STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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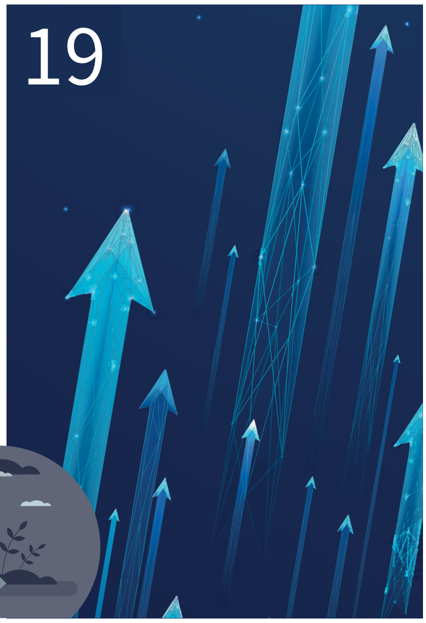
SHARES

WE MAKE INVESTING EASIER

VALUE INVESTING IS BACK

Why the style is working and how to get involved

Contents



Three important things in this week’s magazine

1

Value is back

The investment style is resuming its long-term outperformance of Growth and we highlight five investment trusts to play it.

2

The future for ISAs

Changes to the popular savings and investment wrapper could be imminent, editor Daniel Coatsworth gets his crystal ball out to predict what you can expect.

3

Netflix getting its act together

Streaming giant is delivering increased cash flow and password sharing crackdown appears to be paying off.

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:

Indivior shares up 5% after agreeing to pay $385 million to settle legacy cases

Analysts overwhelmingly upbeat on Oracle after AI event

Cinema chain Everyman Media shares rally as leading shareholder adds to stake

TSMC thinks chip industry slump may be in the past

Why global bond yields continue to shoot up and what it means

The Peterson Foundation projects the US will pay more on servicing its debt than on defense by 2028

After two consecutive years of losses (prices move in the opposite direction to yields) bond investors were relatively optimistic at the start of 2023. Sadly, that optimism was misplaced with the real prospect of an historic third consecutive year of losses in the cards.

Since the US 10-year treasury yield bottomed in August 2020 at 0.5% prices have fallen 31% while the yield is now above 5% for the first time since the eve of the financial crisis in 2007, likewise with the yield on 30-year treasuries. Meanwhile the UK 30-year gilt yield recently breached 5% which is the highest level since 1997.

US bond markets play an important role in global capital markets and set the global cost of capital. The Middle East conflict could be having impact on bond yields through the oil price which has risen because of potential risks to supply.

Higher oil prices eventually feed through to higher inflation which pressures central banks to keep interest rates higher for longer. Another important driver is the US economy which has been more resilient than many economists were expecting at the start of the year.

In other words, bond markets have had to adjust to the reality that a recession is not happening in 2023 and bets that the Federal Reserve would be cutting rates early in 2024 are now off the table.

Ronald Temple, chief market strategist at Lazard points out that consensus expectations for the advanced reading of third quarter GDP is an annualised 4.3%, up from 2.1% in the prior quarter.

A healthy economy could be framed as a positive reason for higher bond yields. The prevailing assumption here is that when the effects of monetary tightening feed into the economy, bond yields will fall back. But there could be a less benign explanation driving yields higher. This relates to concerns over the ballooning US fiscal deficit.

It could be that bond investors are baulking at the sizable government debt issuance which lies ahead. Adding to the angst is the Fed's QT (quantitative tightening) policy which effectively means it is now a seller of bonds rather than buyer under its prior QE (quantitative easing) policy.

How long the current bond 'buyers strike' will last and how high yields could go is anybody's guess, even if there was a temporary hiatus in bond selling on 23 and 24 October.

But one thing is for sure, the higher yields rise, the more financial pain will be inflicted. US annual debt interest payments are running close to $1 trillion, while the government needs to refinance up to $17 trillion of its existing $33 trillion of debt in the next two years. [MG]

Tesla investors left sweating over scope for margins recovery

Push for market share is coming at a cost

Tesla (TSLA:NASDAQ) is facing a stiff challenge to repair profitability as multiple price cuts this year threaten to leave a lasting mark on margins and the share price.

At the start of October (2 October) Tesla unveiled another round of discounts in the US, the seventh time this year that the world's biggest electric car maker has lowered ticket prices on some models. Elon Musk's aggressive pricing strategy was meant to boost sales in a slowing electric vehicle market and, crucially, put more miles between its industry leading profit margins and those of its legacy car maker and Chinese challenger rivals.

The strategy seemed to initially work, with vehicle deliveries hitting a near-record 423,000 in the first quarter of 2023 and jumping in the second quarter to 466,000. But price cuts' ability to stimulate demand is now running out of juice.

Deliveries softened in the third quarter at 435,059 vehicles, partly because of planned temporary shutdowns at its gigafactories in Austin and Shanghai for upgrade work. That was shy of consensus analyst estimates of 461,640 vehicles, which were supposedly already recalibrated to reflect the manufacturing stoppages.

In turn this prompted some analysts to speculate that buyers might be delaying purchases in the hope that Tesla would continue to cut vehicle prices in the months ahead.

Following the third quarter results, investors now have tangible evidence of the savage impact this strategy is having on Tesla's profitability. Gross margins declined for the fourth quarter in a row at 17.9%, falling from 25.1% in the equivalent quarter of 2022. Gross margins peaked in Q1 2022 at 29.1%, which implies a 1,120-basis point drop in 18-months.

This has left Tesla's once market leading gross margins below some mass market rivals, such as **Toyota (7203:TYO)** and **Volkswagen (VOW3:ETR)**, although these comparative figures include non-electric vehicles.

Tesla investors now face hard questions given that the share prices of mass market rivals typically trade on single-digit or low double-digit price to earnings multiples versus Tesla's 60-odd.

Operating profit margins at Tesla have faced even deeper declines, more than halving in a year, down from 17.2% in the third quarter of 2022 to 7.6% in the same quarter this year. This means that despite largely higher vehicle volumes, quarterly net income has plunged 37% since September 2022 to $2.32 billion, or 44% to $1.85 billion on a GAAP basis (generally accepted accounting principles).

Even if analysts forecasts for operating profit margin recovery proves correct, consensus projections of 11.8% in 2024 and below 14% in 2025, means margins will remain roughly 300 basis points below 2022 levels two years from now.

Tesla shares have fallen more than 14% since the third quarter results were released to $212.08, their lowest since May 2023. [SF]

Tesla's gross and operating margins

	FY 2019	FY 2020	FY 2021	FY 2022	Q1 2023	Q2 2023	Q3 2023
Gross margin	16.6%	21.0%	25.3%	25.6%	19.3%	18.2%	17.9%
Operating margin	−0.3%	6.2%	12.1%	16.8%	11.4%	9.6%	7.6%

Table: Shares magazine • Source: Tesla, Statista

Netflix 'turnaround complete' as cash flow soars in the third quarter

The shares are up nearly 40% since the start of 2023

An impressive set of **Netflix (NFLX:NASDAQ)** third quarter earnings has helped get the share price moving again as it creates optimism in the market that the company is getting the balance right between growing its subscriber base and delivering profit and cash.

The company's cash flow was a stand-out feature of the results at $1.89 billion, way above consensus of $1.27 billion.

Netflix has boosted its full-year free cash flow guidance to $6.5 billion. Though this number, up from the prior $5 billion, is inflated somewhat by the industrial action in Tinseltown, which has delayed spending on content.

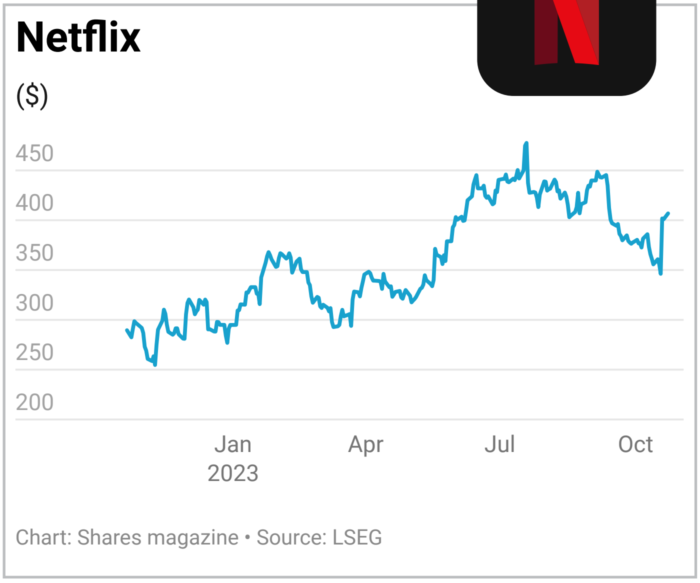


Chart: Shares magazine • Source: LSEG

What did Netflix report

The global streaming giant reported revenue of $8.54 billion for the three months ending 30 September 2023 beating the company's guidance of $8.52 billion.

Earnings per share (EPS) also beat estimates in the quarter with the company reporting EPS of $3.73, ahead of consensus expectations of $3.49.

The company reported EPS of $3.10 in the same period a year ago.

Netflix's guidance for fourth quarter revenue of $8.69 billion was slightly below consensus expectations of $8.76 billion.

Ben Barringer, analyst at Quilter Cheviot, says: 'After a difficult couple of years, Netflix's turnaround is complete, as its recent efforts to crack down on password sharing and subscribers leaving have paid off. Its latest set of numbers were strong, with subscriptions significantly better than the market was expecting and margins growing too.

'Indeed, they now guide their sales growth to be back in double-digit growth, and there is no reason that they cannot kick on from here and cement its place at the top of the film and TV hierarchy.'

Subscriber numbers were up which meant that its strategy to crackdown on password sharing has paid off, and global streaming giant has converted 'non-paying customers' to paying ones.

Globally, Netflix added nearly 8.8 million subscribers during the July-September period taking its total subscriber base to 247.2 million.

Investors will be looking carefully to see if this can be sustained as price of subscriptions were increased in its core markets in the UK, US and France.

Netflix said its basic and premium plans for US-based customers will now cost $11.99 and $22.99 compared to $9.99 and $19.99 previously. The last time Netflix raised prices was March 2022. Netflix has said further price increases are scheduled in the US from 2024.

If Netflix can continue to 'keep a lid on its content costs' and 'innovating in the sports world, then the global streaming giant's growth looks set to continue,' adds Quilter Cheviot's Barringer.

'There will come a day where Netflix is showing live sport, but for now it will be more content creating its own leagues and ideas than having to negotiate with the likes of the NFL or Premier League.' [SG]

‘Writing on the wall’ for open-ended property funds as M&G closes once popular product

There is a mismatch between the liquidity requirements of investors and the realities of selling real estate

In what will seem like yet another case of déjà vu for property investors, one of the biggest open-ended funds in the market has decided to suspend dealing in its shares and shut up shop.

This move brings into question the future of this type of property fund given the inherent structural problems it has.

Several open-ended funds suspended dealings in the aftermath of the Brexit vote in 2016 and again following the outbreak of Covid in 2020 due to the inability to liquidate their assets quickly enough to meet customer withdrawals.

In May 2021, Aviva Investors, part of the UK’s largest insurance firm **Aviva (AV.)**, threw in the towel and closed its £370 million UK Property Fund after it had been frozen for more than a year.

Now, M&G Investments has announced its intention to close the £565 million **M&G Property Portfolio (Acc: B8FYD92 Inc: B89X8P6)** – which was suspended in 2020 but reopened in 2021 – ‘due to declining interest in open-ended daily dealing property strategies from UK retail investors’.

Blaming lack of investor interest and ‘persistent outflows over several years,’ M&G says the fund’s reduced size meant the manager couldn’t run a diversified portfolio without incurring the high ongoing transaction costs required to reconfigure the portfolio.

As of the end of August, the fund was around 75% invested in physical real estate assets with just under 20% in cash and the remainder in quoted equities.

Among the top 10 assets were industrial and office properties in Aberdeen, a retail warehouse in Llanelli, and a shopping centre, leisure centre and industrial park in North Kent.

M&G says once regulatory approval has been granted, the fund will begin the orderly sale of its assets with the aim of ensuring a fair market price but it expects the process to take around 18 months.

Cash will be returned to clients ‘when it becomes available through this period’, while normal income distributions will continue to be paid in January, April, July and October.

Ryan Hughes, head of investment partnerships at AJ Bell, says: ‘The writing has been on the wall for open-ended property funds ever since they suspended again in the depths of the Covid crisis. Offering a daily dealing structure for an asset that can take months to sell was an accident that happened all too often and one that ultimately undermined investor confidence.

