STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

Can mid-caps shine again and which stocks should you buy?

US EARNINGS Find out who's done best and worst

Contents

JD Sports' Footasylum own goal shows why governance really matters

Enthusiasm for all things ESG may have waned but the way a company is run is crucial

It's easy to dismiss ESG (environmental, social and governance) investing as a fad. Certainly there has been a backlash in 2022 after a period where slapping those three letters next to any investment seemed to guarantee double-digit gains

According to data from Morningstar, US funds with a sustainability focus underperformed a weak wider market by nearly 2% in the first six months of the year.

A dose of healthy scepticism is probably warranted, particularly as claims of so-called greenwashing mount. The CMA (Competition & Markets Authority) has launched a probe into whether clothing retailers **ASOS (ASC:AIM)**, **Boohoo (BOO:AIM)** and George at Asda are delivering on the green claims they have made for themselves.

Certainly there has been a tendency for businesses to pay lip service to the concept of ESG without backing it up with serious action.

However, investors could pay a heavy price for ignoring ESG factors entirely. In particular the 'G' in ESG, often neglected in the wider analysis, is hugely important.

WHY GOVERNANCE IS ALL IMPORTANT

In a broader discussion which will feature in a future article in *Shares*, the manager of **BlackRock World Mining (BRWM)** Evy Hambro observed: 'Out of the three letters I say G is the most important. This is effectively the board and the board are the ones who employ the executives which run the company and they are the ones who affect the E and the S.'

There was a recent reminder of how important the way a business is run is to shareholder returns at **JD Sports (JD.)**.

Despite a recent recovery, the shares are trading 100p or more than 40% below their all-time highs above 230p reached in November 2021.

COSTLY MISTAKE

Naturally, concerns about the cost-of-living crisis have hit all retailers but JD has also been the author of its own misfortune, the 2019 acquisition of rival Footasylum proving extremely costly, and not just in financial terms.

At the behest of the CMA the company is selling a business it agreed to buy for £90 million in 2019 to a German asset manager for £39 million.

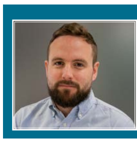
However, the fall-out from the debacle and the investigation by the competition authorities also saw the departure of executive chairman Peter Cowgill.

To give him due credit, Cowgill had run JD with real success over a long period but the Footasylum deal hinted at a lack of internal challenges to decision-making at the top.

Certainly JD appeared to think so given their push to split the chair and CEO roles both held by Cowgill, a move which was reportedly the catalyst for his resignation in May 2022.

Plans are afoot to hire a new chief executive and bring in a fresh structure and internal controls to ensure the business is run with the appropriate rigour in the future.

About time too. Sooner or later, if there are problems at the top of a business it will hit the buffers.



By **Tom Sieber** Deputy Editor

Mixed US second quarter earnings see big tech do better than feared

Results from Alphabet, Amazon, Apple and Microsoft remain robust

Latest quarterly results from many of the world's biggest and most influential companies haven't been knocking any balls out of the park, to use the baseball analogy, but nor have they been a complete flop, which qualifies as success in a damp earnings season.

The big tech giants conquered their respective headwinds, by and large, with constrained consumer spending, slowing advertising revenues and limp PC and gaming sales failing to upset **Apple (AAPL:NASDAQ)**, **Amazon (AMZN:NASDAQ)**, **Alphabet (GOOG:NASDAQ)** and **Microsoft (MSFT:NASDAQ)** too much, partly thanks to solid cloud computing sales.

While Alphabet and Microsoft both fell a little short of analysts' cloud revenue estimates (Amazon beat its own cloud estimates), growth in that highly promising business (33% at Amazon, 36% Alphabet, 40% Microsoft) helped drive share prices higher, evidence that the market was expecting worse.

This is a big deal for the millions of investors that own mega tech names, either directly or through myriad funds. Now, deep into second quarter earnings season, results so far offer another slither of evidence that, for now, companies continue to spend at a consistent clip even as consumers hit the spending brakes harder.

'We will be exposed to consumer-driven businesses and (small and medium-sized businesses), but at some level, our strength as a company is much stronger in the core commercial,' said Microsoft CEO Satya Nadella during his company's earnings call.

Despite some of the doomsday projections for tech earnings, several tech companies that make their money in the enterprise world have produced surprisingly upbeat results from the most recent quarter.

Forecast beats and misses

	Reported		Forecast	
	Revenues ($ billion)	EPS ($)	Revenues ($ billion)	EPS ($)
Apple	82.96	1.20	82.79	1.16
Microsoft	51.87	2.23	52.38	2.29
Amazon	121.23	-0.20	119.00	0.12
Alphabet	69.69	1.21	69.80	1.27
Nvidia	8.29	1.36	8.12	1.30
Tesla	16.93	2.27	16.54	1.81
Meta Platforms	28.82	2.46	28.91	2.54
Netflix	7.97	3.20	8.03	2.95
Visa	7.28	1.98	7.08	1.75
Mastercard	5.50	2.56	5.27	2.36
Qualcomm	10.93	2.96	10.86	2.89
Coca-Cola	11.33	0.70	10.57	0.67
McDonald's	5.72	2.55	5.80	2.47
Walmart	141.57	1.30	138.80	1.48
Intel	15.32	0.29	17.96	0.69
Shopify	1.30	-0.03	1.33	0.02

Table: Shares magazine. Source: Investing.com

Three of the world's top chipmakers have brushed off concerns about a semiconductor slowdown, each seeing modest share price rallies on the back of commercial and industrial clients. **Texas Instruments (TXN:NASDAQ)** blew past earnings and revenue estimates, with company officials touting better-than-expected automotive, enterprise systems, and communications equipment sales.

That report (26 July) came a day after **NXP Semiconductors (NXPI:NASDAQ)** also beat analyst forecasts and issued a bullish outlook on the current quarter, thanks to strong automotive and industrial chip demand.

Samsung Electronics (005930:KRX), one of the microchip industry's bigger beasts, had earlier in the month quelled fears of a major downturn, with analysts predicting that the South Korean company's chip manufacturing business exceeded expectations. Investors are left with analysts' best guesses because Samsung didn't release a segment-level breakdown of financial results.

Recent reports also showed steadiness at two companies making an aggressive pivot to a cloud-based business model – tech conglomerate **IBM (IBM:NYSE)** and German software giant **SAP (SAP:ETR)**. Barron's reported that SAP officials are 'seeing little impact on demand from macroeconomic factors,' with orders consistently flowing in from North America, Latin America, and Asia.

By comparison, companies primarily driven by consumer spending are pumping the brakes. **Shopify (SHOP:NYSE)** missed earnings and revenue projections (27 Jul), joining retail colossus **Walmart (WMT:NYSE)** in warning of revenue and profit shortfalls thanks to a prolonged slowdown in consumers' discretionary spending.

Shopify shares still rose 8% on the day, though the jump followed a broader tech stock rally and a 15% decline the day before the release. **Twitter (TWTR:NYSE)** and **Snap (SNAP:NYSE)**, which draw virtually all of their revenue from consumer-driven advertising, also fell far short of expectations as companies tighten their marketing budgets. [SF]

VIEW FROM EUROPE: SHARES BARELY RALLY ON BETTER-THAN-EXPECTED NUMBERS

The latest research from the European equity strategy team at Morgan Stanley provides a fascinating view of how companies have weathered the storm in the second quarter and just as importantly how the stock market has reacted to their results.

In terms of general themes, European companies have outperformed expectations in terms of sales with 56% of companies beating forecasts by 1% or more during the quarter, leading analysts to raise further their full year estimates (which are already trending upward).

However, at the level of earnings per share only 44% of companies beat expectations last quarter with 30% of companies missing estimates, leaving a margin of 14%, the narrowest of any quarter post-pandemic.

This 'margin erosion', mainly due to higher costs, has led to analysts cutting their earnings forecasts, which are already trending down, unlike sales.

Unsurprisingly, the 'healthiest' sectors last quarter in terms of earnings were energy and consumer staples, although consumer discretionary stocks also beat expectations which is more of a surprise given fears of a slowdown in spending.

Two key areas of weakness were technology and industrial stocks, while small- and mid-cap stocks underperformed large-cap and value stocks, giving a hint as to where the downgrades are likely to come.

The market's reaction to results has been instructive too. Companies which have missed earnings forecasts have typically lagged the index by 2.3% on the day, while even stocks which have beaten forecasts have struggled to gain ground, losing 0.2% on average.

This is the biggest quarterly 'negative skew' so far for one-day price action according to Morgan Stanley, and 'may suggest that fundamental weakness is not yet fully priced into equities in aggregate, or that the backward looking second quarter beat is as good as it gets' say the team. [IC]

Net % of European companies beating Q2 EPS estimates by sector

Energy	56%
Consumer Discretionary	43%
Utilities	38%
Materials	33%
Consumer Staples	33%
Financials	38%
Health Care	25%
Communications & Services	10%
Industrial	-15%
Technology	-31%
Real Estate	-67%

Table: Shares magazine Source: Morgan Stanley

How most UK banks won the market over with their second quarter results

NatWest was the standout performer but Barclays produced a mixed update

The UK domestic banks second quarter reported season has prompted renewed interest in the sector from investors.

The results, for the most part, were characterised by earnings exceeding consensus expectations and management upgrading their return on equity forecasts for 2023.

NatWest (NWG) was the standout star performer, and **Barclays (BARC)** produced the least inspiring set of numbers.

Second quarter results from NatWest (29 July) came in significantly ahead of expectations.

Investors appear to have woken up to the fact that the lender is the biggest beneficiary of interest rate rises.

For every quarter point rise in interest rates its net interest income experiences a 5.5% uplift to its net interest income according to Numis' calculations.

Further rate increases look likely from here as the Bank of England, like other central banks globally, looks to get a handle on inflation.

The boost to earnings that NatWest receives from increasing interest rates has been reflected in management's decision to pay a special dividend equivalent to 7% of the group's market capitalisation.

Second quarter earnings from **Lloyds (LLOY)** (27 July) highlighted two ways in which it has also benefited from the upward shift in interest rates.

First, management have increased their net interest margin forecast from 2.7% to 2.8%.

Second, based on the same Numis research as quoted for NatWest, for every 25 basis point increase in interest rates Lloyd's earnings jump by 2%, ahead of Barclays at 1.6% and **Virgin Money (VMUK)** at 1.3%.

HSBC's (HSBA) second quarter results (1 August) saw earnings come in at double the consensus estimate of $0.14, and the bank raised its interim dividend per share 29% to $0.09, ahead of the $0.08 consensus.

Management have also raised the 2023 return on equity target to 12% from above 10% previously.

However the bank is under pressure to appoint Chinese insurer Ping An, its largest shareholder with a 9.2% holding, to its board amid a battle over the future strategic direction of the business.

Ping An wants to spin off HSBC's Asian operations in an attempt to unlock shareholder value, an approach opposed by HSBC's management.

The Chinese firm's break-up call comes at a time when the group is looking to expand into wealth management and commercial banking in Asia to generate double-digit growth.

Despite beating expectations and announcing a larger than expected share buyback of £500 million, Barclays second quarter results (28 July) were overshadowed by a surge in costs and a decline in the bank's core equity tier one ratio – a measure of financial strength and its ability to absorb unexpected losses.

The company has been a victim of self-inflicted woes surrounding the sale of structured products in the US. [MGar]

How UK banks have performed in the last month

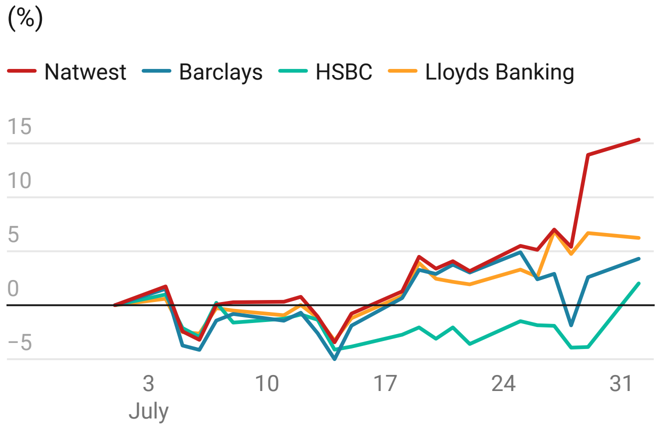


Chart: Shares magazine • Source: FE Analytics

Smithson suffers double whammy as shares and net asset value tumble

Total returns down 41% in first half due to 'challenging' markets

The interim trading statement from specialist small and mid-cap investment trust **Smithson (SSON)** doesn't make for very happy reading from an investor's viewpoint.

