25% in constant currencies to £280 million.

The report was the third consecutive quarterly earnings beat which demonstrates the company is regaining its mojo which it needs to do to appease activist investors which have criticised prior poor execution and lack of ambition.

GSK reaffirmed full-year guidance and gave a positive outlook as it looks to progress 58 vaccines and speciality medicines under development with 17 in late-stage trials and four expected to be approved in 2023.

Shore Capital's Sean Conroy believes GSK's respiratory syncytial virus vaccine for older adults looks 'nailed-on' for regulatory approval in the US with data expected in June.

WHAT SHOULD INVESTORS DO NOW?

Strong underlying business performance is not reflected in the share price performance due to the overhang from the class action suits related to Zantac.

We believe investors should remain patient and focus on the fundamentals which remain supportive. Meanwhile, the shares offer a 4% dividend yield and continue to see upward earnings revisions. [MG]

The banking sector is in big turmoil, what comes next?

Shares has canvassed the view of a fund manager focused on the financials space

For all the hoopla over the first quarter's US tech sector results, markets don't seem to be making much progress which suggests there is something else worrying investors.

The number one suspect must be the banks, which in the space of a couple of months have been transformed from heroes into villains, none more so than US regional institutions.

Shares spoke with George Barrow, co-manager of the **Polar Capital Global Financials Trust (PCFT)**, to get his take on recent developments in the sector.

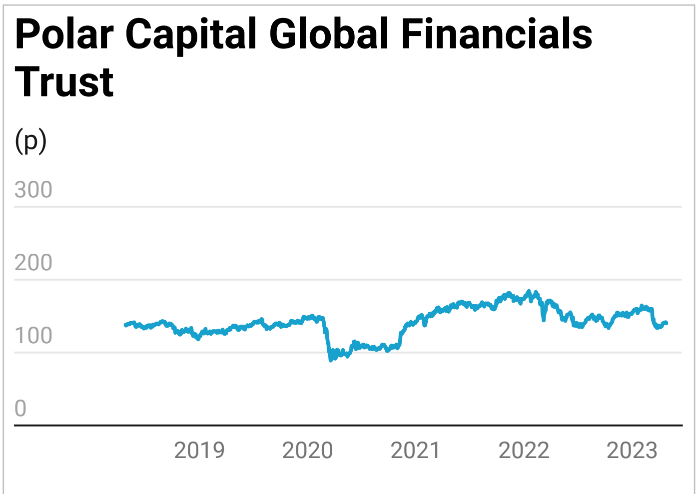


Chart: Shares magazine • Source: Refinitiv

WHAT HAVE WE LEARNED THIS YEAR?

The obvious lesson from this year's turmoil, particularly in US banks, is not all companies are created equal and betting on the sector without doing any in-depth research on individual stocks is a recipe for losing money.

The team at Polar Capital have decades of experience in analysing companies and have seen plenty of ups and downs, so although the broad sell-off in financials has dented the fund's net asset value it hasn't fazed them.

Silicon Valley Bank was a huge beneficiary of growth in VC (venture capital) funding in recent years, but its failure to hedge the interest rate risk on its enormous book of US treasuries (government debt) and mortgage-backed securities meant it racked up crippling losses leading to a crisis of confidence.

Signature Bank on the other hand was uniquely exposed to the crypto phenomenon, which attracted huge amounts of 'hot' money when times were good but those inflows rapidly turned into outflows which again triggered a run.

'The catalyst for both failures was a sudden outflow of deposits, no different to what we saw during the global financial crisis, but critically this isn't about toxic assets sat on weak balance sheets as it was then', says Barrow.

For VC firms and other corporates, the fact their deposits weren't insured beyond a basic level meant they could have faced substantial losses if either bank went bust, which heightened the need to get their money out as quickly as possible.

IS THE SELLING OVER?

While the US authorities moved quickly to shore up the system, a third bank – First Republic – has now seen a regulator-brokered takeover by **JPMorgan (JPM:NYSE)** after it recorded over $100 billion of deposit outflows in March causing its share price to collapse.

Even so, the issues with US banks are 'not systemic' insists Barrow, who points to the return of deposits to other smaller US regional players like **PacWest Bancorp (PACW:NASDAQ)** and **Western Alliance Bancorp (WAL:NYSE)** since the start of April.

A big gap has opened up between the large US banks and their regional counterparts

Rebased to 100

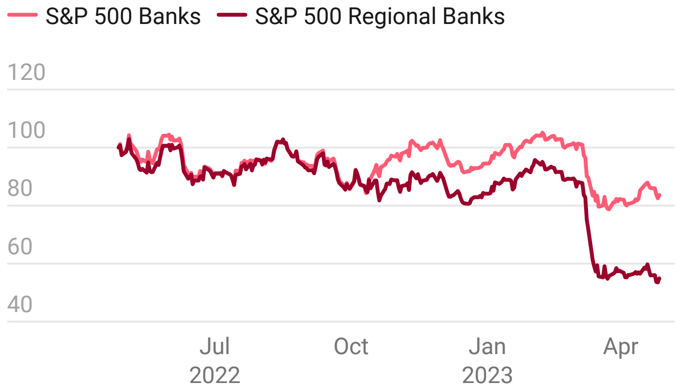


Chart: Shares magazine • Source: Refinitiv

'We cut our holdings in smaller US regional banks while adding to JPMorgan and **Wells Fargo (WFC:NYSE)** as relative beneficiaries of the volatility', he reveals.

While mindful of the potential for further fall-out in terms of share prices, Barrow says the team is actively surveying the asset quality of the US banks and keeping a close eye on valuations with a view to buying back into some of the better-quality regional lenders at some point.

'The system has been tested, and balances for small and mid-cap banks have been stable in April. In fairness, given the rapid rise in US interest rates from 1% to 5% it is surprising more things haven't broken, and at 1.1 times book value and seven times earnings some of the valuations are looking interesting', he says.

WHAT ARE THE ECONOMIC CONSEQUENCES?

The most likely outcome from all this upheaval is banks will have to compete for deposits in future to deter customers from taking their money out at the first sign of trouble.

There is also likely to be greater regulatory supervision, particularly of US regional lenders, and there could be an increase in the number of deposits insured under the FDIC (Federal Deposit Insurance Corporation), although this will put more costs on the banks.

The flip side to this is banks will likely reduce the amount they lend, particularly to higher-risk borrowers, while charging more, which will limit the supply of credit.

The knock-on effect is consumers will start to spend less and companies will be less willing to invest, which is bad for jobs and ultimately the broader economy.

'In a sense the Silicon Valley saga has done some of the Fed's job for them', suggests Barrow, referring to the fact the US central bank has been tightening credit conditions specifically to cool the economy and tame inflation.

A slowdown is already evident from the latest results from JPMorgan, the largest holding in the trust.

The bank's chief executive Jamie Dimon commented: 'The storm clouds that we have been monitoring for the past year remain on the horizon, and the banking industry turmoil adds to these risks.

'The banking situation is distinct from 2008 as it has involved far fewer financial players and fewer issues that need to be resolved, but financial conditions will likely tighten as lenders become more conservative, and we do not know if this will slow consumer spending', added Dimon.

By **Ian Conway** Companies Editor

How to invest in growing demand for private healthcare and virtual doctors

One UK stock stands out from the crowd

Are you fed up with trying to get a doctor's appointment or a date for surgery on the NHS? You are not alone.

A new study by YouGov found that one in eight Britons turned to private healthcare over the past 12 months. The trend is driven by a struggling NHS which has seen patient waiting lists swell to 7.2 million, almost double their pre-Covid level.

The study found that 13% of respondents had used private healthcare in the last year for themselves or someone in their household. A further 27% considered it. That implies a real incentive for investors to see which stocks might be relevant to the private healthcare theme.

The obvious stock on the London Stock Exchange is **Spire Healthcare (SPI)**, one of the largest private healthcare providers in the UK. The group works with over 9,000 consultants and generates revenues from insured, self-pay and NHS referred patients.

In March, Spire reported an 8.3% rise in revenue for 2022 and moved from a loss to a profit, citing strong demand for private healthcare. That chimes with comments from Australian listed **Ramsay Healthcare (RHC:ASX)** which in February reported better results for its UK hospital operations.

Analysts at Liberum believe the combination of rising pressure on the NHS and buoyant self-pay rates which are back above pre-pandemic levels should continue to underpin growth in the UK healthcare market for the next two years.

While this should provide a decent tailwind for Spire, an additional attraction of the shares is a potential takeover by its largest shareholder **Mediclinic International (MDC)** which made an unsuccessful bid at 315p per share in 2017.

Mediclinic itself is being taken over in a £3.7 billion deal by a consortium comprising **Remgro (REM:JSE)** and MSC Mediterranean Shipping which is due to close mid-year. This consortium will inherit a 29.7% stake in Spire as part of the acquisition of Mediclinic and it is feasible to suggest they might want to buy the remainder of the business.

Ramsay tried to buy Spire a few years ago at a level above the current share price, but this was voted down by shareholders. The predator then become prey when Ramsay received a takeover bid from private equity group KKR last summer. These actions imply considerable corporate interest in the sector.

SPIRE'S SHARE PRICE PERFORMANCE

Spire's shares are trading roughly where they were when they listed on the stock market in 2014 at 210p per share which means they are some 45% below the heights of September 2016.

It's faced several challenges as a listed company. There were concerns regarding a rogue surgeon working in the NHS and at two of Spire's hospitals. Questions were asked about Spire's internal controls, hurting its reputation. There were also concerns about 'Care Quality Commission' or CQC ratings as some private medical insurance providers do not allow their patients to be treated in facilities that are not rated 'good' or 'outstanding'.

Work has gone into addressing both issues albeit Covid has more recently disrupted earnings, so Spire's turnaround story is taking longer to play out than previously expected.

DIFFERENT THIS TIME?

Odyssean Investment Trust (OIT) has a stake in Spire and its fund manager Stuart Widdowson believes the current share price does not reflect the potential for the group.

Widdowson told *Shares*: 'A combination of growing private demand (both self-paid and insured) along with support to the NHS will, we believe, result in a favourable demand environment for providers like Spire over the medium term.

'Spire has a strong market position as a leading operator of private hospitals in the UK and has a management team that we rate highly.'

WHAT ARE THE GROWTH DRIVERS?

Liberum estimates the UK private acute healthcare market could see an acceleration in growth from the 4.8% a year seen over the past 18 years to around 7% a year over the next three years.

Helping reduce the bloated NHS waiting list backlog could be a driver of more engagement and referrals subject to acceptable pricing being agreed.

Liberum cites a 2022 study which showed that at current rates of productivity the NHS backlog would never be cleared.

Applying productivity levels achieved by the top 25% of national health trusts would clear the backlog in nine years while productivity levels at the very best performing trusts would clear it in under a year.

At the same time Liberum notes the PMI (private medical insurance) segment of the market is showing signs of life after many years of stagnation. Data provider Mintel estimates the market grew 6% in 2022 and Spire generated 13.7% growth from the PMI market last year.

The recent YouGov study showed many people appear to be voting with their feet and choosing self-pay and private medical insurance where financially feasible. Liberum expect self-pay market volumes to grow in low-single digits over the

ONLINE DOCTORS: GREAT IDEA, BAD INVESTMENT?

