STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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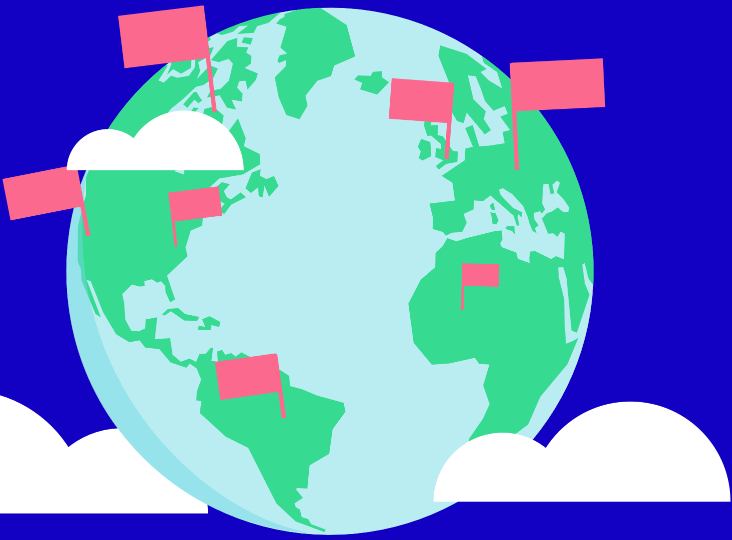
SHARES

WE MAKE INVESTING EASIER

Don't give up on GROWTH

Why the investment style can still be a big winner for investors



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Three important things in this week's magazine

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Why growth investing can still deliver strong returns in a higher-rate world

While growth stocks may have struggled since 'Pfizer Monday', plenty of managers are convinced companies with strong fundamentals will outperform

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Does the mining sector deserve more love?

Sentiment is weak and valuations are lowly. A regime of self-help could help shift market perceptions and allow miners to attract the capital needed to produce the metals required for the transition to clean energy

3

One of the FTSE 100's most consistent growth companies serves up a rare disappointment

Shares in equipment-rental giant Ashtead have been punished by the market, creating an opening for fleet-footed investors with a longer-term view

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:

New tech bull market has started, claims analyst, pointing to strong 2024 returns

Why Diploma shares jumped 9% to a new 12-month high

Director Deals: Shaftesbury Capital director tops up, Melrose director bags over £270,000

Marston's chief executive steps down after just two years in the post

Nvidia blows the lights out but China clampdown causes concerns

AI chip firm says it will not be able to offset trade barriers forever

The AI boom continues to drive stunning revenue growth for **Nvidia (NVDA:NASDAQ)**, which smashed already-elevated earnings expectations, but the firm issued a veiled threat that US restrictions on selling advanced chips to China may come at a cost.

Nvidia clocked adjusted earnings per share of $4.02 on revenue of $18.12 billion in the third quarter (to 31 October), a sharp beat versus consensus estimates of $3.36 earnings per share and $16.18 billion revenue. But the risk of a significant decline in future revenue from China as the impact of Washington's exports impasse with Beijing rumbles on was not missed by investors.

'We expect that our sales to these destinations will decline significantly in the fourth quarter of fiscal 2024, though we believe the decline will be more than offset by strong growth in other regions', said finance chief Colette Kress.

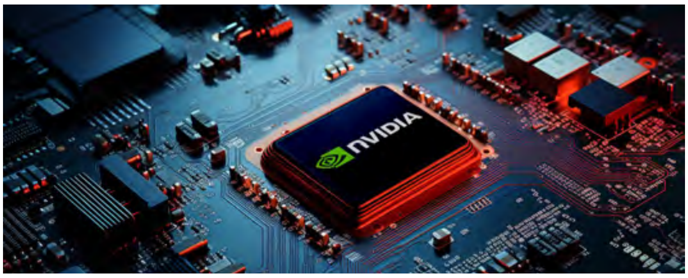


Chart: Shares magazine • Source: LSEG

It meant Nvidia's stock drifted back from record $499.44 levels, although having run up more than 16% into the results, some profit taking was to be expected.

The reverberations echoed across Nvidia's Asian suppliers. Japan's **Advantest (6857:TYO)** and **Tokyo Electron (8035:TYO)**, which supply semiconductor equipment to Nvidia, sank around 4% and 1% in response. **Taiwan Semiconductor Manufacturing Company (TSM:NYSE)**, the world's biggest contract chipmaker and a key Nvidia supplier, fell 1.5%, while Korean memory chip suppliers **SK Hynix (000660:KS)** and **Samsung Electronics (005930:KS)** lost around 1.6% and 1.1%, respectively.

Nvidia is going all-in on AI, arguing we're on the cusp of a radical shift in the world of technology on a par with the birth of the internet. Companies in every industry are exploring ways to use AI to improve productivity and that creates a huge runway for Nvidia to grow its earnings.

Steven Yiu, manager of the **Blue Whale Growth Fund (BD6PG78)**, whose largest stake is Nvidia, believes that using AI to do the work of just 5% of the estimated one million white collar workers globally implies a $1 trillion market opportunity. This is a long-run transition and won't happen overnight, but the scale of AI's ability to change how organisations work sits behind analysts' share price targets for Nvidia of $1,100 at the top end.

'Its key challenge is to keep up with demand and to keep innovating, rolling out new products that can help companies, while also ensuring it remains at the cutting edge of the AI industry', says AJ Bell's Russ Mould. 'Nvidia is the dominant force in the market and there is no room for complacency, otherwise competition will be biting at its heels.'

Disclaimer: Financial services company AJ Bell referenced in the article owns Shares magazine. The author of the article (Steven Frazer) and the editor of the article (Ian Conway) own shares in AJ Bell. Steven Frazer also has a personal stake in Blue Whale Growth.

NatWest retail share offer and booze duty freeze catch market attention in Autumn Statement

Gloomier picture for economic growth as chancellor unveils national insurance cut

Shares in banking group **NatWest (NWG)** slipped on news of a potential retail shareholder offer in the coming 12 months – with chancellor Jeremy Hunt giving a deliberate nod to the privatisations of the 1980s in his Autumn Statement.

The concern will be that at least a portion of the state's remaining 38.6% stake will be offered at a discount to ordinary investors, and this could act as an overhang on NatWest shares.

Hunt's main move was a cut in national insurance by two percentage points, but those with most to cheer from the statement from a market perspective were, appropriately enough, the pub and booze stocks as they reacted to a freeze on alcohol duty until 2024.

Among the biggest risers was **Marston's (MARS)**, which as well as running hundreds of pubs across the UK has a brewing joint venture with **Carlsberg (CARL-B:CPH).** Shareholders in **Diageo (DGE),** the maker of Guinness and a range of different spirits, also toasted the news with the shares building on earlier gains to trade 1.3% higher intra-day.

The pound slipped slightly against the dollar as the Office for Budgetary Responsibility downgraded growth expectations from their projections in the spring and increased their forecasts for inflation for 2024 and 2025.

Meanwhile, gilt yields, which spiked alarmingly in the wake of the disastrous mini-Budget in 2022, also moved higher. [TS]

Pension and ISA plans

On pensions, the plan to consult on a lifetime provider model, allowing individuals to have contributions paid into their existing pension scheme when they change employer – a so-called 'pension for life' – received a qualified welcome from the industry.

William Stevens, head of financial planning at stockbroker Killik & Co, said: 'This will aim to reduce the number of pensions accumulated within a lifetime and aim to create a "pension for life", which can move with them through employment and their lifetime.

'However, the implications for employers and pension administrators may make this more complex to implement and potentially increase the cost of many workplace pension schemes.'

In addition, measures were outlined aimed at making it easier for large pension schemes to invest into growth companies and areas like infrastructure while also pushing schemes to compare themselves against others in the market in terms of competitiveness.

Proposals to simplify ISAs included a reference to the digitalisation of ISA reporting and the inclusion of long-term asset funds and open-ended property funds with extended notice periods in the list of ISA-eligible investments. There are also plans to allow multiple ISA subscriptions and partial transfers between providers as well as a consultation on allowing certain fractional shares to be held in an ISA.

UK takeover focus turns to consumer-facing stocks

Hotel Chocolat and City Pub receive bids while Halfords and Musicmagpie draw buyout interest

Predators continue to swoop on the UK stock market's undervalued prey and a number of consumer-facing firms have drawn bids or flagged takeover interest since *Shares* addressed the mergers and acquisitions theme on 16 November.

High-profile targets include **Hotel Chocolat (HOTC:AIM)**, **City Pub Group (CPC:AIM)** and **Musicmagpie (MMAG:AIM)**, and given the lowly valuations currently ascribed to UK consumer stocks investors can confidently expect further bids heading into 2024.

MARS SCOOPS UP CHOCOLAT

The latest in a long line of British companies to attract bids from overseas buyers is premium chocolatier Hotel Chocolat, which on 16 November revealed it had recommended an all-cash offer from privately-owned Snickers-to-Skittles maker Mars. Amazingly, the 375p offer price represents a 170% premium to the target's 139p closing price on 15 November - bid premiums are typically in the 25% to 50% range - though it is around 27% below the all-time highs the posh chocolate brand reached in December 2021.

Mars, whose opportunistic swoop comes at a time when Hotel Chocolat's management is reshaping the business, sees a strong cultural fit between the two firms and believes it is well-positioned to support the upmarket chocolate brand's next growth phase given its international footprint, global supply chain and extensive commercial relationships.

Family-controlled US food giant Mars' willingness to pay such a fat premium shows it has taken a long-term view of what Hotel Chocolat is worth and doesn't want to waste time with a low-ball offer.

In contrast, **Young's (YNGA:AIM)** recommended bid for City Pub is pitched at a more modest 46% premium to the undisturbed share price and looks like a more standard takeover situation, as City Pub was always going to be a bid target from the day it was created.

BT EYES MUSICMAGPIE

Meanwhile, unexpected bidders have been circling car parts-to-bicycles seller **Halfords (HFD)** and refurbished electronics seller Musicmagpie. Media reports suggest van hire company **Redde Northgate (REDD)** held merger talks with Halfords, the motoring-to-cycling products seller which has been repositioning itself as a motoring services business, but discussions broke down over the thorny issue of valuation.

And shares in IPO flop Musicmagpie flapped higher on 20 November after the smartphones-to-computers recycler confirmed early-stage talks were afoot with telecommunications titan **BT (BT.A)** and private equity group Aurelius over a possible bid. What would BT want with Musicmagpie? Well, the Stockport-based firm has evolved from selling CDs and DVDs to selling, fixing and renting out mobile phones and other electronic devices. BT and its mobile brand EE deal in large volumes of phones, so bringing a refurbishment specialist like Musicmagpie under its wing could actually make sense. [JC]

Uber shrugs off doubts about profitability after rise in third quarter revenue

The San Francisco-based ride-hailing firm has seen its shares more than double this year

Shares in ride-hailing and food delivery outfit **Uber Technologies (UBER:NYSE)** are up 121% year-to-date with the latest rally driven by a strong outlook for the fourth quarter.

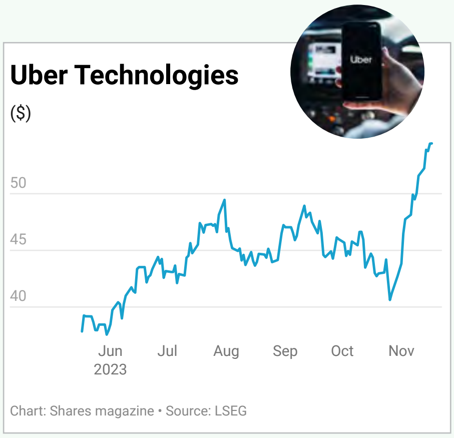
While third-quarter revenue of $9.3 billion was slightly below forecasts it still represented 11% growth, and the firm posted only its second ever quarterly profit.

Gross bookings grew 21% to $35.3 billion, and trips and monthly active platform consumers grew 25% and 15% respectively.

Chief executive Dara Khosrowshahi was upbeat about the firm's prospects saying the core business was 'stronger than ever.'

Uber predicts gross bookings of $36.5 billion to $37.5 billion and EBITDA (adjusted earnings before interest, tax, depreciation and amortisation) of $1.18 billion to $1.24 billion in the fourth quarter.

Khosrowshahi also announced Uber could venture into the self-driving



car sector, although if it does it faces stiff competition from the likes of US motor giant **General Motors (GM:NYSE)** and Elon Musk's **Tesla (TSLA:NASDAQ)**.

That said, the company is no stranger to competition having had to battle with rival ride-hailing firm **Lyft (LYFT:NASDAQ)** whose strategy of slashing fares has piled the pressure on Uber in the first half of this year. [SG]

Burberry shares suffer biggest one-day fall in over a decade

Weaker demand in Americas and Asia Pacific knock the luxury goods group

2023 has been anything but a vintage year for investors in **Burberry (BRBY)**, with the shares losing 23% year-to-date as sales succumb to the global economic slowdown.

The firm's fall from grace shows that even luxury fashion houses aren't immune from seeing their customers cut back on spending.

Demand in China has more or less evaporated after an initial post-pandemic bounce, with Asia-Pacific revenue up just 2% in the six months to 30 September, and sales in the Americas are down 10% compared with a year ago.

Russell Pointon, director of consumer at investment research and consultancy firm Edison, commented: 'The more challenging macroeconomic environment has taken its toll on management's guidance for full year 2024, with prior revenue guidance unlikely to be met and guidance for adjusted operating profit moving to the lower end of consensus expectations despite a reduced currency headwind now being predicted.'

There were a few glimmers of hope for shareholders, however, as the group completed its £400 million share buyback and increased its first half dividend by 11% to 18.3p per share.