Not only did the company's NAV (net asset value) drop 31.7%, lagging its global small- and mid-cap benchmark by a whopping 18 percentage points, but the stock slumped to an 11.5% discount to NAV taking the total share price return to -41.3% for the six months to June.

Manager Simon Barnard put the trust's performance – the worst since its inception – down to three factors which hammered growth stocks in particular: inflation, rising interest rate expectations, and fears of recession.

Of these, the key factor affecting performance was interest rate expectations because the high-quality growth companies which the trust holds typically have higher ratings than the rest of the market, and this was certainly the case at the end of 2021.

As interest rate expectations rose, 'the value of the future earnings of our companies, a substantial component of their overall valuation, became more heavily discounted' explains Barnard.

The impact of inflation itself is less of a concern as the companies in the portfolio tend to have high gross margins, which means they can absorb cost increases, while their strong market positions means they can pass on price rises to their customers.

Unsurprisingly, the trust's exposure to growth areas such as technology, industrial and consumer discretionary stocks cost it dear, while its lack of exposure to 'value' areas of the market such as energy and utilities, which made the biggest gains during the half, also held it back.

Among the biggest negative contributors to performance were **Fevertree (FEVR:AIM)**,

which accounted for 2.8% of the drop in NAV, **Domino's Pizza (DOM)** and **Rightmove (RMV)**, which accounted for 1.6% and 1.5% of the loss respectively, but Barnard is sticking with all three holdings, which reflects the long-term approach underpinning the trust.

Meanwhile, Barnard took advantage of price declines to add two new names to the portfolio, Italian luxury group **Moncler (MONC:BIT)** and Swedish industrial firm **Addtech (ADDT-B:STO)**.

US boiler and heater maker **AO Smith (AOS:NYSE)** was sold after the managers became less optimistic on its ability to generate sustainable profit growth due to rising competition in markets like China.

While the average discount to NAV during the half was 3.5%, it widened to over 11% at the end of June prompting the board to start buying back shares.

By the end of June the trust had bought 0.5% of the shares in issue, and it added another 0.5% last month helping narrow the discount to 6.3%. [IC]

Disclaimer: The author of this article owns shares in Smithson Investment Trust

Unilever has strong brand power and big emerging markets potential

Activist billionaire Nelson Peltz's presence is another reason to buy the mega cap Marmite maker

UNILEVER
BUY
(ULVR) £39.79
Market cap: £102 billion

Shares believes a rally off of March's five-year lows at fast-moving consumer goods goliath **Unilever (ULVR)** has further to run.

Inflationary pressures may be starting to ease and this improvement in the macro backdrop looks set to be accompanied by self-help measures to support a more meaningful recovery in Unilever's share price.

The Marmite-to-Magnum maker should also be able to flex its pricing power muscles and demonstrate its huge potential in emerging markets, where the company generates just under 60% of sales.

We concede the backdrop for Unilever remains tough given high input cost inflation, slower global growth and an unprecedented squeeze on household budgets. If it persists, elevated input cost inflation will require the £102 billion cap to keep pushing up prices and that risks a hit to volumes.

Yet these risks appear more than priced-in with Unilever trading on 17.9 times estimated earnings for 2023, a significant discount to the 27.5 price-to-earnings ratio high reached in 2018, and offering an attractive dividend yield of 3.7% based on next year's estimates.

Generating copious amounts of free cash, robustly financed Unilever has started a share buyback of up to €3 billion. As if all that weren't enough, the presence of hard-nosed activist Nelson Peltz on the shareholder register and board provides 'potential strategic upside risk', to quote analysts at Berenberg.

UNDER PRESSURE

The FTSE 100's fourth biggest company by market cap, Unilever is the packaged consumer goods powerhouse behind an enviable collection of household, food and beauty brands ranging from Dove soap and Domestos bleach to Comfort fabric conditioner, Cornetto ice creams, Hellmann's mayonnaise, skin care brand Pond's and hair growth supplement Nutrafol to name but a few.

Deep entrenchment in the supply chains of its retailers is the source of Unilever's wide economic

Unilever's returns profile

Year	Return on capital employed (ROCE)
2016	21.7%
2017	22.8%
2018	31.2%
2019	19.9%
2020	17.7%
2021	17.2%

Table: Shares magazine • Source: Stockopedia

Billion+ Euro brands in H1

52% of turnover
10% underlying sales growth in Q2
9.4% underlying sales growth in H1

Table: Shares magazine • Source: Unilever H1 results presentation

moat and the company has reasonably predictable earnings.

Despite these advantages, CEO Alan Jope has come under fire from shareholders, among them pugnacious fund manager Terry Smith, for presiding over subdued growth, focusing too much on 'woke' issues and an abortive £50 billion bid for **GSK's (GSK)** consumer healthcare unit.

Subsequently spun-out and listed as **Haleon (HLN)**, the business has been ascribed a market value of £27 billion at the time of writing, far below the price Unilever had been prepared to pay for the asset.

The good news is Unilever's chastened management is now listening to shareholders, having ruled out transformational acquisitions and centred the group's financial communication on financial strategy rather than sustainability and 'purpose'.

A well-received first half trading update (26 July) demonstrated why Unilever retains a big fan club among fund managers. The company reported underlying sales growth well ahead of analysts' forecasts and despite the challenges of inflation and an uncertain economic outlook, raised its full year underlying sales growth forecast to above the top of its previous range of between 4.5% and 6.5%, 'driven by price with some further pressure on volume'.

PRICING POWER

Unilever has exposure to categories at risk from consumers trading down to cheaper alternatives including skin cleansing, surface cleaners, cooking ingredients, laundry detergent and ice cream, notes Berenberg.

Yet after much debate about the company's ability to pass on price increases to its customers without damaging sales, Unilever successfully hiked selling prices by 9.8% in the six months to June to mitigate input cost inflation. And while that led to a 1.6% fall in volumes, it still left underlying sales up 8.1% against an average forecast for an increase of around 7%.

CEO Jope was particularly pleased with the progress of Unilever's 'billion+ Euro brands' (a collection of brands which have annual sales of a billion euros or more) which posted underlying sales growth of 9.4% in the first half and represent more than 50% of revenues.

In the first half, Unilever was able to increase prices by 12.1% in emerging markets, where sales grew 10% despite a headwind from China's Covid lockdowns and Unilever's brands are genuinely valued and regarded as 'safe' by consumers.

Jope also flagged the new category-focused organisational structure which came into effect on 1 July as 'an important further step that will underpin the delivery of consistent growth, which remains our first priority', and one set to generate around €600 million of cost savings over two years, with the majority in 2023.

In the face of a challenging market backdrop, Unilever insisted it continues to expect to improve margin in 2023 and 2024, through pricing, sales mix and savings. That will have pleased billionaire activist Peltz, recently appointed as a non-executive director after his investment firm Trian took a stake in the business.

UK investors may recall Peltz's presence on Cadbury's share register led to a break-up and eventual sale of that company.

Breaking up Unilever, whose sprawling range spans everything from plant-based meats, mayonnaise and ice creams to deodorants, washing and bathing products and bleach, could offer a longer-term catalyst for the share price. [JC]

Unilever

Chart: Shares magazine • Source: FE Analytics

Why this is a great time to buy the medium-term growth story at DiscoverIE

Electronics company is now a business critical supplier to structurally expanding markets

DISCOVERIE
BUY
(DSCV) 733p
Market cap: £693 million

A company is clearly doing something right when financial guidance and market forecasts are consistently going up in this environment. Yet shares in electronics engineer **DiscoverIE (DSCV)** have lost more than 30% this year and are nearly 42% down on their £12.62 highs of September 2021.

This is a great time to buy the shares for the medium to longer-term, we believe, with analysts overwhelmingly positive. Top-end price predictions call for up to 65% upside, and even the average of analyst price targets imply gains of 36% are up for grabs.

Longer-run *Shares* readers will know DiscoverIE; we have followed its strategy of climbing the value supplier chain for several years, flagging its early steps at 406p almost three-and a-half years ago.

This used to be a fairly simple distributor of parts and components to the electronics manufacturing industry, but it has cleverly shifted to become a business critical provider of often unique custom designs to highly regulated industries where corners simply cannot be cut.

These include areas like medical, aerospace, transport, and renewables. These are sectors where equipment needs to be high-performance, reliable, efficient and regulations compliant, and that means fatter profit margins.

In 2021 the company reported 37.4% gross margins (high for a manufacturer) and 14.2% at an operating level.

This ambitious adventure is far from over, in our opinion, a view backed up by hard facts and impressive trading figures. A brief trading update on 28 July underscored optimism, showing that the strong growth seen through its 2022 financial year (to 31 March) has continued into this year's first quarter, with no hint of slowing in the second quarter. First quarter organic growth was 17%.

The news saw analysts nudge forecasts higher again, having modestly raised estimates earlier in the summer, and in February. This implies around 35p of earnings per share in the year to March 2024, putting the stock on a price to earnings multiple of about 21.

Recession risks remain and further falls in economic activity could slow progress. That said, further value-adding bolt-on acquisitions, such as custom components maker CDT last month, could easily accelerate growth far beyond management's 10% a year organic target.

With free cash flow of £25 million to £30 million forecast, and net debt running at just 8% of equity, DiscoverIE has plenty of balance sheet power to leverage to fuel new growth opportunities in future. [SF]

DiscoverIE

Chart: Shares magazine • Source: FE Analytics

Discover why Shoe Zone shares have gained 20% in two months

Budget footwear seller has upgraded full-year guidance twice in a matter of weeks

SHOE ZONE
(SHOE:AIM) 194.4p

Gain to date: 21.5%

Shares said to buy discount footwear retailer **Shoe Zone (SHOE:AIM)** on 9 June having noted its strong outperformance of the market in 2022 to date.

At the time we observed the company's value-based offering would chime with households struggling thanks to the cost-of-living crisis. Logically Shoe Zone should be a beneficiary of any trading down and footwear is largely a non-discretionary spend.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

In a matter of weeks, Shoe Zone has already upgraded guidance for 2022 twice.

First on 29 June the company said that 'the business has been trading well and has also seen strong margin improvements and cost savings, in particular as a result of rent reductions and good supply chain management' and noted pre-tax profit would hit £8.5 million compared with the previous consensus expectation for just £6.5 million.

Then, less than a month later on 26 July it flagged 'higher than expected demand for summer products' further lifting guidance to 'not less than £9.5 million'.

In response house broker Zeus Capital noted: 'In our view, Shoe Zone's attractive value proposition means it is well placed to win market share as consumers seek more affordable alternatives against the current backdrop of high energy costs and food price inflation.

'In addition, the group's ongoing strategy of store rationalisation and its growing e-commerce offering means it has the potential to deliver attractive medium-term earnings growth, despite the more challenging near-term consumer outlook.'

WHAT SHOULD INVESTORS DO NEXT?

Stick with Shoe Zone, the valuation remains relatively undemanding at 12.3 times 2022 consensus forecast earnings, particularly given the momentum behind the business.

Shoe Zone operates in a part of the market where its products are essentials rather than 'nice-to-haves', with a focus on areas like work boots and school shoes. The company is also generating plenty of cash which underpins decent returns to shareholders, reflected in a 2022 dividend yield of 3.5%. [TS]

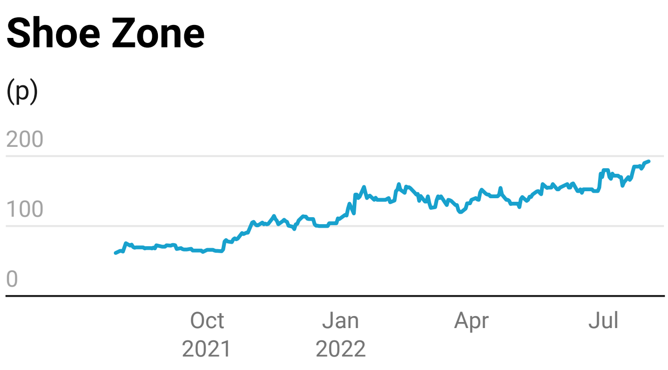


Chart: Shares magazine • Source: FE Analytics

Precision measurement firm Spectris looks set fair for further gains

Interim trading update likely to prompt brokers to raise forecasts

SPECTRIS
(SXS) £29.34

Gain to date: 8.3%

We tipped specialist engineering group **Spectris (SXS)** at £27.09 at the end of April after the firm announced it was disposing of its low-margin Omega unit and handing some of the proceeds back to investors.