Pre-pandemic, most people would assume the only way they could see a doctor was by visiting their local surgery. Thanks to advancements in technology and a structural shift in the market towards more online services, it is now possible to see a doctor via web conferencing services.

There are several stocks relevant to this trend, albeit they are overseas-listed names rather than on the UK market. While their services are plugged into an interesting part of the market, the share price performance hasn't always been good.

Babylon (BBLN:NYSE)

Better known as Babylon Health, the company provides access via a phone app to GPs, physiotherapists, nurses and pharmacists.

The company grew revenue 3.5-fold in 2022 to $1.11 billion, with the UK operations the most mature part of its business. However, the group as a whole remains loss making. It hopes to become profitable on an adjusted EBITDA basis by mid-2024.

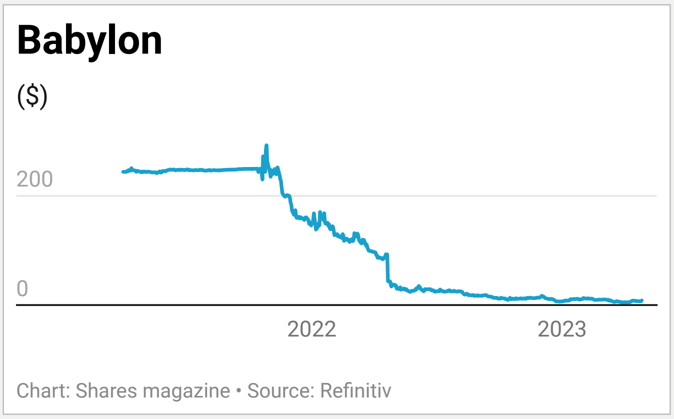


Chart: Shares magazine • Source: Refinitiv

As an investment, Babylon has been a disaster. Its share price has fallen by 97% since joining the US stock market in 2021, floating at the top of the market for growth stocks and just at the point when investor appetite started to dwindle for loss-making businesses.

Teladoc Health (TDOC:NYSE)

Its share price soared during the pandemic as virtual healthcare services were in hot demand. However, like many Covid winners, the share price has since lost all its gains, and more.

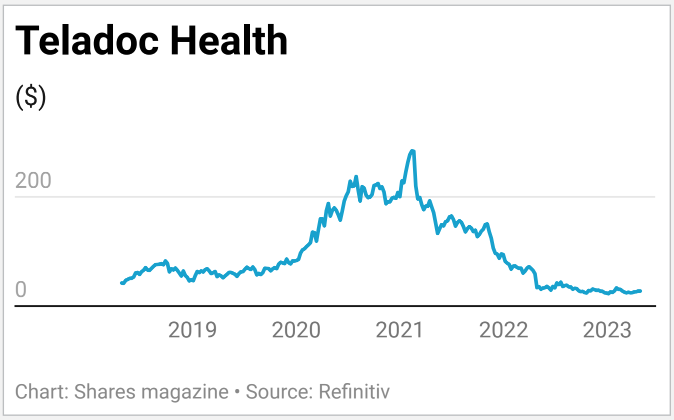
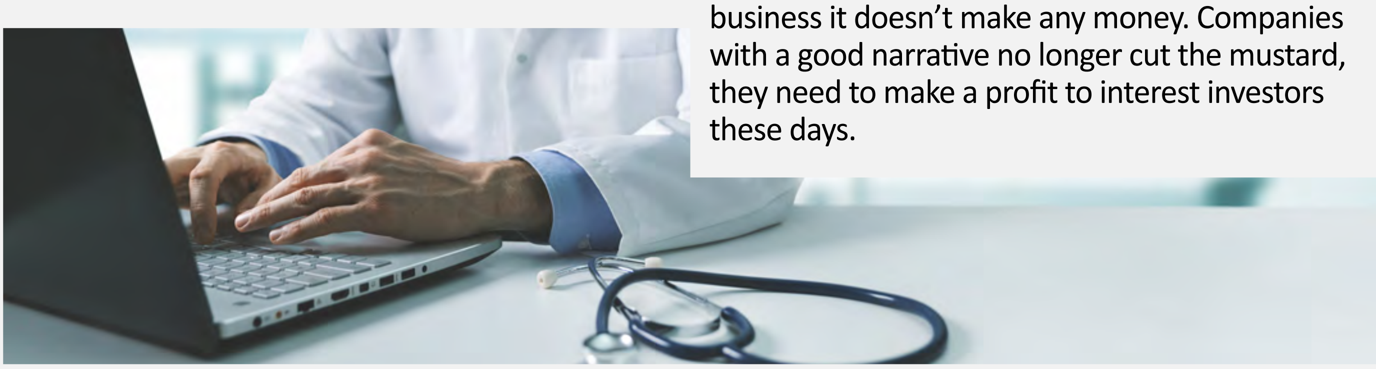


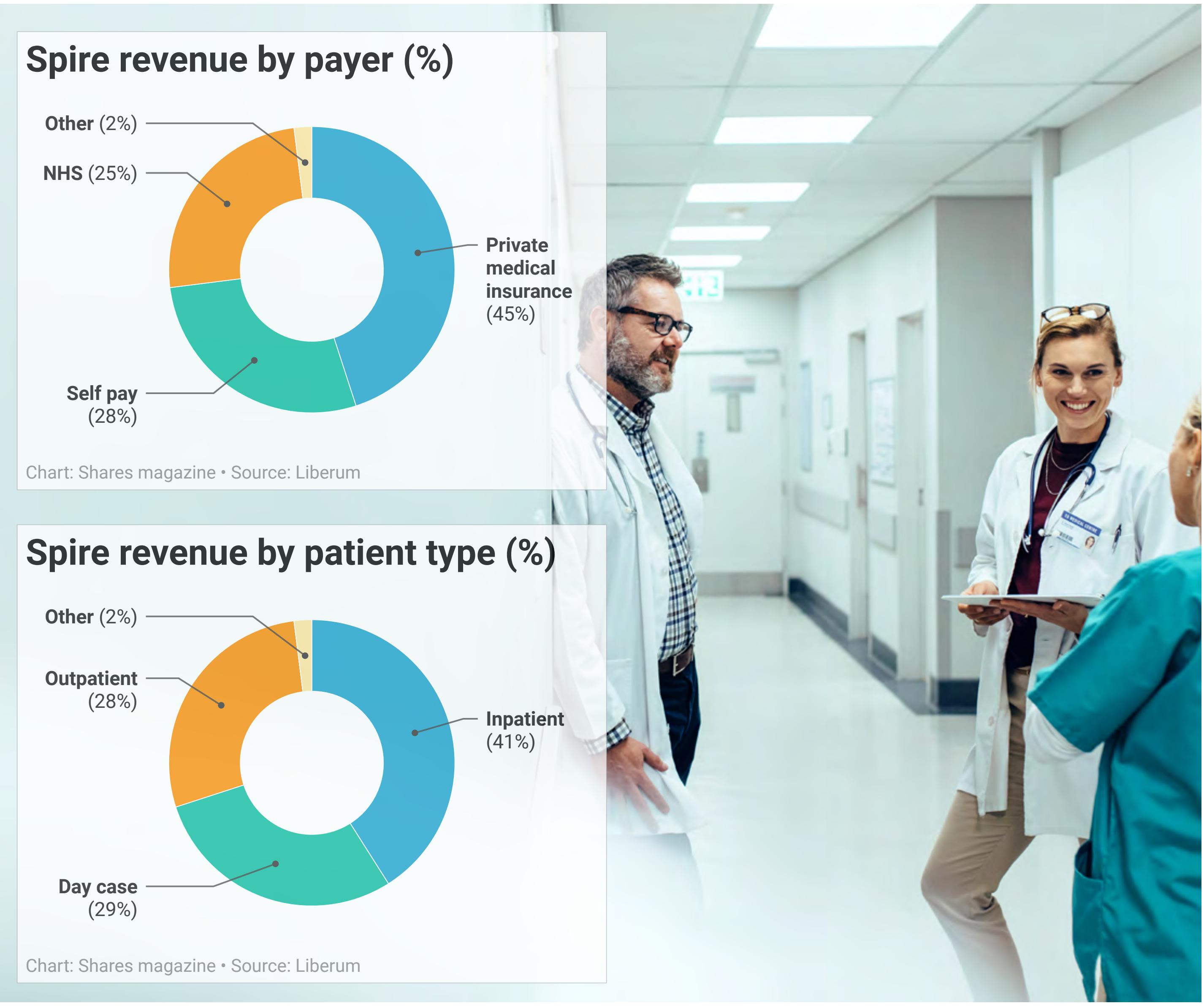
Chart: Shares magazine • Source: Refinitiv

In the thick of the pandemic, Teladoc bought rival company Livongo for $13.9 billion. It paid too much and the company recorded $13.4 billion of impairment charges in 2022 mainly linked to the acquisition.

On a group basis, net losses ballooned in 2022 from $428.8 million to $13.66 billion.

Teladoc said in February that it saw 'healthy demand' for solutions that provided better access to healthcare services and lowering the cost of receiving help. The big problem is that as a business it doesn't make any money. Companies with a good narrative no longer cut the mustard, they need to make a profit to interest investors these days.





medium term rising to mid-single digits with the benefit of stronger pricing.

Unlike the PMI market self-payers have relatively little pricing power which means the provider can set the price for all procedures bar the consultancy fee.

In recent years the private sector has become an established NHS provider which notably 'stepped-up' during Covid. While there is probably widespread mistrust from within the NHS about using the private sector, there appears to be a real need for help.

DOUBLE DIGIT PROFIT GROWTH

Spire seems likely to benefit from increased spending on private sector healthcare given its diversified national footprint and leading market share.

Liberum estimates revenue will grow at a compound annual growth rate of 7.6% a year over the next couple of years while EBITDA (earnings before interest, tax, depreciation, and amortisation) is seen growing at 11.2% a year as margins increase. The forecasts assume no significant commissioning by the government of NHS work to the private sector.

Although there are risks considering the complicated nature of the business and unpredictable end markets, overall, the potential rewards look attractive.

By **Martin Gamble** Education Editor

Editor's View: Daniel Coatsworth

Turnaround situations – when is the right time to buy shares?

The turmoil at Hotel Chocolat can tell you a lot about how to get your investment timing right

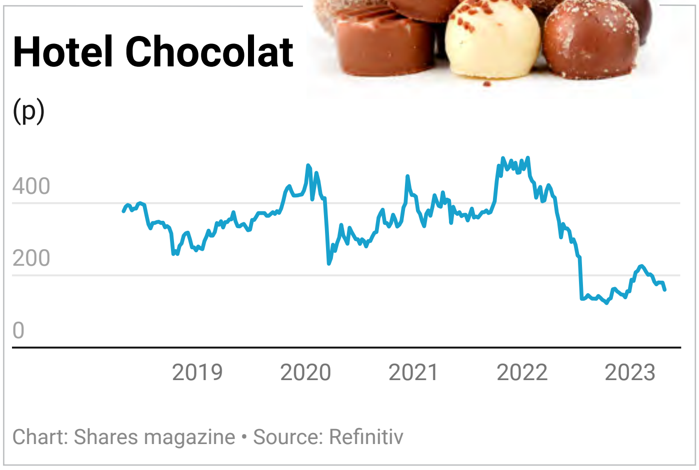


Chart: Shares magazine • Source: Refinitiv

When is the right time to buy shares in a turnaround situation? That's a hard question to answer, but typically it is before the recovery effort translates into higher reported earnings. By the time we see the numbers in writing, the market will have already priced in better news.