Shareholders in Burberry and other luxury goods firms will need to wait and see whether demand picks up next year or whether even their well-heeled clientele continue to rein in spending. [SG]

UK UPDATES OVER THE NEXT 7 DAYS

FULL YEAR RESULTS

November 28: Treatt, Focusrite, EasyJet, Renew Holdings

November 29: Benchmark Holdings

November 30: Genedrive, Auction Technology Group

FIRST HALF RESULTS

November 27: Celebrus Technologies, DSW Capital

November 28: Supreme, Augmentum Fintech, Pets at Home, GB Group, VP, Mercia Asset Management, Kinovo

November 29: Pennon Group

November 30: Dr Martens, Zoo Digital Group, Carclo, SRT Marine Systems

December 1: Mind Gym

TRADING ANNOUNCEMENTS

November 27: Rightmove

November 28: Loungers, Safestore Holdings

November 30: Me Group International

Can Pets at Home get investors purring again?

CMA review and operational issues are weighing on sentiment towards the group

Pets at Home (PETS) investors will be hoping the UK pet-care leader's first half results statement (28 November) doesn't set the cat among the pigeons. Any signs that the cost-of-living pressures impacting pet owners' disposable income are slowing its sales momentum or curtailing customer acquisition growth could be harshly punished.

Share price weakness at the pet food-to-toys purveyor reflects operational challenges at the retailer's new distribution centre, which impacted second-quarter growth, as well as an ongoing CMA (Competition and Markets Authority) review into the UK veterinary services market.

The CMA review undoubtedly adds uncertainty, but retail is a much bigger part of the business than veterinary services and Shore Capital says it is 'unlikely to result in a negative outcome' for the company. 'If the CMA concludes that remedies are needed in the sector, Pets at Home appears well-positioned to us as it has already implemented many of the possible measures, such as transparency in pricing,' says the broker.

Pets at Home

Chart: Shares magazine • Source: LSEG

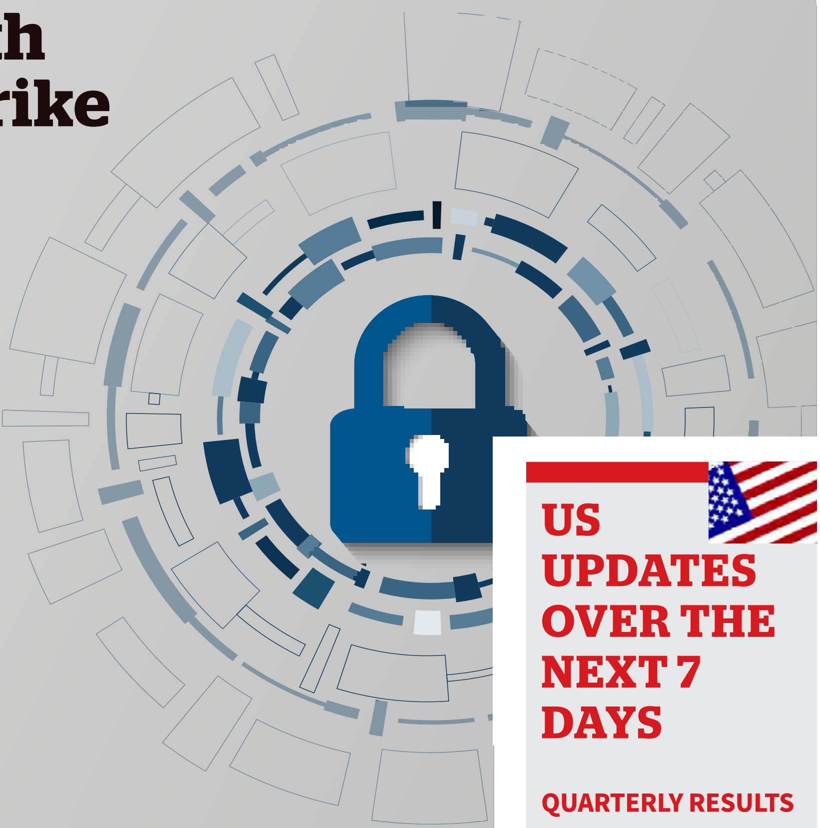
Pets at Home delivered strong group like-for-like revenue growth of 7.9% for the first quarter to 20 July and said it continued to acquire new consumers 'at an impressive rate, as our compelling value, range and service continues to resonate with consumers'. However, Shore Capital subsequently downgraded its year to March 2024 sales and pre-tax profit forecasts to reflect the operational hiccups encountered in Q2. [JC]

What Shore Capital expects of Pets at Home

	EPS (p)	Revenue (£bn)
Year to March 2024	20.5	1.48
Year to March 2025	23.7	1.57

Table: Shares magazine • Source: Shore Capital

AI-powered growth has seen Crowdstrike stock double



Cybersecurity company promising years of high growth profits

After years of investment, cyber-security firm **Crowdstrike (CRWD:NASDAQ)** is poised to kick-start its profitable growth phase, one that could keep the stock on the boil. The shares have already doubled in 2023 as investors bet on AI-powered growth years into the future, and that optimism is shared by Stifel analyst Adam Borg.

'Crowdstrike's differentiation is its high-efficacy cloud-based endpoint technology, lightweight single-agent architecture, and massive scale analysing over a trillion events daily,' the analyst recently wrote. He expects that the Austin, Texas-based company will be able to sustain revenue growth of somewhere in the low-to-mid-20% range, at a minimum, while improving its operating margin and free-cash-flow generation. Those factors could drive a more generous valuation, according to Borg.

Crowdstrike has run-up more than a billion dollars of net losses since 2018 to get to this place, and investors are hoping their patient backing will continue to pay off. Consensus for the third quarter 2024 (28 November) calls for a 30% jump in earnings to $0.74 per share on $777 million of revenue.

That would inspire confidence the vast profits being promised are no pipedream. Consensus forecasts see a rough $680 million net profit this year (to 31 January), and above $870 million the year after, according to Stockopedia data. [SF]

What the market expects of Crowdstrike

	EPS ($)	Revenue ($m)
Q2, 2024	0.74	731.6
Forecast for Q3, 2024	0.74	777.3
Forecast for Q4, 2024	0.78	836.8

Table: Shares magazine • Source: Investing.com

Crowdstrike

($)

Chart: Shares magazine • Source: LSEG

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

November 27: Zscaler, Seadrill, Up Fintech, Ituran

November 28: Intuit, Workday, Bank of Novo Scotia, Crowdstrike Holdings, Splunk, Hewlett Packard, NetApp, Azek,

November 29: AIA Group, Synopsys, Snowflake, Hormel Foods, Okta, Five Below, Donaldson, Freedom, Frontline, Lend Lease, Foot Locker, Semtech

November 30: Salesforce, RBC, VMWare, Kroger, Ulta Beauty, Samsara, Academy Sports

December 1: Bank of Montreal, Marvell, ChargePoint

Alliance Trust

A ONE-STOP SHOP FOR GLOBAL EQUITIES

There's a multitude of funds available to DIY investors. From index-trackers to specialist regional or sector funds, investors are faced with almost limitless choice.

But, unless you have the time and confidence to be your own fund manager, building and managing a portfolio can be confusing and lead to expensive mistakes. Alliance Trust aims to do all the hard work for you. We offer a competitively priced, one-stop shop for global equities that provides peace of mind.

OUR OBJECTIVE

The fund is designed to deliver a return over the long term that beats inflation through a combination of capital growth and a rising dividend. Our team of expert fund managers invests in stock markets worldwide, resulting in a balanced equity portfolio which avoids taking bets on any country, sector or investment style outperforming. We just focus on picking the best companies across the whole market.

DESIGNED TO PERFORM

Returns are driven by the skill of ten top fund managers. Each contributes 10-20 of their most exciting ideas, which collectively make up Alliance Trust's portfolio. The managers' high-conviction stock picking approach gives the portfolio strong potential to outperform its index[1].

EXPERT MANAGER SELECTION

Our team of ten complimentary fund managers is chosen by WTW, who manages over $163bn in multi-manager portfolios worldwide[2]. And has decades of experience advising some of the world's largest pension schemes on the best fund managers.

EXCLUSIVE STOCK PICKS

Alliance Trust is the only way UK private investors can gain access to each manager's concentrated stock picks.

RISK CONTROLLED

Our multi-manager approach reduces risk and volatility, smoothing out performance peaks and troughs associated with a single manager's approach to investing.

RESPONSIBLY MANAGED

We ensure the portfolio is responsibly managed by looking beyond today's profit and loss accounts and give full consideration to environmental, social and governance factors that may affect a company's prospects.

RELIABLE AND INCREASING DIVIDENDS

We're also proud of our track record of paying rising dividends. Over the years, we have been able to build up significant reserves which we can draw on to sustain our progressive dividend policy for investors. We aim to extend our current 56-year record of increasing dividends in 2023 and beyond.

COMPETITIVE COSTS

Finally, we aim to keep costs as low as possible to ensure they don't eat into your returns. Our ongoing charges ratio at the end of 2022 was 0.61%.

ONE FUND, MULTIPLE DRIVERS OF RETURN

With multiple drivers of return in one fund managed by experts, we believe Alliance Trust could be the only equity investment you will ever need.

OUR STOCK PICKERS

SGA Sustainable Growth Advisers · Jupiter · Black Creek Investment Management Inc. · GQG Partners · Veritas Asset Management · Lyrical Asset Management, LP · Vulcan Value Partners · Metropolis Capital · Sands Capital · Dalton Investments

Note: "JUPITER" and JUPITER are the trade marks of Jupiter Investment Management Group Ltd and registered in the UK and as Community Trade Marks and elsewhere.

1. MSCI All Country World Index. 2. As at 31 December 2022. 3. GQG manages an emerging markets and a global equity mandate for the Company.

Take advantage of the market's overreaction to buy shares in Ashtead

BUY

The equipment-hire company is a great long-term 'quality compounder'

Ashtead
(AHT) £45.93
Market cap: £20.2 billion

We have always liked **Ashtead (AHT)** as a business but the shares seemed to be on never-ending upward path, so when the opportunity arises – as it has this week – to buy shares on a rare setback, investors should seize the chance.

Ashtead, which has an exceptional track record for dividend growth, rents a full range of more than a million pieces of construction and industrial equipment to a wide base of more than 800,000 separate customers.

Most of its business is in the US and Canada, where its Sunbelt brand rents kit to the non-residential construction market as well as providing emergency response in states like Florida which are regularly hit by storms and floods.

Over the last three months, however, its disaster relief activities have been lower than last year due to a 'significantly quieter hurricane season' and fewer other natural disaster like wildfires.

In addition, the prolonged Hollywood writers' and actors' strikes have impacted rentals to the firm's film and TV customers in Canada with some impact on other parts of the business.

As a result, group and US rental revenues are seen growing between 11% and 13%, modestly below the previous guidance of 13% to 16%, meaning EBITDA (earnings before interest, tax, depreciation and amortisation) will be 2% to 3% below market expectations.

Add to that a higher depreciation charge and higher interest costs and pre-tax profit will be lower than the $2.1 billion forecast by the market.

Despite this temporary setback, the firm says its end markets in North America 'remain robust, supported in the US by an increasing number of mega projects and recent legislative acts' which are boosting spending on infrastructure and environmental programmes.

In other words, if you can look past this short-term disappointment, which is due to events beyond management's control, this is still a growth market supported by government spending and regulatory drivers with Ashtead set to be a major beneficiary. What would prompt more concern is any sign of a pronounced slowdown in US infrastructure or construction spend and we will remain watchful of this possibility.

The firm continues to invest in its own business and in M&A buying up small local competitors and integrating them (and their customers) into its network which adds to underlying growth.

With the stock clobbered by more than 12%, knocking over £2.5 billion off the firm's market cap, this is the cheapest level to buy into one of the UK's greatest growth compounders in around a year.

The market may want reserve judgement on the company until it publishes its first half results on 5 December, but assuming there is no more bad news we see the shares getting back on the conveyor belt and resuming their upward trend. [IC]

Ashtead

Chart: Shares magazine • Source: LSEG

Invest in Paycom for a higher risk but high reward opportunity

Innovative growth business has fixable problems and large upside potential

Paycom
(PAYC:NYSE) $182.44
Market cap: $11 billion

If the story at **Paycom Software (PAYC:NYSE)** plays out as we hope, investors could be looking at the stock surging to $250 over the next 12 to 18 months, and perhaps as high as $475 over the coming years. But investors need to know this is not a low-risk opportunity.

Prominent payroll firm Paycom has taken an absolute hammering after reporting weaker-than-expected third quarter sales, lowering guidance, and admitting that its *Beti* product may be cannibalising other revenues.

Beti essentially automates payrolls by requiring employees to review, troubleshoot, and approve their pay checks, thereby reducing the need for time-consuming and costly after-the-fact corrections.

Effectively, 2024 earnings growth guidance has been cut from around 20% to around 12%.

The stock has lost about 25% since the early November bombshell, after recovering from $150 lows, and some investors have launched a class action lawsuit against Paycom management. A litigation overhang is never welcome but as far as we can tell similar class action suits in the US seem to have resulted in limited financial impact.

So why would investors go near this stock? Two big reasons. First, Paycom remains an innovative business that is still expanding with, before recent events, an almost unblemished record for meeting and beating market expectations. It is solidly

profitable with barely 5% market share. 2024 guidance, we believe, has been set to beat.

Second, Paycom's problems are internal, not macro, and crucially are fixable. In time, we would expect the company to innovate with new services and products to create new growth lines, but even in the short term, management still has a vast market opportunity to aim for as analysts estimate roughly half of all firms are still relying on spreadsheets and small, local and under-scale IT partners.