Not only did we applaud the firm's attitude to capital allocation – selling a business which was sub-scale rather than pouring money into it to make it profitable enough to justify keeping it – but the price it achieved was impressive.

The sale of Omega for £410 million – more than 20 times last year's adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), compared with a group valuation of just 11 times – takes the firm's disposals over the last three years to over £1 billion.

The resulting business is leaner, financially much fitter, and with a clear focus on high-precision measurement solutions.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

The firm made a modest US acquisition in May, paying £66 million for Dytran Instruments, a leading designer and manufacturer of specialist tools for measuring acceleration, dynamic force, pressure and vibration.

The firm posted a solid if unspectacular set of interim results for the six months to June, showing an 11% increase in like-for-like sales to £570 million driven by market share gains thanks to the introduction of new and advanced products in recent years.

Equally reassuring, the order book grew by 20% on a like-for-like basis to a new record giving the firm greater visibility and confidence in its second half outlook.

Management guided to high single-digit organic sales growth for the full year along with an increase in the operating margin.

WHAT SHOULD INVESTORS DO NEXT?

Spectris's earnings split is typically one third for the first half and two thirds for the second half, with higher margins, so after the strong interim numbers we would expect analysts to upgrade their full year forecasts.

Meanwhile, the company is buying shares equivalent to around 5% of its market cap which will further lift earnings per share.

Helpfully, the stock retraced 5% on the day of the results so we would grab the opportunity to add to holdings at a price below £30. [IC]

Chart: Shares magazine • Source: FE Analytics

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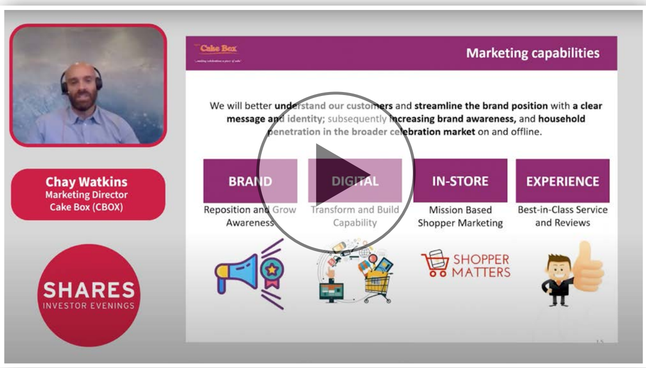
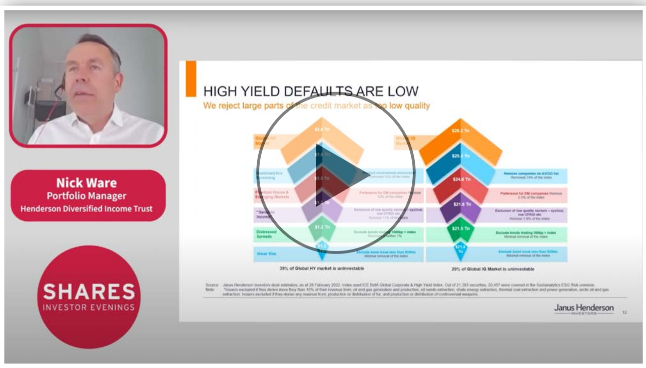


Cake Box

David Forth, CFO - Chay Watkins, Marketing Director

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.



Henderson Diversified Income Trust

Nick Ware, Portfolio Manager

Henderson Diversified Income Trust seeks a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses, by investing in a diversified portfolio of global fixed income and floating rate asset classes.

Reabold Resources

Sachin Oza, Co Chief Executive & Stephen Williams, Co Chief Executive

Reabold Resources is an investment company in the natural resources sector. The principal activity of the company is an investment in pre-cash flow upstream oil and gas projects, primarily as significant minority interests in unlisted oil and gas companies or majority interests in unlisted oil and gas companies with non-operating positions on licenses.

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Can mid-caps shine again and which stocks should you buy?

By **Steven Frazer** News Editor

Mid-cap companies have always attracted investors. Seen as large enough to compete on a global scale, but not so big that their capacity for growth is capped, like many FTSE 100 stocks, an increasing number of investors spend time researching stocks on the FTSE 250 index, or simply buy the index through the handful of inexpensive targeted ETF tracker funds that are available.

While many investors might be on less intimate terms with the FTSE 250 in general, there are many companies in the index that will seem like part of the furniture.

Who doesn't know Mike Ashley's 'pile 'em high, sell 'em cheap' retailer **Frasers (FRAS)**, for example, or discount flyer **EasyJet (EZJ)**?

Others mid-caps you may know include **Marks & Spencer (MKS)**, **Domino's Pizza (DOM)**, **Moneysupermarket (MONY)**, **Go-Ahead (GOG)**, and housebuilders **Bellway (BWY)** and **Redrow (RDW)**, by name, if not by stock market index membership.

As *Shares* outlined last year, Jean Roche, lead manager of the **Schroder UK Mid Cap Fund (SCP)** and co-manager Andy Brough, refer to the FTSE 250 as the 'Heineken Index' given its potential to 'refresh' portfolios in a way other parts of the market cannot because of the healthy amount of turnover in the index.

The FTSE 250 has become a favourite hunting ground for many UK-focused fund managers looking for an edge because there is less analyst

FTSE 250's largest companies

	Market cap (£ million)
Carnival	7,603
ConvaTec	4,653
F&C Investment Trust	4,533
Frasers	4,293
Weir	4,246
RIT Capital Partners	3,962
Homeserve	3,957
Johnson Matthey	3,898
Tritax Big Box REIT	3,682
Greencoat UK Wind	3,569

Table: Shares magazine • Source: Sharepad, 28 July 2022

FTSE 250 has beaten the FTSE 100 handily over the long term

Source: FE Analytics

01/01/1986 - 28/07/2022 Data from FE fundinfo2022

24,250.83

FTSE 250's all-time high (1 September 2021)

Source: Google Finance

coverage of the companies in the mid-cap part of the market and, it is thought, more room to find mispriced stocks.

Emphasising mid-cap stocks' capacity to grow further and faster than FTSE 100 constituents, the FTSE 250 has a long history of beating its blue-chip counterpart. Until recently, that is. Data from FTSE Russell shows that since the global financial crisis ended the FTSE 250 had beaten the FTSE 100 in annual performance terms every year bar two (2011 and 2016) through to the end of 2017.

The FTSE 250's total return (assuming dividends were reinvested) for the index since its 1992 debut was 1,637%.

But performance has become far more volatile during the past five years, during which Brexit, a global pandemic, war in eastern Europe and surging inflation have shaken investor assumptions. FTSE 250 stocks have underperformed the FTSE 100 in three of the past four years.

So far this year, the pattern has repeated, with the FTSE 100 off just 0.5% from its 2022 starting point, according to Google Finance data, versus a near-16% decline for mid-caps.

Georgina Brittain, who manages investment trust **JPMorgan Mid Cap (JMF)** alongside co-manager Katen Patel, says the FTSE 250 offers exposure to great British businesses with plenty of scope for growth.

'While uncertainty still remains, which may cause some short-term volatility, we see attractive growth opportunities, with FTSE 250 constituents well placed to thrive in a recovery over the long term.'

WHAT MOVES THE FTSE 250?

Like any equity index, the FTSE 250 responds to macro events and data more than anything else, as we have seen this year with supply chain snarl-ups, a cost-of-living crisis, energy price spikes and Russian invasion of Ukraine.

Putting the macro backdrop to one side, the mid-cap index is widely believed to enjoy a more

The FTSE 100 has held up better than the FTSE 250 in 2022

Source: FE Analytics

balanced split between sectors, unlike the FTSE 100, where financial services and banks, resources and consumer companies dominate.

This point is arguable. According from 30 June 2022 data from FTSE Russell, about 70% of the FTSE 250's weighting is split between just three sectors: financials, industrials and consumer discretionary.

6

Number of FTSE 250 ETFs trackers

Source: London Stock Exchange

This is illustrated by the presence of insurers **Direct Line (DLG)** and **Beazley (BEZ)**, engineers **Weir (WEIR)** and **Johnson Matthey (JMAT)**, EasyJet, Frasers and Marks & Spencer, featuring among the index's most influential by weighting.

In truth, financials exert a far smaller influence over the index's direction than the data suggests. That's because of the high number of investment trusts in the FTSE 250. More than 50 are listed on the index, with the majority of them valued in excess of £1 billion, with **F&C Investment Trust (FCIT)**, **RIT Capital Partners (RCP)** and **Tritax Big Box REIT (BBOX)** among the biggest.

Since many of these trusts invest in non-financial companies, the FTSE 250 is influenced by a wider range of sectors than the data implies.

That the FTSE 250 is perceived as the better barometer of the UK economy than the FTSE 100 is also more marginal than you might think. Data shows that something like 70% to 75% of FTSE 100 revenues are earned overseas, versus FTSE 250 constituent revenues that are more evenly split between overseas and domestic sources, with the split nearer 50-50, so the index is not really the UK economic health barometer many believe it to be.

WHAT'S WORKED AND WHAT HASN'T

There are always companies that are capable of bucking wider index trends and this year has been no different. While the FTSE 250 has drifted lower through 2022, stocks such as Go-Ahead and **Euromoney Institutional Investor (ERM)** have jumped, having been the subject of takeover offers at significant premiums to where the shares had been trading previously, roughly 25% and 40% respectively.

Other FTSE 250 companies have been able to take advantage of their opportunities, such as

FTSE 250 Sector Influence

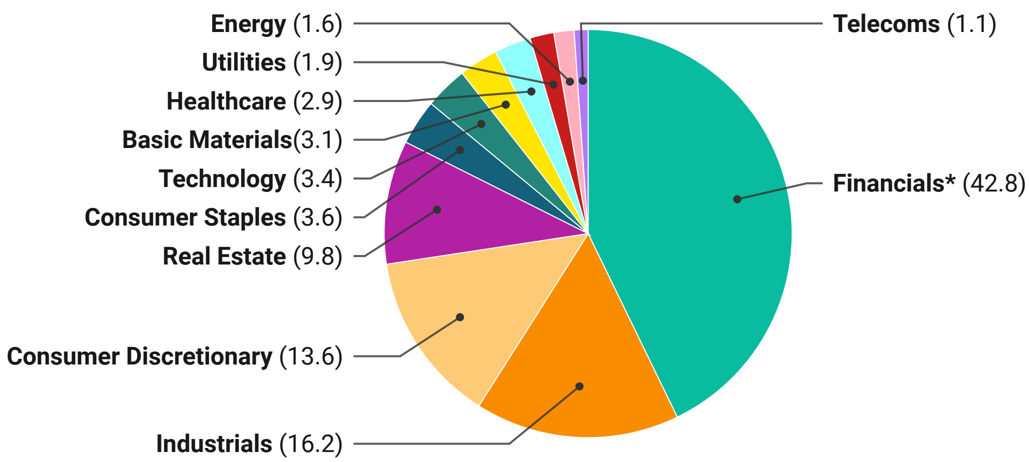


Chart: Shares magazine • Source: FTSE Russell, 30 June 2022. *Includes more than 50 Investment Trusts

military technology and intelligence specialist **Qinetiq (QQ.)**. It is 2022's best-performing mid-cap outside of takeovers thanks to its strong forward order book to supply governments around the world with weapons and equipment. That demand has only accelerated, and investor interested heightened, by the ongoing war in Ukraine and at 390p, the stock has never been higher.

At the opposite end of the spectrum sit many names feeling the obvious pinch from slowing consumer spending as pressure tightens on household budgets. Companies like **Wizz Air (WIZZ)**, **Restaurant Group (RTN)** and **Future (FUTR)** have fallen close to 50% or more this year as growth expectations have been reeled back and valuations have compressed, creating a painful double-hit for shareholders.

Yes, there are victims of large self-inflicted problems. Sports cars maker **Aston Martin (AST)** is the FTSE 250's biggest faller this year to date (down 63%) with profits from its expensive vehicles remaining elusive and funding struggles ongoing.