Hotel Chocolat (HOTC:AIM) is the perfect example to study. In July 2022 the chocolate maker nearly halved in value after doling out a mountain of bad news.

It scaled back plans for overseas growth, which had previously been a major opportunity for the group. Investment in the US and Japan was materially reduced, while US stores were closed down to become a digital-only operation.

It's rare for all the bad news to come in one go, and so we had further setbacks in September with the decision to exit all direct-to-consumer operations in the US. That was followed by what many hoped would be the final 'kitchen-sinking' efforts in December when the full-year results included several exceptional costs that related to the reshaping of the group and its strategy.

If you look at the share price chart, Hotel Chocolat started to pick up a few weeks after these results, moving from 140p to 230p (a 64% rise) in just two months as investors took the view all the bad news was in the price. At this stage, hope was still the driving factor, not actual evidence of improvement.

Admittedly that did coincide with a period where investors became happier to buy higher-risk stocks again, in the hope we would see central banks stop raising interest rates. Then came the banking crisis and higher risk shares like Hotel Chocolat went out of favour.

The next trading statement was always going to be a big test. The market wanted reassurance that life was getting better for the business – sadly it wasn't, and we saw an 11% share price slump on the update.

Without good news to support the shares, many investors will have walked away from the turnaround story at this point, losing patience.

Buying into a turnaround situation is about spotting nuggets of positive information, seeing that change is underway, and that a clear plan to fix things is being executed as promised. You don't want to buy the shares until there is a succession of good news – but equally leave it too late and you could miss out on the big gains.

Hotel Chocolat was upbeat and optimistic in its half-year results published in March. Less than two months later it issues a profit warning and emphasises that 2023 was always a 'transition' year and 2024 is when growth returns.

Pre-tax profit is forecast by Liberum to go from £21.7 million in 2022 to £200,000 in 2023 and magically back to £18.5 million in 2024 and £30.7 million. That looks a tall order.

It's always better for management to under-promise and over-deliver. If they raise the bar too high, it becomes impossible to hit.

Hotel Chocolat's latest setback means management has lost credibility with the market again, so it will require significant evidence of improved trading before investors buy back in. Knowing how to read these kinds of scenarios could help you spot the best turnaround opportunities and avoid those where the risks are still too high to get involved.


BING!
BING!
BONG!
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Investment Platforms May 2022
Capital at risk.

HEAD TO HEAD
which stock is better?

By **the Shares team**

In almost any market, crowds of competitors fight for business within their niche, but over the years and with few exceptions, a small number of businesses have come to dominate the industry.

These are often names we all know, logos we see every day, and brands that have become part of everyday life.

Markets love a monopoly, and while there are regulations designed to level the playing field and protect consumer choice, there are countless examples where a relative few dominate.

Think about the UK mobile network market. At first glance there appears to be legions of providers to the average Brit. Virgin Mobile, Giffgaff, Tesco Mobile, Asda Mobile, Talkmobile, Lebara, Sky Mobile, Lyca Mobile – these are just some of the contract options on offer, according to comparison website Uswitch.

Yet, the reality is different with the UK mobile network market dominated by the big four operators – **Vodafone (VOD)**, O2, EE and Three. The earlier names simply resell access to these four networks.

You can see why one champion suits investors. Winner-take-all markets are hard to disrupt and suppress the entry of new players by locking in market share for leading players, thus securing most of the revenue, profits and cash flow from an industry.

In this feature, *Shares* has investigated five different sectors where a couple of competitors seem to command market leadership. We have pulled together some key company data that should shed some light on the prospects of each company and its shares, looking at each through a growth, quality and value lens. We discuss the key pros and cons and suggest which one to buy.

Is **Coca-Cola (KO:NYSE)** or **PepsiCo (PEP:NASDAQ)** the better investment, and who wins out of **Nike (NKE:NYSE)** and **Adidas (ADS:ETR)**? These questions will be answered, while we also discuss UK banking, consumer cosmetics and big oil.

COKE vs PEPSI

	Coca-Cola	Pepsi
Market cap ($bn)	275	259
Total return (10 year annualised %)	6.4	10.5
Growth		
5-year average sales growth (%)	3.5	6.3
5-year average earnings growth (%)	11.5	13.7
Quality		
5-year average return on equity (%)	40	61.5
5-year average return on assets (%)	8.9	10.2
5-year average gross margin (%)	60.3	54.4
5-year average operating margin (%)	29.3	15.6
Free cash flow (per share $) in 2022	2.19	4.04
Net debt ($bn)	27.5	33.7
Value		
EV/EBITDA (trailing 12 months)	25.1	25.9
Price to earnings (12 month forecast)	23.8	25.1
Prospective dividend yield (%)	2.9	2.7

Table: Shares magazine • Source: Stockopedia, Investing.com, Google Finance

Coca-Cola is slightly bigger in value than PepsiCo ($275 billion versus $259 billion respectively), but their shares trade on similar price to earnings multiples (23.8 versus 25.1) and offer similar income credentials with a yield in the region of 2.8%.

Both are 'Dividend Aristocrats', meaning they have increased shareholder pay-outs every year for more than 25 years – PepsiCo for close on 50 years, nearly 60 for Coca-Cola.

Between them the two soft drink giants control nearly 70% of the US carbonated beverages industry, yet Coca-Cola's estimated 44% share (in 2021) was nearly double PepsiCo's 24%. In terms of perception, Coca-Cola appears to win hands down with roughly two of out of every three people who enjoy fizzy cola seeming to prefer this brand.

Both have big fund groups such as BlackRock, State Street and Fidelity on their shareholder register.

Coca-Cola is focused on drinks including Coke, Fanta and Costa coffee whereas PepsiCo is a broader food and drink business. It owns Pepsi, Mountain Dew, Lipton ice team as well as snacks including crisp brands Walkers and Doritos, as well as Quaker oats.

On the whole, there is very little to separate

Coca-Cola and PepsiCo shares; both look like great buy and hold stocks for investors willing to sit tight for several years, and get paid decently for doing so through dividends, making both good options for investors wanting income now. But what if you had to pick one over the other?

Famous investor Warren Buffett backs Coca-Cola, and while it has enjoyed far better gross and operating margins in recent years, this is perhaps an area of opportunity for PepsiCo to make its business more cost efficient, which in turn would help bolster slowing earnings recently.

PepsiCo also has better returns on capital and equity, and higher free cash flow per share. This suggests to us that PepsiCo may have the greater upside potential while still being a stable, income-paying cash machine. [SF]

Total return index, rebased to 100

Chart: Shares magazine • Source: Refinitiv

WINNER: PEPSICO

NIKE vs ADIDAS

In a purely quantitative sense, Nike beats Adidas hands down. The shares have produced an impressive compound annual rate of total shareholder return of 15.7% a year over the last decade, almost double the 8.4% received by Adidas shareholders.

The main reason for Nike's outperformance is related to the higher rates of return on equity it achieves, which are north of 40% compared with around 4% for Adidas. High profitability allows the company to spend more on marketing in absolute terms and attract the best elite athletes and sports franchises to help showcase its products.

By contrast, Adidas' troublesome partnership with the musician formerly known as Kayne West – which it broke-off in October 2022 amid offensive remarks – forced the company to slash its dividend and is expected to result in its first loss in decades.

Analysts expect a loss of around €480 million in 2023 before bouncing back strongly in 2024 to profit of around €670 million. The setback led to CEO Kasper Rorsted stepping down in November to be replaced by Bjorn Gulden, the former head of **Puma (PUM:ETR)**.

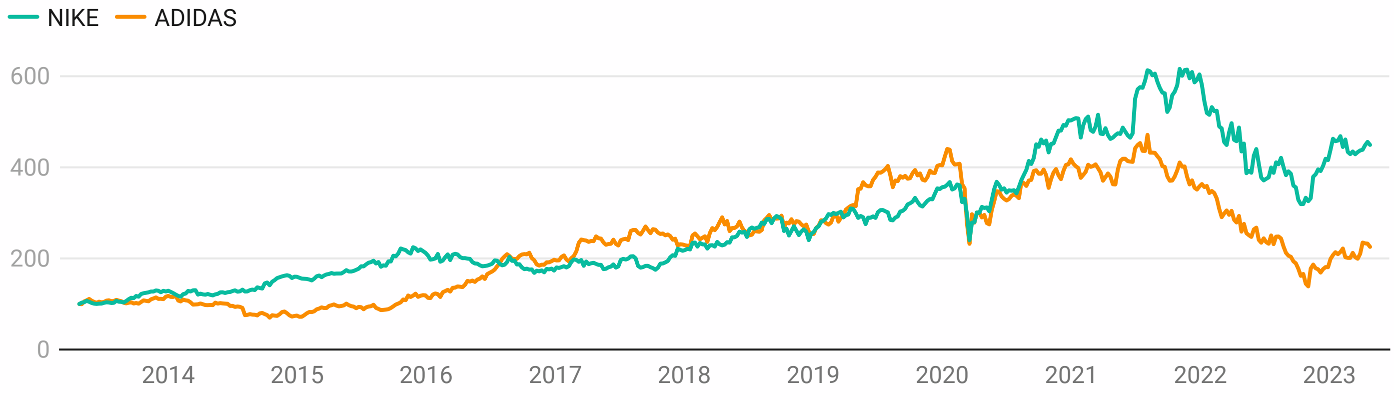
No doubt the near-term struggles at Adidas will be fixed allowing the company to bounce back to form. In the meantime, Nike is running hard to show its rival a clean pair of heels.

In March the Oregon-based sportswear giant said its third quarter revenues grew 14% with direct-to-consumer sales jumping 17% while inventories increased 16% compared with 43% in the prior quarter.

While it is tempting to focus entirely on competition between the two heavyweights in the sector, Berenberg argues market share is not a zero-sum game. Both firms continue to take market share from smaller players. But given the high quality of Nike's business and strong brand we believe the shares look like a safer bet over the longer-term despite the higher valuation. [MG]

	Nike	Adidas
Market cap ($/€bn)	190	28.8
Total return (10 year annualised %)	15.7	8.4
Growth		
5-year average sales growth (%)	6.30	-7.3
5-year average earnings growth (%)	8.4	N/A
Quality		
5-year average return on equity (%)	38.4	3.7
5-year average return on assets (%)	14	6.1
5-year average gross margin (%)	44.6	47.3
5-year average operating margin (%)	12.8	2.9
Free cash flow (per share $/€) in 2022	2.75	-6.8
Net debt ($/€bn)	-1.36	5.2
Value		
EV/EBITDA (trailing 12 months)	26.6	17.7
Price to earnings (12 month forecast)	31.2	N/A
Prospective dividend yield (%)	1.1	0.9

Table: Shares magazine • Source: Stockopedia, Investing.com, Google Finance



Total return index, rebased to 100

Chart: Shares magazine • Source: Refinitiv

WINNER: NIKE

ESTEE LAUDER VS L'OREAL

	Estée Lauder	L'Oréal
Market cap ($/€bn)	86	231
10-year annualised total return (%)	14.2	13.6
Growth		
5-year average sales growth (%)	8.5	8
5-year average earnings growth (%)	14.3	10.7
Quality		
5-year average return on equity (%)	35.7	15.6
5-year average return on assets (%)	10.8	10
5-year average gross margin (%)	76.7	73
5-year average operating margin (%)	17.4	18.7
Free cash flow (per share $/€) in 2022	2.6	9.18
Net debt ($/€bn)	1.6	3
Value		
EV/EBITDA (trailing 12 months)	32.1	26.4
Price to earnings (12 month forecast)	35	34.7
Prospective dividend yield (%)	1.2	1.5

Table: Shares magazine • Source: Stockopedia, Investing.com, Google Finance

France's **L'Oréal (OR:EPA)** and its US counterpart **Estée Lauder (EL:NYSE)** are focused on the beauty and cosmetics market. L'Oréal is the global leader, with Estée Lauder occupying the number two position.