Jefferies analysts are confident issues will be corrected, and growth will return to previous rates down the line. They also highlight healthy new bookings and customer retention rates.

Morningstar analysts estimate compound average revenue growth at 15% annually over the next five years. It is on this basis that we calculate our previously mentioned $475 price assumption, and that's factoring in a long-run price to earnings ratio of 25, about a 40% discount to the rating at the start of this year.

Operating margins have typically been running at 27% on average while returns on capital employed and equity are similarly high, at 24% and 26% since 2017. These could all drift in the short term as management gets to grips with its troubles but, we believe, patient investors should feel comfortable buying this growth stock today. [SF]

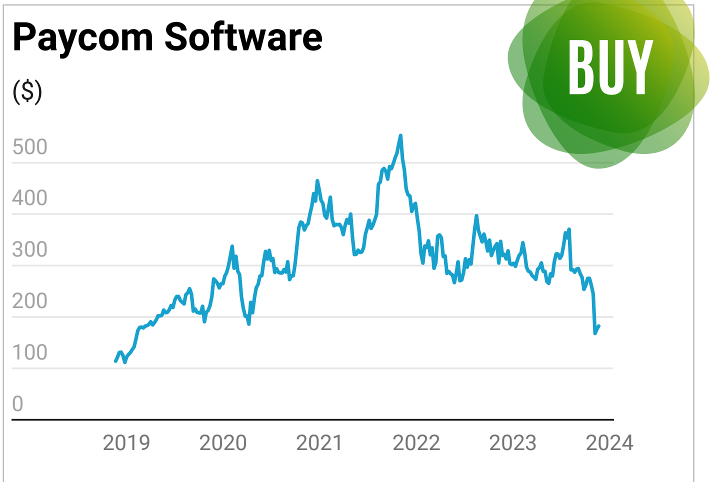


Chart: Shares magazine • Source: LSEG

Keep buying Babcock to reap the full turnaround benefits

Self-help actions and increased demand from global threats provide major tailwinds

Babcock
(BAB) 401.4p

Gain to date: 22.1%

BUY

Original BUY @ 328.8p on 16 March 2023

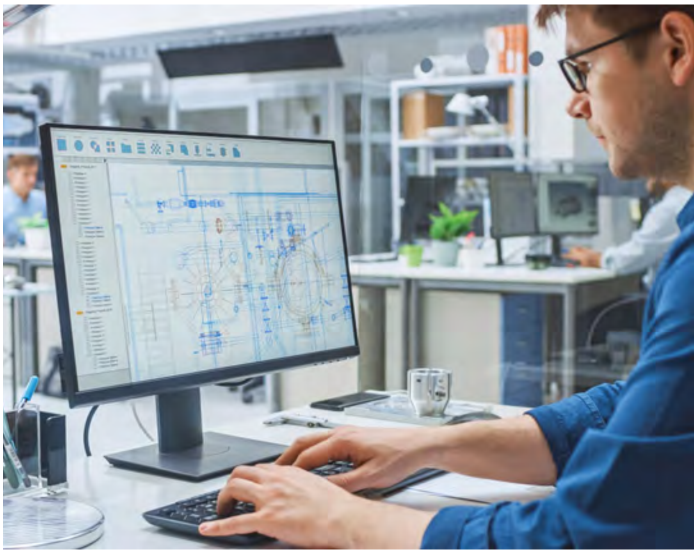
We highlighted the FTSE 250 company was at the start of a major recovery under chief executive David Lockwood and chief financial officer David Mellors, who together successfully turned round defence outfit Cobham before its £4 billion sale to US private equity firm Advent in 2020.

An increase in geopolitical tensions continues to provide a constructive backdrop for Babcock which is a big supplier to the UK and international partners.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

Full-year results to the end of March came in better than expected with revenue up 10% and underlying operating profit climbing almost 17% to £278 million.

'When we started our transformation, my first goal was to stabilise and strengthen the balance sheet and I'm delighted to say that work is complete,' said Lockwood.



'Babcock is now a higher-quality, lower-risk and more predictable business, with a clear focus on execution.'

The company also resumed dividend payments after a four-year hiatus, reflecting its confident outlook based on a growing order book and scope for further margin expansion.

Positive momentum has continued to build with first half operating profit to the end of September rising 27% to £154 million, beating analysts' expectations. Profit was boosted by earlier than anticipated license income from a Polish frigate programme.

The company stuck to its full year guidance and said the global threat environment continues to drive demand for defence equipment and maintenance work.

Over the medium term, Babcock is aiming to deliver average underlying operating cash conversion of at least 80%, an operating margin of more than 8% and average annual revenue growth in mid-single digits.

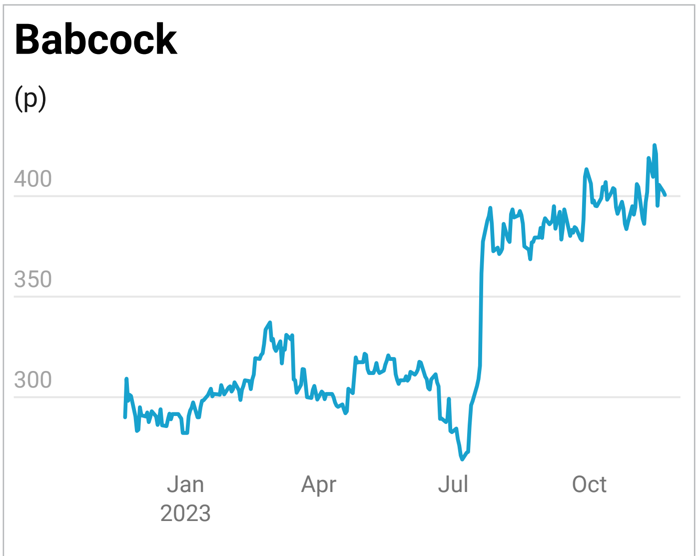


Chart: Shares magazine • Source: LSEG

WHAT SHOULD INVESTORS DO NOW?

With the turnaround programme still in its early stages and global tensions remaining front and centre, *Shares* believes Babcock remains a compelling opportunity. [MG]

Are you a private investor with an interesting story to tell?

Get in touch and share your experiences

We will pay £50 in vouchers as a thank you to anyone whose story is published in the digital magazine. You can choose to spend them with a variety of shops and leisure companies including Marks & Spencer, John Lewis, Odeon, Wagamama and Pizza Express.

We are looking for individuals or couples to share their investing experiences. If you would like to take part, we want to know why you chose certain stocks, funds or bonds, why you might have subsequently sold some of them, and what you hope to achieve from investing.

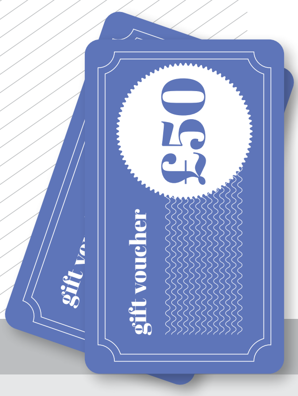
You might have been investing for years with plenty of stories to tell about what went right or wrong with your investment decisions. Or you might be new to investing and are still finding your way around the investment universe. We're interested in either of these situations.

Do you belong to an investment club and would you like to talk about these meetings? Are you retired and looking to make your money last for years to come? Are you in your 20s or 30s and have only made small steps into your investment journey? Perhaps you're in your 40s and 50s and are still accumulating wealth?

We have had great feedback from readers about the case studies published in *Shares*. They like to hear how the general public approach investing, so now is your chance to get involved.

Drop us a line with your name and two lines describing your investment experience. For those picked to feature in the magazine, we'll be in touch to get the full story.

CONTACT
editorial@sharesmagazine.co.uk
with the words
'Case study' in the subject line



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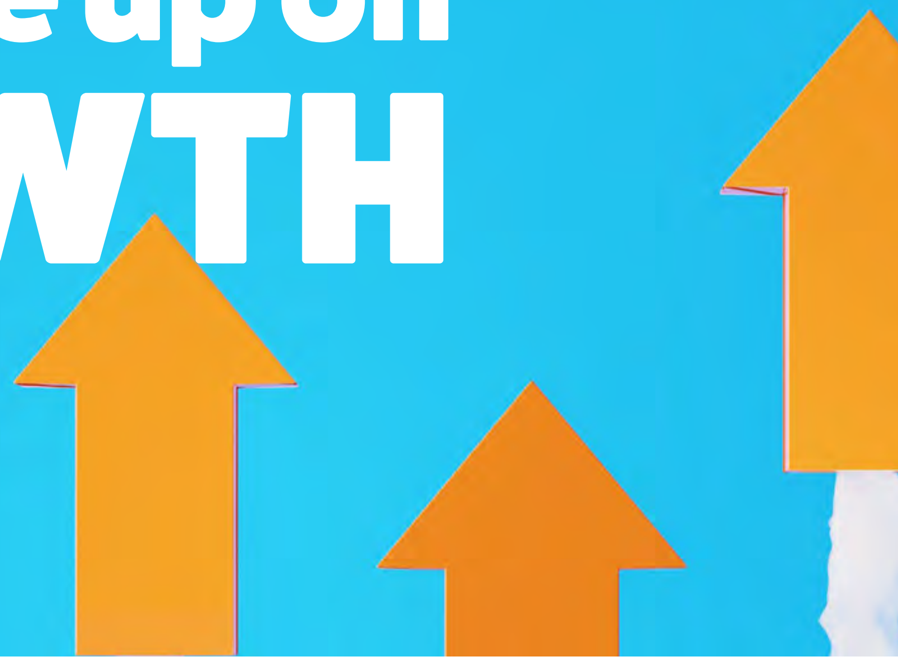


Why the investment style can still be a big winner for investors

By **Martin Gamble** Education Editor

A big question facing growth-oriented investors is whether the popular investment style can regain its mojo and get back to winning ways in a world of high interest rates.

Despite a strong recent rally which has seen the technology heavy Nasdaq Composite rise 14% over the last six months, growth stocks have struggled relative to value over the last three years.

The arrival of **Pfizer's (PFE:NYSE)** Covid-19 vaccine in November 2020 marked the end of a spectacular performance for growth investing which outperformed value by a whopping 50% over the previous 13 years based on MSCI World Growth and Value indices.

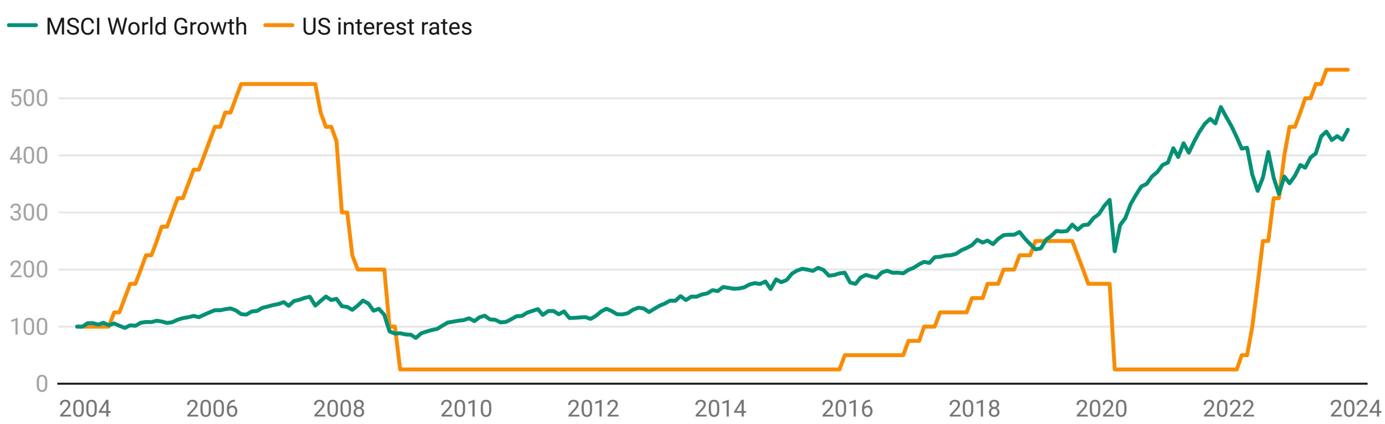
Arguably that era was unusual and characterised by ultra-low interest rates supported by loose central bank monetary policy which is the opposite to what is happening today.

Shares has spoken with a selection of fund managers in the growth investing space and they appear unperturbed by the drag from higher interest rates.

One key takeaway from these conversations is a collective belief that strong company fundamentals trump macroeconomic headwinds.

In other words, companies which demonstrate higher than average returns on capital and operating margins combined with strong cash flow generation have a better chance of outperforming in the long run.

Growth stocks have been hit by rising interest rates



Rebased to 100

Chart: Shares magazine • Source: LSEG

Zehrid Osmani, who runs the **Martin Currie Global Portfolio Trust (MNP)**, concedes that interest rates are a headwind.

However, it is business as usual for Osman who focuses on finding companies which are expected to benefit from high structural growth.

Osman remains wedded to his belief that companies generating high returns on invested capital and strong cash flow growth create more value for shareholders eventually.

The team model different cash flow scenarios over a 20-year forecast horizon and think about where interest rates and inflation might be over the long term.

Reflecting a shift in the team's long-term view on interest rates and inflation they made a 1% increase in assumptions to 5% and 3% respectively in 2022.

Osman reckons a structural shift higher seems sensible in the light of increased global supply chain costs, higher wage growth and increased investments related to the global energy transition.

HIGHER RATES OFFER BUYING OPPORTUNITIES

Some growth fund managers pay little attention to macro factors because they are deemed too hard to forecast.