‘The FCA looked to address the issue through tentative proposals to limit access but while this was a potential solution, the likelihood was always that retail investors would want the comfort blanket of daily dealing even if they didn’t need to access the asset.’ [IC]

Disclaimer: Financial services company AJ Bell referenced in the article owns Shares magazine. The author of the article (Ian Conway) and the editor of the article (Tom Sieber) own shares in AJ Bell. Steven Frazer also owns a personal interest in Scottish Mortgage and Smithson Investment Trust.

Big medical breakthrough drives huge gains in Oxford Biodynamics shares

The company gets earlier than expected validation for prostate cancer test

Biotechnology company **Oxford Biodynamics (OBD:AIM)** has seen its shares go up three-fold in the last month driven by positive news flow.

The company, which is developing precision medical tests based on its proprietary EpiSwitch3D genomics platform, announced earlier than expected validation of its prostate screening test on 26 September.

The test is groundbreaking in that it has proven to be 94% accurate in predicting the presence or absence of prostate cancer compared with 55% accuracy from current screening methods used by the NHS.

Increased accuracy of the test, which will be run alongside a standard test, significantly removes false positives and the need for unnecessary referrals and invasive biopsies.

Further exciting news came on 18 October when Oxford Biodynamics announced a strategic partnership with Bupa, the UK's leading health insurer, to give patients access to EpiSwitch Cirt (Checkpoint inhibitor Response Test).

It is a first-of-its-kind blood test that accurately predicts an individual cancer patient's therapeutic response to treatment and thereby identifies those most likely to benefit from this class of therapy. [MG]

Oxford Biodynamics

Chart: Shares magazine • Source: LSEG

Rightmove shares endure a big hit as US real estate giant CoStar agrees OnTheMarket deal

Investors react to the implied competitive threat

Shares in property listings site **Rightmove (RMV)** have taken a battering since US real estate giant **CoStar (CSGP:NYSE)** announced a £99 million all-cash offer for rival **OnTheMarket (OTMP:AIM)**.

The US real estate giant intends to turn OnTheMarket into a 'market leader' which could put pressure on Rightmove's dominant market share in the UK.

CoStar already runs US websites Homes.com, LoopNet.com and Apartments.com.

Analysts at Jeffries noted Rightmove has relied on price increases on its subscriptions rather than selling new products to generate growth for some time.

'CoStar has a track record for these types of acquisitions and has stated that it intends to fund a multi-year, multi-£100 million investment programme to displace Rightmove as the number one in residential property in the UK,' added the Jefferies team.

As CoStar has 'thrown down the gauntlet' with this OnTheMarket offer, Rightmove will have to put up a fight.

It may prove hard to unseat from its market leading position as this creates a virtuous circle. Its site has the most listings and is therefore the one which prospective property buyers will go to when looking for their next home. This reinforces its position as a must-have product for estate agencies and gives it significant pricing power when it comes to securing subscriptions from agencies. [SG]

Rightmove

Chart: Shares magazine • Source: LSEG

Grocery chain Sainsbury's needs to deliver on earnings and guidance

The UK's number two supermarket faces an uphill challenge this quarter

Interestingly, as we head into supermarket chain **Sainsbury's (SBRY)** first-half results on 2 November, the group's shares are trading just above their lows of the last six months.

In contrast, shares in grocery market leader **Tesco (TSCO)** are trading just below their high for the year after the firm posted better-than-expected first half sales and raised its full-year operating profit guidance earlier this month.

Sainsbury's sales growth has been in line with or slightly ahead of the UK grocery market in each of the last half-dozen monthly till roll surveys by Kantar, and the group has slightly improved its market share to 14.8%, so we suspect the upcoming results will be at least in line with the consensus.

However, in the final three months of 2022 the firm's market share climbed to as much as 15.5%, which looks like a tall order this time round.

Limited-assortment retailers Aldi and Lidl are consistently growing their sales by 20% or more month after month, so it will likely be the outlook which decides the fate of the shares on the day.

Chart: Shares magazine • Source: LSEG

What the market expects of Sainsbury's

	EPS (p)	Revenue (£bn)
Forecast for 2023	20.7	32.4
Forecast for 2024	22.0	32.8

Table: Shares magazine • Source: Stockopedia. Year-end March

UK UPDATES OVER THE NEXT 7 DAYS

FULL YEAR RESULTS

30 October: Lok'n Store

31 October: Up Global Sourcing, Essensys

HALF YEAR RESULTS

30 October: Airtel Africa

2 November: BT, Sainsbury (J)

TRADING ANNOUNCEMENTS

27 October: NatWest

31 October: Georgia Capital, NCC

1 November: GSK, Smurfit Kappa

2 November: Shell, Helios Towers, Smith & Nephew

Margins may hold the key to PayPal recovery

Sharp share price slump sees stock trade on single digit rating

If global lockdowns were a win for **PayPal (PYPL:NASDAQ)**, reopening has been a catastrophe. Since peaking at near-$310 in July 2021, shares in the digital payments platform have sunk to levels not seen since 2017, a staggering fall from grace.

Underwhelming margins have been analysts' chief worry in recent quarters, as lower margin services have held up better, while stumbling growth has hardly helped either.

PayPal chief executive Dan Schulman has drawn optimism from largely robust consumer spending, which should improve further as inflation continues to cool, something to watch out for in third quarter results (1 November).

What the market expects of PayPal

	EPS ($)	Revenue ($bn)
Forecasts for 2023	4.95	29.7
Forecasts for 2024	5.66	32.4

Table: Shares magazine • Source: Koyfin

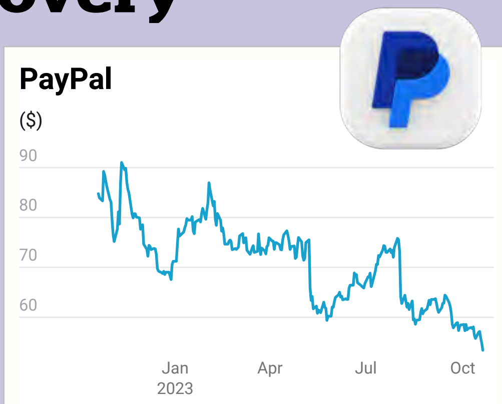


Chart: Shares magazine • Source: LSEG

Revenue projections for the three months have been nudging higher lately, from $7.32 billion to the current $7.38 billion, according to Koyfin data, and the $1.23 per share of earnings predicted would be a record quarterly profit, but the devil will be in the detail. There may also be news on Dan Schulman's successor after his retirement announcement in February.

Having fallen this far, the stock has seldom been this lowly rated, offering hope for recovery. Koyfin's December full year 2024 earnings per share projections for $5.56 implies a price to earnings multiple next year of 9.5, versus mid-teens growth. [SF]

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

27 October: Exxon Mobil, Chevron, AbbVie, Charter Communications, Aon, Colgate-Palmolive, Phillips 66

30 October: McDonald's, Arista Networks, Public Storage, Simon Property

31 October: Pfizer, AMD, Amgen, Caterpillar, Eaton, Marathon Petroleum, Ecolab, MSCI

1 November: Qualcomm, CVS Health, Mondelez, Airbnb, Humana, PayPal, Estee Lauder, Aflac, MetLife, AIG, Kraft Heinz

2 November: Apple, Eli Lilly, ConcoPhillips, S&P Global, Starbucks, Stryker, Booking, Cigna, Regeneron Pharma, EOG Resources, Zoetis, Southern, Duke Energy, ICE, MercadoLibre, Marriott International

The big value indicator telling you Rio Tinto is a buy

The miner is offering a dividend yield which suggests the shares are well worth investing in

Rio Tinto
(RIO) £48.91
Market cap: £83.1 billion

One indicator of value is the dividend yield. A high yield is typically telling you two things – either the market knows a company is struggling and the dividend is under threat, or the share price is too low and the dividend is safe.

We think the latter is the case for FTSE 100 diversified mining group **Rio Tinto (RIO)** and on that basis we think investors should invest now.

Berenberg has done some number-crunching. The investment bank has identified that, when the dividend yield is above 4.5%, then buying the shares has delivered median returns of nearly 30%. Right now, the forecast yield for 2024 based on consensus forecasts is 6.9%.

Obviously Rio is exposed to volatile commodity prices but it is quite conservatively run so it has a strong balance sheet with a net debt to earnings ratio below 0.2 times, having not made lots of risky acquisitions when metals markets were hot. The company also keeps a tight rein on costs.

Undoubtedly this year has been a disappointment for the miners, largely thanks to China's failure to recover as expected having lifted zero-Covid restrictions. This explains why Rio is trading on a high yield with its shares down more than 16% year-to-date.

However, Beijing is taking steps to revive the economy and with it, more than likely, demand for global commodities given the world's second largest economy is a rapacious consumer of them. This could provide a lift to prices.

A third-quarter production update revealed Rio Tinto is performing pretty well as it outlined steps to get back to record production levels of iron ore as soon as 2025. Iron ore, through its complex of mines in Western Australia, and aluminium, are its two big revenue generators but it also produces copper alongside various other metals and minerals.

Berenberg analyst Richard Hatch says: 'Rio has stable production from its business units, as well as growth from lower-risk expansions/new, lower-cost mines in iron ore and in copper, mostly through the ramp-up of the Oyu Tolgoi mine in Mongolia, in which it owns a 66% stake. We also see cost upside in the Pilbara, based on management targets to pull costs lower in this division long-term.'

Unlike the oil and gas sector, which also looks inexpensive and offers high yields, the mining sector in general, and Rio Tinto specifically, have a key role to play in the energy transition so there are fewer question marks about the sustainability of their business. [TS]

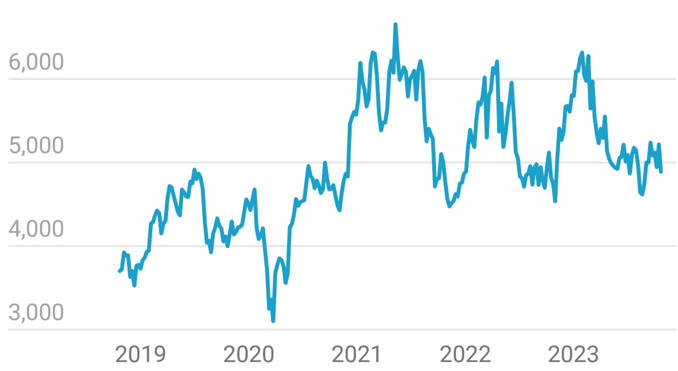


Chart: Shares magazine • Source: LSEG

How this fund has benefited from a focus on cheap stocks in a cheap market

Picking mispriced shares can generate healthy profits over the medium term

Schroder Recovery

(B3VVG60) 132p

Fund size: £825 million

The **Schroder Recovery Fund (B3VVG60)** aims to generate capital gains superior to the FTSE All-Share Total Return Index, net of fees, over a three- to five-year horizon by investing in 'UK companies which have suffered a severe setback in either share price or profitability'.

The fund was launched back in 1970 and has stood the test of time, beating its target return over one, three and 10 years and matching it over five years.

In the year to September 2020 the fund underperformed as investors chased lockdown-related growth stocks, but in the year to September 2021 and again in the year to this September it has outperformed as value stocks have found favour.

'The UK equity market has been cheap for some time, and it's getting cheaper,' say managers Kevin Murphy and Andrew Lyddon in their second-quarter commentary.

'While the market appears to be increasingly concerned about runaway inflation, and the Bank of England needing to break the economy to bring it under control, the good news is that this is already priced in.

'We are confident our focus on cheap stocks (within a cheap market) and minimising fundamental risks will be rewarded with significant outperformance.'

As of the end of September, the portfolio was overweight consumer discretionary, industrial, telecom and real estate stocks compared with the FTSE All-Share Total Return Index, and underweight financials, consumer staples and healthcare, the latter by a considerable margin.

The top 10 holdings, which made up just over a quarter of the fund by value, were: energy company **Petrofac (PFC)**, infrastructure firm **Kier Group (KIE)**, retailer **Marks & Spencer (MKS)**, high-street lender **Barclays (BARC)**, Italian energy group **ENI (ENI:BIT)**, shopping centre owner **Hammerson (HMSO)**, Asia-focused bank **Standard Chartered (STAN)**, mining giant **Rio Tinto (RIO)**, retail banking group **Lloyds (LLOY)** and Royal Mail owner **International Distributions Services (IDS)**.