They both trade on hefty valuations to reflect the quality of their business models and strong margins, underpinned by significant brand power. Brands really matter in this market and are a key driver of purchasing decisions.

Given L'Oréal's edge in terms of market share, its scale and greater consistency in recent years we have more confidence in it as an investment. In the words of Berenberg analyst Fulvio Cazzol: 'L'Oréal has a strong competitive position and a track record of best-in-class execution.'

Estée Lauder operates almost exclusively at the more premium end of the market, with L'Oréal having a broader focus. In some respects, Estée Lauder's high-end bias is an advantage as, in theory, its clientele should be less exposed to a weak economic backdrop.

However, Covid restrictions in China, which hit the travel associated with luxury spend, had a larger impact on Estée Lauder than L'Oréal for this reason. This explains the larger forecast growth for the former as it rebounds from a difficult period.

Estée Lauder derives around 80% of its sales from skincare and makeup products, whereas for L'Oréal the number is a smidge over 60%, with material exposure to haircare and fragrances.

L'Oréal demonstrated its pricing power in the first quarter of 2023 as it reported better than expected sales growth of 13%. The heavy emphasis placed on ESG (environmental, social, governance) factors should help future-proof the business given the greater importance placed on these issues by coming generations.

A robust balance sheet will enable L'Oréal to complement its organic growth with acquisitions. The company recently snapped up Australian skin care brand Aesop in a $2.5 billion deal. [TS]

Total return index, rebased to 100

Chart: Shares magazine • Source: Refinitiv

WINNER: L'OREAL

BP vs SHELL

On the face of it **BP (BP.)** and **Shell (SHEL)** are very similar businesses, and they trade on similar valuations. However, choosing where to invest between the pair results in only one winner, in our view – Shell.

The company made a big move into natural gas much earlier than BP and this should leave it better positioned to manage the risks associated with the energy transition. While the world is looking to wean itself off fossil fuels, battery technology is not yet in a place where renewables can be relied upon to provide baseload energy.

In this context, natural gas, which is relatively less polluting than crude oil, looks set to play an important role in smoothing the transition as an alternative to coal and diesel and as a way of balancing supply and demand.

Shell is the market leader in LNG (liquefied natural gas), converting natural gas into a liquid form which can be easily transported around the globe. This is largely thanks to its $52 billion acquisition of BG in 2016, and its integrated gas division is the most profitable and largest driver of the group's cash flow, which should help underpin returns to shareholders through dividends and buybacks.

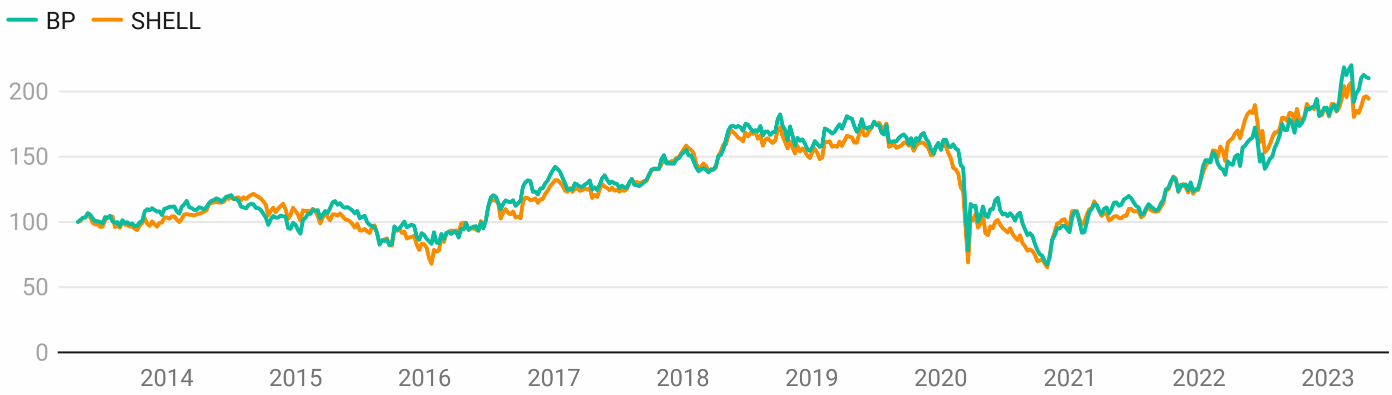
The company has some attractive projects which are set to come on stream in the next few years including an expansion of its operations in Brazil and further LNG developments.

In contrast, BP's strategy looks more muddled, having previously made itself an outlier in the sector by setting itself a hard target to cut oil and gas production by 40% by 2030, which it has now watered down to 25%.

Ambitious plans to add 500 gigawatts of renewables capacity by 2030 will require a huge increase in investment. Delivering this in a disciplined way while keeping shareholders on side could be a big ask. [TS]

	BP	Shell
Market cap (£bn)	94.2	166
10-year annualised total return (%)	5.6	4.8
Growth		
5-year average sales growth (%)	0.1	4.6
5-year average earnings growth (%)	0	29.6
Quality		
5-year average return on equity (%)	-3.3	7.4
5-year average return on assets (%)	-0.6	3.5
5-year average gross margin (%)	21.3	21
5-year average operating margin (%)	3.2	5.8
Free cash flow (per share $) in 2022	1.52	6.18
Net debt ($bn)	31.6	43.7
Value		
EV/EBITDA (trailing 12 months)	5.5	3.1
Price to earnings (12 month forecast)	6.7	6.6
Prospective dividend yield (%)	4.1	4.3

Table: Shares magazine • Source: Stockopedia, Investing.com, Google Finance



Total return index, rebased to 100

Chart: Shares magazine • Source: Refinitiv

WINNER: SHELL

BARCLAYS vs LLOYDS

	Barclays	Lloyds
Market cap (£bn)	25.2	32.3
Total return (10 yr annualised %)	-1.6	3.3
Growth		
5-year average sales growth (%)	4.6	-0.6
5-year average earnings growth (%)	102	9.3
Quality		
2022 Cost-to-income ratio	67	50
2022 Operating margin (%)	24.6	25.5
2022 Net interest margin (%)	2.9	2.9
2022 Return on tangible equity (%)	10.4	13.5
2022 Tier 1 ratio	13.9	14.1
Value		
EV/EBITDA (trailing 12 months)	0.34	0.7
Price to earnings (12 month forecast)	4.5	6.2
Prospective dividend yield (%)	6.1	6.1

Table: Shares magazine • Source: Stockopedia, Investing.com, Google Finance

Investors often overlook just how cyclical banking earnings are and how boom can become bust in a very short space of time. Banks are basically a big bet on the economy – they borrow money from depositors and lend it out again at a higher rate hoping to make a juicy spread between the two, while avoiding lending money to people who can't pay it back.

When the economy is growing, they lend out more money, and when the economy is shrinking, they lend less so in an ideal world they would put aside earnings from the good times to see them through the bad times.

Lloyds (LLOY) is the simplest of the UK banks to understand as it sticks to its traditional banking knitting, restricting itself to simply deposits and loans. As well as retail and commercial lending, it has the largest mortgage book in the UK thanks to its 2007 takeover of HBOS, which included the Halifax brand.

Barclays (BARC), on the other hand, has fingers in lots of pies. Beyond plain vanilla retail loans and deposits, it also operates the Barclaycard credit card business, commercial lending, and investment banking, with all the risks and rewards that entails.

Slowdowns in the housing and mortgage markets are more relevant for Lloyds, whereas Barclays is more exposed to the ups and down of consumer spending and stock and bond markets.

Whether it is a result of their different business models or their management approaches we can't say, but earnings for the two banks have taken quite different paths over the last 25 years. Barclays has grown its earnings per share by roughly 4% per year since the mid-1990s, whereas Lloyds has destroyed earnings by 2% per year and even that may be a generous assessment.

We're not massive fans of investing in banks due to the sector having a history of making big mistakes and an ever-increasing amount of regulation. But if you had to pick either Lloyds or Barclays, we'd go for the latter, albeit only invest if you understand and accept the risks that come with the sector. Too many people get blindsided by the generous dividends and think it is a low-risk part of the investment world. [IC]

Total return index, rebased to 100

Chart: Shares magazine • Source: Refinitiv

WINNER: BARCLAYS

Nasdaq rally: is this a brave new dawn or a big bear trap?

Looking at the prospects for the index after a strong start to 2023

It was the worst-performing major equity index in 2022 and, so far, it has been the best in 2023. Is the Nasdaq back? It is tempting to think so, especially after the meaty rally in stocks such as **Meta Platforms (META:NDQ)** and **Microsoft (MSFT:NDQ)** following their first-quarter results. In addition, the US (and probably global) bellwether for technology stocks is up by 18% from its autumn 2022 low and, arguably, on the cusp of a new bull market.

Equally, the Nasdaq is still trading 24% below its 2021 peak Some would say that a new bull run does not begin until the old peak is eclipsed and exceeded by 20%, and the Nasdaq is actually trading some 24% below is 2021 peak, so it is just as easy to argue that tech stocks are still mired in a *bear* market.

BEEN THERE, DONE THAT

Anyone who remembers the Nasdaq's collapse of 2000-2003, after the dizzying bull market of 1998 to 2000, may be inclined to proceed with caution.

It is highly unusual for the leaders in the last bull market to be the leaders in the next one (the bear market usually ends when all hope has been abandoned).

The S&P 500 has gained $2.4 trillion in market cap so far in 2023 and just six stocks – Meta, **Amazon (AMZN:NASDAQ)**, **Apple (AAPL:NASDAQ)**, **Netflix (NFLX:NASDAQ)**, **Alphabet (GOOG:NASDAQ)** and Microsoft – have generated $1.6 trillion, or two thirds, of those gains. It is open to debate how (un) healthy it is to be relying so heavily on such a select list of names, no matter how formidable their business models may look today.

The Nasdaq Composite managed nine rallies during the 2000-2003 bear market, which ranged from 8% to 45% and 11 to 105 days in duration. The aggregate gains across those nine romps came to 4,886 points but the index still fell by 3,935 points, or 78%, from peak to trough. It then took

Nasdaq Composite is the best performing major index in 2023 to date

	2023*		2022
Nasdaq Composite	16.0%	Bovespa	4.7%
CAC-40	14.8%	BSE 100	4.5%
DAX-30	13.2%	FTSE 100	0.9%
Euronext 100	10.5%	Dow Jones Industrials	(8.8%)
Nikkei 225	9.1%	TSX-60	(9.2%)
S&P 500	7.7%	Nikkei 225	(9.4%)
FTSE All World	6.9%	CAC-40	(9.5%)
Shanghai Composite	6.4%	Euronext 100	(9.6%)
SSMI	6.2%	DAX-30	(12.3%)
TSX-60	6.0%	Shanghai Composite	(15.1%)
FTSE 100	4.7%	SSMI	(16.7%)
Dow Jones Industrials	2.1%	FTSE All World	(19.3%)
BSE 100	(1.4%)	S&P 500	(19.4%)
Bovespa	(6.8%)	Nasdaq Composite	(33.1%)

Table: Shares magazine • Source: Refinitiv data. Capital return in local currency. *To 27 April 2023.