Simon Barnard, who manages **Smithson Investment Trust (SIT)**, sits in this camp. 'At Fundsmith, we don't make economic predictions because we don't think that we're able to reliably invest on the basis of them.

'Markets are a second order system, so even if our economic predictions were correct we would also need to know exactly what expectations were already priced into the market, which is impossible to know with any certainty,' explains Barnard.

Instead, Barnard focuses on finding high quality growth companies which are expected to grow their cash flow under any economic circumstances. Double-digit growth still provides an attractive alternative to cash and bonds, argues Barnard.

Fundsmith founder Terry Smith has commented in the past on the importance of higher-than-average margins because they provide more of a cushion during periods of rising inflation.

Taking a long-term view, Fundsmith sees short-term gyrations in share prices as an opportunity to buy quality growth at a knock-down price.

WHY VALUATIONS MATTER LESS IN THE LONG TERM

Even diehard value investors like Charlie Munger concede that over the very long term it is not possible for investors to earn more than a company can deliver in terms of cash flow growth.

What Munger is implying is that equity valuations (such as PE) matter less and less over longer time horizons. For example, let's say blue sky company Rocket trades on a PE of 50 and grows its earnings at 15% a year.

We assume the PE drops by 50% over the next 20 years. This works out at an average annual drag on the shares of just under 2.3% a year.

Over 30 years the drag falls to 1.2% a year. Compared with 15% a year growth, the fall in the PE ratio is a drop in the ocean.

The example assumes the PE sees a slow steady decline over 20 years. Highly valued growth companies which fail to deliver can often see a more dramatic plunge in the PE.

A sudden drop in the PE at the start of the period would make a bigger dent in overall returns. Under this scenario returns drop to 11% from 15% a year.

'Whilst the transition from low interest rates to the current levels has precipitated a recent contraction in the valuation of most assets, particularly growth equities, in many cases, as often happens, the market is now offering some fantastic growth businesses at attractive valuations that we haven't seen for many years,' adds Barnard.

QUALITY AND GROWTH GO HAND IN HAND

An implication of successful growth investing is that companies must survive long enough to deliver the expected earnings growth as well have access to capital to finance the growth.

It is therefore not surprising to see growth managers place a big importance on financial strength and quality of earnings in addition to earnings growth.

Businesses with higher-than-average returns on equity and strong operating margins often generate lots of cash which means they can finance their own growth.

This means growth is de-risked from a balance sheet perspective. Carrying little or no debt also means most of the profit is retained for shareholders rather than being paid out in interest to banks.

Schroders fund manager Nick Kissack employs a quality at a reasonable price or QARP style of investing. Kissack looks for businesses with sustainable returns on investment and strong barriers to entry.

Assessing managements and their track record of delivering total shareholders returns is an important consideration for Kissack.

HOW TO GET EXPOSURE TO GROWTH THROUGH INVESTMENT TRUSTS

High inflation and rising interest rates have stirred up headwinds for the growth style of investing. But the good news is the investment trust structure can create opportunities for investors as supply and demand imbalances and has left the shares of many growth-focused funds trading on wide discounts to the value of their underlying assets.

In the AIC's Global sector for instance, popular growth trust **Scottish Mortgage (SMT)** trades on a 14.3% discount to net asset value (NAV) which reflects disappointing recent performance and a combination of interest rate hikes, fading appetite for higher-risk investments and scepticism over the valuations of its private-company stakes. Scottish

Mortgage, which aims to identify, own and support the world's 'most exceptional growth companies', is the sector's best 10-year share price total return performer. It backs the likes of Elon Musk-steered electric car maker **Tesla (TSLA:NASDAQ)**, ecommerce-to-cloud computing colossus **Amazon (AMZN:NASDAQ)** and chip designer **Nvidia (NVDA:NASDAQ)**.

Options in the Global Emerging Markets sector include **Templeton Emerging Markets (TEM)**, the largest trust in terms of total assets trading on a double-digit NAV discount, as well as **JPMorgan Emerging Markets (JMG)**, the second best 10-year share price total return performer managed by veteran Austin Forey alongside John Citron, which offers professionally-managed exposure to regions ranging from China and India to Brazil, Indonesia and Mexico. There are also single country funds focused on China, India or Vietnam such as **Fidelity China Special Situations (FCSS)**, **India Capital Growth Fund (IGC)** and **Vietnam Enterprise Investments (VEIL)**.

The US is renowned as a growth market and trusts focused on this market include **JPMorgan American (JAM)**, which seeks to achieve capital growth by outperforming the S&P 500. Emphasising capital growth rather than income, the fund's managers can buy smaller cap companies when appropriate.

It is typically easier for a small company to double its size, and investors' money, than for a big one to do so. There are several UK small cap trusts with strong long-run performance record such as **BlackRock Throgmorton (THRG)**. Funds on double-digit discounts include the likes of **Henderson Smaller Companies (HSL)**, **Montanaro UK Smaller Companies (MTU)** and **River & Mercantile UK Micro Cap (RMMC)**. [JC]

Examples of large-cap growth-style investment trusts

Investment trust
Baillie Giff China Growth Trust
Baillie Giff European Growth
BlackRock Greater Europe
Keystone Positive Change Investment
Lindsell Train
Martin Currie Global Portfolio
Mid Wynd International Investment Trust
Monks
Scottish Mortgage
Witan
JPMorgan Global Growth & Income
Baillie Giff US Growth
Allianz Technology Trust
Polar Capital Technology
Finsbury Growth & Income

Table: Shares magazine • Source: Morningstar

Examples of mid-cap growth-style investment trusts

Investment trust
Montanaro European Smaller
Mobius Investment Trust
Smithson Investment Trust
Atlantis Japan Growth
Baillie Giff UK Growth Trust

Table: Shares magazine • Source: Morningstar

Examples of small-cap growth-style investment trusts

Investment trust
Baillie Giff Shin Nippon
Brown Advisory US Smaller Companies
HydrogenOne Capital Growth
abrdn UK Smaller Companies Growth
BlackRock Throgmorton Trust

Table: Shares magazine • Source: Morningstar

FOUR GROWTH INVESTMENT TRUSTS TO BUY

ALLIANZ TECHNOLOGY TRUST (ATT) 281p

Technology has been an extremely popular sector with growth-focused investors for obvious reasons. Tech stocks have a record of generating a steady stream of growth backed by a pipeline of innovation.

Chart: Shares magazine • Source: LSEG

Allianz Technology Trust, run from San Francisco by Mike Seidenberg and his team following the retirement of veteran manager Walter Price in 2022, has a bottom-up stock picking driven approach.

It does own the big names you would expect, like **Microsoft (MSFT:NASDAQ), Nvidia (NVDA:NASDAQ)** and **Apple (APPL:NASDAQ)**, but also some less familiar names like cloud database outfit **MongoDB (MDB:NASDAQ)** and monitoring and security platform for cloud applications **Datadog (DDOG:NASDAQ)**.

In 2022, performance was affected by a big sell-off in the wider sector but the excitement around the AI theme has helped contribute to a better 2023 and the long-term performance is strong with a 10-year annualised return of nearly 17%. The ongoing charge is 0.7% and the trust is on a 13% discount to NAV. [TS]

BLACKROCK THROGMORTON INVESTMENT TRUST (THRG) 582p

This trust runs a high conviction portfolio giving investors access to exciting UK growth companies with quality management teams and dominant market positions.

The trust has delivered robust performance over the last five and 10-years handsomely outperforming the UK small-cap sector with annualised returns of 3.5% and 7.9% a year respectively. The sell-off in small cap growth companies means the trust trades at a wider than normal 5.8%, representing excellent value.

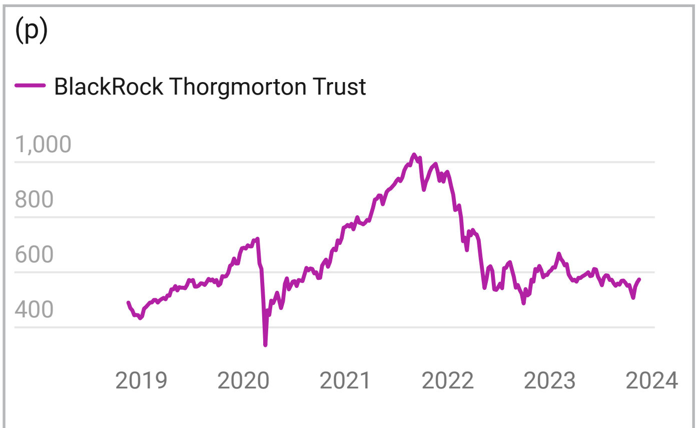


Chart: Shares magazine • Source: LSEG

Fund manager Dan Whitestone has an unwavering focus on finding and investing in differentiated growth companies and industry disruptors that are winning market share.

Uniquely for a smaller companies trust, BlackRock Throgmorton allows Whitestone to short weak companies, such as those disrupted by industry change.

Top holdings include promotions company **4imprint (FOUR)**, Unified Communications as a service provider **Gamma Communications (GAMA:AIM)** and international distributer of building materials group **Grafton (GFTU)**.

Industrials and consumer discretionary companies make up over half of the portfolio. The trust has an ongoing charge of 0.55% a year and trades at an 4.8% discount to NAV.

MID WYND INTERNATIONAL (MWY) 713p

This popular trust is a great way to get diversified exposure to quality global growth companies and is trading at a 2% discount to NAV.

The trust is under new management from the beginning of October with Lazard taking over the mandate from Artemis. However, the investment style hasn't changed and maintains a focus on identifying high quality companies with sustainable profitability.

It aligns well with Mid Wynd's philosophy of investing at the right valuations into companies which have the potential to compound investors' capital at attractive and sustainable rates.

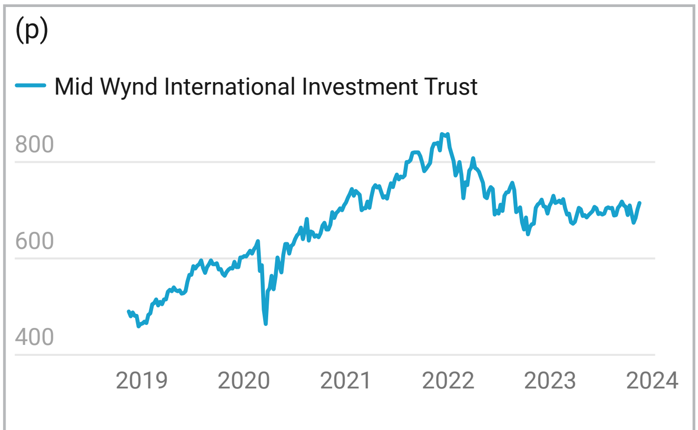


Chart: Shares magazine • Source: LSEG

The trust has a strong track record delivering a 10-year compound annual growth rate of 10.8% a year, outstripping Morningstar's Global Large Cap Equity category return of 8.8% a year.

New managers Louis Florentin-Lee and Barnaby Wilson are seasoned stock pickers and co-manage the Lazard Quality Global Growth strategy.

The portfolio is comprised of 41 holdings which in aggregate have demonstrable quality growth metrics displaying higher returns on equity and superior expected earnings growth compared with the MSCI Global index.

Trading at a 2% discount to NAV, the trust has an ongoing charge of 0.62% a year.

MOBIUS INVESTMENT TRUST (MMIT) 132.3p

Emerging markets are typically seen as having greater growth potential due to their less mature economies and, often, more youthful demographics.

Chart: Shares magazine • Source: LSEG

Launched in late 2018, this trust has leant heavily on the expertise of its founder, legendary emerging markets investor Mark Mobius.

As Peel Hunt observes: 'Mark Mobius has been a leading emerging markets investor since the 1980s and his philosophy, integrated into the trust's investment approach, has helped the trust deliver significant outperformance versus the benchmark and peers since launch five years ago.'

The bad news is he is now retiring (at the ripe old age of 87) and will be replaced by his co-manager and co-founder Carlos Hardenberg. With Hardenberg having worked closely alongside Mobius for years, we are confident the same successful blueprint will be followed.

The trust has a focus on corporate culture and avoids investing in areas like fossil fuels, pornography and weapons. It does not invest in banks. One drawback is the ongoing charge of 1.5% but this is justified by the performance to date in what can be a tricky space. The trust trades at an 8.8% discount to NAV. [TS]

Janus Henderson INVESTORS

Reasons to be **cheerful**

Consumers have taken a battering in recent years, first from Covid-19 and more recently from the rising cost of living, but since then UK leisure and hospitality spending has bounced back from pandemic lows. For investors in Henderson Smaller Companies Investment Trust, it's a reason to raise a glass.

Back in the days of the global pandemic there was much debate about whether consumers' appetite for 'going out' might be irreversibly damaged by the lockdown experience. Those fears have proven to be unfounded.

The cost-of-living crisis is putting pressure on many households, but demand for an evening out or a weekend treat for the family has been trending upward despite this. According to Barclay's UK Consumer Spending Report, spending on food and drink at pubs and restaurants was up 6.4% in September compared to the same month last year.[1]

The mild autumn doubtless played a role in this robust performance, but the economic climate is also looking more benign. Inflation may not be defeated but it has been steadily easing, while earnings are at last beginning to catch up with prices. The most recent official figures on average earnings from the Office for National Statistics show wages growing in real terms, albeit modestly.[2]

Lower inflation is also a boon to leisure and hospitality providers, reducing their costs and helping improve profit margins.

Of course, not all leisure and hospitality groups are equally well placed, but those with strong brands and an attractive offer for the public are doing well. We are pleased to say that quite a few such businesses are in the Henderson Smaller Companies Portfolio.