Yet there are other casualties this year that remain perfectly fine businesses that are challenged by wider economic issues that should prove reasonably short-term. People haven't stopped eating lunch, but fewer are buying it at **Greggs (GRG)** at the moment, and demand for **Dunelm's (DNLM)** home furnishings will presumably pick-up again when Brits feel less financially constrained by rising prices.

This means that investors now have opportunities to invest in many good businesses at price points lower than before. History shows that it is when investors feel most gloomy that equities are most attractive. Are we there yet? That's the million-dollar question, but *Shares* believes the following three stocks provide substantial upside for investors willing to be patient and take a medium-term view.

£330.7 billion

FTSE 250's market cap (28 July 2022)

Source: London Stock Exchange

Dedicated FTSE 250 ETF trackers

	Fund size (£m)	Total expense ratio
HSBC FTSE 250 UCITS ETF	49	0.35%
Invesco FTSE 250 UCITS ETF	16	0.12%
iShares FTSE 250 UCITS ETF	957	0.40%
Vanguard FTSE 250 UCITS ETF Accumulating	322	0.10%
Vanguard FTSE 250 UCITS ETF Distributing	2	0.10%
Xtrackers FTSE 250 UCITS ETF	39	0.15%

Table: Shares magazine • Source: JustETF, 29 July 2022

KAINOS (KNOS)

BUY

£13.49

Shares in digital transformation specialist **Kainos (KNOS)** have rallied more than 40% since closing at a 2022 low of 954.5p on 16 June. It's a stellar bounce for a stock that at its low point had lost half its market value this year.

Driving this change in investor mood is confidence in the company's **Workday (WDAY:NASDAQ)** practice. Kainos is a leading Workday partner and the only specialist headquartered in the UK. Workday offers tools to help manage finance, HR, planning and investment management functions for businesses and large organisations. Having first engaged with Workday in 2011, Kainos' Workday practice reported revenue growth for full year 2022 (to 31 Mar) of 41% to £102.8 million, representing 34% of the company's overall revenue.

Recently, the US enterprise applications giant announced that the number of Workday Extend customers has doubled in the past year as more organisations look to leverage the Workday platform to quickly innovate and adapt to an ever-changing landscape. Kainos was specifically mentioned in the press release.

This followed recent Workday news that it was seeing a 'surge' in demand for its Adaptive Planning Solution, which provides a scalable platform that supports highly flexible modelling without compromising ease of use.

As a result, the planning process becomes more collaborative across an organisation, helping improve operational efficiency and decision-making, great features for businesses increasingly confronted by workforces operating all over the globe, many from home.

Chart: Shares magazine • Source: FE Analytics

Kainos believes it can outpace Workday's rapid market growth by continuing its international expansion and by replacing other Workday partners in engagements where they are underserving their customers. Such ambition does not depend on any 'heroic' strategic execution by Kainos, say analysts at Shore Capital, but rather on a continuation of the formula that has already delivered five-year revenue compound annual growth rates of 50% from Kainos' Workday arm.

'Kainos increased the number of its accredited Workday consultants by 53% in fiscal 2022 to 638, a bold move,' said Shore Cap. The firm's Workday practice saw its workflow backlog surge 46% to £127 million as at 31 March 2022. Kainos' execution chemistry is increasingly appealing to clients. [SF]

COATS (COA)

73.2p

BUY

You might never have heard of sewing thread manufacturer and supplier **Coats (COA)** but you may well have worn an item of clothing which includes its products.

One in five garments sold globally are stitched together using its thread and clients include the likes of **Nike (NKE:NYSE)** and **Adidas (ADS:ETR)**.

While there may be some short-term headwinds associated with any downturn in the economy, longer term this looks an excellent business and one which can be bought for just 10 times 2023 earnings based on consensus forecasts.

Coats is the market leader in its field with, according to investment bank Berenberg, nearly a quarter of the global apparel and footwear thread market.

This robust market position is underpinned by its scale, operating in more than 60 countries, an enduring reputation for quality, with origins that go all the way back to the 18th century, and its technological expertise, including in areas like colour matching.

The company has made a material investment in its digital capabilities and it has fine-tuned its supply chain skills, ensuring customers have exactly what they need when they need it.

These strengths, plus its ESG (environmental, social and governance) credentials and a strong balance sheet should stand it in good stead to grow its market share in the future.

Berenberg analyst Anthony Plom comments:

Chart: Shares magazine • Source: FE Analytics

'Management estimates the group took 2% market share over the past 12 months and we think there is potential for this to expand further in the coming years.'

The company also has scope to boost its margins, which have already improved from 7.3% in 2012 to a high of 14.3% in 2019 before the pandemic. The sale of unprofitable operations in Latin America will help, as will internal efficiencies.

On top of all these attractions, Coats offers a reasonable yield of 2.6%, with the dividend growing at a decent lick from the level it was rebased to during the pandemic. [TS]

Coats set to deliver strong EBITDA margin growth

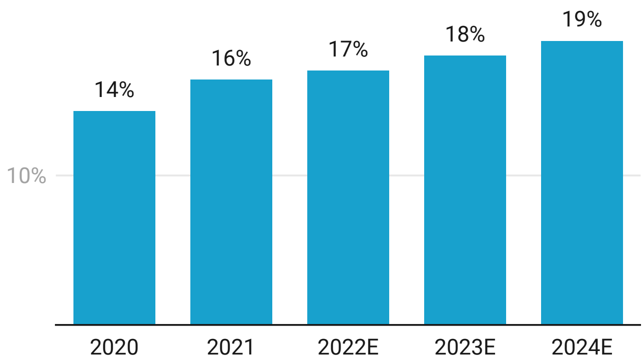


Chart: Shares magazine • Source: Coats, Berenberg. Note: EBITDA is earnings before interest, tax, depreciation and amortisation

888 HOLDINGS
(888) 147.6p
BUY

We believe that a multiple of 8.5 times 2022 earnings doesn't reflect the value of the synergies expected to be gleaned from **888 Holdings' (888)** William Hill International acquisition or the growth potential from the enlarged business.

Along with other lockdown winners 888 experienced an increase in customers and activity when people were stuck at home with nothing else to do.

The shares embarked on a big run-up, eventually gaining 191% from the start of the pandemic to peak at 452p in September 2021.

The shares have since lost around two thirds of their value, effectively returning to their pre-pandemic level, making them one of the worst performing FTSE 250 names.

It wasn't just tough comparatives and softer trading which pushed the shares down.

Uncertainty over a rights issue to part-fund the £2.2 billion acquisition of William Hill's international arm and concerns over stricter regulation from the government's Gambling Review also weighed on sentiment.

The risks of both events turned out to be less impactful than many analysts anticipated.

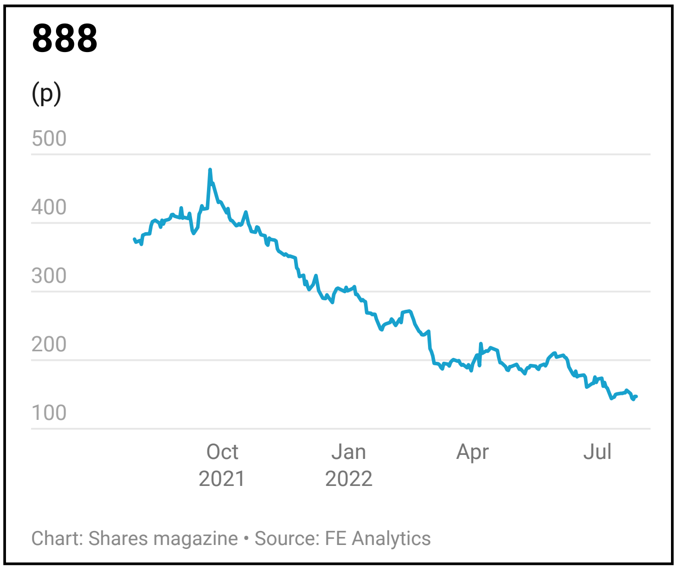


Chart: Shares magazine • Source: FE Analytics

Instead of raising £500 million in new equity the company conducted an institutional placing which raised a mere £163 million at 230p, a roughly 20% premium to the share price.

In addition, the company lowered the enterprise value (market cap plus net debt) of the deal to between £1.95 billion and £2.05 billion.

Investors can now focus on the financial and strategic benefits of the William Hill acquisition. The deal catapults the combined group into a top three market position in the UK and Spain and top five across several markets.

The combination creates greater scale to exploit online growth opportunities which still only represent around 16% of global gambling and gaming revenues.

Management expect to deliver at least £100 million of pre-tax cost synergies by 2025. The cash generative characteristics of the group should allow it to quickly pay down debts, adding further potential value to shareholders.

While execution risks should not be underestimated the balance of risk to reward looks favourable at the current price. [MGam]

888 and William Hill International combined

	888	William Hill	Combined
Active customers (millions)	2	>3	>5
Revenue (£ million)	690	1,366	2057
EBITDA (£ million)	109	238	405

Table: Shares magazine • Source: 888 Holdings presentation. EBITDA is earnings before interest, taxes, depreciation, and amortisation

Why Chipotle's red-hot pricing power has positive read-across for Tortilla

The US burrito chain's earnings beat has a positive read across for Tortilla, a UK-listed peer with pricing levers to pull

Shares in **Chipotle Mexican Grill (CMG:NYSE)** sizzled on Wall Street after the fast casual restaurants star turn served up forecast-beating second quarter earnings (26 July), with profit growth driven by price hikes.

Though sales in the quarter to 30 June were weaker than expected as inflation squeezed low-income consumers, Chipotle's capacity to raise prices from a low base is enabling the chain to gain market share from restaurant rivals with higher starting menu prices and therefore less headroom for hikes.

SAME-STORE SPICE

Same-store sales rose 10.1% in the quarter as consumers devoured Chipotle's competitively priced burritos and tacos, taking net income up to $259.9 million, representing 38% year-on-year growth.

Guided by chairman and CEO Brian Niccol, Chipotle, which takes its moniker from the Nahuatl name for a smoked and dried jalapeño chili pepper and is admired for its digital innovations, delivered adjusted earnings per share (EPS) of $9.30.

That was ahead of the $9.04 Wall Street was expecting and Chipotle said it will raise menu prices again in August in order to mitigate the rising costs of packaging and ingredients like avocados, dairy, beef and chicken.

'We are pleased with our second quarter performance during a period of inflation and consumer uncertainty,' commented Niccol. 'Our pricing power and value proposition remain strong as our culinary and food with integrity commitment continues to be a key point of differentiation.'

Despite rampant inflation and a tough macro backdrop, Chipotle guided towards third quarter same-store sales growth in the mid-to-high single digits, including planned price increases in August.

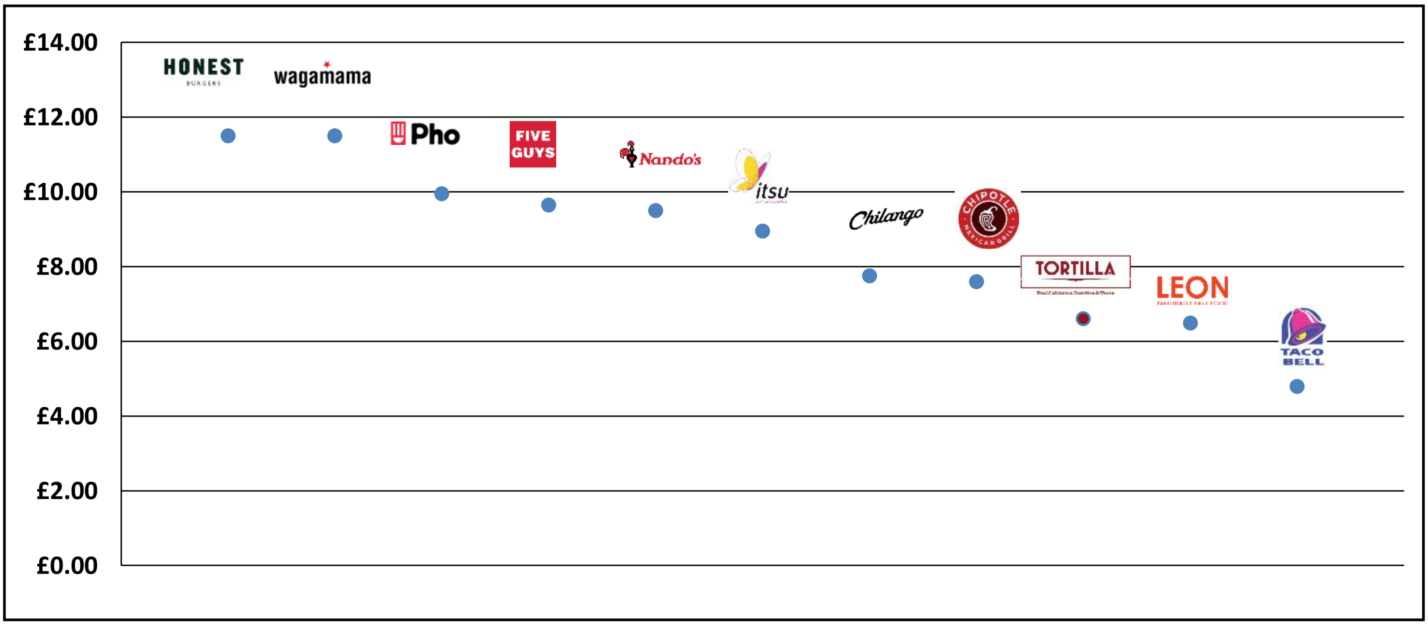
TORTILLA'S PRICE LEVER

With Chipotle successfully flexing its pricing power muscles, *Shares* sees a positive read-across for its far smaller UK-listed peer **Tortilla Mexican Grill (MEX:AIM)**.