Nasdaq 'Bear' markets: since 1971

	Start	Finish	Duration (days)	Start1	Finish1	Decline
1	January 11, 1973	October 7, 1974	634	137	55	(59.9%)
2	October 13, 1978	October 31, 1978	18	139	111	(20.1%)
3	February 13, 1980	March 27, 1980	43	165	124	(24.8%)
4	May 29, 1981	August 13, 1982	441	223	159	(28.7%)
5	June 24, 1983	July 25, 1984	397	329	225	(31.6%)
6	August 27, 1987	December 4, 1987	99	455	293	(35.6%)
7	October 9, 1989	October 12, 1990	368	486	328	(32.5%)
8	July 20, 1998	October 8, 1998	80	2,014	1,419	(29.5%)
9	March 10, 2000	October 9, 2002	943	5,049	1,114	(77.9%)
10	October 31, 2007	March 9, 2009	495	2,859	1,269	(55.6%)
11	February 19, 2020	March 23, 2020	33	9,817	6,861	(30.1%)
12	November 19, 2021	April 28, 2023	526	16,057	12,142	(24.4%)
	Average		**340**			**(37.6%)**

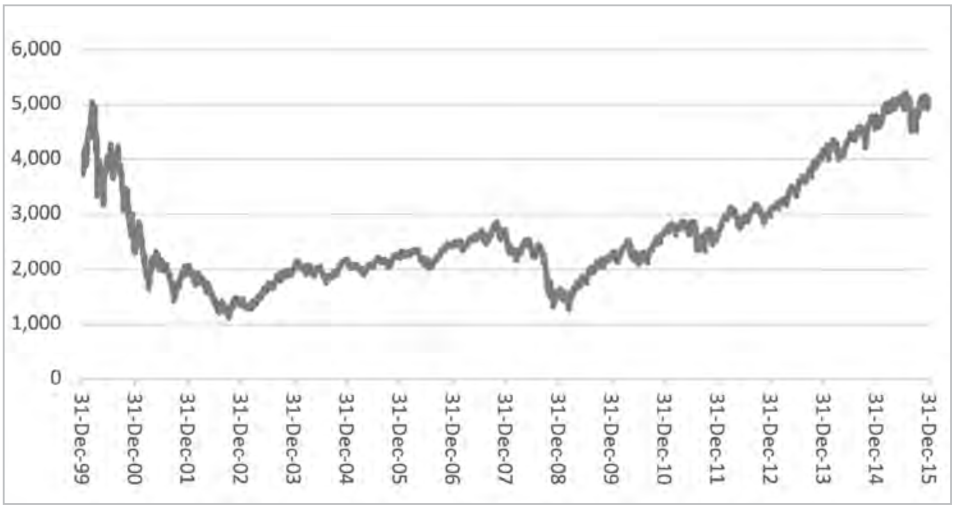
Table: Shares magazine • Source: SharePad, Stockopedia, data as of 20 April 2023

Nasdaq 'Bull' markets: since 1971

	Start	Finish	Duration (days)	Start1	Finish1	Gain
1	February 5, 1971	January 11, 1973	706	100	137	37
2	October 7, 1974	October 13, 1978	1,467	55	139	153
3	October 31, 1978	February 13, 1980	470	111	165	49
4	March 27, 1980	May 29, 1981	428	124	223	80
5	August 13, 1982	June 24, 1983	315	159	329	107
6	July 25, 1984	August 27, 1987	1,128	225	455	102
7	December 4, 1987	October 9, 1989	675	293	486	66
8	October 12, 1990	July 20, 1998	2,838	328	2,014	514
9	October 8, 1998	March 10, 2000	519	1,419	5,049	256
10	October 11, 2002	October 31, 2007	1,846	1,114	2,859	157
11	March 9, 2009	February 19, 2020	3,999	1,269	9,817	674
12	March 23, 2020	November 19, 2021	606	6,861	16,057	134
	Average		**1,250**			**194**

Table: Shares magazine • Source: SharePad, Stockopedia, data as of 20 April 2023

It took the Nasdaq 15 years to recover from the 2000-2003 bubble



Source: Refinitiv data

the Nasdaq until May 2015 to get back to its March 2000 peak.

That last stat is particularly telling, not least because it is possible to argue the Nasdaq bull market this time around was even more egregious than the one of 2000 to 2003, given the unfettered enthusiasm for meme stocks, Special Purpose Acquisition Companies (SPACs), initial public offerings, cryptocurrencies and a lot more besides.

DIFFERENT THIS TIME

The run from the Nasdaq's autumn low is 195 days old, so the good news is it already has more longevity than any of the 2000-2003 rallies. That may encourage investors to think that Nasdaq's last pullback is more akin to the short, sharp bear markets of 1978, 1980, 1987, 1998 and 2020 rather than the soul-crushing slumps of 1973-74, 2000-02 and 2007-09 which saw the index lose 60%, 78% and 56% of its value, respectively.

There have been 12 bear markets in the Nasdaq since 1971.

On average they have lasted 340 days and shaved 38% off the index's value. The current slump is now 525 days old and has cut 24% off the benchmark.

Sceptics will therefore assert that there could still be worse to come, especially as the worst downturns have come after the most rampant advances and the index's addition of 9,196 points in just 606 days in its last bull run does look like a classic blow-off top.

But tech is rallying. This may be in response to the sharp share price falls if 2022, which mean valuations are now more attractive, or fears of a recession and the search for relatively reliable earnings and cashflows or hopes for interest rate cuts later in the year. If the world returns to the low-interest-rate, low-growth, low-inflation mire which characterised the 2010s and early 2020s then you can see why tech could excel again, because such an environment places a premium on any firm that is capable of producing secular growth.

Equally, if a 40-year era of cheap energy, cheap money, cheap labour and cheap goods is over, and higher inflation and higher rates are with us to stay, then it is more difficult to argue that has worked before will work again, simply because the environment will be so different.

That backdrop would seem better suited to 'jam-today' cyclical stocks which could start to offer nominal rates of growth that mean there is no need to pay a premium valuation for perceived, 'jam-tomorrow,' long-term growth stocks. It could also persuade investors to lessen exposure to equities in favour of commodities and 'real stuff,' which by and large outperformed 'paper' assets in the 1970s.

By **Russ Mould**
Investment Research Director at AJ Bell

Janus Henderson INVESTORS

Henderson International Income Trust – Beating a challenging market by harvesting global income

Despite a challenging economic environment, Ben Lofthouse, Portfolio Manager of **Henderson International Income Trust (HINT)***, argues that global equities remain one of the best options for income seekers. Here, we look at why HINT's diversified approach and focus on quality is well placed to deliver reliable income and capital growth to investors.*

In today's uncertain economic environment, it is more difficult than ever to find a fund that can combine reliable, consistent, and competitive income with attractive capital growth. With interest rates likely to remain high for some time, investors will need to diversify their portfolios to find funds that can provide growth and income above stubbornly high rates of inflation. But while it is tempting to look closer to home, the answer may lie further afield where economic growth rates are higher and different sectors and industries can be accessed that can offer that elusive blend of reliable income and capital growth.

Backing equities to deliver income

While the improved yields on bonds have caught the spotlight – following recent interest rate hikes – investors could still lose out over the long term if inflation remains stubbornly high. We believe that equities are still best equipped to fight this battle, even though the economic headwinds that characterised 2022 remain in place. When growth and investment return expectations are low, global equities have proved themselves time

KEY TAKEAWAYS

- We believe that global equities offer some of the best prospects for investors seeking competitive and reliable income, together with capital growth, in what is expected to remain a challenging economic environment.
- Prudent diversification will be more important than ever in these uncertain times, with a spread of equity exposure across sectors and countries being pivotal in generating capital and securing superior income.
- HINT is an ideal complement for the portfolios of those wishing to lever Janus Henderson's impressive income generating credentials and achieve efficient diversification through exposure to high-quality stocks across global markets.

and again to be one of the best options for those seeking a steady income as well as capital growth.

Helping us keep faith with equities for both growth and income is the fact that company finances are in a much stronger position than on the eve of previous downturns, with cash reserves still high after pandemic belt-tightening. The same goes for household finances, with consumers who remain concerned about the economic outlook still sitting on – and indeed growing – their savings. In the UK for example, though the rate at which households have been saving has slowed, data shows that on average, households have not yet had to eat into their savings to pay for the cost-of-living crisis (see chart below). It's one of the main reasons why retail sales figures around the world have held up against expectations, despite falling real incomes.

Plentiful cash on corporate balance sheets is also one of the main reasons that company dividends are still growing. Rising dividends are an indispensable tool for helping compensate for market volatility and inflation and, as can be gleaned from our most recent Global Dividend Index Report[1], the outlook for growth in payouts appears steady. Though dividends are expected to slow from the exceptionally high levels enjoyed in 2022, they are still forecast to rise by 2.3% in 2023 and dividend cover remains high, suggesting confidence in earnings.[1]

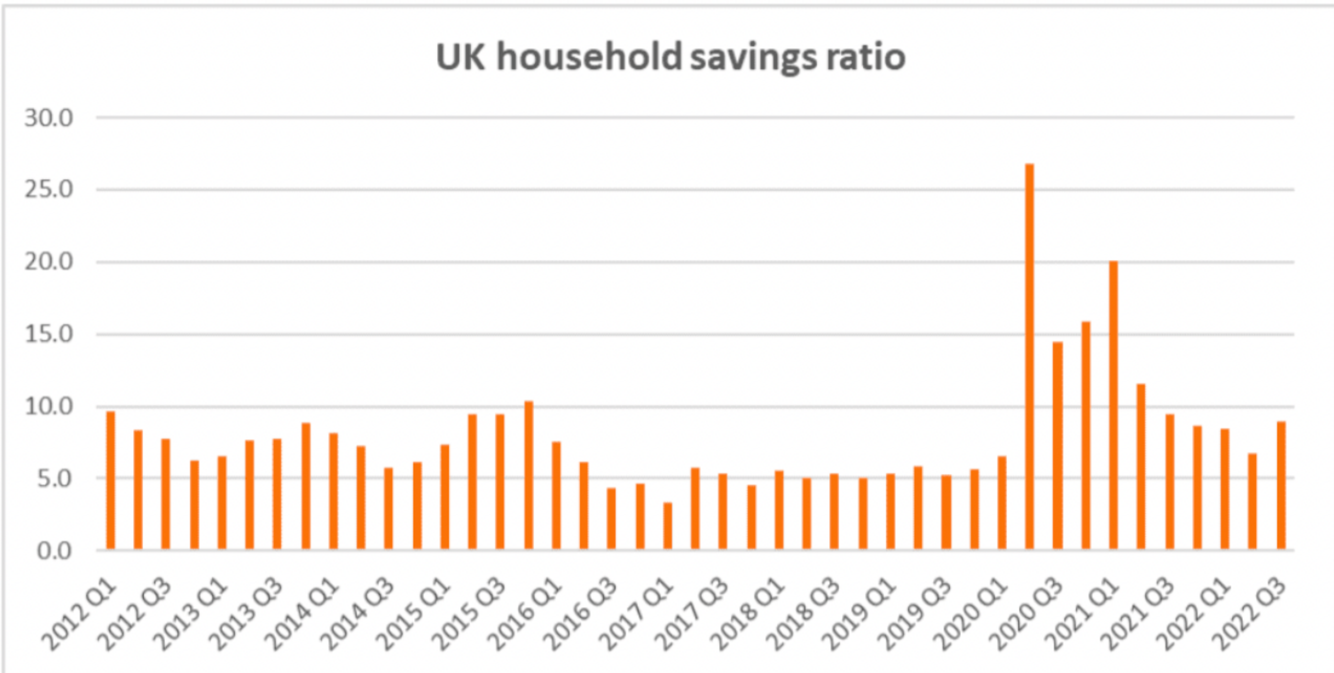
Importantly, there is also attractive value still to be found in equities. Certain parts of the market remain comparative bargains, and we are yet to see the prices of many 'value' companies fully catch up after their marked underperformance of 'growth' shares in the last decade. Indeed, it could be argued that by receiving attractive dividends, investors are being 'paid to wait' until the true value of stocks is realised. These boosted payouts can also be a valuable underpinning for portfolio performance by helping compensate for weaker capital returns when share prices are falling.