The managers made two changes in the most recent quarter, selling out of power firm **Centrica (CNA)** and reducing their holding in aero engine maker **Rolls-Royce (RR.)** as one had reached their estimate of fair value and the other was nearing fair value, which gives an insight into their active approach when it comes to running the portfolio.

Other holdings referenced in the report were online fashion retailers **ASOS (ASC)** and **Boohoo (BOO:AIM)**, free-to-air TV broadcaster **ITV (ITV)**, bus and rail firm **FirstGroup (FGP)** and car spares retailer **Halfords (HFD)**.

Income is paid annually and being the accumulation class is rolled over into buying more shares, while the ongoing charge is 0.89% per annum. [IC]

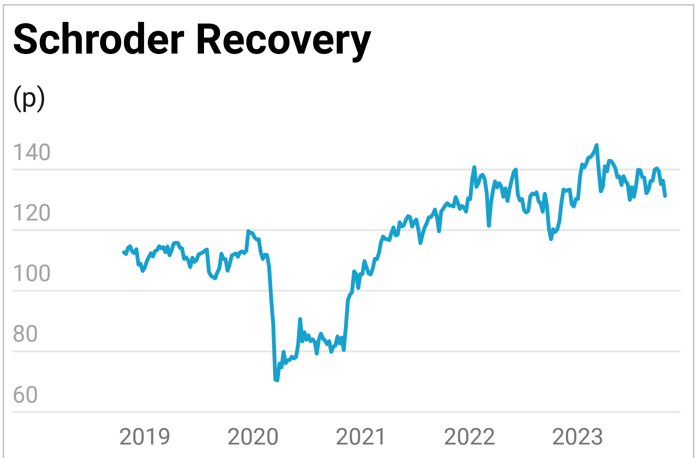


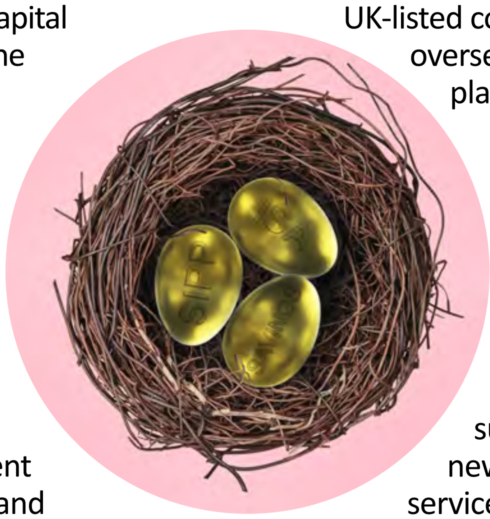
Chart: Shares magazine • Source: LSEG

All change for ISAs at the Autumn Statement? This is what to expect

There is a lot of talk that the Government wants to reform the savings and investments wrapper

There is chatter that the Government is open to reforming ISAs, the savings accounts which shelter capital gains and income from the taxman. The chancellor's Autumn Statement on 22 November might shed light on how they might evolve. Ahead of that event, here is what *Shares* believes might, or might not, happen.

One of the key goals for reforming ISAs would be to encourage more people to save and invest for their future. To achieve such a goal, the Government needs to streamline the ISA range and have less complicated rules.



There are six types of ISA in existence – Cash ISA, Stocks and Shares ISA, Innovative Finance ISA, Lifetime ISA, Junior ISA and Help to Buy ISA. The latter is closed to new money, but that still means savers and investors need to get their head round which of the other ISAs they should use.

Currently you can put up to £20,000 across all types of ISA, while the Lifetime ISA and Junior ISA have individual limits at a lower level. One of the suggestions is the Government could let you have an additional ISA allowance specifically for investing in UK stocks.

> **"ISA reform needs proper consultation with the industry and time to decide the best approach for investors' long-term needs"**

The Government is keen to provide a boost to the economy and there are suggestions that providing an incentive to back UK businesses is one way to help. In theory, this could also benefit the London Stock Exchange as it could drive more interest in the UK market.

Is it a goer? We do not think so. The average subscription to a Stocks and Shares ISA in 2021/22 was £8,690 according to HMRC. In reality, only wealthy individuals can afford to max out their full £20,000 annual allowance. There would be no incentive for the average investor to put more money into UK stocks if they still had an unused ISA allowance under current levels.

There is also the matter that a large chunk of UK-listed companies generate their earnings overseas and are not a straightforward play on the UK economy.

A better way to encourage more investment in UK stocks would be to remove stamp duty on Main Market shares, in line with AIM stocks.

Merging the Cash ISA and Stocks and Shares ISA would also be a smart move. Do not expect such a change to be ready for the new tax year though as financial services companies would need to consider launching new products or changing their systems to support the merged ISA type.

Meanwhile, someone using a Lifetime ISA to help buy their first home cannot acquire a property worth more than £450,000 under HMRC rules. That might be too low for parts of the country – for example, Rightmove says flats in London sold for an average of £565,147 last year. Might it be better to raise the maximum property price under the Lifetime ISA each year? We do not expect any imminent change to the 25% Lifetime ISA exit penalty.

Elsewhere, the Innovative Finance ISA has dwindled in popularity and we would not be surprised if the wrapper closed to new money.

We are heading toward an election year so chancellor Jeremy Hunt will be looking to secure votes. That means finding quick wins, which is not the right approach. ISA reform needs proper consultation with the industry and time to decide the best approach for investors' long-term needs.

AGT
AVI GLOBAL TRUST

VALUE INVESTING IS BACK

Why the style is working and how to get involved

By **Martin Gamble** and **James Crux**

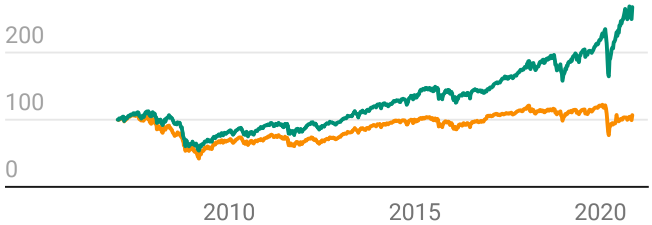
Value stocks have outperformed growth stocks by 12% since **Pfizer (PFE:NYSE)** announced the first effective Covid-19 vaccine on 9 November 2020. That's comparing the MSCI World Value index against the MSCI World Growth index.

We have reason to believe the value investing style could soon deliver even bigger outperformance given the shift in the backdrop from cheap money to more normalised interest rates and how that has a big impact on equities. Read on to discover why value should have a place in your portfolio.

While value might look like a winner since a Covid vaccine was developed, it is scant reward in the context of the prior 13 years which saw value underperform growth by more than 50% cumulatively based on MSCI World Value and Growth indices.

Value underperformed Growth by some margin in the 13 years after the global financial crisis

— MSCI World Value index — MSCI World Growth index



Rebased to 100

Chart: Shares magazine • Source: LSEG

That was the largest peak to trough fall experienced by value as an investing style since the Second World War, according to JPMorgan Asset Management.

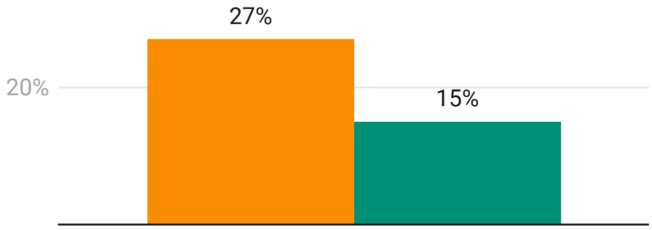
The value investment style lost over 40% in 2020 making it the worst ever single year according to data sourced from the Kenneth French data library. Kenneth French is professor of finance at Tuck School of Business at Dartmouth College. His database identifies different factors which explain stock returns, including value, size and risk.

In a broader context prior to 2007, value has outperformed growth in every decade since 1927. Pick any year at random during that period and value had a 65% chance of beating growth.

Value has returned to its long history of outperforming growth

MSCI World Value index relative to MSCI World Growth index

MSCI World Value index ■ MSCI World Growth index



Rebased to 100. Pfizer announced first Covid vaccine on 9 Nov 2020

Chart: Shares magazine • Source: LSEG. 6 Nov 2020 market close to 13 Oct 2023 market close

WHY DID VALUE INVESTING FALL OFF A CLIFF FOR 13 YEARS?

Given value's longer-term performance it is natural to ask whether the 13-year bad patch was just temporary or if something structural had changed.

JPMorgan argues the era after the financial crisis in 2007 was an unusual period for several reasons. Firstly, it was characterised by persistently low economic growth and falling inflation expectations. When growth is scarce investors pay up for it which causes the premium attached to growth stocks to increase relative to value.

Secondly, central banks tackled low growth by artificially keeping interest rates low through quantitative easing policies – buying bonds from banks to encourage them to use the proceeds to lend to businesses.

Value tends to do better in higher inflation environments so falling inflation expectations post-2007 had a material impact on the investment style's performance.

Lastly, the effect of cheap money (virtually zero interest rates) pushed up the value of cash flows which occur far into the future.

The combination of low growth and inflation amid a zero-interest world effectively turbocharged growth stocks. Investors scrambled to own any company which offered growth, even ones which had little chance of producing profits.

Between 2011 and 2021 the price to earnings ratio of growth stocks increased by 115% while value de-rated by 80%, based on MSCI and Bloomberg data.

As mentioned, value has made a mini comeback since late 2020 as higher inflation and rising interest rates have tipped the odds back in its favour. But growth stocks still trade at a relative valuation premium which exceeds the peak seen during the dotcom bubble.

In other words, value has rarely looked so attractive relative to growth. Could it make a huge comeback? We think so.

Asset manager M&G Investments agrees. It argues the factors supporting growth investing over the last 13 years could be ending while value has further to run: 'In our view, the decade-long underperformance of value has not yet come close to fully unwinding.'

> ***"Value has rarely looked so attractive relative to growth"***

WHAT IS VALUE INVESTING AND WHY DO STOCKS GET MISPRICED?

At its core, value investing involves buying something for less than it is worth which has universal appeal. But in practice there is more to value investing than meets the eye.

Academics such as Ken French and index providers such as MSCI employ a purely quantitative approach to defining value and growth.

The MSCI World Value index defines value stocks using several fundamental accounting inputs such as book value, earnings per share and dividends. Stocks with low price to book, low price to earnings and high dividend yields are considered value stocks.

Sceptics focus on the use of book value (the net value of a firm's assets after deducting liabilities) which they argue is less relevant today. That's because most companies now have intangible assets such as brands and patents rather than simply physical ones such as plant and machinery.

While this is a valid criticism, value fund managers argue they have known this for decades and therefore do pay much attention to book value. More importantly, none of the fund managers interviewed by *Shares* rely on single valuation metrics.

IMPORTANCE OF BEN GRAHAM'S PRINCIPLES

Investment director Ben Arnold at Schroder Investment Management's global value team told *Shares* the essence of value investing is taking a rational approach to assessing the fundamentals of a business and buying at a deep discount to intrinsic value.

Arnold argues value investing today relies on the same principles laid down by the 'grandfather' of value investing Ben Graham a century ago.

The reason companies become mispriced, explains Arnold, is because of behavioural biases which are hard for investors to overcome. Businesses and industries become 'unloved' because of a variety of reasons.

Arnold offers up the example of the oil and gas industry which is currently disliked because of structural threats from the green energy transition.

Fund manager Ian Lance at Redwheel suggests rather than asking why anyone would want to be a value investor the question to ask is 'why should investors expect to earn a superior return from buying popular stocks?' Lance and co-manager Nick Purves have more than 50 years of investment experience and manage the value-focused **Temple Bar Investment Trust (TMPL)**.

Lance says the notion that value investors only buy 'cheap junk' is a misconception. The fund manager offers up one of today's stock market darlings to make his point. A decade ago, he held shares in software giant **Microsoft (MSFT:NASDAQ)** when it traded on a mere eight times earnings.

Microsoft was considered a value stock a decade ago

12-month forward PE ratio

Chart: Shares magazine • Source: LSEG

He explains the stock was unloved at the time because investors believed the business had gone ex-growth. Today the software giant trades on 30 times earnings, showing how investor sentiment can change dramatically over time.

Both Ben Arnold and Ian Lance believe the primary reason stocks become misvalued is down to behavioural biases. Contrary to popular belief all industries and stocks have the potential to become unloved and therefore mispriced.

HOW TO GET EXPOSURE TO VALUE VIA INVESTMENT TRUSTS

The investment trust structure routinely creates value opportunities for investors as supply and demand imbalances leave the shares of many funds trading on wide discounts to the value of their underlying assets. There are also plenty of trusts that adopt a value investing style.