Also known for selling value-for-money burritos and tacos, Tortilla benefits from a simple food offer focused on a small number of readily available basic ingredients. This means Tortilla can flex its menu easily, thereby limiting supply chain risks and reducing specific cost increases.

At 124p, Tortilla's shares are down more than 30% from last October's 181p initial public offering (IPO) issue price as investors weigh the challenging

MOST POPULAR DISH AT ENTRY POINT PRICING IN-STORE (£)



Source: Tortilla

consumer spending outlook, though so far at least, the £48 million cap is exhibiting resilience.

The company cooked up 19% like-for-like sales growth for the six months to 3 July 2022 amid robust customer demand for its competitively-priced food and has raised prices to offset more pronounced cost inflation.

Yet its prices remain competitively positioned versus peers, giving Tortilla headroom for further hikes without alienating a younger demographic with voracious appetite for its convenient cuisine.

As broker Liberum noted on 18 July, a Tortilla medium Grilled Chicken Burrito is priced at £6.75 'with clear headroom against the competition', as the Chipotle equivalent costs £9.95 and sells for £9 at Barburrito, the Mexican style fast-casual chain recently acquired by Wagamama owner **Restaurant Group (RTN)**.

Tortilla recently acquired Chilango, which has a largely similar menu but has also developed £5.45 to £9.95 box meals covering a range of vegan, keto and protein boxes which have proved popular.

Another name with pricing levers to pull is **Fulham Shore (FUL:AIM)**, owner of the reasonably priced Franco Manca and The Real Greek chains, which has so far mitigated inflation through menu price hikes, rent negotiations and strong trading for venues in suburban areas and shopping centres.

As executive chairman David Page explained at Fulham Shore's full year results (21 July): 'Whilst the first quarter of the year has been characterised by increasing pressures on the UK consumer, our restaurants remain crowded with customers seeking a great experience, quality food, and importantly outstanding value.

'We will always aim to keep our prices low, driving high customer numbers per site and making for fun, atmospheric restaurants, as well as motivated employees. These key ingredients underpin the board's confidence in our continued growth.'

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

Why companies which can lower the cost of doing business are well positioned

Automation and digitalisation are key weapons for companies facing higher costs

Few companies have escaped the impact of higher inflation, whether in the form of higher raw material and energy costs or increased labour and transportation expenses.

Even if central banks manage to eventually cool inflation, it seems more likely than not to remain elevated for some time.

This shift in the macro environment will encourage companies to accelerate investments in automation and productivity-enhancing technologies, according to research from US investment bank Morgan Stanley.

The idea is that companies which enable cost reduction and/or increase productivity will become more valuable. Historically technological advances have been associated with deflation or falling prices.

REVIVING THE PRODUCTIVITY SLUMP

Decades of declining productivity growth in the US and an ageing capital base combined with the potential for structurally higher wage costs could threaten corporate profitability over the medium term.

According to Morgan Stanley the average age of private fixed assets in the US is the highest since the 1950s.

One solution to the toxic mix of ageing assets and high costs is for companies to pivot from financial engineering tactics such as share buybacks towards productivity-enhancing investment.

This could create new technologies which potentially lower the cost of doing business and increase shareholder returns.

Morgan Stanley singles out clean energy and battery storage as industries which are on the cusp of seeing significant gains from deflation enablers.

Rapidly declining costs of alternative energy and batteries would allow companies to scale-up manufacturing which will drive faster adoption.

INFLECTION POINT FOR AI-BASED TECHNOLOGIES

Every new technology requires time to get into its stride and although artificial intelligence (AI) has been around for decades only recently has it seen accelerated growth and adoption.

In part this has been driven by increased computing power, but it has also been influenced by security fears at government level and by a need to find an AI 'edge' at the corporate level.

The acceleration in the rate of growth is exemplified by the amount of time it takes to train an AI system to recognise certain images. Training time fell significantly from 6.2 minutes in 2018 to 47 seconds in 2020 according to research at Stanford University.

At the same time the hardware cost of the same process has dropped from around $1,100 to $7.43, making it roughly 150 times cheaper. These advances make it quicker and cheaper to deploy AI in certain industries.

FASTER AND CHEAPER DRUG DEVELOPMENT

One area of great excitement is the potential to increase the speed of drug development while

Imagenet training (using AI to recognise images) cost in US$ (to 93% accuracy)

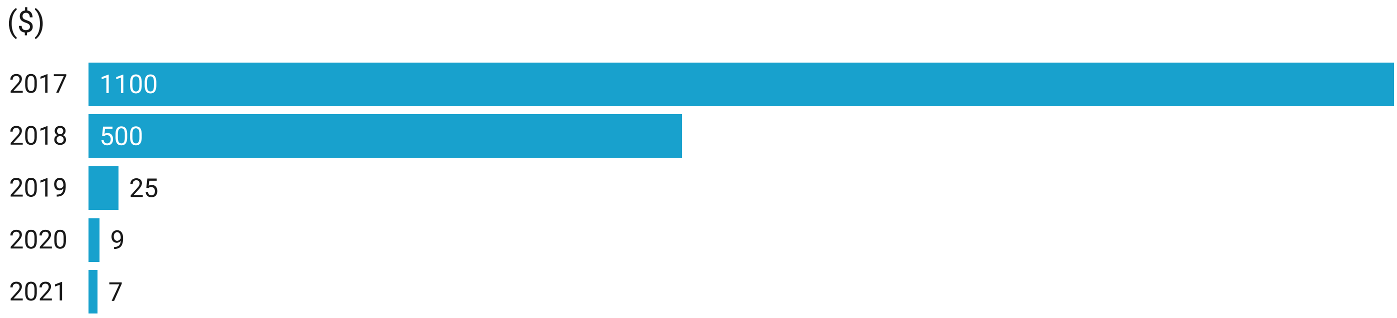
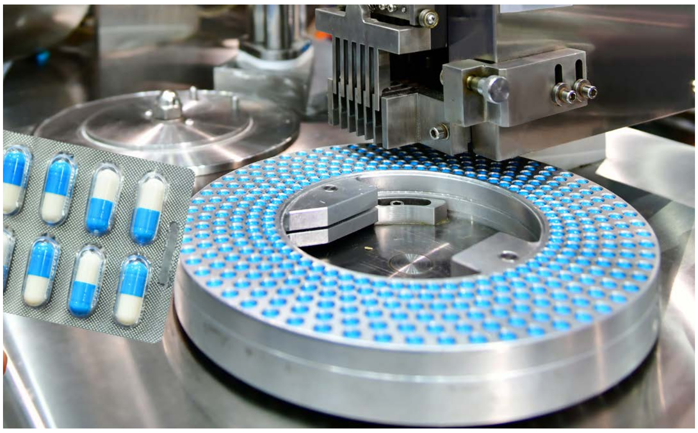


Chart: Shares magazine • Source: Morgan Stanley, Stanford, MLPerf



reducing costs. Computers are much better than humans at shifting through millions of combinations of potential drug candidates.

According to Morgan Stanley the initial data suggests the potential to reduce the time spent in key stages of pre-clinical drug development by around 75% and development costs by around 50%.

Some AI-drug developers have said they are able to reduce the number of molecule candidates by 90% compared to the industry average.

In addition, they can 'fast-fail' improbable candidates early to prioritise the opportunities with the best chance of success.

Morgan Stanley estimates these advancements could result in up to 50 new drug therapies over a 10-year period and represent a $50 billion-plus opportunity for the pharma industry.

The investment bank highlights US biotech AI firms **Schrodinger (SDGR:NASDAQ)** and **Exscentia (EXAI:NASDAQ)** as ones to watch for the future.

In the UK, teleradiology company **Medica (MGP)** has developed AI solutions to assist radiologists in identifying hard to detect haemorrhages.

Another interesting company to keep on the radar is **Spectral MD (SMD:AIM)** which develops technology using predictive analytics and AI algorithms to help clinicians make more accurate and faster treatment decisions.

The objective is to make an immediate

assessment of a wound's healing potential, saving valuable time, not to mention pain relief for patients.

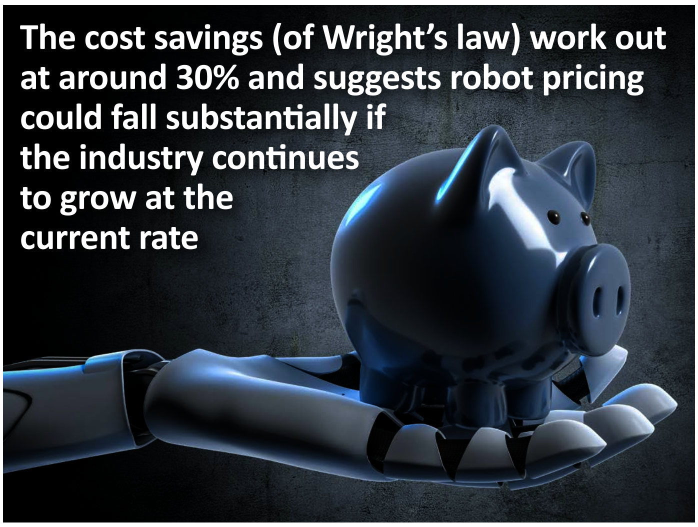
RISE OF THE ROBOTS

Separate to the debate around whether robots are good or bad for society the robotics industry has seen strong growth Morgan Stanley highlights.

The investment bank points out this is consistent with Wright's law which states that costs decline at a constant rate for every doubling of cumulative units made.

The cost savings work out at around 30% and suggests robot pricing could fall substantially if the industry continues to grow at the current rate. This would create a virtuous circle where lower costs allow new industries to adopt robots and expand the total addressable market.

Global robot penetration, defined as the number of robots per 10,000 manufacturing workers, has tripled since 2009. While there are multiple drivers of demand, demographics appear to play an important role.



Outside China, countries with the highest installations also happen to have a high proportion of over 60s, suggesting this is a structural growth driver.

Robots are a small segment of the overall industrial automation market. Swiss engineering giant **ABB (ABB:SWX)** estimates the industrial automation market is worth around $75 billion and growing around 6% a year.

Leading players in the industrial robot manufacturing space include Japanese company **Fanuc (6954:TYO)** and US company **Teradyne (TER:NASDAQ)**.

Automation within the office environment is becoming more widespread as companies look to make efficiency gains outside of manufacturing.

Rising wage costs in the current environment increase the incentive for firms to go further down the automation route.

It shouldn't be surprising therefore that Britain's leading robotic process automation specialist Blue Prism attracted the attention of private equity firm Vista Equity which ended up buying the business for £1.22 billion in November 2021.

Retraining employees will likely become a priority as companies streamline operations through automation to mitigate higher inflation. Companies such as **Learning Technologies (LTG:AIM)** may have a role to play in that digital transformation.