So, all in all, equities look still look like a strong bet for generating inflation-beating total returns for some time yet.

Why Henderson International Income Trust for dividends?

A global equity income fund, HINT is a focused portfolio of some of the best income-generating stocks. It boasts an exceptional record in that regard, having grown its dividend every year since inception in 2011.

Underpinning HINT's success is its harnessing of the power of diversification. Spreading risk broadly across different geographies and industry sectors is key for preserving capital in an uncertain economic environment. As well as helping to smooth out the market's peaks and troughs by



Source: Office for National Statistics, 22 December 22 (seasonally adjusted – sa) blending assets whose performance is not in lockstep with each other, prudent diversification can enhance long-term returns and buffer against large, damaging drawdowns. For example, those portfolios that were too concentrated in struggling US technology companies last year will have fared appreciably worse than those that which held exposure to foreign companies and value stocks.

And it is not just capital growth that benefits from diversification. It is also an important discipline for income generation as payout rates can be vulnerable if they are concentrated too much in one country or sector.

But effective diversification needs to be more than just diversification for diversification sakes, it needs to give investors access to complimentary return profiles. To this end, HINT is an ideal complement to a balanced portfolio as it only invests in markets outside the UK, thereby eliminating the risk of 'doubling up' exposure given UK investors' typical bias to their home market. What is more, the UK market is fairly concentrated, with dividends dominated by sectors such as oils, miners, pharmaceuticals, and financials. That represents a risk to returns when the economy dips and companies are forced to cut payouts.

HINT also boasts a well-defined investment process that focuses on high-quality companies benefiting from strong pricing power and the ability to pass on rising costs to protect their margins. We believe this emphasis currently gives the trust a tactical advantage in terms of capital growth potential as these companies remain cheap, meaning there is more room to run.

Grounds for optimism but diversification remains key

While there are still challenges for 2023, we are optimistic that some of the elements that have weighed on markets and economies in the last year or so – notably the growth slowdown in China and the spike in energy prices – will ease somewhat. Given the prospect that uncertainty will remain high, diversification will nevertheless be key to generating a consistent and stable income. The companies in which you invest will determine how you fare through these difficult market conditions.

HINT, with its inflation-beating dividend growth and compelling diversification advantages, slots perfectly into the portfolio of those investors wishing to maximise the benefits of income-generating equities without sacrificing too much of the potential for capital growth. The time for 'quality income' investing is now.

[1] www.janushenderson.com/en-gb/adviser/insights/global-dividend-index/

Janus Henderson INVESTORS

Important information.
Before investing in an investment trust referred to in this document, you should satisfy yourself as to its suitability and the risks involved, you may wish to consult a financial adviser. This is a marketing communication. Please refer to the AIFMD Disclosure document and Annual Report of the AIF before making any final investment decisions.

Specific risks
- Higher yielding bonds are issued by companies that may have greater difficulty in repaying their financial obligations. High yield bonds are not traded as frequently as government bonds and therefore may be more difficult to trade in distressed markets.
- The portfolio allows the manager to use options for efficient portfolio management. Options can be volatile and may result in a capital loss.
- Global portfolios may include some exposure to Emerging Markets, which tend to be less stable than more established markets. These markets can be affected by local political and economic conditions as well as variances in the reliability of trading systems, buying and selling practices and financial reporting standards.
- Where the Company invests in assets that are denominated in currencies other than the base currency, the currency exchange rate movements may cause the value of investments to fall as well as rise.
- This Company is suitable to be used as one component of several within a diversified investment portfolio. Investors should consider carefully the proportion of their portfolio invested in this Company.
- Active management techniques that have worked well in normal market conditions could prove ineffective or negative for performance at other times.
- The Company could lose money if a counterparty with which it trades becomes unwilling or unable to meet its obligations to the Company.
- Shares can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result.
- The return on your investment is directly related to the prevailing market price of the Company's shares, which will trade at a varying discount (or premium) relative to the value of the underlying assets of the Company. As a result, losses (or gains) may be higher or lower than those of the Company's assets.
- The Company may use gearing (borrowing to invest) as part of its investment strategy. If the Company utilises its ability to gear, the profits and losses incurred by the Company can be greater than those of a Company that does not use gearing.
- If the Company seeks to minimise risks (such as exchange rate movements), the measures designed to do so may be ineffective, unavailable or negative for performance.
- All or part of the Company's management fee is taken from its capital. While this allows more income to be paid, it may also restrict capital growth or even result in capital erosion over time.

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Bankers Investment Trust: will a shift towards value help revive performance?

How the trust goes global for income and thoughts from a North American dividend seeker

After indifferent recent performance, **Bankers Investment Trust's (BNKR)** Alex Crooke explains the shift towards a more value-focused strategy for the trust.

The slight change of approach has not altered the long-term target to achieve capital gains better than those of the FTSE World index as well as annual dividend growth which is ahead of inflation.

A SHIFT IN APPROACH

Bankers only invests in stocks, rather than other asset classes, the technology sector makes up 14.3% of the portfolio.

Crooke says: 'We don't invest in asset classes like fixed income or property. Over the last 10 years we have been growth orientated in a negative/zero interest rate environment. Since December 2022, however we have changed our investment strategy, focusing now more on value with a blended approach.'

Crooke explains this approach has been accompanied by a change of investment manager in the US, with greater exposure to the healthcare space and names like **UnitedHealth Group (UNH:NYSE)**.'

How has Bankers performed?

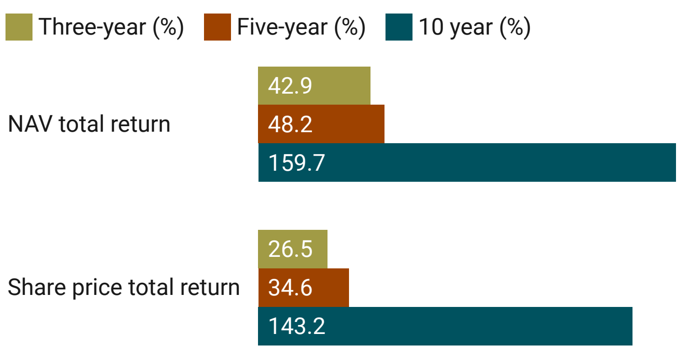

Chart: Shares magazine • Source: Morningstar, data to 31 March 2023

Other sectors which feature predominantly in the trust are financials (17.8%) – among them **American Express (AXP: NYSE)** (1.20%) and **Visa (V:NYSE)** (1.10%), Industrials (17.6%) and Consumer Discretionary (15.5%).

'We will be focusing on trying to reposition the trust, so it has more exposure to the consumer discretionary and consumer staples and industrials side over the next five to 10 years,' says Crooke.

And on a macro level, Crooke believes interest rates will stay 'higher for longer' which will put pressure on 'high growth' names. 'There are also challenges ahead for global central banks, perhaps a "tightening of belts" when it comes to regulation considering the Silicon Valley Bank crisis,' says Crooke.

A BIG WEIGHTING IN US STOCKS

Crooke says: 'We invest in companies listed throughout the world. Although we are quite US-centric. The US stock market has led the way relative to the rest of the world in nine of the last 10 years. The company's philosophy of diversification, investing across the globe has benefitted our investors.'

The trust has a 37.6% weighting to North American equities, 17.2% to UK equities and 17.1% to European equities.

The US is not the traditional choice for UK investors when looking for income, yields are typically lower than other markets, partly due to valuations but also because this a market more

ANOTHER OVERSEAS INCOME SEEKER: WHAT NORTH AMERICAN INCOME TRUST LOOKS FOR

The **North American Income Trust (NAIT)** has performed well over the last 12 months considering the difficult macroeconomic backdrop. Its share price has gained 12.4% over one year, outperforming its benchmark the Russell Value 1000 index which chalked up a return of 7.7%.

The trust offers a dividend yield of 3.9%. Senior portfolio manager Fran Radano says he adopts a defensive strategy however he maintains that he and his team are 'not totally defensive in our outlook.'

Radano says: 'The companies we have are sensible with their cash flow. They use any money they make to pay off debt, for example, US energy multinational **Phillips 66 (PSX:NYSE)**, their dividend payment is modest at $1.05 per share.'

Radano says he uses a 'bottom up' approach when stock picking for the portfolio: 'We generally focus on total return rather than simply high dividend yielding stocks in our portfolio. We are not a high turnover trust, but we will lean to how the [US] stock market turns.'

'In terms of portfolio activity during the month we added to our holdings in industrial gases company **Air Products & Chemicals (APD:NYSE)**, soft drinks maker **Coca Cola (KO:NYSE)**, utility **CMS Energy (CMS:NYSE)** and insurer **MetLife (MET:NYSE)**. We trimmed holdings in network equipment manufacturer **Cisco Systems (CSCO:NASDAQ)** and clothing company **VF Corporation (VFC:NYSE)**.'

Radano does expect a 'shallow recession' in the US towards the second half of the year, with an additional 'hawkish' quarter point rise from the Fed in the coming weeks. However, he reassures: 'US equity levels now appear to have priced in a strong probability of slowing economic growth, if not a recession.

'Although there could be another sell-off in equity markets in the future, history shows that they have often hit a low point then begun to recover prior to GDP bottoming out. Indeed, we are now seeing some increasingly appealing valuation points for long-term investors like us.'

The trust trades on a discount of around 10% and its ongoing charges are 0.93%.

orientated towards growth.

Consequently, the FTSE All Share yields 3.6% whereas the S&P 500 yields 1.7%. There is though no disputing the fact the US market encompasses lots of cash generative and quality names which can grow their dividends over time. Examples include tech giants **Microsoft (MSFT:NASDAQ)** and **Apple (APPL:NASDAQ)**. Both tech giants are constituents of Bankers' top 10 holdings.