For example, Temple Bar buys stocks selling for less than their true worth or intrinsic value, while the **Schroder Income Growth Fund (SCF)** puts money to work with out-of-favour firms with potential to generate strong future returns and offers a 5.5% dividend yield.

Merchants Trust (MRCH) has increased its dividend for 41 consecutive years. Manager Simon Gergel looks to provide shareholders with an above-average level of income, income growth and long-term capital growth by investing in higher-yielding UK large caps in the main, though he does invest lower down the cap spectrum. Gergel recently described the UK market valuation backdrop as 'a stock picker's dream'.

Fidelity Special Values' (FSV) manager Alex Wright has a contrarian approach, looking for unloved stocks with what he believes to possess limited downside and change catalysts, while **Law Debenture's (LWDB)** managers James Henderson and Laura Foll run a diversified portfolio of companies whose long-run prospects are undervalued by the market.

Although the US is best known as a growth market, investors can gain exposure to the value theme trough various trusts including **BlackRock Sustainable American Income (BRSA)**, which aims to deliver income and growth from a portfolio of attractively valued dividend-payers, and the quarterly dividend distributing **Middlefield Canadian Income (MCT)**, currently on a 16.7% discount. Middlefield offers exposure to companies in classic value sectors including financials, energy and utilities.

Investors after broader exposure to the value theme can also choose from a selection of trusts which look to access growth at a cheap or reasonable price.

For example, the cautiously managed **STS Global Income & Growth (STS)** aims for long-run capital and income growth, with a focus on investing in large, stable, high-quality, dividend-payers.

Trusts investing lower down the market cap ranks include **Aurora (ARR)**, which invests using a value-based philosophy inspired by Warren Buffett, Charlie Munger, Benjamin Graham and Phillip Fisher.

Examples of value-style investment trusts

Investment trust	Main focus
City of London	Large cap
JPMorgan Claverhouse	Large cap
Murray International	Large cap
Temple Bar	Large cap
Fidelity Special Values	Mid cap
Lowland	Mid cap
Merchants Trust	Mid cap
Shires Income	Mid cap
Aberforth Smaller Companies	Small cap
Castelnau	Small cap
Chelverton UK Dividend Trust	Small cap
Diverse Income Trust	Small cap

Table: Shares magazine • Source: Morningstar

Examples of investment trusts with a value and growth blend

Investment trust	Main focus
Brunner	Large cap
Dunedin Income Growth	Large cap
Schroder AsiaPacific	Large cap
STS Global Income & Growth Trust	Large cap
Aurora	Mid cap
AVI Global Trust	Mid cap
JPMorgan Mid Cap	Mid cap
Utilico Emerging Markets	Mid cap
BlackRock Smaller Companies	Small cap
North Atlantic Smaller Companies	Small cap
Odyssean Investment Trust	Small cap
River and Mercantile UK Micro Cap	Small cap

Table: Shares magazine • Source: Morningstar

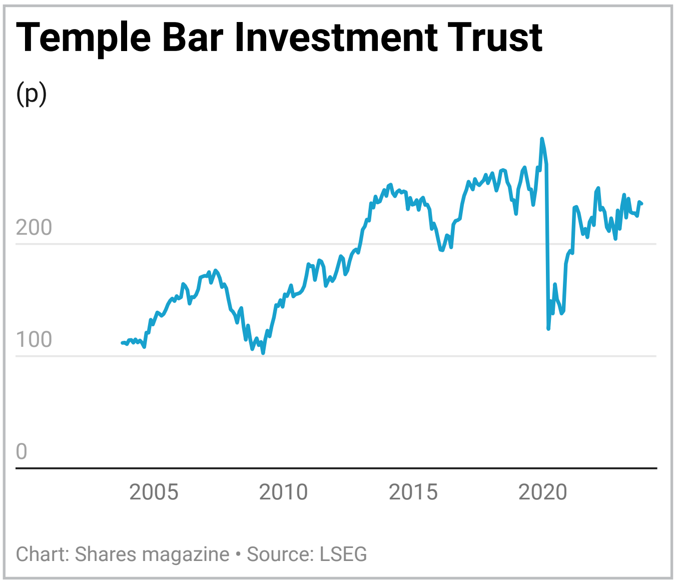
FIVE VALUE-FOCUSED INVESTMENT TRUSTS TO BUY

TEMPLE BAR INVESTMENT TRUST (TMPL) 230p

TRADING ON A 6% discount to net asset value, Temple Bar offers investors exposure to lowly-valued names with re-rating potential, predominantly selected from the FTSE 350, for an ongoing charge of 0.54%.

Managed by Redwheel's Nick Purves and Ian Lance, Temple Bar's philosophy focuses on a company's true worth. They believe investing in stocks selling for less than their intrinsic value builds in a margin of safety and in the long run the built-in value should be recognised by other investors.

Cumulative share price and NAV returns since Redwheel took over the mandate in late 2020 have exceeded the FTSE All-Share index. Top 10 positions include oil producer **Shell (SHEL)**, retailer **Marks & Spencer (MKS)** and broadcaster **ITV (ITV)**.

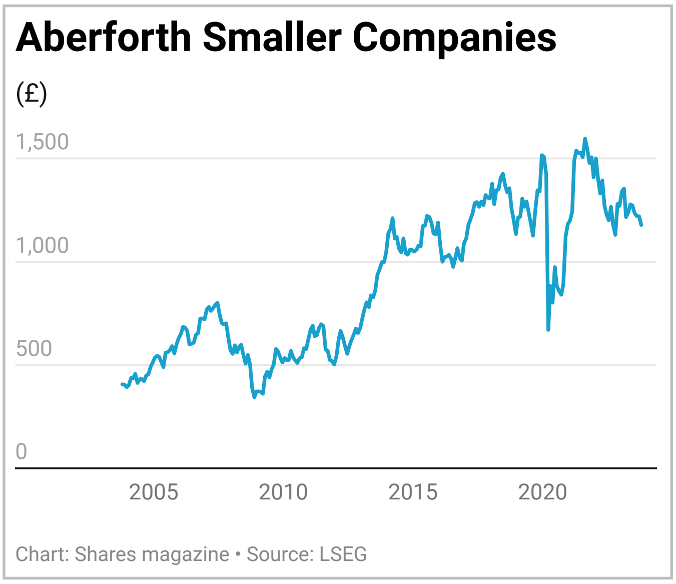


ABERFORTH SMALLER COMPANIES TRUST (ASL) £11.53

SMALL AND MID-CAPS should be the first to recover once inflation is tamed and the rate cycle turns. A savvy way to position portfolios for this eventuality is to invest in Aberforth Smaller Companies Trust, currently trading on a 13.3% discount to net asset value.

A value-style trust which buys shares in companies the managers calculate to be selling below their intrinsic value, Aberforth Smaller Companies has delivered three-year annualised total returns of 17.1%.

Reassuringly diversified across 78 holdings, the fund offers exposure to mid-cap names **FirstGroup (FGP)**, **Redde Northgate (REDD)** and gold miner **Centamin (CEY)** as well as small caps including publisher **Wilmington (WIL)** and retailer **Card Factory (CARD)**.

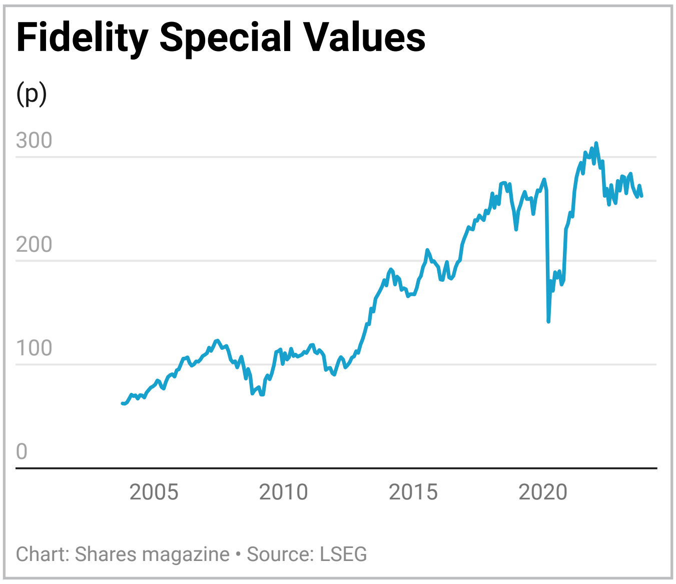


FIDELITY SPECIAL VALUES (FSV) 259p

AN 8.6% DISCOUNT on Fidelity Special Values presents a compelling entry point into the UK All Companies sector's best 10-year share price total return performer, up 92.7%.

Fidelity Special Values focuses on special situations and undervalued companies. Manager Alex Wright believes that UK company valuations remain relatively attractive compared to other markets and this has been reflected in takeover activity at a number of portfolio companies.

Wright insists the smaller end of the market cap spectrum is 'particularly rich in investment opportunities given the lack of research coverage'.



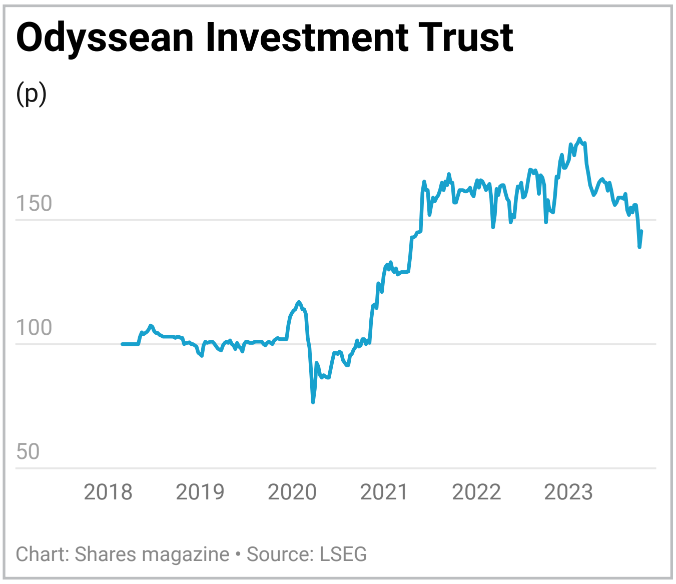
ODYSSEAN INVESTMENT TRUST (OIT) 140p

A YEAR-TO-DATE pullback presents a buying opportunity at concentrated smaller company portfolio Odyssean, which offers an attractive blend of growth and value.

Managers Stuart Widdowson and Ed Wielechowski take a private equity style approach to public markets with the aim of generating attractive total returns, principally through long-term capital growth, by purchasing significant stakes in out-of-favour firms trading at discounts to their intrinsic value.

They have proven expertise in picking companies that have subsequently been bought by private equity or strategic trade buyers. We believe the trust could be an investor favourite once small caps return to favour.

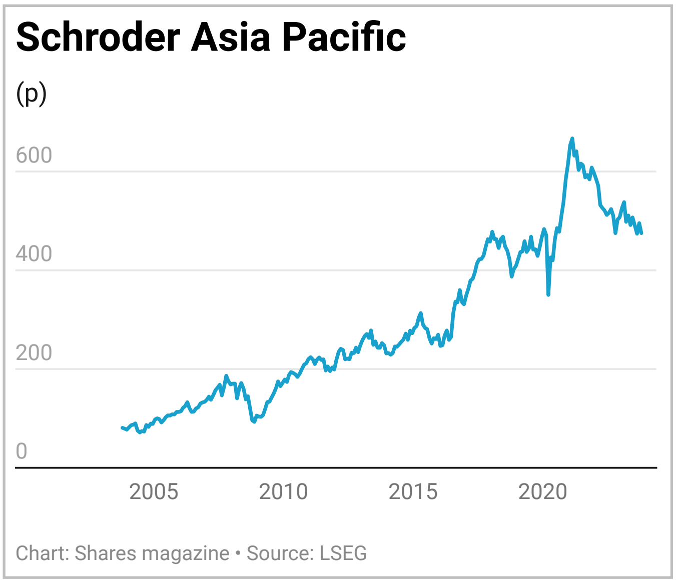
Odyssean has delivered NAV total returns of 27.7% and 48.6% over the past three and five years respectively, handsomely ahead of the 7.2% and 4.7% generated from the AIC UK Smaller Companies sector.