The glass is (at least) half full

Pub and brewing group Mitchells & Butler is one of our top ten holdings and delivered a positive update on its trading at the end of September. The group cited the easing of cost pressures as a key reason for optimism as it reported like-for-like sales (which exclude the effect of new pubs added to the estate) were up 9.1% on the previous year. Add in the extra pubs it has acquired and sales were up 10.5%.

Another pub and brewing business in the HSL portfolio that is weathering well is Young & Co's. In the summer it reported a good start to its financial year with like-for-like revenue up 6.8% in the first 13 weeks of 2023 and total revenue up 8.3%.[3]

But it is more than just our pub investments

that are showing promise. Our stake in Hollywood Bowl Group also provided some very positive trading news. The group operates bowling alleys, minigolf sites and amusements as well as accompanying food and drink services. It operates mainly in the UK but has also expanded into Canada and has reported that total sales were up by 11% in the year to September 2023.[4]

Hollywood Bowl also has an ambitious expansion strategy in place and plans to open 15 new bowling centres by the end of 2026[5]. It is worth noting that both M&B and Young & Co's also see opportunities for further investment over the coming year.

The UK spending in the leisure and hospitality sector may not have returned to its pre-pandemic levels in real terms, but fears that the British would become a nation of stay-at-homers after Covid-19 proved wide of the mark.

Life's simple pleasures

The stock market value of most of these hospitality businesses has now risen close to their level before the pandemic, which indicates just how wrong the prophets of doom were for the hospitality industry. At the same time, there are signs that value-hunters may have an eye on the sector.

The number of mergers and acquisitions in the UK declined in 2022 and has remained low in 2023, but with valuations at historic lows there are early signs of an upturn. This month, US buy-out firm Apollo agreed a deal to take over The Restaurant Group, another of our investments, which owns Wagamama and Frankie & Benny's. The deal valued the business at £506 million, which is 34% higher than its stock market valuation the day before the offer was announced.[6]

Our strategy is anchored in the fundamentals of value and no one should count on takeovers to generate higher prices for listed investments, but The Restaurant Group deal suggests that some market watchers see parts of the hospitality sector as undervalued.

Adding to positions in fundamentally strong leisure investments during the difficult years in the pandemic has been a successful strategy for HSL and its investors. Whether it's a pint of beer, a glass of wine, a meal out at the pub or an afternoon bowling with the family – it pays to recognise the real value in life's simple pleasures.

[1] UK Consumer Spending Report | Barclays Corporate
[2] Average weekly earnings in Great Britain – Office for National Statistics (ons.gov.uk)
[3] https://www.youngs.co.uk/youngs/uploads/sites/2/2023/07/20230706-trading-statement.pdf
[4] Trading Statement – Year Ended 30 September 2023 – 07:00:06 19 Oct 2023 – BOWL News article | London Stock Exchange
[5] https://www.hollywoodbowlgroup.com/application/files/7416/8543/6009/combined_RNS_final_26.5.pdf
[6] Rule 2.7 Recommended Cash Acquisition of TRG – 07:00:12 12 Oct 2023 – RTN News article | London Stock Exchange

GLOSSARY

Inflation

The rate at which the prices of goods and services are rising in an economy. The Consumer Price Index (CPI) and Retail Price Index (RPI) are two common measures. The opposite of deflation.

Investment trust

An investment trust is a form of investment fund, specifically a publicly traded collective investment scheme that invests its shareholders' money in the shares of other companies.

How to find high growth stocks

There are several key factors for investors to look for

Growth stocks are having a good year. While the UK stock market has bobbed along sideways in 2023, the Nasdaq Composite has rallied 36%.

By *Shares'* calculations, about 70% of the top 50 performers on the S&P 500 can be comfortably called growth companies, led by **Nvidia's (NVDA:NASDAQ)** near-240% share price jump.

This potential for outsized gains is why investors buy high-growth stocks, or funds exposed to them.

WHAT ARE HIGH-GROWTH STOCKS?

In simple terms, growth stocks are companies that are expected to consistently generate above average growth in future revenue and earnings. Investors who buy growth stocks often believe these companies will deliver strong financial results far into the future as it finds an ever-expanding market for its products and services.

The bottom line is that growth investors seek out companies that have a long runway for fast sales and earnings expansion, and those able to do so attract investors like moths to a flame, resulting in higher valuations.

There are no standard growth stock criteria, each investor or fund manager may develop their own bespoke list of metrics, but let's look at some of the more popular ones.

- **Strong sales growth:** The best growth-oriented companies significantly increase their revenues over time since the only reliable way to grow profits for years on end is to grow revenues too.
- **Rising profit margins:** The best growth stocks are those of companies with profit margins that are increasing over time. Profit margins that are negative but become positive while an investor holds the stock can result in significant share price

> **“It is principle that a company’s combined sales growth rate and operating profit margin should add up to at least 40”**

increases, generating very high returns for the investor’s portfolio. Other rapidly growing companies are already profitable and but are still able to profit margins through pricing power and economies of scale, for example.

- **Projected growth of earnings:** Analysts projecting that a company’s earnings are likely to grow is a positive sign, and though analyst projections are far from fail safe, they are useful for gauging market expectations.
- **High returns on equity:** Return on equity is a useful way of measuring how much extra value the company is creating for shareholders per pound invested. It is calculated by expressing net income as a percentage of shareholders’ equity.

LITTLE-KNOWN ‘RULE OF 40’

The ‘Rule of 40’ is increasingly being adopted by high growth company executives as an important metric to help measure the trade-offs of balancing growth and profitability. Many retail investors may be unfamiliar with the term, yet it is simple to understand and easy to apply and can be a useful tool for deciding if a particular growth stock is right for your portfolio.

It is principle that a company’s combined sales growth rate and operating profit margin should add up to at least 40, and ideally better. Investors using this metric therefore consider a company with a score of 40 or more to be a good investment opportunity and a figure below 40 to be of less interest.

The metric neatly captures the fundamental trade-off between investing for future growth – such as developing new products and acquiring new customers – and short-term profitability.

Venture capitalists originally used the premise to assess software start-ups, particularly those that were growing fast but running up huge losses. It is today regularly used to assess any fast-growing digital economy company, and there’s no obvious reason why it cannot be applied more widely.

It’s fair to say that growth stocks tend to perform

Selection of UK high growth stocks

	Revenue growth % (five-year annualised)	Gross margin %	Return on equity %
Diversified Energy	115.0	65.2	323.6
Future	57.8	52.7	20.6
Darktrace	47.0	89.8	20.4
Kainos	31.1	47.3	45.1
JD Sports Fashion	26.2	47.8	34.1
Telecom Plus	25.6	12.4	35.9
Watches of Switzerland	19.6	14.2	29.5
Foresight	18.2	94.7	37.7
Diploma	17.5	37.0	22.0
Games Workshop	16.3	68.3	57.3

Table: Shares magazine • Source: Stockopedia

Selection of US high growth stocks

	Revenue growth % (five-year annualised)	Gross margin %	Return on equity %
Moderna	155.0	71.3	50.4
Tesla	47.3	25.6	34.0
Etsy	42.2	71.0	323.0
Pioneer Natural Resources	35.7	44.0	35.5
Monolithic Power Systems	30.7	58.4	30.5
Vertex Pharmaceuticals	29.1	87.9	28.0
Arista Networks	21.6	61.1	30.0
Palo Alto Networks	24.8	72.3	45.5
Fortinet	24.2	75.4	341.0
Nvidia	22.7	56.9	22.3

Table: Shares magazine • Source: Stockopedia best during bull markets for two main reasons:

- **One** - when the economy is growing and everyone is feeling confident, consumers, businesses, and governments are more likely to spend on products and services. So, a strong economic environment tends to drive sales for good growth stocks.
- **Two** - during bull markets, growth investors often quickly buy up shares of companies that show they're riding a strong wave of growth. This bullish investor behaviour can drive highly rated growth stock share prices even higher.

That said, growth stocks can also be surprisingly good investments during times of slowing economic growth or even bear markets. They often have high recurring revenue, lending a level of predictability and visibility many other companies struggle for.

They can also offer customers way of improving efficiency and saving money, a strong selling point. Those that are well-funded, often with net cash on balance sheets, are also able to take market share from less well-funded rivals that hit the skids when easy capital dries up.

WHAT ARE THE RISKS?

Investing in growth stocks can be risky because investors have often already bid the stocks up to high valuation multiples based on strong growth. If growth ever disappoints, the stock price is likely to fall, sometimes dramatically.

Growth stocks also tend to be more volatile than mature, modestly rated ones, although this varies hugely depending on the company.

> **"Growth stocks also tend to be more volatile than mature, modestly rated ones"**

Many also don't pay dividends, they perceive reinvesting surplus capital back into the business for better future returns rather than handing it back to shareholders. This pitch is usually welcomed by investors who want exposure to above average performance, but it does mean that your returns will be reliant on capital growth, which doesn't suit all investors.

Higher exposure to growth will likely suit younger investors with a longer investment horizon ahead of them. But for many, growth stocks form part of a diversified portfolio rather than being all in, it's a way of diminishing portfolio risk.

When deciding whether to invest in growth stocks, there are several things to consider. The first two factors are your risk tolerance and whether you can handle volatility. Any perceived changes to a growth company's outlook can affect its share price.

They also tend to require a longer-term mindset since often you are buying in to future profits years in advance, rather than those earned today.

OTHER WAYS TO INVEST IN GROWTH STOCKS

Some investors can get stressed out when they see a stock rising and falling rapidly within a short time. But rather than avoiding growth stocks entirely, you could consider growth funds, ETFs and investment trusts as a way to add a little growth spice to your portfolio through an already diversified portfolio of investments.

The simplest option, and among the lowest cost, would be a vanilla Nasdaq 100 ETF. The **Xtrackers Nasdaq 100 UCITS ETF (XNAQ)** is a full replication fund of the Nasdaq 100 index, the 100 largest companies on the Nasdaq market. This includes massive growth companies like **Microsoft (MSFT:NASDAQ)**, **Tesla (TSLA:NASDAQ)** and Nvidia, for an annual charge of 0.2%.

An alternative growth option might be a vehicle which tracks the mid-sized companies among the FTSE 250. This index is home to many of the UK's best growth companies, while their relatively modest market caps imply potential for substantial value creation over the years. The **Vanguard FTSE 250 UCITS ETF (MVID)** ETF has an ongoing charge of just 0.1% a year.

By **Steven Frazer** News Editor

Discover the 'picks and shovels' providers behind the big energy transition

Highlighting the companies exposed to investment in green infrastructure and water industry upgrades

Danish wind turbines maker Vestas Wind Systems is a leading patent filer in wind turbine gearboxes

A wall of money is going into building out the green infrastructure required to facilitate the global energy transition. This starts with electrifying power generation all the way through to transmitting and storing this energy before it is eventually consumed.

At the same time, indebted governments are increasingly looking to private companies to help solve the global water challenge.

Water is an essential natural resource for which demand is rising and water utilities around the world will need to spend gargantuan sums on products and services in order to upgrade their infrastructure in the years ahead.

Rather than invest in utilities, which are highly regulated and whose shares are interest-rate sensitive, a smarter way to gain exposure to this theme could be through a 'picks and shovels' approach. This is based on the idea that rather than the prospectors during the 1848 California Gold Rush, the people selling them picks and shovels made the real money.

FROM COPPER TO CABLES

As BofA Securities points out, as the energy transition unfolds, grids are not up to task, especially in developing markets. Consequently, network operators will need to build transmission and distribution lines which are aluminium, steel and copper intensive.

Also pivotal to the energy transition are interconnectors, high-voltage cables that connect the power grids of different countries and allow surplus electricity to be traded.

Making and laying cables might seem a mundane business line and global cabling companies are often overlooked by investors as a result, yet they play a crucial decarbonisation role, being central to the upgrades to antiquated infrastructure that are required. One example is Milan-headquartered **Prysmian (PRY:BIT)**, a global leader in power and data cable manufacturing and installation and the world's leading producer of cables for wind farms.

Jon Wallace, manager of the **Jupiter Green Investment Trust (JGC)**, says profitable Prysmian is a key beneficiary from the global energy system's shift to electrification. He points out power cable original equipment manufacturers (OEMs) will 'enjoy multiple growth drivers' from investments across renewable power installation, as well as transmission, which requires significant investment in resilient and interconnected power systems, and also the electrification of the power grid.

TAPPING INTO AN ESSENTIAL RESOURCE

Waves of investment in water infrastructure will be needed if the world is to ensure there is clean water and sanitation for all, but with governments increasingly unable to maintain supply due to tight budgets and ageing infrastructure, private companies involved in everything from water treatment to leakage prevention will play an ever-more significant role.

Here in the UK, water utilities have drawn the ire of the public due to the woeful service delivered in tackling leaks and the pollution from spills that have damaged the environment, so they are going to have to spend big on infrastructure upgrades.

This backdrop could drive demand for fast-growing water technology company **Xylem (XYL:NYSE)**, whose recent acquisition of Evoqua has helped position it to profit from the water infrastructure investment super-cycle.

A picks and shovels name highlighted by Jupiter's Wallace is **Stantec (STN:CN)**, a global sustainable engineering and environmental services leader diversified across environmental consulting end markets with a fifth of its business in the water solutions segment.

Stantec consults to global water utility providers, 'including those in the UK that are now set to invest heavily in pollution monitoring and avoidance technology, given the well-publicised recent sewage scandals', explains Wallace. Stantec is also benefiting from technology and equipment specifically designed to mitigate the effects of climate change 'such as flood defence mechanisms, including new environmental infrastructure build outs in energy and transportation'.