By **Martin Gamble** Education Editor

Explaining economic moats and why investors are so keen to own businesses which have them

Shares examines which funds provide investors with protection against the competition

Inflation in the UK recently hit a record 40-year high of 9.4%. This coincides with an increasing number of claims from actively managed equity funds that their portfolios will benefit from the effects of 'economic moats'.

The term refers to a company's economic advantage over rivals that enables it to increase prices without losing business to a competitor. In the same way as a traditional moat would have protected a castle from attackers in the medieval period, an economic moat helps a business ward off competition from rivals.

PRICING POWER FUNDAMENTAL

According to Warren Buffett 'the single-most important decision in evaluating a business is pricing power'.

He added: 'If you have to have a prayer session before raising the price by a tenth of a cent, then you've got a terrible business.'

Buffett's comment is becoming particularly relevant as a surge in input costs has resulted in a slew of profit warnings for companies that have been unable to pass these on to an increasingly cash constrained consumer.

In marked contrast, companies that have been able to raise prices to offset the jump in input costs have maintained or even improved their gross margins and profitability.

For investors who believe the increase in global inflation is structural and enduring as opposed to transient, then gaining exposure to companies with economic moats and the pricing power they confer makes sense.

Morningstar has developed an economic moats rating system under the auspices of its director of equity research Patrick Dorsey.

FUNDS FULL OF 'MOATY' STOCKS

Their research has highlighted two key equity funds with the highest number of economic moat holdings. These are **Natixis Loomis Sayles US Equity Leaders (B8L3WZ2)**, and **Fundsmith Equity (B41YBW7)**.

A lower cost alternative which provides exposure to businesses with strong moats is the **VanEck Morningstar US Sustainable Wide Moat ETF (MOGB)**.

In 2021 Morningstar examined which funds held the largest proportion of equities with either wide or narrow economic moats.

Morningstar awards a narrow moat when it finds at least one source of competitive advantage and that economic profits are expected to be positive for at least 10 years.

A company is deemed to have a wide moat if economic profits will endure for at least 20 years.

The Natixis fund had 77.21% of stocks with wide economic moats, and 21.86% of stocks with narrow economic moats.

Fundsmith Equity had 73.96% of stocks with wide economic moats, and 22.75% of stocks with narrow economic moats.

WHAT MAKES A MOAT

• **SWITCHING COSTS:** These give a company pricing power by locking customers into its unique ecosystem. Beyond the expense of moving, they can also be measured by the effort, time and psychological toll of switching to a competitor.

Stryker Corp (SYK:NYSE) features as a key equity holding in Fundsmsith Equity.

It is a top-tier competitor in a number of medical markets. These include orthopedic implants, surgical equipment, endoscopy and neurovascular devices.

Since switching costs can be significant for surgeons when it comes to orthopaedic implants, this is, according to Morningstar, one of Stryker's 'moatiest divisions' in support of the company's wide economic moat.

• **INTANGIBLE ASSETS:** Though not always easy to quantify, intangible assets may include brand recognition, patents and regulatory licenses. They may prevent competitors from duplicating products or allow a company to charge premium pricing.

Until recently **Starbucks Corp (SBUX:NASDAQ)**, the leading specialty coffee retailer in the world, was another key equity holding in Fundsmith Equtiy.

According to Morningstar Starbuck's economic moat comes from its 'brand strength evidenced by pricing power, attractive unit-level economics, successful international replication and strong results in the retail channel underpinning its brand intangible asset'.

Terry Smith recently sold Starbucks as the coffee giant faced unionisation of its American workforce.

In May 2022 the chain decided to pull out of Russia, where it has 130 stores.

• **NETWORK EFFECTS:** This occurs when the value of a product or service grows as its user base expands. Each additional customer increases the product's or services' value exponentially.

Meta Platforms (META:NASDAQ) which is a key holding in both the Natixis Loomis Sayles US Equity Leaders Fund, and Fundsmith Equity is a good example of a stock that benefits from network effects.

Meta Platforms operates online social networking platforms that allow people to connect share and connect with friends and communities.

It continues to have significant advantages arising from its network of almost three billion daily users of its family of apps, 200 million businesses that use its platforms and tools every month and 10 million advertisers which consistently paid more per user for access to its network.

Across this family of apps – Facebook, Messenger, WhatsApp and Instagram – Meta now reaches over 3.6 billion customers monthly, approximately 79% of which are daily users.

Alphabet (GOOGL:NASDAQ) is another beneficiary of network effects. It also features as a key holding in both the Natixis Loomis Sayles US Equity Leaders Fund, and Fundsmith Equity.

With a global share of over 80%, Alphabet leads the online search market. The company's network effect comes primarily from its Google products, which includes search, Android Maps, Gmail and YouTube.

According to Morningstar 'Google has the world's most widely used search engine, and such a large and growing user base has created a network difficult to replicate'.

• **COST ADVANTAGE:** A firm that can provide goods or services at lower cost than its peer group has an advantage because it can undercut rivals on price. The firm may also wish to sell products and services at the same price but get a larger profit margin than competitors.

• **EFFICIENT SCALE:** This when a market of limited size is effectively served by one of just a few companies. It is not worth another party entering the market because their participation would result in insufficient returns for all players.

Funds with the highest proportion of stocks with economic moats

Funds	Stocks with narrow moats (%)	Stocks with wide moats (%)
Natixis Loomis Sayles US Equity Leaders	21.86%	77.21%
Fundsmith Equity	22.75%	73.98%
BNY Mellon Long Term Global Equity	30.59%	58.06%
T Rowe Price US Large Cap Growth Equity	32.88%	56.83%
Aberdeen Global Sustainable Investment	25.56%	48.84%

Table: Shares magazine • Source: Morningstar Direct

TERRY SMITH, ECONOMIC MOATS AND PRICING POWER

In July 2022 Terry Smith of FundSmith Equity released his semi-annual letter to investors. It highlighted the importance of pricing power in an inflationary environment:

'Inflation causes an increase in the costs of the ingredients, components and their inputs which constitute companies' Cost of Goods Sold (COGS). The best defence against this inflation is a high gross margin – the difference between the sales revenue and COGS. On average last year the companies in our portfolio had a gross margin of 60% compared with about 40% for the average listed company.

'Our companies make things for £4 and sell them for £10 whereas the average company makes things for £6 and sells them for £10. A 10% rise in the COGS clearly has much less effect on the profitability of the companies in our portfolio than the average. Moreover if they want to compensate for say a 10% rise in the COGS our companies can achieve this with a much smaller price rise than the average company.

'An illustration of the problems if a company has low gross margins was recently supplied by the US retailer **Target (TGT:NYSE)** – a stock we would never own – in its first quarter results. Gross margin contracted from 30.0% in the same quarter last year to 25.7%, a fall of 4.3 percentage points-driven largely by inventory impairments, lower-than-expected sales in discretionary categories as well as higher costs related to freight, supply disruptions and increased competition and headcount in distribution centres.

'The operating margin fell from 9.8% in the prior quarter to 5.8%, so by a similar 4.5 percentage points. Operating profit declined 43%. The combination of low gross margins and high fixed costs is dangerous and we seek to avoid it.'

ECONOMIC MOATS AND LONGEVITY

James Bullock, co-portfolio manager of **Lindsell Train Global Equity (B644PG0)**, believes that whilst the term economic moat is 'overused', it is nevertheless a powerful concept.

Bullock focuses on companies with economic moats that have endured for many decades, believing that 'longevity is undervalued and mispriced by the market'.

This is reflected in the average age of companies in the fund which is 115 years. This compares with the average life of a business that is 15 years.

Founded in 1922, Unilever is a good example of a significant fund holding (5.3%), with a heritage of brands that have endured for many decades.

Unilever's recent first half trading update (26 July), provided some validation to Nick Train's thesis that its earnings growth is inextricably linked to its brand heritage.

The firm posted underlying sales growth significantly ahead of analysts' forecasts whilst

How 'Moaty' funds have performed

Fund	Three-year return (%)	Five-year return (%)	10-year return (%)
Natixis Loomis Sayles US Equity Leaders	8.8%	12.3%	N/A
Fundsmith Equity	6.9%	11.4%	8.5%
BNY Mellon Long Term Global Equity	7.5%	10.9%	12.5%
Aberdeen Global Sustainable Investment	5.4%	6.6%	8.2%
T Rowe Price US Large Cap Growth Equity	9.4%	N/A	N/A

Table: Shares magazine • Source: AJ Bell, July 2022. Note: Annualised returns in GBP

raising its full year outlook.

UNILEVER'S BRANDS ARE ECONOMIC MOATS

The pricing power of Unilever's brands was a standout feature of the results. The group posted underlying sales growth in the second quarter of 8.8% driven by an impressive 11.2% increase in prices.

In the second quarter the home care division (20% of sales) increased prices on products including Comfort, Radiant and Domestos by an eye watering 16.6% as the group succeeded in passing on 'very high increases' in raw material costs.

During the same period the personal care division (40% of sales) secured price increases of 10.5% on brands including Pond's and Dove, with volumes declining by a mere 2.3%.

The foods and refreshment division (40% of sales) implemented price increases of 9.4%, resulting in a modest 1.2% fall in volumes.

The power of the Unilever's brand franchise and its associated economic moat has enabled has enabled management to raise its forecast for full year underlying sales growth ahead of its previous 4.5% to 6.5% guidance.

THE ECONOMIC MOAT ETF

For investors who wish to avoid the higher charges associated with buying an active equity fund the VanEck Morningstar US Sustainable Wide Moat ETF provides an interesting low cost alternative.

It tracks the Morningstar US Sustainable Moat Focus Index which contains at least 40 attractively priced equities with sustainable competitive advantage.

This is based on research undertaken by Morningstar's equity research team. The equities selected for the fund are screened for ESG risks.

Technology (30.3%), Financials (13.4%), and Consumer Discretionary (11%) make up the largest sector weightings.

Top holdings include **Microsoft (MSFT:NASDAQ)** (2.44%), **Bank of New York Mellon (BK:NYSE)** (2.28%), **Kellogg Company (K:NYSE)** (2.91%), **Alphabet (GOOGL:NASDAQ) (2.35%**), and **Constellation Brands (STZ:NYSE)** (2.7%).

The £383 million fund has an ongoing charge of 0.49% per annum.

Over the last year the fund has served up a negative return of -2.73%, however on a three-year basis it has delivered a 33.67% return. (Note: returns are in sterling and include dividends).

Disclaimer: Financial services company AJ Bell referenced in this article owns Shares magazine. The author of this article (Mark Gardner) and the editor (Tom Sieber) own shares in AJ Bell.

By **Mark Gardner** Senior Reporter

Why companies who cross-sell have happy customers and investors

The key to becoming a successful business is focusing on the buyer

One of the great myths which chief executives use to promote big mergers and takeovers is the notion that sticking two companies together will create 'revenue synergies' by allowing each firm to sell to the other's customers.

History tells us these synergies rarely materialise and in fact mega mergers typically destroy value for shareholders.

Yet there are plenty of UK firms who have successfully expanded into adjacent businesses or geographies, either organically or through small bolt-on deals, and grown their revenues and earnings consistently by cross-selling more services to their customers.

WHY CROSS-SELLING WORKS

When it's done properly, cross-selling has a number of benefits for customers which in turn can help increase revenues and earnings.

The best cross-selling helps customers feel understood, meaning they form a deeper connection with the products and services they buy.

This in turn makes them more likely to stay loyal when times are tough, limiting customer losses.

Customers who buy multiple products or services will obviously help grow earnings more than a customer who buys just one product, but there are other less obvious ways they can benefit a business such as saving time and money in acquiring new customers.