SCHRODER ASIA PACIFIC (SDP) 470P

A 12.9% NAV DISCOUNT on Schroder AsiaPacific should pique the interest of bargain seekers. This five-star Morningstar rated fund aims to take advantage of Asia's domestic growth story through a bottom-up stock picking approach focused on quality companies but which are considered to be undervalued.

Offering exposure to large caps ranging from electronics giant **Samsung (005930:KRX)** to Chinese tech and entertainment conglomerate **Tencent (0700:HKG)**, the Richard Sennitt and Abbas Barkhordar-managed trust invests in companies located in Asia excluding the Middle East and Japan, together with the Far Eastern countries bordering the Pacific Ocean.



With competitive ongoing charges of 0.84% and a 2.5% dividend yield on offer, the fund has an impressive long-term track record, having delivered decade-long total returns ahead of the AIC Asia Pacific sector and the Morningstar Asia ex-Japan index.

Three quick and easy ways to screen the market for value stocks

We uncover some of the cheapest stocks the UK has to offer

According to Charlie Munger, Warren Buffett's highly respected colleague and co-manager of **Berkshire Hathaway (BRK.B:NYSE)**, 'All intelligent investing is value investing, acquiring more than you are paying for.'

Or, as Howard Marks of Oaktree Capital Management puts it, 'It's not what you buy, it's what you pay, and success in investing doesn't come from buying good things but from buying things well.'

So, what simple checks can we do as private investors to see whether stocks which catch our eye are not just good businesses but are worth more than they are selling for?

QUICK AND EASY

By far the simplest and most popular method of valuing stocks is comparing the share price to a company's earnings, or the PE ratio for short.

Academics will argue that PEs aren't a true reflection of a company's growth, financial health or value, but just a short-term ratio for comparing relative value among different companies or asset classes.

That may be true, but they are also a quick and easy way of measuring what price investors are prepared to pay for a stock and the valuation metric can be applied to almost any company.

WHAT DOES THE PE RATIO MEAN?

When all is said and done, analysts' forecasts for sales, margins, currency impact, operating costs, depreciation and even tax, boil down to the earnings per share, so the PE ratio is as good a proxy as any when it comes to measuring a firm's progress.

Simply put, if a stock is on a PE of 10 it means you are paying 10 times this year's forecast earnings to own its shares. Put another way, it would take you 10 years to get back your investment in the form of earnings if they stayed at the current level indefinitely.

The PE is calculated by dividing the latest share price by the expected earnings per share. As a rough rule of thumb, a PE above 20 is considered to be a premium rating or expensive, something between 10 and 20 is in fair value territory – it varies on a sector-by-sector basis – and something on a PE below 10 is cheap. Just remember that some stocks are cheap for a negative reason and deserve to be on a low PE.

A selection of FTSE 350 stocks on low forward price to earnings ratios

Company	PE Ratio	5 year average PE	Price year-to-date
BP	7.4	14.0	17%
Standard Chartered	6.7	13.5	20%
British American Tobacco	6.6	10.4	−24%
BT	6.5	7.4	6%
HSBC	6.2	11.2	26%
Imperial Brands	6.2	10.8	−17%
Redde Northgate	6.1	9.1	−23%
Lloyds	5.7	10.8	−5%
NatWest	5.0	9.3	−13%
Barclays	5.0	7.3	−4%
IAG	4.6	2.3	14%
Drax	3.0	17.5	−39%
Just Group	2.8	7.2	−6%

Data correct as of 18 October 2023

Table: Shares magazine • Source: Sharepad, Stockopedia

A quick screening of the FTSE 350 index using SharePad and based on 12-month forward earnings shows 87 stocks with a PE ratio of less than 10, which if nothing else demonstrates the UK market is full of what would appear to be cheap companies.

At the cheapest end of the spectrum are life insurance firm **Just Group (JUST)**, electricity producer **Drax (DRX)**, travel group **International Consolidated Airlines (IAG)** and high-street banks **Barclays (BARC)** and **NatWest (NWG)** on PEs ranging from 2.8 to five times expected earnings.

In fact, all of the 'Big Four' UK lenders have mid-single-digit PEs, as does **Standard Chartered (STAN)**, along with telecoms provider **BT (BT.A)** and tobacco groups **British American Tobacco (BATS)** and **Imperial Brands (IMB)**.

On its own, this is interesting information, but it becomes even more interesting when we compare the current ratios with each company's average rating over say five or 10 years.

A selection of FTSE 350 stocks on low price to earnings growth ratios

Company	PEG ratio	Price year-to-date
Vodafone	0.8	-8%
Kingfisher	0.8	-14%
Imperial Brands	0.7	-17%
JD Wetherspoon	0.7	46%
Frasers	0.6	12%
Aviva	0.6	-8%
Barratt Developments	0.5	1%
Legal & General	0.4	-14%
Mitchells & Butlers	0.3	52%
Standard Chartered	0.3	20%
Drax	0.2	-39%
Currys	0.2	-16%
Just Group	0.2	-6%

Data correct as of 18 October 2023

Table: Shares magazine • Source: Sharepad

Using averages taken from Stockopedia, we can see that Just Group for example is trading at less than half its five-year average PE, while BP is trading almost bang on half its five-year average and most of the banks and tobacco stocks trade at just over half their historic average PEs.

The question is, why are investors only willing to pay such a low multiple of future earnings for these stocks?

We can think of a couple of possible explanations: maybe investors think earnings forecasts are too high, and therefore the PEs are wrong, or they think these companies aren't capable of growing their earnings, as growth is an important part of most people's investment strategy as well as value.

HOW TO VALUE GROWTH? USE THE PEG RATIO

If growth is a concern, a quick way to measure the market valuation against expected earnings growth is to divide one by the other to create a price to earnings growth or PEG ratio.

If a company has a PE of 10 and grows its earnings by 10%, its PEG is one, while if its PE is 5, like many of the stocks in our screening, and earnings growth is 10%, the PEG ratio is 0.5 or half the expected growth rate.

A rough rule of thumb is that stocks on a PEG of less than 1 are cheap relative to the growth on offer.

Using SharePad to screen the FTSE 350 using forward growth rates throws up a rather different list of names at the bottom of the value pile than plain PE ratios.

Out go the banks, with the exception of Standard Chartered, and in come an assortment of insurers,

A selection of FTSE 350 stocks on low price to book ratios

Company	Price to book ratio	Price year-to-date
BT	0.8	6%
British American Tobacco	0.7	−24%
Redde Northgate	0.7	−23%
Barratt Developments	0.7	1%
Lloyds	0.6	−5%
NatWest	0.6	−13%
Kingfisher	0.6	−14%
Mitchells & Butlers	0.6	52%
Standard Chartered	0.5	20%
Vodafone	0.4	−8%
Just Group	0.4	−6%
Barclays	0.4	−4%
Currys	0.3	−16%

Data correct as of 18 October 2023

Table: Shares magazine • Source: Sharepad, Stockopedia

pub groups and retailers, although like the stocks in the PE table the majority are down on the year in share-price terms.

Just Group is still the cheapest stock in the market on a PEG ratio of 0.2, while Drax looks equally unloved.

The presence of retailers **Currys (CURY)** and **Kingfisher (KGF)** suggests investors are concerned their earnings may be at risk from the cost-of-living crisis, which seems to be borne out by their weak share prices year-to-date. Having **Frasers (FRAS)** on the list of low PEG stocks is a surprise given it has been doing well as a business.

USING PRICE TO BOOK

As well as earnings, we can measure the value of a business by dividing the share price by the 'book value' or net asset value, also known as NAV.

Investors in the real estate investment trust sector will be used to using NAVs, but for ordinary equity investors it is the per-share value of the business's net assets, which is what the company would be worth if it had to be liquidated.

Using SharePad again to screen the FTSE 350, this time using trailing 12-month price-to-book – since no-one can necessarily forecast forward net asset values – we get an intriguing combination of the first two tables, i.e., banks, telecoms, retailers and tobacco, plus Just Group, which appears to be the cheapest stock in the market whichever way we look at it.

Hopefully, we have provided investors with a short-list of stocks which at least look cheap on a couple of simple metrics and may merit further investigation.

By **Ian Conway** Companies Editor

ETFs can be a powerful tool in building your value investment strategy

Low-cost funds offer wide diversification without the hours of research needed to pick individual stocks

If you started your investing journey at any point in the dozen or so years prior to the global pandemic, today's challenges will look very strange to you. The decade or more market environment of low inflation and ultra-low borrowing costs was a fertile framework for growth investing, yet the reopening of the world post-Covid has cooked up a toxic stew of wealth-sapping inflation and rising interest rates.

Whether the pendulum has meaningful swung to traditional 'value' strategies remains an open question, but if you are starting to think that your personal portfolio could do with a little more exposure to companies that derive their intrinsic value from their ability to generate cash, pay reliable dividends, and provide a bit more margin of safety for investors during uncertain times, you are not alone.

Value investing is an approach that places a high emphasis on pricing anomalies in the market. A value strategy requires seeking out companies where the current price of a stock undervalues the business, in the expectation that over time the true value of the business will be recognised, and the stock will be re-rated by the market.

There are risks. Many businesses whose shares trade on a low price to earnings multiple do so for good reason. They may have wafer thin profit margins, little revenue visibility, are structurally challenged, being managed poorly by the top brass or a combination of all or more of these factors.

INCREASING EXPOSURE TO VALUE THROUGH ETFS

Which is why ETFs with a value slant can add real 'value' to investors, neutralising the need for lot of detailed research while spreading the risk in the hope that the performance of those stocks that do re-rate higher over time will outgun those that do not.

Finding suitable ETFs for this purpose is made easy too. There are any number of websites and data services, some free, others paid-for, but *Shares* has found *JustETF.com* to be a good place to search cross-assets and cross-styles.

Concentrating on equities in this feature, the *ETF Screener* tool allows you to zoom in on equity-based ETFs-only, before refining your search further by selecting the *Equity Strategy*, then *Value* options.

This throws up a list of 25 ETFs, which Just ETF assesses as having a value investment aim. Some offer global exposure, others are more specific, focused on geographic markets, such as the US, Europe, Emerging Markets, or other focused strategies within a value remit. The ETFs come with annual charges ranging from 0.18% to 0.75%.

It is worth noting some of the funds are listed on the German XETRA market, although these should be available on most investment platforms.

HIGHLIGHTING VALUE ETFS

The **iShares Russell 1000 Value ETF (R1VL)** is London-listed and offers the lowest annual charges of the value ETF options, with an ongoing charge of 0.18%. The fund seeks to match the Russell 1000 Value UCITS 30/18 Capped index, which itself tracks the large-cap value segment among US stocks. The top holding is Warren Buffett's **Berkshire Hathaway (BRK.B:NYSE)**, followed by **Exxon Mobil (XOM:NYSE)**, **JPMorgan Chase**

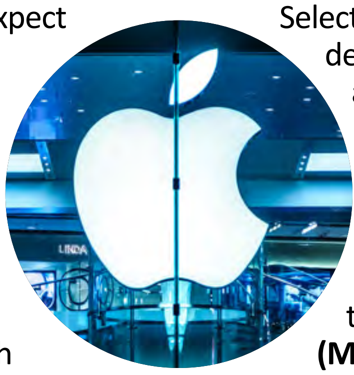
Examples of value ETFs

ETF	Fund size (£m)	Annual charges	Five- year performance
Ossiam Shiller Barclays CAPE US Sector Value TR UCITS ETF 1C (USD)	2	0.65%	81.2%
Ossiam ESG Low Carbon Shiller Barclays CAPE US Sector UCITS ETF 1A (USD)	515	0.75%	63.3%
UBS ETF (IE) Factor MSCI USA Prime Value UCITS ETF (USD) A-dis	408	0.25%	57.0%
Ossiam Shiller Barclays CAPE Europe Sector Value TR UCITS ETF 1C (EUR)	146	0.65%	45.9%
UBS ETF (IE) MSCI USA Value UCITS ETF (USD) A-dis	572	0.20%	41.6%
SPDR MSCI USA Value Weighted UCITS ETF	96	0.20%	33.8%
UBS ETF (IE) Factor MSCI USA Prime Value UCITS ETF (hedged to GBP) A-dis	9	0.30%	32.7%
UBS ETF (LU) Factor MSCI EMU Prime Value UCITS ETF (EUR) A-dis	119	0.28%	32.5%
SPDR MSCI Europe Value UCITS ETF	26	0.20%	31.0%
iShares Edge MSCI Europe Value Factor UCITS ETF EUR (Dist)	32	0.25%	30.7%
iShares Edge MSCI Europe Value Factor UCITS ETF	2	0.25%	30.2%
iShares Edge MSCI World Value Factor UCITS ETF USD (Dist)	112	0.30%	28.1%
iShares Russell 1000	6	0.18%	n/a
HSBC MSCI World Value ESG UCITS ETF	136	0.25%	n/a

Table: Shares magazine • Source: JustETF

(JPM:NYSE), **Johnson & Johnson (JNJ:NYSE)** and **Procter & Gamble (PG:NYSE)**.