As the world's largest power cable OEM, Prysmian is 'well-placed to benefit from the increasing infrastructure investment for both energy transition and resilience,' argues Wallace.

Other examples of picks and shovels plays on transition are Paris-headquartered **Nexans (NEX:EPA)**, the world's second largest cables play after Prysmian and the third biggest listed cable maker, Danish outfit **NKT (NKT:CPH)**, an industrial holding company whose interests also span wires, optical components, lasers and crystal fibres. **Belden (BDC:NYSE)** is an American maker of networking, connectivity, and cable products, while **Quanta Services (PWR:NYSE)** provides infrastructure services for the electric power, industrial and communications industries.

WIND OF CHANGE

Wind turbine providers also play a pivotal role in power generation. In the past, wind turbines were often built around gearboxes, but direct drive technologies, with much higher rare earth metals but low copper content, are becoming more prevalent. By eliminating the gearbox, direct-drive turbines can be smaller and lighter and therefore attractive for offshore applications.

'Picks and shovels' firms behind energy transition and water upgrades

Company	Market cap	Forward p/e	Dividend yield
Vestas Wind Systems	£20.6 billion	43.4	0.6%
Prysmian	£8.45 billion	13.7	2.1%
Stantec	£6.28 billion	23.0	0.9%
Nexans	£2.73 billion	11.6	3.0%
Morgan Advanced Materials	£723.4 million	8.2	4.9%
DiscoverIE	£629.1 million	17.5	1.9%
Severfield	£203.1 million	7.2	5.7%

Table: Shares magazine • Source: Stockopedia, 16 November 2023

They can also operate at lower speeds and require less maintenance.

Leading patent filers in wind turbine gearboxes include Siemens and American conglomerate **General Electric (GE:NYSE)**, as well as Danish wind turbines maker **Vestas Wind Systems (VWS:CPH)**, a holding in Jupiter Green and rival investment trust **Impax Environmental Markets (IEM)**.

Vestas produces turbines for both offshore and onshore use and in 2022 was the second largest supplier by GW capacity behind China's **Goldwind Science & Technology (2208:HKG)**, whose turbines are mainly used domestically. As well as turbine manufacturing, Vestas makes roughly 20% of its revenues from higher margin aftermarket services and growth has been driven by its ability to capitalise on two secular growth trends: decarbonisation and soaring global demand for electricity.

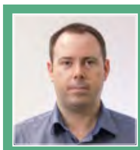
Shares in Vestas recently reacted positively to news that one of its main competitors, Siemens Energy, was seeking funding from the German government to underwrite its business.

Prysmian is a global leader in cable manufacturing

A pair of picks and shovels plays in the **Unicorn UK Smaller Companies Fund (3178506)** which offer value, trading on forgiving single digit price to earnings ratios with attractive dividend yields, are **Severfield (SFR)** and **Morgan Advanced Materials (MGAM)**.

Unicorn UK Smaller Companies' co-manager Alex Game says Severfield, the UK's market leader in structural steel fabrication, serves end markets including nuclear, battery plants, low carbon transport, renewables and low carbon buildings, whereas the Pete Raby-run Morgan makes carbon brushes used in wind turbines, ceramic rollers used in the manufacture of thin film solar panels, as well as insulation products used in solar towers and steam turbines.

An Impax Environmental Markets holding that could fit the theme is **DiscoverIE (DSCV)**, a supplier of highly customised electronics components to industrial niches which specifically targets renewables as a high growth end market. The £609.9 million cap supplies electromagnetic components for wind systems as well as DC switches for solar power systems, not to mention cable connection, fibre optics and electromagnetic shielding products.



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

Murray Income Trust: Keeping an eye on the long term for 100 years

Charles Luke, Investment Manager, Murray Income Trust PLC

At a time when investors can pick up a high income from bonds, the real value of a stock market portfolio is its ability to grow income and capital over time. This growth potential is particularly important when inflation is likely to be structurally higher, and preserving the real value of invested wealth is increasingly difficult.

100 years may be beyond the time horizon of many investors, but Murray Income's growth since it was founded in Glasgow on 8 June 1923 shows what is possible. The Second Scottish Western Investment Company started with an initial share capital of £500,000 and on 30 June 2023, its net asset value was nearly £1bn. That's quite some appreciation.

For many of our investors, dividend growth will be every bit as important, and 2023 was the 50th year that Murray Income has grown its dividend. It was an important milestone and that growth has been delivered in a range of market environments – from the oil price shocks of the 1970s, to the international debt crisis of the 1980s, the fall of the Berlin Wall in 1989 and the collapse of the Eastern bloc, onto the technology boom and bust of the 2000s and the Global Financial Crisis and its aftermath in the 2010s.

FINDING GROWTH TODAY

Today, we find ourselves in another new environment. After a decade of near-zero interest rates, borrowing costs have risen rapidly in response to mounting inflation. Investors can now get a high and reliable income from both cash and bonds, creating greater competition for dividend-paying equities. The important differentiator for a stock market portfolio today is the growth in income and capital it can generate, and the inflation protection it offers as a result.

Murray Income has grown its payouts to investors by an average of 9.2% per year over the last 50 years. This is well ahead of inflation, which has averaged 5.5% since 1973. One of the key reasons for achieving this dividend growth record is a focus on a diversified portfolio of high quality companies. We have always invested in strong, established companies with a track record of growing their earnings and an ability to pay a rising dividend to shareholders.

We look for certain characteristics: a robust business model that allows a company to protect its competitive advantage, and a strong balance sheet with little debt, that gives a company optionality and defensiveness in a range of market conditions. We like a strong management team, with a commitment to dividend growth, and strong environmental, social and governance performance to show proper risk management.

Once selected, these companies need careful monitoring over time. Even the best companies will go through difficult patches, get taken over, make mistakes. Maintaining a fluidity and agility in portfolio selection helps ensure that companies sustain those traits over time.

UNSTOPPABLE TRENDS

Any portfolio with aspirations to deliver reliable income growth over time needs to be aligned to unstoppable long-term trends. Today, those trends include the energy transition and decarbonisation, which leads the trust to TotalEnergies, an energy company with an attractive pipeline of renewable assets and SSE, a utility company, focused on networks and renewables.

Demographics is also a focus, with ageing populations driving demand for areas such as pharmaceuticals (through Astra Zeneca or Novo Nordisk) and medical equipment (through Convatec). While the UK stock market is seen as a technology desert, there are companies benefiting from the digital transformation, including accounting software group Sage and information provider, Relx.

At the same time, there is a rising middle class in many emerging markets. UK companies such as Unilever are firmly plugged into this trend, with established businesses in developing economies.

The latest company to enter the portfolio is a good illustration of the type of company we like. Rotork manages industrial flow control equipment. Its businesses include hydrogen and carbon capture and it has a fast-growing business in the US. It is a mid-cap company, trading below its historic average, which also has compelling ESG characteristics. It has a conservative management team and high margins, plus significant intellectual property.

BEYOND THE INDEX

This is not how many investors view the UK stock market, preferring to focus on its low growth, old economy stocks. This is why we argue strongly against an index approach, or an approach that focuses only the UK's largest dividend payers. To target income and capital growth, it is vital to look deeper. The UK has a range of interesting and exciting companies for those willing to look hard enough.

The investment trust structure has also been important in delivering a growing income and we believe it will continue to be so in future. We do not use our revenue reserve often, just eight times over the past 50 years, but at times of financial crisis, or pandemic, the ability to use those reserves has been invaluable. Today, the trust has around half of its annual dividend held in reserve, ready for the next crisis, should it appear.

While investors may be able to get 5% on a gilt, they shouldn't neglect growth in their income portfolio. That growth will be vitally important to preserve the purchasing power of their income at a time when inflationary pressures are elevated. At various points in the past 100 years, the environment has been every bit as challenging as it is today, but Murray Income's approach has allowed it to keep improving capital and income growth for shareholders year after year.

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

Discrete performance (%)

	30/06/23	30/06/22	30/06/21	30/06/20	30/06/19
Share Price	4.9	-0.7	18.5	-5.8	13.2
Net Asset Value	9.0	-3.5	20.8	-5.3	7.9
FTSE All-Share	7.9	1.6	21.5	-13.0	0.6

Total return; NAV to NAV, net income reinvested, GBP. Share price total return is on a mid-to-mid basis. Dividend calculations are to reinvest as at the ex-dividend date. NAV returns based on NAVs with debt valued at fair value.

Source: abrdn Investments Limited, Lipper and Morningstar abrdn

Five year dividend table (p)

Financial year	Total dividend (p)
2022	37.50
2021	34.50
2020	34.25
2019	34.00
2018	33.25

Total return; NAV to NAV, net income reinvested, GBP. Share price total return is on a mid-to-mid basis. Dividend calculations are to reinvest as at the ex-dividend date. NAV returns based on NAVs with debt valued at fair value.

Source: abrdn Investments Limited, Lipper and Morningstar

Lack of love for miners could be an obstacle to energy transition

The sector trades on a lowly valuation and will need capital if it is to ramp up metals production

Are miners not getting enough love from the market? That was the (rather self-serving) argument put forward by asset manager BlackRock recently. Global head of thematic and sector-based investing Evy Hambro cautions a lack of investor interest in the sector could starve it of the capital required to provide the materials necessary for the energy transition.

Whatever the source, this argument has real merit. There is a clear need for production of critical metals and materials to be ramped up if global targets around net zero and an accompanying move away from fossil fuels are to be met. That will require significant investment in new projects and developments.

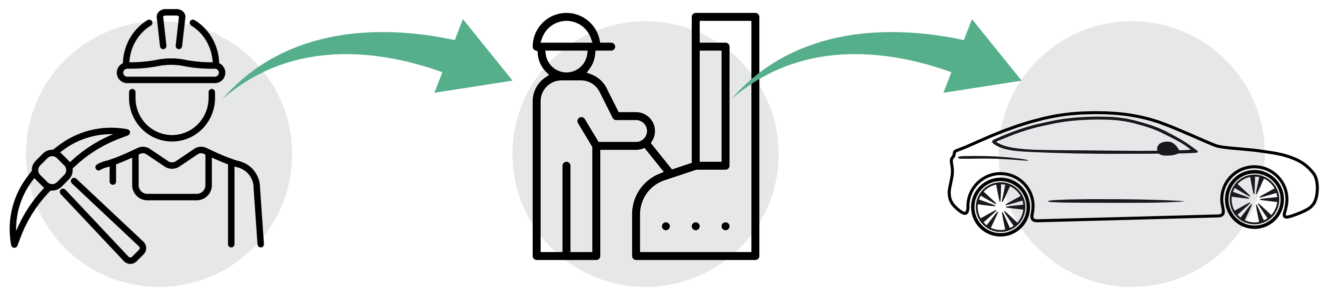
CHINA COMPLICATES THE PICTURE

What has complicated the picture for the mining space in 2023, with the FTSE 350 Industrial Metals & Mining sector down by nearly 20% year-to-date, has been the disappointing recovery of the Chinese economy as it emerged from zero-Covid restrictions. Given the world's second largest economy is, in turn, the largest consumer of several global commodities, it was always going to be difficult for shares in the miners to make headway.

On top of this there has been a shift from heavy emphasis on the energy transition towards energy security, largely as a response to the ongoing conflict in Ukraine. This has encouraged some back-pedaling on net zero, at least in terms of rhetoric, from energy companies and governments alike.

In a recent market commentary Baker Steel, the manager of mining-focused **Baker Steel Resources Trust (BSRT)** and a suite of other resources-related funds, observed: 'An eventual change in the trend in interest rates could be the trigger for a return to a healthier market. However there remain concerns that the Chinese economy in particular has not bounced back post Covid lockdowns, and that their government is no longer capable of

Energy transition supply chain – valuation disparity



UK-listed miners average	Schneider Electric	Tesla
PE 10.7	**PE 19.6**	**PE 63.6**

stimulating the economy in the face of a deteriorating housing market.

'Against this, there remains the medium-term demand profile for many minerals to underpin the energy transition plus the growing interest by governments to secure supply chains for essential minerals. Attempting to call the exact timing on the potential recovery in the markets for both commodity prices and shares would be unrealistic.'

> **"We remain upbeat about the long-term dynamics of the sector, driven by rising demand to enable the energy transition"**

AN OPPORTUNITY OPENS UP

In our view this has created a potential opportunity for investors prepared to look beyond the short term towards the longer-term potential.

Berenberg analyst Richard Hatch comments: 'We remain upbeat about the long-term dynamics of the sector, driven by rising demand to enable the energy transition.'

Exploring the valuation disconnect between miners and other parts of the electric vehicle and renewables space is instructive. For example, France's **Schneider Electric (SU:EPA)** trades on a price-to-earnings ratio of nearly 20 times.

Schneider is a world-leading electrical systems and automation and control firm with a focus on data centres, storage and other distributed energy resources and smart solutions that advance electrification, energy efficiency and renewability.

Some kind of disparity is warranted – Schneider makes extremely smart kit and resources companies dig a commoditised product out of the ground. But to trade on nearly double the 10.7 average PE for UK-listed diversified miners seems too substantial a gap.

At the other extreme, and at the end of the supply chain, EV maker **Tesla (TSLA:NASDAQ)** is on a PE of more than 60.

If this valuation disparity is to change, miners have to play their own part. They need to clean up their act in terms of environmental and social impact and working practices. This will require significant investment. FTSE 100 miner **Rio Tinto (RIO)** is an example of a business which is looking to up its game on this front.