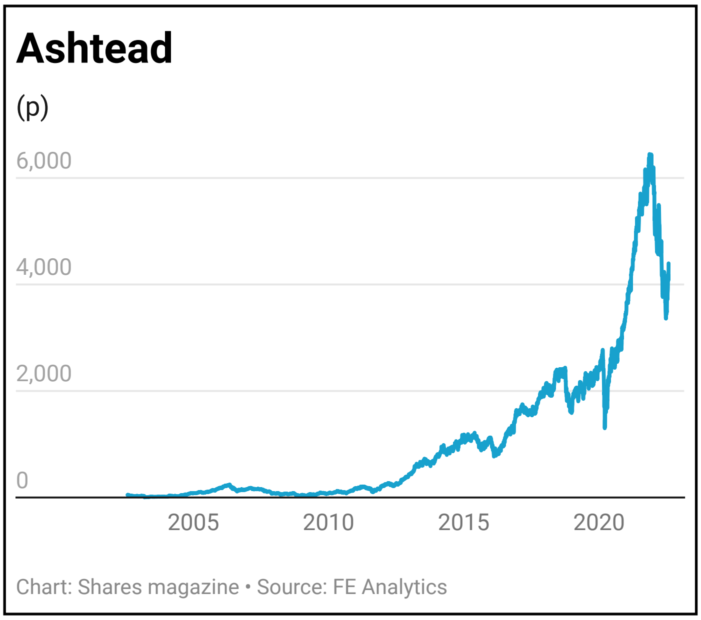
Now more than ever, businesses are looking to cut costs and consolidate their suppliers.

Having multiple relationships with multiple providers can be a real headache, so if a company can become a one-stop shop and cross-sell products its customers really love it sets them apart.

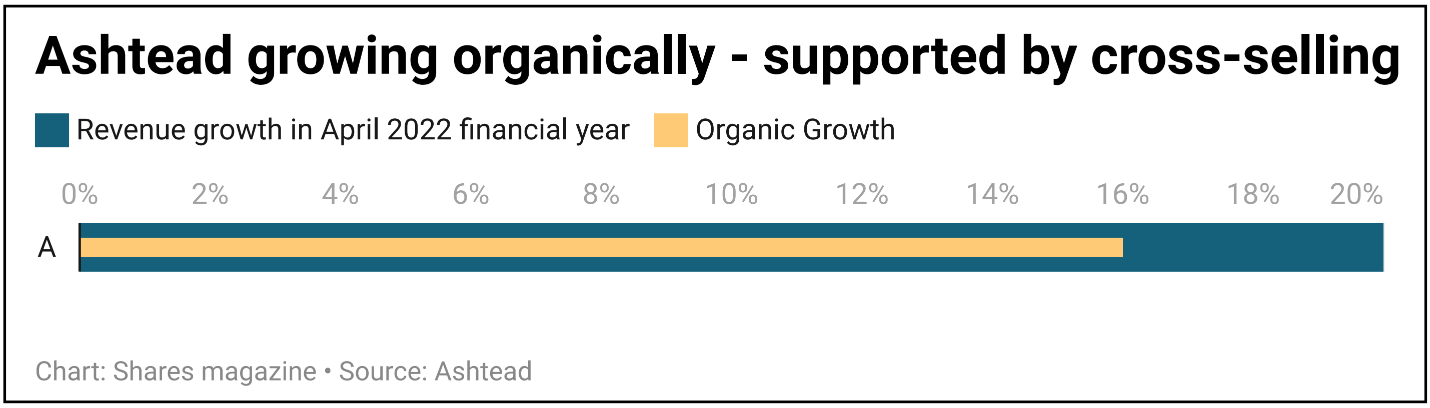
Cross-selling can even speed up a buyer's decision-making process: if they know they are going to get the same level of service and care from a trusted provider, customers are less likely to delay purchases.

LEARNING FROM THE MASTER

One firm which mastered the art of cross-selling different but related services to its customers years ago is equipment rental firm **Ashtead (AHT)**.



Once a customer rents a piece of kit from Ashtead for the first time, the company knows what its needs are, and in all likelihood if it



needs to rent one piece of kit for one job it will need to rent another piece of kit later on for another job.

No matter how small the opportunity, Ashtead knows if it can build a relationship with that customer, it is paving the way for future sales.

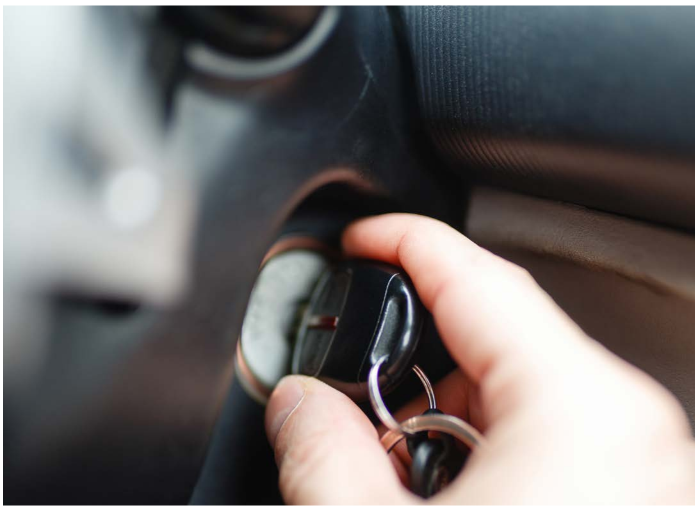
As long as it does a good job and provides the equipment on time, where it's needed, and with ease, and the customer has a good experience, they are likely to be back.

In its biggest market, the US, rental revenues for the year to 30 April 2022 were $4.78 billion, a 20% increase on the prior year of which no less than 16% was organic growth.

While the firm doesn't break it out, cross-selling is undoubtedly a major driver of long-term organic growth and one of the keys to its success.

FOCUS ON THE CUSTOMER

Charles Bligh, chief executive of data management and storage firm **Restore (RST)**, like to refer to 'up-selling' and says while at the moment it is 'the cherry on top' of the firm's exceptional organic growth, looking forward it is very much on the agenda.



Restore recently posted a 32% jump in first-half revenue of which 19% was organic growth as customers gave them more business on the back of their outstanding operational delivery during the pandemic.

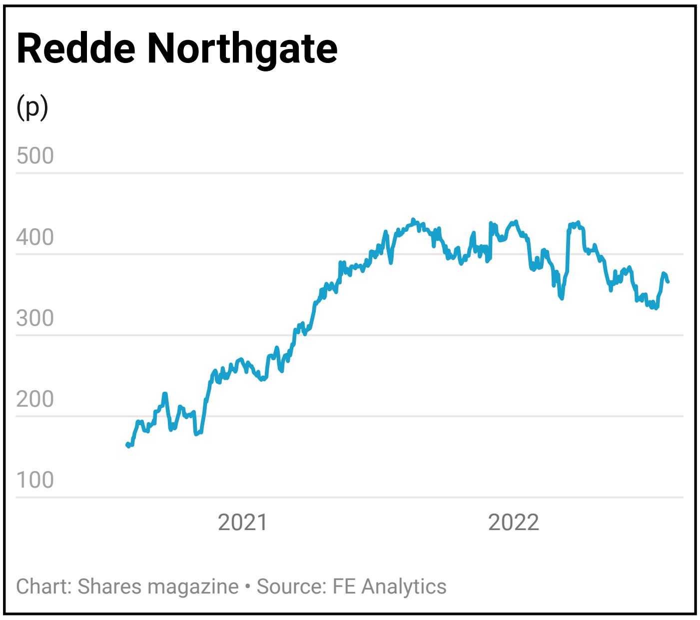
'It's all about the customer experience', says Bligh. 'It cost us financially being there for customers during Covid, answering the phones and looking after them, but they remember that', he says.

Also, Restore is the market leader in three of its business areas and the number two player in two more, which is a key advantage.

'If you are going to up-sell you have to provide top-level service, you can't be number one in one area and number five or six in another, that just dilutes your brand', advises Bligh.

CREATING A 'PLATFORM' EFFECT

Having married together van hire and legal services, Darlington-based **Redde Northgate (REDD)** has become a leading 'mobility solutions



HOW REDDE NORTHGATE ADDED STRINGS TO ITS BOW

12 months to 30 April 2018

Revenue composition (%)

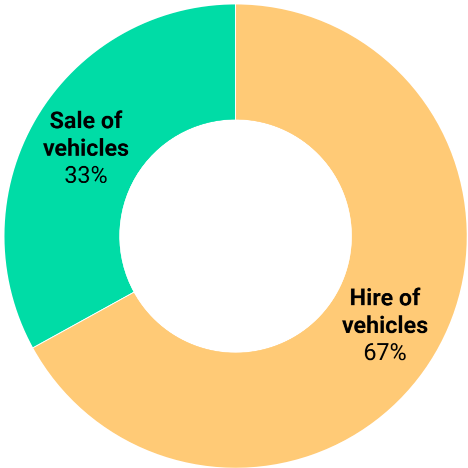


Chart: Shares magazine • Source: Redde Northgate

12 months to 30 April 2022

Revenue composition (%)

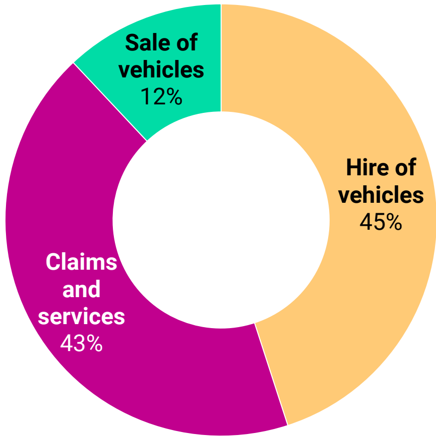


Chart: Shares magazine • Source: Redde Northgate

platform' for its customers, providing nationwide fleet management, accident repair and claims management.

It has become a true one-stop shop, offering services across the vehicle lifecycle, and has even moved into advising customers on how to make the transition to zero-emissions vehicles.

Small- and medium-sized business advice group **K3 Capital (K3C:AIM)** offers services across the lifecycle of companies, all the way from start-ups to insolvencies, including business sales, restructuring and tax advice.

Revenue for the year to May is expected to well ahead of market forecasts, up around 43% of which 18% is organic growth as the firm's data-driven marketing platform and cross-referral network are leveraged across its different divisions.

Chief executive John Rigby is always on the look-out for cross-selling opportunities, recently adding debt restructuring to the firm's offering.

'I realised we were turning away business, so I went and hired the top team', says Rigby.

As it grows its footprint, more small businesses are turning to the firm for its range of specialist skills, particularly with the challenging economic backdrop and the withdrawal of government support.

By **Ian Conway** Companies Editor

DANNI HEWSON
AJ Bell Financial Analyst

Why consumer-facing stocks face a big pricing challenge

Even those businesses which have fared OK so far have to strike a delicate balance to avoid hurting demand

Red hot inflation has forced some consumers to make tough choices but so far results season has left a slew of consumer goods giants looking in fairly fine fettle.

The reason, big brand names are incredibly sticky, people put them in their shopping baskets without really thinking about the price, which is just as well as prices have been shooting up, something which has created tension between some supermarkets and manufacturers.

Kraft Heinz (KHC:NYSE) which makes everything from beans to cream cheese recently stopped stocking **Tesco (TSCO)** after a row over price, although that's now been resolved it raised interesting questions about the balance of power and the sustainability of price hikes.

Some Kraft Heinz lines have shot up by 12% in the last quarter and clearly that's been enough to put some shoppers off because sales volumes have fallen but only by 2.3%. Kraft CEO Carlos Abrams Riviera says that 'different types of consumer are reacting to the economy in a different way' and looking at the latest data from the Office for National Statistics' Opinions and Lifestyle survey he's got a point.

Some people say they are buying less (50%) but just as many people are buying exactly the same amount of food as they always have done (50%), they're just noticing that they are paying more for it.

Kraft Heinz revenue growth and operating margins

Year	Revenue growth	Operating margin
2021	−0.5%	13.4%
2020	4.8%	8.1%
2019	−5.0%	12.3%

Table: Shares magazine • Source: Kraft Heinz, Stockopedia

The question Kraft Heinz and its competitors have to answer is how far can they tip the balance before enough people grow resistant to those higher prices that the higher prices themselves aren't enough to maintain profits?

SIGNIFICANT HEADWINDS

Nearly all consumer-facing businesses have warned of 'significant headwinds' during this earnings cycle and all are considering the best ways to maintain margins whilst keeping customers. Kraft is making adjustments to the kind of products it sells, the size of those products and the packaging they are wrapped in.

Health and hygiene specialist **Reckitt Benckiser (RKT)** is focusing on efficiencies and opportunities. It's seen sales surge thanks in part to a shortage of baby milk in the United States which has enabled it

DANNI HEWSON
AJ Bell Financial Analyst

to grab market share.

Even as that situation normalises it's expecting to keep a good chunk of its new customer base who've been won over by the brand. And its core business has thrived despite passing on extra costs to its customers.