Do not be put off by the meagre £6 million of assets under management, the fund was only launched in June 2023, and we would expect it to attract plenty of investor interest over the coming months, particularly if value strategies start meaningfully outperforming.



The **SPDR MSCI Europe Value ETF (EVAL)** applies its value strategy to the MSCI Europe Value Exposure Select index, which tracks large and medium-sized European companies with a higher quality slant. In other words, it tracks the wheat of the wider MSCI Europe Index while cutting lose the chaff.

Top stakes include London-listed companies **British America Tobacco (BATS)**, **Shell (SHEL)** and **HSBC (HSBA)**, plus large caps from France – **STMicroelectronics (STMPA:EPA)**, **Stellantis (STLAP:EPA)**, Germany – **Deutsche Post (DHL:ETR)**, and Switzerland – **Novartis (NOVN:SWX)** and **Roche (ROG:SWX)**.

CHECKING UNDER THE BONNET

With an ongoing charge of 0.25% **HSBC MSCI World Value ESG ETF (HWVS)** is the cheapest way to track the MSCI World Value SRI ESG Target Select index, a collection of stocks from developed countries worldwide which are selected according to the value factor strategy and ESG criteria (environmental, social and corporate governance). The parent index is the MSCI World index.

That biggest holdings include tech heavyweights like **Microsoft (MSFT:NASDAQ)**, **Apple (AAPL:NASDAQ)** and **Adobe (ADBE:NASDAQ)** many have some readers wondering about the value credentials, so a little further digging may be required to assess if this is a value ETF for you, although there is plenty of insight information available on its website.

By **Steven Frazer** News Editor

The big South Korea emerging markets debate goes on

MSCI continues to exclude South Korean stocks from its developed market indices

It is the 12th largest economy in the world with a higher GDP per capita than countries like New Zealand, Italy and Japan and yet South Korea remains in index provider MSCI's emerging market basket.

This means the MSCI Emerging Markets index enjoys exposure to a market with many characteristics of a developed market – notably FTSE Russell diverges from MSCI in classifying South Korea as such.

The remaining sticking point, which saw MSCI keep South Korea in its current position in its latest annual review in June 2023 and fail to include it in its watchlist for effective promotion, is accessibility for outside investors.

South Korea has introduced some reforms in areas like improving access to its foreign exchange market and easing overseas ownership limits in stocks but has not yet gone far enough for MSCI's liking.

Still, the South Korean market has delivered robust performance of late. MSCI Korea advancing 26.2% over the 12 months to 29 September 2023 – compared with 22.6% for the developed market MSCI World index and 12.2% for the MSCI Emerging Markets index.

The fortunes of South Korean shares are heavily tied to consumer electronics giant **Samsung (005930:KRX)**, whose weighting in the MSCI Korea index is more than 30.5%.

Technology in general dominates, with a weighting of 46% which highlights the level of innovation in the South Korean economy.

MSCI Korea – sector breakdown

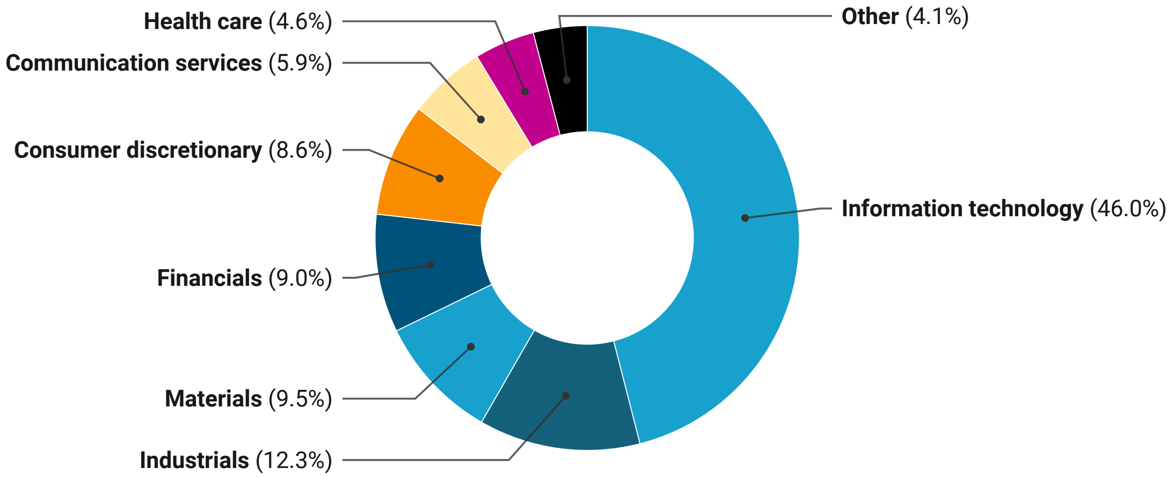


Chart: Shares magazine • Source: MSCI, data to 29 September 2023

Emerging markets: Golden Week for China as developing world beats the dollar blues

Three things the Franklin Templeton emerging markets team are thinking about right now

1. Golden Week: The first week of October in China is known as national Golden Week. It is a period when workers take time off for travel and entertainment. Investors monitor the holiday to assess household spending trends, as well as sector beneficiaries. Daily trips on China's railways set a new record of 20.1 million on 29 September, the first day of the holiday. We are monitoring sales data and company updates in the hotel, airline and property sectors for signs of a change in the current cautious spending trend.

2. Higher for longer: The US Federal Reserve's (Fed) dot plot, a summary of economic projections for interest rates, indicates US rates will be higher for longer. Updates from Asian manufacturers supplying household goods to US retailers indicates demand in the third-quarter (Q3) period was better than expected. Nevertheless, the cumulative impact of 11 Fed interest rate increases since March 2022 is eroding US household purchasing power. This creates downside risks for demand and in turn emerging market (EM) exports.

3. US dollar strength: The greenback strengthened in the Q3 period, following a weakening trend in the prior two quarters. EMs have historically struggled during periods of US dollar strength due to factors including higher cost of foreign currency debt and tighter liquidity. As there is no uniform EM interest rate trend in the current cycle—Brazil and China are cutting rates while Turkey is raising rates—the historic relationship between the US dollar and emerging markets may not hold as strong. A divergence in performance already occurred in the Q3 period, as domestically-focused markets such as India outperformed externally-focused ones including Taiwan and South Korea.

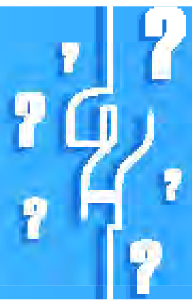
TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

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



The fund that picks good companies which also do good for the planet

Stewart Investors Worldwide Sustainability has an interesting approach to investing

Discerning investors who are looking for well-managed, well-capitalised companies with a sustainable edge have been finding their way to the **Stewart Investors Worldwide Sustainability Fund (B7W3061)** steadily over the past decade.

A £10,000 investment in the fund 10 years ago would be worth £22,372 today, although at the peak towards the end of 2021 it would have been worth just over £28,000 according to Morningstar data.

Chart: Shares magazine • Source: FE Fundinfo

WHAT MAKES THIS FUND DIFFERENT?

The use of the word 'sustainabilty' in the fund's name isn't a case of the firm jumping on the ESG (Environmental, Social and Governance) bandwagon, it is central to the way the managers think about the companies in which they invest.

In any case, the fund pre-dates the ESG boom and its focus on sustainability has its roots in Stewart Investors' many decades of experience investing in Asia, where, as product specialist Clare Wood puts it, 'if you didn't do proper due diligence on management and the sustainability of the business you were very likely to lose your money.'

The managers assess companies on three criteria. First, companies with a sustainable business tend to have been around a long time and tend to have high-quality management who have a long-term vision and are good 'stewards' of shareholders' money.

Second, and key to a company's sustainability, is the quality of its business franchise, including its ability to grow. Third is the quality of the firm's financial position and its reporting – the managers are only interested in businesses with strong balance sheets, preferably with net cash, 'clean reporting' with no financial engineering, and a conservative approach to accounting.

Combining these qualities with businesses which are sustainable in the 'green' sense, in that they do good rather than harm, means the pool of companies in which the fund can invest is much smaller than other global funds.

WHAT DOES THE FUND AVOID?

'We don't own luxury stocks, because although they undoubtedly have great management, great franchises and solid balance sheets, what they do doesn't sit with our sustainable approach,' says Wood.

Nor does the fund invest in solar or wind companies, because although the energy they produce is clearly sustainable their franchises aren't high-quality and neither are their finances.

On the other hand, so long as they fit the quality criteria, financial companies can be a force for good, particularly in emerging markets where access to basic banking services is one of the first steps for people lifting themselves out of poverty.

'We obviously pay attention to what is going on in the world in terms of interest rates and economic growth and so on, but that has no impact at all on how we build the fund or which stocks we own,' says Wood.

North America accounts for just over a quarter of the portfolio against almost two thirds in the MSCI All-Countries World Net Index (the fund's benchmark), while EMEA (Europe, the Middle East and Africa) accounts for nearly 40% against just 12.5% for the index.

The same is true at a sector level, where healthcare is the biggest position at 25% of the portfolio against less than half that level for the index, and industrials and consumer staples which jointly make up over 30% of the portfolio against just over half that figure in the index.

COMPETITION FOR A PLACE IN THE PORTFOLIO

Describing the stock selection process, Wood likens the fund to a Premier League football club where there is 'constant competition for a place not just on the team but also on the bench'.

The portfolio includes US cybersecurity firm **Fortinet (FTNT:NASDAQ)**, Swiss pharmaceutical giant **Roche (ROG:SWX)** and German semiconductor maker **Infineon (IFX:ETR)**.

It also has stakes in UK safety equipment firm **Halma (HLMA)**, Italian diagnostic specialist **DiaSorin (DIA:BIT)** and French biotech company **BioMerieux (BIM:EPA)**, among others.

Fortinet in included in its portfolio

The managers rarely sell stocks, and if they do it tends to be for one of two reasons: either the shares have performed spectacularly well, in which case the valuation has become too stretched, and the managers will look to reinvest at a lower multiple going forward; or the investment case has changed and either the management, the franchise or the financials are no longer compelling.

Two recent sales were Japanese robotics maker **Fanuc (6954:TYO)**, where the team grew concerned over the firm's rising capex needs and its ability to fend off cheaper Chinese competition, and electronics manufacturer **Tokyo Electron (8035:TYO)**, whose valuation has soared four-fold since 2020.

'For tech stocks, the outcome is often binary,' says Wood. 'All the time the company is doing well, that's fine, but if it warns and the shares have quadrupled it's not going to be fine.'

Interestingly, the managers are not only standing by their investment in Dutch payments firm **Adyen (ADYEN:AMS)**, a former fintech 'darling' whose shares have more than halved in the last two months, they have added to their holding.

'Adyen was involved in a price war with **Paypal (PYPL:NASDAQ)**, but it turns out the US firm was losing money in its attempt to gain market share so it called a truce. We think Adyen is a much better business than Paypal anyway and will pick up a bigger share of more complex transactions,' explains Wood.

SOCIAL AND ENVIRONMENTAL FOCUS

As of 30 June 2023, the fund held 50 companies, all of which were contributing to at least one human development pillar such as healthcare, housing, standard of living and education.

Just under three quarters of companies in the portfolio (72% or 36 stocks) were contributing to climate change solutions.

Source: Stewart Investors

By **Ian Conway** Companies Editor

TR Property Investment Trust

TR Property:
your one-click property portfolio

TR Property Investment Trust's fund manager, Marcus Phayre-Mudge, looks at why many property companies are well positioned to wait out high inflation. TR Property has focused solely on the property sector since 1984, offering diverse exposure to the UK and European property markets, primarily through listed real estate equities. The Trust has beaten its benchmark in 11 of the past 12 years.

Over the long term listed property can act as a wealth generator, due to its virtue of producing index-linked, and therefore inflation-proof, income. Across much of TR Property's pan-European investment universe, rental increases are tied to national inflation, giving property owners and operators excellent protection against the erosion of their earnings.