CLEANING UP THEIR ACT

Rio certainly had work to do after blasting rock shelters in the remote Pilbara region to expand its iron ore mine in May 2020, in the process

Selected mining funds, trusts and ETFs

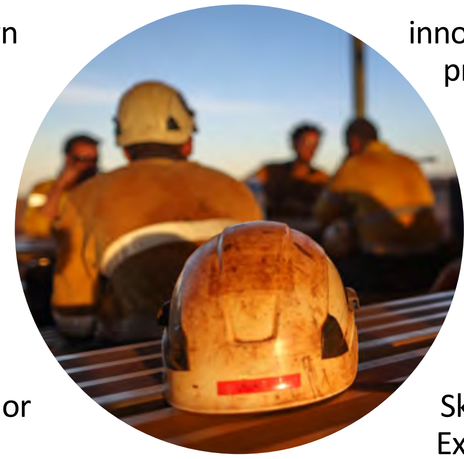
Five-year performance

Fund/trust/ETF	One-year total return (%)	Three-year total return (%)	Five-year total return (%)
BlackRock World Mining Trust	−14	54	121
CQS Natural Resources Growth and Income	−17	103	121
Blackrock Energy & Resources Income Trust	−16	87	95
Van Eck Global Mining (GIGB)	−7	29	80
BlackRock Natural Resources	−11	77	66
iShares S&P 500 Materials Sector (IMSU)	−4	29	65
Xtrackers MSCI World Materials (XSMW)	−1	26	56
T. Rowe Price Global Natural Resources Equity C Acc	−8	54	40
Baker Steel Resources Trust	−27	−48	−21
GRIT Investment Trust	−72	−96	−98
Baker Steel Electrum S Acc	−19	n/a	n/a
WS Amati Strategic Metals B Acc	−28	n/a	n/a

Table: Shares magazine • Source: FE Analytics, Just ETF, data to 16 November 2023

destroying one of the earliest known sites for Australia's indigenous population.

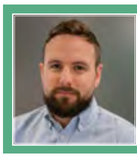
This was followed by an external review published in 2022 which showed bullying and sexism were 'systemic' across the group, with 28.2% of women and 6.7% of men experiencing sexual harassment at work and 21 women reporting actual or attempted rape or sexual assault.



The survey of its workforce also showed people working in a different country to their birth experienced high rates of racism with 39.8% of men and 31.8% of women who identify as Aboriginal Torres Strait Islander in Australia experiencing racism.

Under chief executive Jacob Stausholm the company is on a journey to improve its ESG (environmental, social and governance) record. Initiatives include the successful pilot of an innovative, low-carbon iron-making process using iron ore from its Pilbara mining complex in Western Australia, known as BioIron, and the launch of a Building Safe and Respectful Workplaces pilot programme in collaboration with mining peers **BHP (BHP)** and **Fortescue (FMG:ASX)** and the Australian Minerals and Energy Skills Alliance.

Examples of funds, trusts, ETFs which offer diversified exposure to the mining sector include the aforementioned Baker Steel Resources Trust, **BlackRock World Mining (BRWM)**, **BlackRock Natural Resources D Acc (B6865B7)** and **Van Eck Global Mining (GIGB)**.



By **Tom Sieber** Editor

Have investors priced in peak rates too early (again)?

Central banks, data, history and market moves are pointing in different directions

The market seems to have called it – interest rates have peaked, the battle against inflation is over and we can start returning to something akin to the market conditions experienced in the decade or so before Covid when rates and prices were firmly under control.

This is a crude simplification, but the speed of the market's recovery, with the MSCI World developed market index now close to its highest level since its most recent peak in July and up more than 9% from its late October lows, suggests a narrative along these lines is now holding sway.

Moves in the bond market have reinforced this with yields on government debt dropping as much as 0.5% from recent highs. Investors have got the ticker tape out prematurely once or twice already in the last two years – are they doing the same again? There are three key means of judging.

- What is the data telling us?
- What are central bankers saying?
- What lessons can be drawn from history?

The latest readings of inflation on both sides of the Atlantic were notably below expectations. The annual rate of UK CPI (consumer price index) inflation for October came in at 4.6% against a forecast of 4.8%. In the Eurozone, an even lower rate of 2.9% was south of the 3.1% penciled in and in the US the CPI came in at 3.2% versus the 3.3% anticipated.

There have also been signs that tight labour market conditions – a key consideration for rate setters because continued increases in wages can lead to inflationary pressures becoming entrenched – have eased.

The latest US non-farm payroll data saw 150,000 jobs added to the economy compared with the 178,000 economists were looking for, with earnings also growing less than expected month-on-month.

However, inflation rates are still above the 2% level targeted by the Federal Reserve, Bank of England and European Central Bank, and as Rupert Thompson, chief economist at asset manager Kingswood, observes the message from officials has remained pretty consistent.

'Central bankers are sticking to the narrative that interest rates will remain higher for longer and a further rise still cannot be ruled out,' he says. 'But markets are no longer listening and are now anticipating rates will start to be cut in the second quarter next year, falling by as much as 0.75% in the US, UK and Eurozone by year-end.

> **"It is still quite uncertain how easy it will be and how long it will take to return inflation to this level"**

'It is still quite uncertain how easy it will be and how long it will take to return inflation to this [2%] level.' The expectation from the Fed, Bank of England and ECB is this will not be achieved until 2025.

How can we square this circle? It is at least possible investors are looking at history and have concluded it will prove hard for the central banks to hold the line on rates.

The hit to public finances from the pandemic has left governments dealing with big debt piles and they probably cannot afford to service them at current borrowing costs for too extended a period. A look back at previous rate hiking cycles suggests rates genuinely staying 'higher for longer' is a rare occurrence.

Why ‘bricks and mortar’ retailing is back in fashion

Companies like Ikea and Avon are extending and evolving their physical footprint

There have been a couple of bits of retail news over the last few weeks that bear real consideration. The first was that Swedish ‘flat pack’ maestro Ikea was taking over a massive shopping centre in the heart of Brighton and the second that after 137 years of calling, beauty products seller Avon is setting up shop in the UK.

By themselves they might not raise much of an eyebrow amongst investors but when you consider the wider context the moves they are making say something about the state of the UK high street and about the future of retailing in general.

Internet sales as a percentage of total UK retail sales

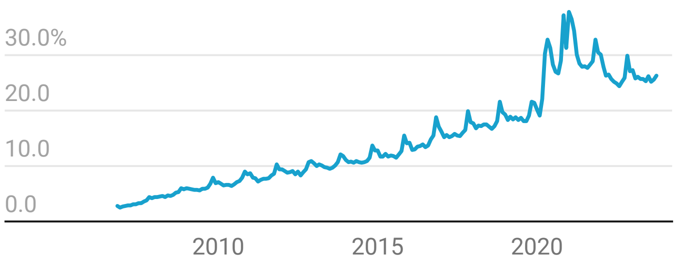


Chart: Shares magazine • Source: Office for National Statistics

Before the pandemic, bricks and mortar stores were coming under increasing pressure from the growth of online shopping which had peaked at just over 20% of all retail in the months before the first UK lockdown.

ONLINE RETAIL ACCELERATED BY COVID

With stores shuttered for months, people were forced to turn to the internet and by the winter of 2020 almost 40% of sales were being made online.

Traditional retailers which had already been feeling the squeeze buckled. Huge names like Debenhams and Topshop disappeared from our high streets as they struggled to balance huge costs

like rents and rates with falling footfall.

Company Voluntary Arrangements were all the rage as physical retailers fought to play the game on a new playing field that favoured online competitors with cheaper out of town warehouse space.

Whether our post-pandemic need for social interaction played a part or whether online sales growth was always going to plateau we can only hazard a guess but plateau it has.

Shoppers are mixing it up; some want the opportunity to touch and try before they buy, others want help and advice whilst still more want the chance to engage directly with brands.

Avon’s customer base used to get that physical interaction through door-to-door sales or make up parties, but even before Covid that method was being seen as increasingly old fashioned and the brand had struggled to retain its relevance.

BENEFITS OF SHOPPING IN PERSON

While clothing can be bought in multiple sizes, tried on and then returned if it’s not the right fit, not every retailer will allow you to return beauty products once they’ve been opened unless they are faulty.

And getting the right product can sometimes take quite a bit of trial and error which is undoubtedly the reason 80% of beauty sales still happen in stores, something Avon’s global CEO

Angela Cretu highlighted when the new plans were announced.

But unlike the Body Shop which Avon's owner Natura recently sold, this new solo venture will be focused away from prime locations, Avon's beauty boutiques will most likely be integrated into neighbourhoods and run by representatives who take on the franchise.

For those more expensive city centre locations it is relying on its tie up with Superdrug, all the bang without the big bucks.

Because cost pressures are still foremost in many retailers' minds. It's why those huge 'prime' locations vacated by the likes of Debenhams, have for the most part remained empty.

Ikea's decision to buy up an entire shopping centre in the heart of Brighton seems to fly in the face of everything that's worked for the furniture behemoth.

A beloved staple of out-of-town retail parks, Ikea has thrived partly because it's drive up and load up model has become an essential part of early adulthood.

An earlier foray onto the high street crashed and burned, but this is a sort of halfway house, a mix of its two offers, where people can actually walk out of the store with small and mid-sized items and arrange delivery for the rest and it's already been working at another site in Hammersmith the company opened last year.

Omni-channel retailing is not one size fits all. It's even more complex than the bricks and mortar versus online dilemma. If it were easy, the world's leading e-commerce play **Amazon (AMZN:NASDAQ)** wouldn't have backtracked half a dozen times from bricks and mortar ventures.

Just this month the retailer shuttered its only two Amazon clothing stores in the US and here in the UK it has closed four Amazon Fresh locations this year though it insists it is still committed to the formula.

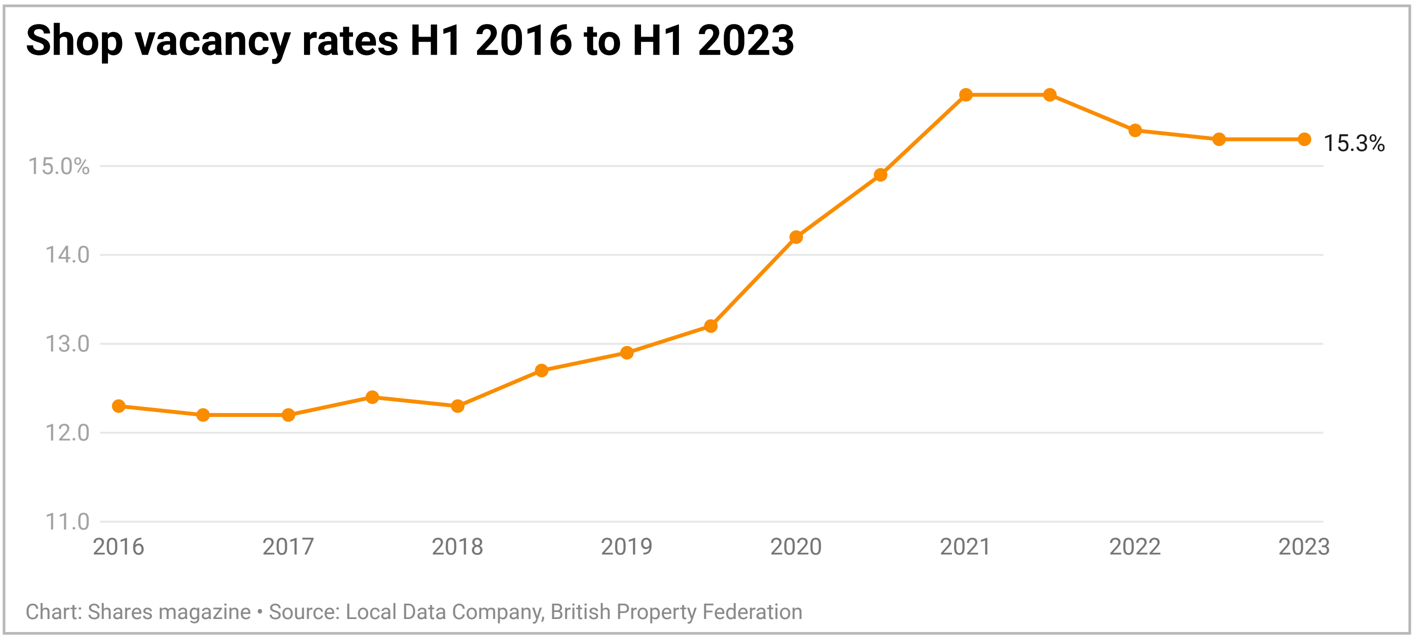
THE COSTS OF PHYSICAL RETAIL

Physical retail is expensive. Do it correctly and it fosters brand loyalty, allows customers to immerse themselves in the full store story and creates a permanent physical shop window that enhances those online sales.

But the location has to be perfect, the store perfect and the engagement... perfect. Vacancy rates have fallen slightly from their post Covid highs but its still a renter's market which has a knock onto the kinds of rents that can be asked by property giants like **British Land (BLND)** and **Land Securities (LAND)**.

And falling rents have made the case for bricks and mortar more persuasive even to those pure play online businesses like Gymshark.

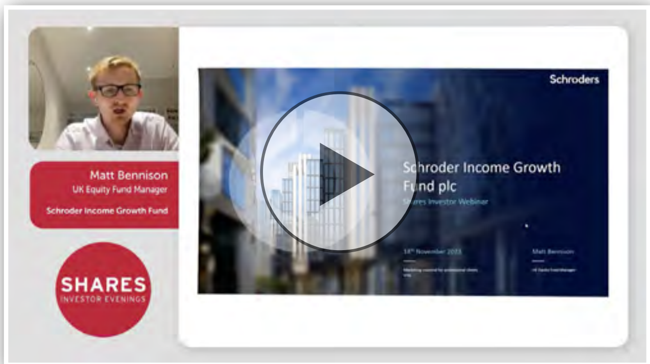
Retailing seems straightforward: give the people want they want, how they want it at a price they want to pay for it; in reality it is constantly evolving and retailers have to evolve too.