'We are trying to grow the income in real terms for the UK investor, something the current government is not doing in relation to wage growth,' adds Crooke.

Over 10 years, the trust has achieved a share price total return of 143.2%, over five years 34.6% and over three years 26.5%. This has not fully kept pace with NAV (net asset value) growth and the shares currently trade at an 8.9% discount to NAV. Ongoing charges are very competitive at 0.5%.

It has also delivered 56 consecutive years of dividend increases. The trust's yield is 2.3% and dividends are paid quarterly. Crooke admits that the trust fell 'slightly behind last year' but its hoping to 'get back on track in 2024'.

By **Sabuhi Gard** Investment Writer

A love of economics and macro analysis helps to shape my portfolio decisions

Damian has a quite different approach to other retail investors

'I have an economics background, so I have always been interested in how the economy works rather than financial markets per se.' Debt-free and semi-retired, Damian is cut from a different cloth to the average retail investor.

While most will look for good companies at attractive valuations, Damian takes a top-down approach. He says the foundation of an investment portfolio is determined by asset allocation. 'Not only does this provide a disciplined way to balance risk and reward across assets it also enables me to keep emotions at bay by not reacting impulsively to changing market conditions and passing trends.'

However, recognising the global economy is undergoing fundamental changes requires a portfolio fit for the 21st century. 'I help a friend with his video game analytics company by writing about industry trends, with a particular interest on where the industry is heading, which is a key part of macro analysis,' he says.

This directly impacts how he invests. 'Given the shape of current and projected global GDP as well as societal changes like demographics and debt, I hold a mixture of large and small cap global funds, emerging markets, and have only a modest exposure to global bonds,' Damian reveals.

'Between four funds I am diversified globally and not too skewed towards specific countries or types of companies,' he believes.

LIMITATIONS OF A WORKPLACE PENSION

Damian began his investment journey early, building his initial portfolio through a workplace pension in his mid-20s, helped by a modest inheritance lump sum. He quickly realised certain limitations of a buy and forget strategy.

'I took the view that the administrator, Scottish Widows, was not offering good value, with a limited variety of high-cost funds,' he says. He also concluded that paying commission every year to the scheme's financial adviser was poor value, a sentiment that may chime with retail investors, so he consolidated his various pensions into a SIPP (self-invested personal pension).

Since taking a more direct approach to investing, Damian admits to having evolved his strategy over the years. 'I went from being a broad-based investor in active funds around geographic regions and themes, to a balance of buy and hold low-cost index trackers with adventurous-to-aggressive thematic investments.

'I can take on higher risk and ride out volatile market periods because I have no debt. I own my

What's in Damian's portfolio?

SIPP
Vanguard FTSE Global All Cap Index Fund – Accumulation
Vanguard Global Bond Index Fund – Hedged Accumulation
General Investment Account
Vanguard Emerging Markets Stock Index Fund – Accumulation
Vanguard Global Small-Cap Index Fund – Accumulation
ISA 1
Vanguard FTSE Global All Cap Index Fund – Accumulation
ISA 2
Polymetal
MicroStrategy
Tesla

Table: Shares magazine • Source: Investor's own records

house outright, have low bills to pay, and hold sufficient cash for daily expenses and emergencies, spread across current accounts, NS&I Premium Bonds and index-linked bonds.'

GENERATING INVESTMENT IDEAS

During the pandemic, Damian spent hours watching videos of Raoul Pal at Real Vision and the InvestAnswers channel on YouTube. 'Both feature people from hedge fund backgrounds and they have been influential on my understanding of deflation, debt and demographics, and disruptive technology. I also think Cathie Wood (Ark Invest CEO), James Anderson (ex-Baillie Gifford fund manager) and Michael Saylor (US entrepreneur) have a deep understanding of secular trends.'

He also enjoys reading opposing inflationist arguments, because he believes that the timing of cycles and future trends is about understanding the balance of probabilities. 'Commodity investors I like to watch and read are Jeffie Currie at Goldman Sachs, Rick Rule and Tony Greer.'

Other influences include Jack Bogle, Warren Buffett, JL Collins, Lars Kroijer, and, in the distant past, the Buttonwood column at the *Economist*.

Books that he has enjoyed reading and found useful include *Superforecasting* by Philip Tetlock and Dan Gardner, the Steven Levitt and Stephen J Dubner-penned *Freakonomics*, and the writings of philosopher John Gray, 'whose great insight is human progress is a myth because politics and ethics are not cumulative whereas science and technology are,' he says.

WHAT'S IN DAMIAN'S PORTFOLIO?

An issue with index trackers is that they capture the good with the bad, Damian says, and returns can take decades to reap. 'Picking winners is extremely hard but not impossible, especially if market timing is mitigated by holding a position long term.' But he also says that research is compelling on how the vast majority of fund managers and professional traders fail to beat their benchmarks, especially over extended periods.

Patience, says Damian, is incredibly important. 'I have done some short-term trading, with the likes of **Shell (SHEL)** and **TUI (TUI)**, with mixed results,' he says. 'I don't do much trading anymore because it is more fun than profitable.'

But he does continue to buy individual stocks now and again, going for higher potential rewards he perceives available despite greater implied risk, underscored by a high conviction to bitcoin.

'Fiat debasement via quantitative easing since the 2008 financial crash has put a spotlight on sound money,' says Damian, who believes a 21st Century solution to analogue government policies is blockchain technology.

Damian owns a 'solid amount of various crypto assets' from which he hopes to build value, kept in a hardware wallet for safety. 'I embrace the price volatility with lots of patience and conviction,' he says, again separating himself from typical retail investor peers.

HIGH CONVICTION STOCKS

His high conviction for bitcoin and other crypto assets explains his stake in US software designer **MicroStrategy (MSTR:NASDAQ)**, something of a bitcoin proxy.

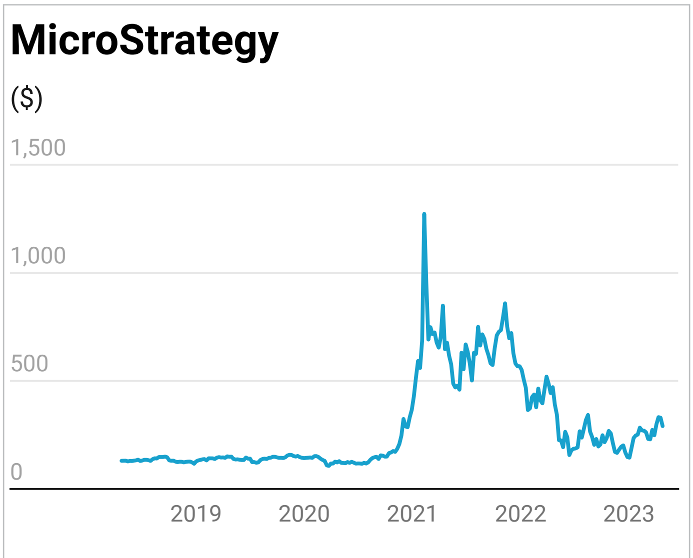

Chart: Shares magazine • Source: Refinitiv

MicroStrategy is one of three high conviction stocks Damian holds in an ISA, with any capital gains or income ring-fenced from the taxman.

Tesla (TSLA:NASDAQ) is another holding, offering the potential for growth in areas including electric vehicles, artificial intelligence and energy storage. 'I am cognisant of the fact that Tesla has an enthusiastic, loyal and often younger following, which makes its price fickle yet resilient.

'I occasionally swing trade this stock,' he adds, referring to the strategy of trying to capture the rewards of short-term price moves.

Lastly, he bought shares in Russian gold mining firm **Polymetal (POLY)** in reaction to ongoing geopolitical uncertainty. 'Being semi-retired, I looked for an income stock as a potential pension stock,' explains. Damian thinks that the company has successfully navigated recent events and he is hopeful it will start paying dividends again.

'My portfolio is a testament to the relentless march of technology,' Damian concludes, 'which may cause unease in all of us, but cannot be stopped.'

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 **Steven Frazer** News Editor

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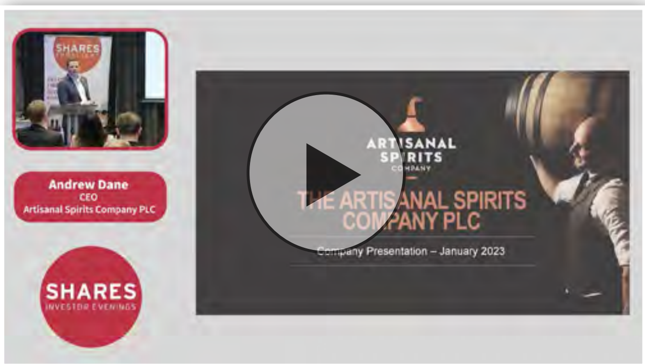

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Andrew Dane, CEO

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How do you calculate capital gains on inherited investments?

We explain the rules and how to get the necessary information for the taxman

I'm trying to oversee my mum's finances. Over the last 25 years she has inherited a range of investments from two sources. She has never sold any, and with some investments she also chose to do dividend reinvestment so the number of shares she owns now is not what she inherited. None of the investments are in a tax wrapper, so if she needed to sell any, they would all be liable for capital gains tax – but how do I calculate the profit on the sale?
***Nick**, via email*

The old adage that 'tax doesn't have to be taxing' really gets challenged with queries like these. There isn't a simple answer to this question, but it's perfectly possible to work out the gains and report them to HMRC.

Let's start with the inherited assets. When someone dies their capital gains die with them, meaning that effectively the clock is reset on any gains at the point that they die. In this case the investments were then transferred to a beneficiary, who kept them outside an ISA or pension wrapper, meaning they would have started to accumulate taxable gains if they rose in value.

So, if someone wanted to sell some, or all, of the investments now, they'd need to calculate the capital gain on the assets in order to work out how much tax they owed.

To do this you usually deduct the purchase price from the sale price, to give you any gain (or loss, if the investments have fallen). The rules recently changed on capital gains tax (also known as CGT), meaning you can only make £6,000 of gains in the 2023/24 tax year before you have to pay the tax (from 2024/25 this will drop again to just £3,000). If you're a basic-rate taxpayer you'll pay 10% tax on any investment gains, while higher and additional-rate payers will pay 20%.

That means to work out the gain you need the purchase price. But for inherited assets this will be the price on the date the person died, rather than the original price they bought them for.

WHERE TO FIND THE RIGHT INFORMATION

If you're still in touch with the representatives for the estate from you inherited the investments then you can contact them and they should have this information. If the estate was liable for inheritance tax, they will have calculated this valuation when filing with HMRC for inheritance tax purposes, meaning they will have the value on the date of death.

If a long time has passed you may no longer have the representatives' contact details to hand. If that's the case you can search online for the value of the shares on the date of the individual's death, and then multiply it by the number of shares you inherited. Many investment platform websites will have this information, as well as websites including *Shares*.

But clearly share prices fluctuate every day, so on that date of death the share price could have moved a lot. You'll need to find the high price and the low price that day and take an average of the two to get your final value. For example, if you inherited 2,000 shares in **Lloyds (LLOY)** and the individual died on 3 May 2022, the high price was 46.61p that day and the low price was 45.45p, giving an average of 46.03p. If you multiply that by the 2,000 shares you inherited that gives a value of £920.60. That would be your basis for calculating any gains.