Yet, property investments succumb to two main sicknesses. One is an oversupply of (or collapse in demand for) physical real estate. The other is when the cost of money shoots up, making debt more expensive. It is this latter factor that is responsible for most downward price action over the last 18 months. Investors panicked about inflation and the resultant rising cost of borrowing.

The good news is that many property companies still have very manageable loan-to-value ratios, with debt that is fixed longer-term. Meanwhile, we have focused vociferously on weeding out companies that have borrowing burdens they are no longer able to cope with.

Imagine you have two friends, both of whom bought their flats two years ago. One is on a floating rate mortgage and winced as higher mortgage costs ate away at their disposable income. The other secured a five-year fixed deal, so isn't overly worried about what is happening to interest rates presently. The same situations are playing out in our world but on a much bigger scale – and this demonstrates how the impact of rate rises are neutral for some companies.

Nonetheless, listed real estate is highly sensitive to the sentiment that accompanies prolonged inflation. At time of writing, the terrible events unfolding in the Middle East have thrown further uncertainty into an already fragile global economy. The side effect may be that energy prices and inflation remain higher for longer.

At TR Property we are consistently hearing that the companies we invest in are sound, with few tenant defaults and healthy occupancy levels. In the case of industrials, logistics, student accommodation and prime city centre offices, rents are rising.

Market cycles over the last 30 years have shown that when interest rate projections do peak, property equities recover much more sharply than the wider stock market. This recovery should be supported by the fact there are many sub-sectors where demand remains strong. We continue to focus on companies operating in supply-constrained sectors that have little near-term refinancing, manageable loan-to-value ratios and all importantly, the ability to grow their earnings through indexation.

Selecting individual property stocks and REITs is time, resource and expertise intensive – especially during a period of uncertainty. Our aim at TR Property is to make it easy to gain broad, balanced exposure to the UK and European property sector with one click.

Confidence is in short supply but that can create opportunities

It pays to avoid short-term decisions when it comes to investing

I was lucky enough to attend an investor event in Leeds recently and the subject everyone wanted to discuss was confidence or at least the lack of it.

There are plenty of reasons investors are feeling shaky not least concerns about the potential impact of the Israel-Gaza war and, closer to home, fears that inflation might prove stickier than had been hoped.

CONSUMER CONFIDENCE ON THE FLOOR

Consumer confidence, both in the UK and in the US has dropped away, not the kind of trajectory that warms hearts as we plough deeper into the 'golden quarter'.

That lack of confidence, that uncertainty is influencing investor behaviour and shaping global financial markets with both the FTSE 100 and 250 down since the start of the year – the latter almost 10% as UK shares struggle to find the front foot.

But it's crucial not to make short term decisions, to remember that current instability will be transient and that investing as a long game means downturns can actually present opportunity.

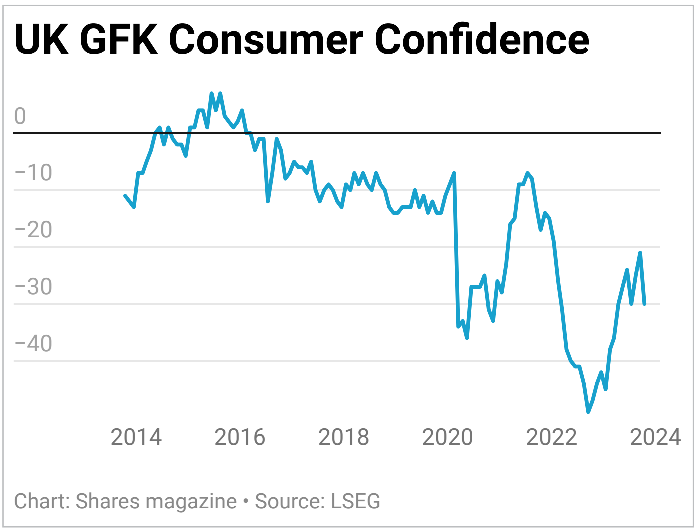
Looking back to 2020 as mutterings about Covid-19 turned into pandemic lockdowns, confidence took a similar dip with several big stocks diving and some new names emerging as pandemic winners.

The oil price plummeted as the global economy ground to a halt. It's almost surreal to remember shuttered shops and discussions about negative interest rates.

Fast forward to where we are now, and those stocks have enjoyed impressive gains as the world continued spinning and what passes for normal service has been resumed, all be it with a few inflation-fuelled tweaks.

PANDEMIC WINNERS BECOME POST-PANDEMIC LOSERS

Conversely many pandemic winners have become post-pandemic losers. Homeworking has become entrenched, but we've adapted to a hybrid



Pandemic winners became post-pandemic losers and vice versa

Company	Performance 1 Jan to 1 May 2020 (%)	Performance 1 May 2020 to 23 Oct 2023 (%)
Frasers	-45.1	217.0
Shell	-46.4	128.0
Natwest	-52.9	76.3
Ocado	26.3	-69.4
Persimmon	-18.1	-57.0
Marriott International	-44.0	122.0
Starbucks Corp	-16.1	27.6
Zoom Communications	10.4	-55.5

Table: Shares magazine • Source: LSEG

model which has lessened the ubiquity of video conferencing services and now we don't have to queue around the supermarket car park, popping to the shop is a much more desirable option for people more interested in bargains than convenience.

There's always an outlier and UK housebuilders only enjoyed a brief moment of optimism before the weight of increased borrowing costs caused the sector to buckle.

But with a UK election hurtling towards us expect a plethora of housebuilding pledges and schemes to help buyers get on or climb up the ladder.

While we can all spot potential opportunities, without a crystal ball or some kind of Warren Buffet-esque superpower it's impossible to predict the timing of stock market fluctuations but the man himself advises us 'to look at market fluctuations as your friend rather than your enemy'.

In the last couple of weeks there have been countless articles espousing the virtues of refreshing your stock shopping list, targeting companies you'd rather like to add to your portfolio if they reach a price that appeals. And it's here that the unsettling volatility, those fluctuations can actually work in your favour. Risk isn't a bad thing, its just a measure of how you feel about your finances and your financial future.

> **"Risk isn't a bad thing, its just a measure of how you feel about your finances and your financial future."**

Mitigating that risk doesn't mean playing it safe. It doesn't mean throwing everything into a cash cushion because the returns on cash savings look positively obscene compared to what we've been used to over the last decade. We've all come up close and personal with inflation. We've experienced its impact on our living standards, on our wages and its crucial we understand that our savings aren't exempt.

TIME IS YOUR FRIEND

So many people I spoke to in Leeds hadn't really got to grips with that little conundrum and its understandable that headlines about war, about geopolitical uncertainty are taking a toll on people's investing confidence. But like life, markets are cyclical and despite the dismal outlook the current crop of earnings has been remarkably robust.

Buying the dip isn't new and whilst there are no guarantees that past performance will be repeated; finding good value, good quality opportunities from that dip is a favoured tactic of many an institutional investor. Remember time is your friend, even if you're not feeling particularly confident today.

Might we see changes to the triple-lock state pension system in the future?

A reader wants to know if the system could be radically different when they retire in three decades' time

I am in my 30s and each year I've seen the triple lock policy means that the state pension goes up by quite large amount – often by more than my salary. I'm not against the state pension going up, but I wonder if I will ever see the benefit that those in their 60s and 70s are seeing now. How long will this policy be guaranteed for? And is the system likely to be hugely different by the time I retire in three decades' time?
Shane, Derby

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

Let's start with how the state pension works and what the triple-lock is before getting our crystal ball out.

Anyone who reaches state pension age from 6 April 2016 onwards builds up an entitlement to the 'new' state pension. You need a 35-year National Insurance (NI) contribution record to qualify for the full new state pension, and at least a 10-year NI record to qualify for some.

For every year below 35 years' NI contributions you have built up, a deduction will be made to the benefit you receive from state pension age. In most cases you will build up years of NI naturally through your career, but it is also possible to claim NI credits in certain circumstances, such as if you take a career break to care for your child or an elderly relative.

The UK state pension age is currently 66. It is scheduled to rise to age 67 between 2026 and 2028, and again to age 68 between 2044 and 2046.

The full new state pension is worth £203.85 per week (£10,600.20 per year) in 2023/24. The 'old' state pension, paid to those who reached state pension age before 6 April 2016, is worth £156.20 per week (£8,122.40 per year).

The old state pension amount is lower than the new state pension because under the old system, people could also build up entitlement to additional state pension, usually referred to as 'SERPS' or 'S2P'. Depending on your circumstances, this could have entitled you to a much higher state pension than the basic amount.

THE STATE PENSION TRIPLE-LOCK

The 'triple-lock' is a political pledge to increase the old and the new state pension by the highest of average earnings growth, consumer prices index (CPI) inflation or 2.5%.

Any additional state pension entitlements built up under the old state pension system usually increase in line with CPI only. Other benefits, such as pension credit, also tend to rise in line with CPI.

Since the triple-lock was first introduced over a decade ago, the earnings growth figure used in the calculation has been the three months to July in the prior year, while the inflation peg has been determined by CPI in September in the prior year.

If this approach is followed for next year's increase, the old and new state pension will increase by 8.5%, in line with average earnings growth in July.

This year, the state pension rose by 10.1%, in line with CPI in September 2022 and well in excess of average earnings growth.

We only know at the moment that the current Government is committed to the triple-lock for the rest of this Parliament. We will need to see each party's manifesto to get a better idea of whether that commitment is likely to continue into the next Parliament.

WHAT COULD IT LOOK LIKE IN THE FUTURE?

It is impossible to predict what the state pension will look like in the future – and the triple-lock only adds to the uncertainty. There is a danger the costs of the triple-lock will eventually be recouped by faster rises in the state pension age, which would create tensions about the intergenerational fairness of the system.

Part of the problem is the triple-lock is a policy without a stated aim, randomly ratcheting up the real value of the state pension in relation to earnings when inflation is high, inflation when earnings are high, and both when earnings and inflation are below 2.5%.

Its existence is essentially the Government admitting the state pension is too stingy, but without ever saying what it should actually be worth. What is absolutely certain is that, at some point, the triple-lock will have to be scrapped, otherwise the state pension will eventually be worth more than average earnings.

TIME TO REVIEW THE SYSTEM

The uncertainty you describe is one of the reasons I believe an independent commission will be needed to review the UK state pension. This review will need to consider a variety of factors, including life expectancy and wealth in different regions of the country, to determine what the state pension should be worth and for how long in retirement people should receive it.

But without that certainty, it is hard for young people in particular to plan their retirement. I still believe the state pension will exist when you reach retirement – but I cannot say that for certain. What's more, I cannot confidently tell you how much you will receive if the state pension still exists or when you will receive it.

This is another reason why taking responsibility for your own retirement is crucial. That means saving as much as you can in tax-efficient vehicles like pensions today, taking advantage of matched employer contributions (where available), tax relief and tax-free investment growth over the long term.

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.

WATCH RECENT PRESENTATIONS

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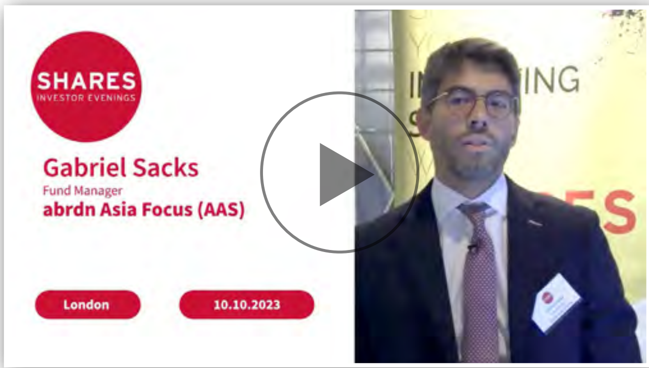
Richard Fraser, CEO

Frenkel Topping Group (FEN) is a long-established family of businesses who are tried, tested and trusted. We are always available to provide advice and technical support to our legal Clients and those they represent. We support lawyers and their Clients with a concierge approach to anything they may need throughout the litigation journey.



abrdn Asia Focus (AAS)
Gabriel Sacks, Fund Manager

abrdn Asia Focus (AAS) - A fundamental, high conviction portfolio of well-researched Asian small caps. abrdn Asia Focus is an Investment Company listed on the London Stock Exchange aiming to find the best managed Asian smaller companies that are setting the new standard.

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Dr Mark Payton, CEO
& Martin Glanfield, CFO

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The risks of investing in bonds: everything you need to know

Make sure you fully understand how the asset class works before investing

For over a decade following the global financial crisis, bonds offered little in the way of return and carried significant price risk. But the return of inflation and higher interest rates have changed all that.