WATCH RECENT PRESENTATIONS

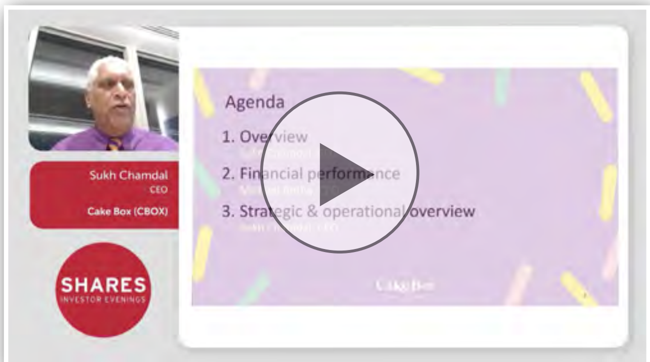
Mid Wynd International Investment Trust (MWY)
Louis Florentin-Lee, Managing Director

The Mid Wynd International Investment Trust aims to achieve capital and income growth by investing on a worldwide basis. The Trust has recently changed investment manager from Artemis to Lazard.



Schroder Income Growth Fund (SCF)
Matt Bennison, UK Equity Fund Manager

Schroder Income Growth Fund (SCF) The Schroder Income Growth Fund is an AIC Dividend Hero with a 28 year track record of delivering an increasing dividend achieved by investing primarily in above average yielding UK equities.



Cake Box (CBOX)
Sukh Chamdal, CEO & Mike Botha, CFO

The company generates revenue from the sale of goods and services. Geographically, it derives revenue from the United Kingdom. All of our products are 100% egg free. The founders of Eggfree Cake Box follow a strict lacto vegetarian diet, and that is how they came up with idea for the company.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

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Beware of the trusts bearing big discounts

The idea of buying a fund for less than the value of its portfolio seems appealing but you need to be cautious

It is the best of times, and the worst of times for investment trust fans. Discounts are at their widest since the financial crisis, at an average of 16.9%, according to data compiled in early November by the Association of Investment Companies.

That's not good news for anyone looking to sell out, but on the face of things, it's manna from heaven for hungry buyers, especially those with a contrarian streak. But caution needs to be exercised when bargain-hunting, as there's some devil in the detail which means the headline discount for the investment trust sector as a whole isn't quite as enticing as it seems.

A DIVERSE UNIVERSE

Investment trusts employ a wide range of strategies, and in recent years there's been a groundswell of trusts offering investors exposure to illiquid assets, such as property, infrastructure, and private equity. The investment trust structure lends itself to holding illiquid assets because the fixed pool of capital means fund managers don't need to keep looking over their shoulder at flows into and out of the fund, a problem which has plagued open-ended funds plying their trade in these areas, particularly in the property sector.

One of the issues with illiquid assets though is they are not priced as regularly, and their value is more subject to interpretation. Consider for example putting a price tag on the Shard tower in London, compared to shares in **Vodafone (VOD)**, which are traded on the London Stock Exchange thousands of times a day. The result of ambiguities in pricing is that trusts containing illiquid assets can trade at substantial discounts if the market believes the value of those assets is going to be written down, normally because of unfavourable market conditions.

An example is **Hipgnosis (SONG)**, the song royalties trust, trading on a discount of around 50%, which partly reflects the market's dim view of the income stream produced by its streaming rights now interest rates have risen so substantially.

The table on the next page shows the highest discounts in the investment trust universe occur in these illiquid asset sectors, and a common theme is the market adjusting pricing to account for the negative effect of interest rate rises on the value of the underlying assets. The proliferation of trust launches in these sectors in the last 15 years goes a long way to explaining why the average discounts is at its highest since 2008, when it looked like the bottom might fall out of capital markets.

Average discounts in selected AIC investment trust sectors

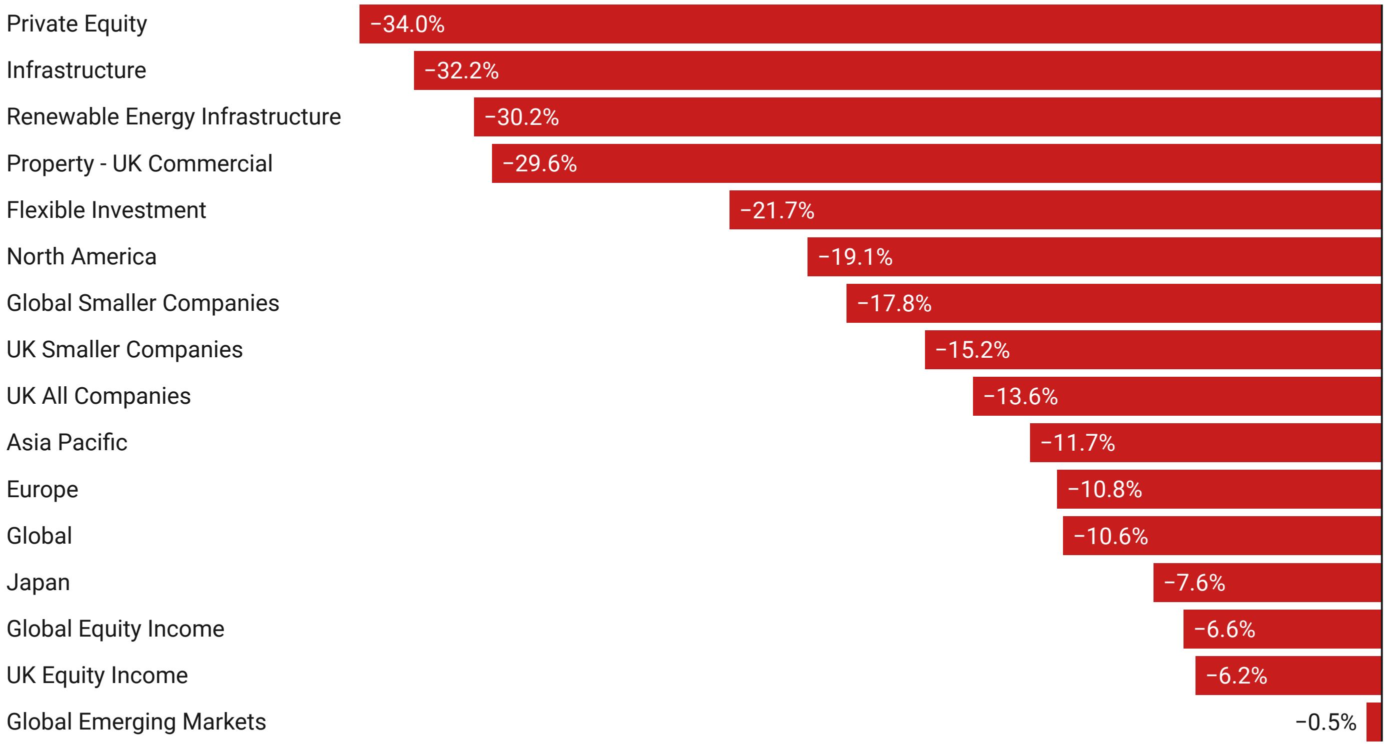


Chart: Shares magazine • Source: Morningstar to 6 November 2023

A BROADER ISSUE

These illiquid assets aren't just found in specialist vehicles either, some more generalist trusts also have exposure. **Scottish Mortgage (SMT)**, for instance, is well-known for investing a portion of its portfolio in unquoted companies, and its current discount of 14% suggests some anxiety in the market about the valuation of those assets. So, if you see a big discount, before diving in just consider what's in the underlying portfolio, and whether there are any fewer liquid assets which might explain the trust's pricing.

Looking more broadly across the investment trust universe, discounts are certainly very widespread. When considering discounts, and premiums, investors do need to set them in some historical performance context though. A trust trading at a 3% discount when it normally trades at a 6% discount isn't currently offering compelling value.

TAKE A LOOK AT HISTORY

So, it's a good idea to take a look at how the discount, or premium, has fared over a period of time, to get an idea of whether it's trading at an attractive entry point or not. When compared with the last five years, discounts are definitely wide right now across many sectors, but probably aren't the screaming bargain you might expect when you hear that the average discount is at its highest level since the financial crisis.

Investors to also need to ensure they don't lose sight of the wood for the trees when selecting investment trusts. You shouldn't be tempted into an asset class, sector or trust simply because of a discount, if it doesn't fit in with the rest of your portfolio or sits outside your risk tolerance. Ultimately it's the underlying assets within a trust which should do the heavy lifting in terms of generating long-term returns for investors, and picking up trusts at a healthy discount is just the icing on the cake.

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

What are 'Investment Pathways' and how do they affect my pension?

FCA ruling applies to anyone who wants to stay invested during drawdown

I'm planning to enter drawdown in the next six months and have read I'll be offered an 'Investment Pathway'? Can you explain exactly what this is?
Daniel

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

Since 2021, hundreds of thousands of people who choose to keep their retirement pot invested while taking an income through drawdown each year have been required to be offered 'Investment Pathways' by their pension provider. The same is true of those who transfer a drawdown plan to a new drawdown provider.

One of the central aims of this initiative, instigated by the FCA (Financial Conduct Authority), is to reduce the number of people holding cash or cash-like investments for the long term and seeing the value of their money whittled away by inflation.

The FCA also wants more people to think about their investments when going into drawdown, so they remain appropriate to their needs.

There are a few fundamental things you need to know about these Pathway options. First, they aren't being presented to you based on your personal circumstances but rather offer very broad investment options based on four basic outcomes.

Second, they do not take into account your appetite for risk or withdrawal strategy in any detail and must therefore not be seen as a replacement for engagement or seeking regulated financial advice.

Third, responsibility for investment decisions continues to rest with you.

If you choose a Pathway fund, you still need to check that the risk level and objective of the fund is aligned with your needs and you are comfortable with the charges you are paying.

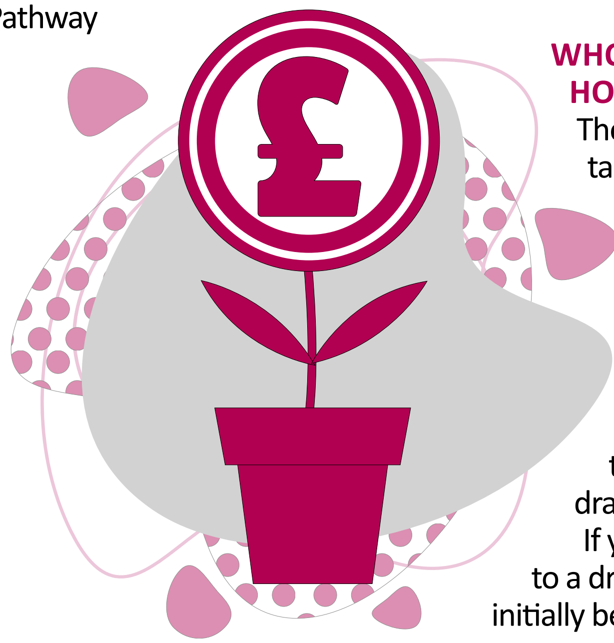
If you enter drawdown - whether invested in a Pathway fund or having chosen your own investments – you need to regularly review your investments to ensure they are delivering against your objectives and remain appropriate for your evolving personal circumstances.

WHAT IS THE POINT OF PATHWAYS?

Pathways aim to help you make better decisions on how to invest your drawdown fund and ensure you do not end up holding large parts of your pension in cash or cash-like investments over the long term.

This is because the FCA is worried people who hold too much cash in their pension risk missing out on valuable investment returns and having the real value of their pension eaten away over time by inflation.

There is no obligation on you to invest in a Pathway fund, however, and many investors prefer to choose their own investments to better meet their attitude to risk, retirement plans and long-term goals.



WHO IS OFFERED PATHWAYS AND HOW DOES THE PROCESS WORK?

The rules impact people who do not take financial advice and choose to keep their money invested while taking an income in retirement ('drawdown').

This includes people who move all or part of their pension savings into drawdown, or people who transfer funds already in drawdown to a new provider.

If you enter drawdown or transfer to a drawdown account, you will initially be given the option of:

- Choosing an Investment Pathway;
- Choosing your own investments; or
- Sticking with the investments you already have.

If you choose your own investments or stick with the investments you already have, your 'Pathway' journey will come to an end there and then.

If you choose the Investment Pathway route, you will be presented with four Investment Pathway options. These will not be tailored based on your personal circumstances, but rather designed around four very broad retirement income objectives.

You will then be offered an Investment Pathway fund based on the option you have chosen.

WHAT HAPPENS IF YOU DECIDE YOU WANT TO BUY A PATHWAY FUND?

This will depend on the approach taken by your provider. If an AJ Bell customer indicates they want to buy an Investment Pathway fund, they will then go through the normal process of being placed into drawdown.

Once in drawdown, you retain responsibility for purchasing your investments – including Investment Pathway funds.

Where an AJ Bell customer has said they want to buy an Investment Pathway fund then doesn't – either keeping their money in cash or choosing different investments – they will be sent a reminder of their original choices.

However, as is always the case with do-it-yourself investments, it will be up to the individual investor to complete any transaction.

Disclaimer: Financial services company AJ Bell referenced in the article owns Shares magazine. The author of the article (Tom Selby) and the editor of the article (Ian Conway) own shares in AJ Bell.

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*.

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