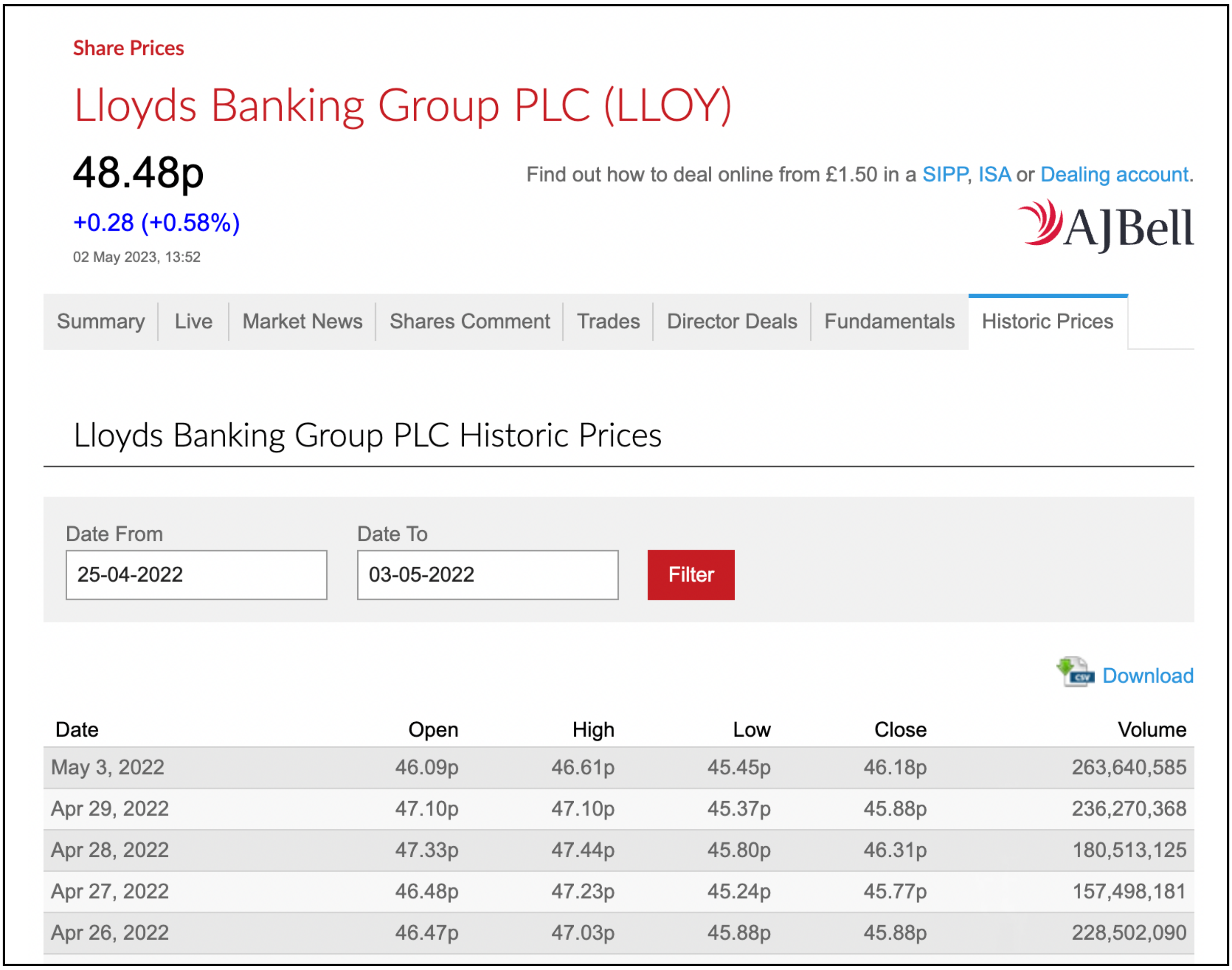
All of this assumes we're dealing with shares listed on an exchange. If you inherited unlisted shares the process is trickier, as there may not be a publicly available valuation. If you cannot find the information online you can submit an estimated valuation to HMRC on your tax return and flag that it is an estimate.

Kate Aitchison, tax director at RSM, suggests you provide an explanation to HMRC on how you achieved that valuation. She says: 'You'll need to flag to HMRC that it's an estimated value and put a narrative to HMRC on how you've got to that valuation. They have got 12 months to enquire into that return, but after then you can assume it's ok. Equally if you find a more accurate data after you've filed, you've got 12 months to adjust that return.'

HOW DO YOU ACCOUNT FOR REINVESTED DIVIDENDS?

When companies pay out dividends you can choose to receive them as cash or you can choose automatic reinvestment, which means the dividend money is used to buy more shares. This is a great way of boosting your returns, as you'll then own more shares, which means a higher dividend next time (assuming dividends aren't cut) and then even more shares purchased with dividend money next time, and on and on.

However, it can be tricky for capital gains tax purposes as each reinvestment is a fresh



Share Prices

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Lloyds Banking Group PLC Historic Prices

Date From: 25-04-2022 Date To: 03-05-2022 Filter

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Date	Open	High	Low	Close	Volume
May 3, 2022	46.09p	46.61p	45.45p	46.18p	263,640,585
Apr 29, 2022	47.10p	47.10p	45.37p	45.88p	236,270,368
Apr 28, 2022	47.33p	47.44p	45.80p	46.31p	180,513,125
Apr 27, 2022	46.48p	47.23p	45.24p	45.77p	157,498,181
Apr 26, 2022	46.47p	47.03p	45.88p	45.88p	228,502,090

acquisition of shares – and often it's a small number of shares each time. Which gives you a new valuation for CGT purposes.

The good news is that if you own the shares via an investment platform, they will provide you with this information for each tax year, with the number of shares bought and their value.

If you own them directly then it's a good idea to make a note in a spreadsheet of the number of shares, price of them and total value each time you reinvest your dividends. This means you'll have a record to be able to refer back to when you come to sell the shares and calculate your CGT.

If you have multiple purchases of the same share, at different prices, you can use a rule called the 'share pooling rule'. This means that you take an average price per share for the base cost, and this 'pool' can run for years, meaning that each time you buy some more shares, you just adjust your average share price across all your purchases. This average price is then used as the basis for calculating capital gains.

So, if your pooled average share price is 50p per share, and you have 100 shares, your starting valuation will be £50. Assuming you then sell those shares for 75p a share, your sale price will be £75, giving you a gain of £25.

WHAT HAPPENS IF I SELL SHARES AND BUY THEM STRAIGHT BACK?

Just to make it a bit more complicated, there are different rules if you sell shares and then buy them back within 30 days. It's to stop people selling shares to realise a gain (usually up to their CGT allowance) and then buying them back again immediately.

Put simply, if you sell shares and then buy them back straight away, the original purchase price will be used for calculating any gains, rather than your new purchase price. If you're in this situation it may be better to seek professional help as it gets pretty technical.

WHAT IF I DON'T HAVE THE CORRECT SHARE DEALING RECORDS?

Aitchison said that if you don't have these records then firstly you should bear in mind that if the gain is under the annual CGT limit you won't need to file any paperwork for them anyway.

So, in the current tax year if you are confident your gains are less than the £6,000 tax-free allowance you won't need to report them, meaning you don't need to do these calculations.

If you think it will be over this limit but you don't have records, she recommends completing the information to the best of your knowledge. You could estimate the figures and include a narrative to HMRC on your self-assessment to see if they agree.

COULD I SHIFT THE INVESTMENTS INTO A TAX WRAPPER?

One thing to note if you have investments sitting outside an ISA, is that you could benefit from moving them into an ISA.

This is called 'Bed and ISA' and means you sell the investments and buy them back within an ISA, which means any future gains and dividends will be protected from tax.

You'll need to ensure you have some of your £20,000 annual ISA subscription left. If you do, you can sell investments up to your current capital gains allowance (£6,000 in the current tax year) and then buy them back in your ISA. You can do the same next April to lock in more gains, tax free, albeit remembering that the capital gains allowance falls to £3,000 in that tax year.

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

Can I use my tax-free cash lump sum to boost my pension?

Help with a query about taking advantage of changes to the relief afforded retirement savings

I am pondering taking 25% tax free cash from my defined contribution pension scheme next month when I turn 55. I will not enter drawdown, as I'm still working full time and don't need the income.

Up until the government changed the rules in the last Budget, I was facing a lifetime allowance issue, so I have not made significant contributions to my pension for the last six years.

Now the chancellor has decided to give pension millionaires like me a massive tax boost, I am thinking I could max-out contributions using unused allowances from the last three years. In effect, I'd be cashing in my tax-free £268,000 and then putting £180,000 (less 45% tax relief) back in.

Now the annual allowance is £60,000, I am assuming it's OK to bung-in £60,000 for the last three years? Or would it be £40,000 for the last two years, and then £60,000 for the current year (i.e. £140,000?)

David

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

Savers with defined contribution (DC) pensions are entitled to take up to 25% of their pot tax-free from age 55, with remaining withdrawals taxed in the same way as income. The age at which you can first access your retirement pot, including your tax-free cash, will rise to 57 in 2028.

In order to access your tax-free cash, you will need to 'crystallise' some or all of your remaining pension – this just means choosing a retirement income route. This could be entering drawdown or buying an annuity, for example, but you will need to do this to get your 25% tax-free cash. If you enter drawdown, you do not need to take taxable income from your fund. If you do flexibly access taxable income from your pension, you will trigger the 'money purchase annual allowance' (MPAA), reducing your maximum available annual allowance from £60,000 to £10,000.

As you mention, the lifetime allowance charge has now been abolished, with the chancellor stating his intention to remove the lifetime allowance from the UK pensions landscape altogether from April 2024. In addition, the maximum amount of tax-free cash you can claim has been held at £268,275 – a quarter of the £1,073,100 lifetime allowance. Those with an entitlement to a higher amount of tax-free cash under the old rules have been allowed to retain that entitlement.

MAKING USE OF CARRY FORWARD RULES

In terms of boosting your annual pension contributions, this can be done by using 'carry forward' rules. Carry forward allows you to use unused annual allowances from the three previous tax years in the current tax year, provided you were a member of a UK pension scheme in each of those years. The maximum someone could contribute to a pension in 2023/24 using carry forward is £180,000 (1 x £60,000 annual allowance in the current tax year plus 3 x £40,000 annual allowances from the three prior tax years).

Your personal pension contributions cannot exceed 100% of your UK earnings in the tax year the contribution is made, however, and the amount you can carry forward from any tax year will be restricted to your available annual allowance in that tax year.

For example, if you were a very high earner in one or more of the tax years, your annual allowance could have been reduced to as low as £4,000 by the 'taper'. If this is the case, you will only be able to carry forward up to your tapered annual allowance.

THE DANGER POSED BY RECYCLING RULES

Perhaps the biggest danger inherent in your plans is the risk that, by accessing your tax-free cash and putting it straight into a pension, you could breach HMRC's 'recycling' rules. Anyone who breaks these rules risks being hit with a sizeable tax penalty.

You also need to consider what you will do with your tax-free cash if you do remove it from your pension and the potential tax consequences of that decision. In particular, by taking it out your pension, the money will form part of your estate for inheritance tax purposes.

Given the significant sums of money involved and the complexity of the rules, I would strongly suggest you speak to a regulated financial adviser before making any decision with your pension.

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