You can now get a 4.5% annual yield on a UK government bond maturing in 10 years' time. That compares to under 0.2% in the depths of the pandemic in 2020.

To spell out the gargantuan difference between these two yields, if you invested £10,000 in a bond yielding 0.2% and held it to maturity, you would get back £10,200 after 10 years. If instead the bond was yielding 4.5%, you would get back £14,500.

THE OPPORTUNITIES FOR INVESTORS

The yields currently available on bonds are definitely tempting, more so because we have come through such a long period of yield deprivation.

Bonds, especially government bonds, are also traditionally seen as less risky than equities, because they tend to be less volatile.

They often move in the opposite direction to shares too, making them a good diversifier for an equity portfolio. That may be so, but there are still risks to investing in bonds, which investors need to consider.

THE RISK OF DEFAULT

When you buy a bond, you are effectively lending money to a government or company. They may fail to pay back all, or just some, of the capital and interest they have promised.

The risk of default depends on the financial strength of the government or company to whom you are lending money.

Generally speaking, lending to well-financed governments in the developed world, like the US, UK and Germany, is very safe, because these countries are unlikely to default on their debt.

If they did default, it would mean these countries would have to pay more on international debt markets to borrow again.

Emerging market governments are more prone to default. For instance, Argentina has defaulted on its debt nine times. Consequently its bond yields are eye-wateringly high, but attract only the most risk-hungry investors.

In developed markets it's riskier to lend to companies than it is to governments. The latter can raise money through taxation to service debts, but **Unilever (ULVR)**, for example, can't make us buy more of its Ben & Jerry's ice cream.

DIFFERENT GRADES OF BONDS

Corporate bonds are normally divided into investment grade and high yield or 'junk' bonds.

Investment-grade bonds get a strong score from the credit rating agencies because their finances are relatively robust, so they are judged to be able to handle their debts.

An S&P rating of BBB and above is deemed to be 'investment grade' (the ratings run from AAA through to D).

Companies with a credit rating below this level fall into the 'high yield' bucket, and as the name suggests, they have to offer more interest to lenders to make up for their shakier balance sheets.

This is common throughout the bond universe; the more risk you take, the higher the yield becomes.

It's possible to mitigate the risk of default by investing in bonds via funds, which hold a diversified portfolio of loans to many different companies. However, in tough economic times, or times of rising interest rates, the number of defaults in any portfolio can be expected to grow.

INTEREST RATE RISK

The other big risk to consider is interest rate risk. When you lend money via a bond, you lock into a certain interest rate.

If market rates rise after you've bought in, you're stuck in something that might offer a relatively paltry rate of return.

Anyone who locked into a 0.2% annual yield from UK gilts in 2020 is probably kicking themselves because they could now have picked up an interest rate of 4.5%.

This dynamic will also hurt the paper value of your bond holdings, because if interest rates rise, this will almost certainly mean your bond falls in value. This effect will be bigger for longer dated bonds.

You will still get your money back if you hold the bond to maturity, assuming there's no default, but if you want to sell at a market price this may well be lower than what you paid for it.

INFLATION RISK

Bond investors are also typically open to inflation risk. The cash flows from a conventional bond are fixed when you buy it, they don't go up and down.

If inflation goes up, those cash flows can be left looking less attractive. This will probably reduce the price of the bond but will also mean the income being provided will have less spending power.

Consider again our hypothetical investor who bought a UK gilt yielding 0.2% in 2020, only to see inflation hit double digits a couple of years later. Not a happy scenario by any stretch of the imagination.

It's possible to buy bonds where the interest payments and capital are linked to inflation, such as index-linked gilts. However, you normally have to accept a lower starting yield in exchange for the inflation protection, and as ever, existing market expectations for future inflation will already be baked into prices.

The bond market has woken up and is offering more compelling value than it has for a long time. Investors need to consider a bond allocation in the context of other assets though, chiefly equities and cash.

For those who don't wish to run a portfolio of different assets, a multi-asset fund might be the ticket. These funds offer a blend of shares, bonds and cash, and sometimes property and alternative assets like gold and commodities too. They come in a variety of risk levels and can be a useful one-stop shop for those who want a more hands-off approach to their investment portfolio.

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

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WHO WE ARE


EDITOR:
Daniel Coatsworth
@Dan_Coatsworth


DEPUTY EDITOR:
Tom Sieber
@SharesMagTom


NEWS EDITOR:
Steven Frazer
@SharesMagSteve


FUNDS AND INVESTMENT TRUSTS EDITOR:
James Crux
@SharesMagJames


EDUCATION EDITOR:
Martin Gamble
@Chilligg


COMPANIES EDITOR:
Ian Conway
@SharesMaglan


INVESTMENT WRITER:
Sabuhi Gard
@sharesmagsabuhi

CONTRIBUTORS:
Danni Hewson
Laith Khalaf
Russ Mould
Tom Selby
Laura Suter

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

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AJBell

INVESTMENT AWARDS 2023

WINNERS

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INVESTMENT AWARDS 2023

INTRODUCTION

Thank you to everyone who voted in the 2023 AJ Bell Investment Awards. We are now pleased to reveal the winners of the event in this special report.

The aim of the awards is to recognise and reward the funds, investment trusts and listed companies who are, in the eyes of investors that use AJ Bell platforms, simply the best.

A panel of experts nominated funds, investment trusts and quoted companies for the awards and AJ Bell platform users voted on who should win from the shortlist.

Daniel Coatsworth,
Editor

AJBell

INVESTMENT AWARDS 2023

WINNER

BONDS – ACTIVE

INVESCO BOND INCOME PLUS LIMITED

Bonds have long been a core part of investors' portfolios, particularly among older people who rely on their investments for income.

The shake-up in the bond market as a result of the sharp rise in interest rates since early 2022 has been challenging for anyone holding fixed-income investments, with investors discovering that bonds do not always function as safety cushions.

It has served to remind investors of the benefits of using an actively managed fund where there is an experienced person who knows where to look for opportunities in all market conditions.

Invesco Bond Income Plus aims to provide a high level of income and capital growth to investors. It focuses on the high yield bond market, to create a diversified portfolio.

It ranked top performer among investment trusts in the 'Debt – Loans & Bonds' category for the 12 months to 5 October 2023, returning 21% versus 8.5% from the sector, according to figures from FE Fundinfo.

Invesco

Invesco Bond Income Plus Limited (Ticker: BIPS)

Uncovering income opportunities in the high yield bond market

BIPS invests primarily in high-yielding fixed-interest securities with the aim of providing a mix of capital growth and income to shareholders.

Portfolio managers Rhys Davies and Edward Craven, supported by their team, typically invest in a diversified portfolio of bonds issued by large and medium-sized businesses across the sectors of the economy, both corporates and financials. They are also happy, to a limited degree, to invest in bonds that have come under price pressure but where they believe the companies could turn around their businesses.

The Company has a clearly defined income provision with a target dividend of

11.5pence

per share per year, paid quarterly*

* Dividend policies and future dividend payments are determined by the Board and are not guaranteed.

Capital at risk

The portfolio has a significant proportion of high-yielding bonds, which are of lower credit quality and may result in large fluctuations in the NAV of the product. The product may invest in contingent convertible bonds which may result in significant risk of capital loss based on certain trigger events. The product uses derivatives for efficient portfolio management which may result in increased volatility in the NAV.

Find out more here or speak to your financial adviser

Important information

The Key Information Document (KID) is available on our website. Further details of the Company's Investment Policy and Risk and Investment Limits can be found in the Report of the Directors contained within the Company's Annual Financial Report. Issued by Invesco Fund Managers Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority. Invesco Bond Income Plus Limited is regulated by the Jersey Financial Services Commission.

AJBell

INVESTMENT AWARDS 2023

WINNER

INCOME – ACTIVE

LAW DEBENTURE CORPORATION PLC

Law Debenture is a top-quartile performer in the UK Equity Income investment trust sector over the past one, three and five years, according to FE Fundinfo.

This performance history alongside a strong commitment to dividends – they've either been held or increased in each of the past 44 years – has made Law Debenture a popular choice among investors looking both for income and capital growth. The past 10 years have seen dividend growth of 114% or an average 7.9% per year from the trust.

Law Debenture has a unique structure which sets it apart from peers. Approximately 80% of net asset value in the first half of 2023 came from its portfolio of listed equities. The other 20% of net asset value is found in the ownership of IPS, a provider of independent professional services, a factor that creates a differential to the investment case of Law Debenture.

AJBell

INVESTMENT AWARDS 2023

WINNER

INFRASTRUCTURE – PASSIVE

GLOBALX U.S. INFRASTRUCTURE DEVELOPMENT

The US is investing heavily on infrastructure projects, supported by significant levels of federal spending under the Infrastructure Investment and Jobs Act (2021) and the Inflation Reduction Act (2022). This hive of activity has naturally caught the market's attention and investors have been looking for ways to get exposure, including options among passive investments.

Exchange-traded fund GlobalX U.S. Infrastructure Development tracks an index of companies that stand to benefit from a potential increase in infrastructure activity in the US, including those involved in the production of raw materials, heavy equipment, engineering, and construction.

The ETF has ongoing charges of 0.47% and achieved a 20% total return over the 12 months to 30 September 2023, according to Morningstar.

AJBell

INVESTMENT AWARDS 2023

WINNER

RENEWABLES – PASSIVE

FRANKLIN STOXX EUROPE 600 PARIS ALIGNED CLIMATE

Governments around the globe are having to make big decisions which could have a profound impact on the future, including how they shift to a low carbon world. Many governments are using the Paris Agreement – an international treaty on climate change – to define their goals.

Exchange-traded fund Franklin STOXX Europe 600 Paris Aligned Climate is one of the passive investment vehicles which track a basket of companies relevant to the climate change theme.

With a 0.15% ongoing charge, the ETF provides exposure to European large and mid-cap stocks which align to the low carbon transition.

THE WINNERS

UK Equity - Active
Artemis UK Select

European Equity - Active
Henderson European Focus Trust PLC

North American Equity - Active
JPMorgan American Investment Trust PLC

Asian Equity - Active
Pacific Assets Trust PLC

Japan Equity - Active
Schroder Japan Trust PLC

Emerging Markets Equity - Active
BlackRock Frontiers Investment Trust PLC

Global Equity - Active
JPMorgan Global Growth & Income PLC

UK Smaller Companies - Active
Fidelity UK Smaller Companies

Commodities/Resources - Active
BlackRock World Mining Trust PLC

Technology/Biotech - Active
Polar Capital Technology PLC

Property - Active
TR Property Investment Trust PLC

Bonds - Active
Invesco Bond Income Plus Limited

Income - Active
Law Debenture Corporation PLC

Ethical/Sustainable - Active
Liontrust Sustainable Future Global Growth

Specialist - Active
Pantheon International PLC

UK Equity - Passive
Vanguard FTSE 250 ETF

European Equity - Passive
Vanguard FTSE Developed Europe ex UK ETF UCITS ETF

North American Equity - Passive
Vanguard S&P 500 UCITS ETF

Asian Equity - Passive
UBS ETF (LU) MSCI Pacific Socially Responsible UCITS ETF (USD) A-dis (GBP)

Japan Equity - Passive
Lyxor Core MSCI Japan (DR) ETF

THE WINNERS

Emerging Markets Equity - Passive
HSBC MSCI Emerging Markets UCITS ETF

Global Equity - Passive
Lyxor Core MSCI World ETF

Commodities/Resources - Passive
Xtrackers IE Physical Gold - GBP Hedged

Technology/Biotech - Passive
L&G Global Technology Index

Property - Passive
VanEck Global Real Estate UCITS ETF

Bonds - Passive
Vanguard Global Corporate Bond Index Fund

Income - Passive
Fidelity Emerging Markets Quality Income UCITS ETF

Ethical/Sustainable - Passive
iShares MSCI World SRI UCITS ETF

Specialist - Passive
VanEck Semiconductor UCITS ETF

Best Company for Shareholder Communication
Marks & Spencer Group PLC

AIM Company of the Year
Yu Group PLC

Growth Company of the Year
Warpaint London PLC

Renewables- Passive
Franklin STOXX Europe 600 Paris Aligned Climate

Renewables - Active
The Renewables Infrastructure Group Limited

Infrastructure - Passive
Global X U.S. Infrastructure Development

Infrastructure - Active
3i Infrastructure PLC

FTSE 100 Company of the year
3i Group PLC

FTSE 250 Company of the year
Marks & Spencer Group PLC

Income Company of the year
GSK PLC