Many of the items it produces are considered essentials and with memories of the pandemic still fresh nobody wants to cut back on cleaning products. Reckitt's a trusted partner in many of our lives and that trust carries a premium. We feel safer using what's familiar and because of that we are prepared to pay more (up to a point).

Reckitt Benckiser revenue growth and operating margins

Period	Revenue growth*	Operating margin*
2021	3.5%	22.9%
2020	11.8%	23.6%
2019	0.8%	26.2%

Table: Shares magazine • Source: Reckitt Benckiser. *Adjusted figures

But companies need to consider the narrative. Customers getting pay rises that get nowhere close to inflationary levels will take a dim view of brands adding to the pain in their wallets.

Consumers don't necessarily expect manufacturers to swallow all of the rising costs, but they do expect them to play fair. Inevitably shareholders will focus on the numbers but they also need to ponder the wider reputation of a company and its brand.

Bumper profits might not be such a boon if they precede a serious fall in sales, price rises need to be carefully considered and clearly explained. The demise of the 99p cheeseburger could take the shine off the golden arches but **McDonalds (MCD:NYSE)** has played the price hike with a straight bat explaining directly to its customers that it had delayed and minimised prices rises for as long as it could, and the fact it's been unchanged for 14 years is a great hook.

The value nature of its offer does provide a degree of insulation, an extra 20 pence isn't going to break the bank.

It's the ongoing nature of cost inflation that's weighing on those consumer giants. **Diageo (DGE)** CEO Ivan Menezes fears a 'potential weakening of consumer spending power' which could make the company's last lot of numbers harder to replicate.

The alcoholic drinks giant has benefited from some external factors but that doesn't detract from a sure-footed strategy which positioned it to take advantage of those shifts.

Diageo revenue growth and operating margins

Year to	Revenue growth	Operating margin
June 30, 2022	21.4%	28.5%
June 30, 2021	8.3%	29.3%
June 30, 2020	−8.7%	29.7%

Table: Shares magazine • Source: Diageo

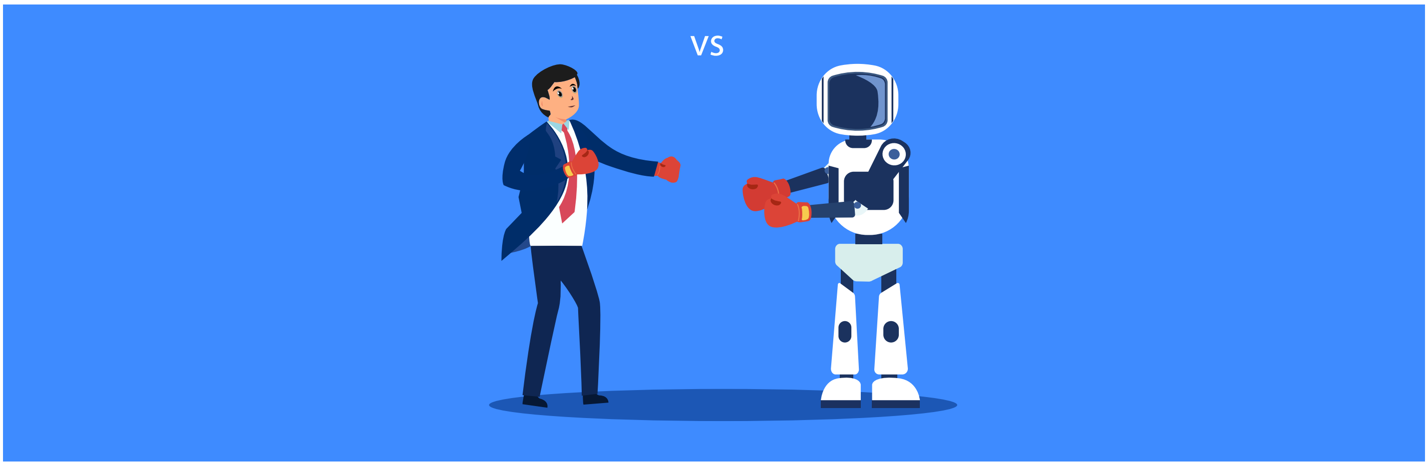
It's spent money developing and marketing its premium spirits range, products which deliver much higher margins than craft beers and have become increasingly popular with younger drinkers. While cutbacks are becoming a way of life 'treats', or 'little luxuries' are right up there with those essentials and don't forget even a discretionary item like a new washing machine can become an 'essential' if the home's machine breaks down.

Pricing during these sensitive times is a dance, carefully choreographed and executed with perfect timing it can allow companies to continue to thrive. But one misstep and consumers will walk away, searching for another dance partner.

Even if a company has successfully passed on price hikes to date that's no guarantee it will be able to do so again. Consumers will draw a line, and every line will be different.

Do active managers really justify their extra costs?

It doesn't have to be a binary choice between actively-managed and tracker funds



In a year when markets have been falling and long-standing trends have gone into reverse, you might have expected active fund managers to perform better than the passive funds that simply track an index.

But AJ Bell's latest *Manager versus Machine* report shows that's not the case. The report analyses the performance of more than 1,000 funds across seven major equity markets, comparing active funds with index tracker funds in the same sectors, and it doesn't make for pleasant reading for active fund managers.

LESS THAN A THIRD OF ACTIVE FUNDS OUTPERFORM

Less than a third (30%) of active equity funds outperformed a passive alternative in the first half of the year, down from 34% in 2021. Active performance has been particularly miserable in the UK, where only 12% of active funds have outperformed a passive alternative. In large part this comes down to the poor performance of mid-cap and smaller cap companies so far in 2022, compared to the big blue chips.

Active fund managers tend to have a higher exposure to more modestly sized companies compared to tracker funds. In the first half of 2022 the FTSE Small Cap Index fell 15% and the FTSE 250 fell 19%. But the return from the FTSE 100 was much better with just a 1% fall. So it's easy to see why having a higher exposure to smaller companies cost active managers dearly.

BETTER LONG-TERM PICTURE

The longer-term figures look more positive for active funds, with 45% outperforming a passive alternative over 10 years. That's less than half of course, and will be flattered by survivorship bias, as poorly performing funds will tend to wind down or be merged into others.

That still suggests that picking an active fund that outperforms has been little more than a coin toss, at best, even over a long time period. So should investors conclude that active managers simply aren't worth their salt?

Within the investment industry, the active versus passive debate can be pretty polarising. But everyday investors can afford to be pragmatic rather than dogmatic about this issue, and take into account some of the shades of grey in the argument. While the long term numbers might on the face of things suggest that the odds of selecting an active fund that outperforms is close to fifty-fifty, that assumes investors are simply picking funds blind-folded with a pin. In reality, investors can tilt the odds in their favour in a number of ways.

Most investors back fund managers based on

Proportion of active funds outperforming a passive alternative

% of active funds outperforming passive

IA Sector	H1 2022	Five years	10 years	2021*
Asia Pacific Ex Japan	27%	47%	59%	26%
Europe Ex UK	49%	46%	57%	53%
Global	31%	26%	28%	25%
Global Emerging Markets	21%	37%	42%	50%
Japan	40%	43%	51%	47%
North America	40%	25%	28%	19%
UK All Companies	12%	31%	63%	41%
Total	**30%**	**33%**	**45%**	**34%**

Table: Shares magazine • Source: AJ Bell, Morningstar total return in GBP to 30th June 2022. *2021 data from 1st Jan 2021 to 1st Dec 2021

their past performance record. The longer the track record of outperformance, the more compelling the case that the fund manager has exercised skill in selecting stocks. If a fund manager has beaten the market over 10 years, it's hard to argue they have simply been enjoying a streak of good luck. Of course, that doesn't guarantee future outperformance, because a fund manager can go off the boil, or may find that the market turns against their particular style of investing.

NOT A UNIFORM PICTURE

But if you can build a balanced portfolio of active managers who have demonstrated skill in the past, your chance of achieving outperformance going forward is much better than a coin toss.

Investors can also be a bit choosy about the markets where they use active managers. For instance, over the last 10 years, 63% of fund managers investing in UK equities have outperformed a passive alternative, but in the US this falls to 28%. The fact that the success of active managers is not uniform across fund sectors furnishes investors with the opportunity to pick and choose which parts of their portfolio they populate with active and passive strategies.

Investors might therefore happily choose to invest in an active fund in the UK, where active managers have met with a high level of success, but at the same time gain exposure to the US passively, as active managers have found outperformance harder to dig out in this region. It's also worth acknowledging that there are some areas which are not widely served by passive funds, and so an active approach is needed.

The smaller companies market is a good example, as is income investing. And while there are lots of passive ESG funds out there, some investors may decide they want a specific active fund which aligns more closely with their own ethical preferences.

VETTING FOR QUALITY AND COST

Many fund managers might not like to hear it, but they are like any other profession, there are good and bad examples. You wouldn't get a builder in to do work on your house without first vetting them for both quality and cost, and the same goes for active fund managers. Of course, if you're not willing to do a bit of homework to find good active managers, then you have the option of filling your portfolio with index trackers, and that is a perfectly sensible thing to do if you crave the simplicity of passive investing.

Even here though, you do still need to do a bit of legwork, in terms of selecting which markets you wish to gain exposure to, and making sure the passive funds you choose are competitively priced. The cheapest UK stock market tracker has an annual charge of just 0.05% per annum. The most costly UK tracker is over 21 times more expensive, coming in at an annual charge of 1.06%, which will act as a serious drag on the growth passed through to investors. So even when it comes to investing passively, you still need to make some active decisions.

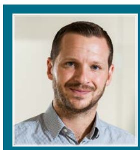
DISCLAIMER: Financial services company AJ Bell referenced in this article owns Shares magazine. Tom Sieber who edited this article owns shares in AJ Bell.

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

Will the new Consumer Duty make any real difference?

Explaining the new regulatory standards for the UK financial services sector

I've been reading a lot about a new Consumer Duty recently. What exactly is it and will it make any difference to anything at all?
Tom



Tom Selby, AJ Bell Head of Retirement Policy says:

The Consumer Duty will set a new regulatory standard for the UK financial services sector, requiring firms to 'act to deliver good outcomes for retail customers'.

This new 'Consumer Principle' will be underpinned by 'Cross-cutting Rules' setting out how the Financial Conduct Authority (FCA), one of the regulators of UK financial services, expect firms to behave.

Specifically, firms will be required to:

- Act in good faith towards retail customers;
- Avoid foreseeable harm to retail customers;
- Enable and support retail customers to pursue their financial objectives.

The overarching Consumer Principle and Cross-cutting Rules are intended to deliver 'good outcomes' in four areas:

- Products and services;
- Price and value;
- Consumer understanding;
- Consumer support.

Where the Consumer Duty applies, two existing FCA regulatory Principles will be disapplied:

- Principle 6 ('A firm must pay due regard to the interests of its customers and treat them fairly', often referred to simply as 'treating customers fairly' or 'TCF');
- Principle 7 (A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading).

The Consumer Duty will apply to all regulated retail financial services firms – from retail platforms to insurers and financial advisers.

Over time, the FCA expects retail customers to benefit through the provision of more appropriate products, improved service and, ultimately, better overall outcomes.

The Consumer Duty will be in place for firms selling products and services to new customers from July 2023. 'Closed-book' firms have been given an extra 12 months to comply with the new rules.

It's worth pointing out that, while there is a requirement for firms to aim for good outcomes for customers, the FCA has explicitly stated this does not mean people should be protected from all harms.

It is likely any benefits from the Consumer Duty will develop in years rather than weeks and months.

The FCA has been clear it wants to see better value products, which could mean costs and charges – key components of value – will be pushed lower.

The regulator has also said it will not be acceptable for firms to have slick processes for customers wanting to buy a product or service but poor processes when they want to complain.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:

5 August: Hargreaves Lansdown.

Half-year results:

5 August: FBD, WPP. 8 August: Clarkson, Diversified Energy. **9 August:** Abrdn, H&T, InterContinental Hotels, RPS, TI Fluid Systems, Zotefoams. **10 August:** Atalaya Mining, CLS, ContourGlobal, Genuit, Hostelworld, Legal & General. **11 August**: Derwent London, Empiric Student Property, Empresaria, Entain, Network International, Pressure Technologies, Savills. **12 August:** 888 Holdings, Flutter Entertainment.

Trading updates

5 August: Pets at Home. **9 August:** Bellway.

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