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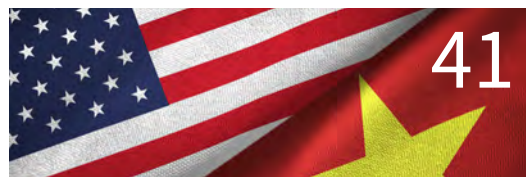
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Everything you need to know about the investment case behind 2023's hottest stock.


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**The best and most consistent indices**

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**Vietnam in focus**

An agreement with the US marks a big turning point for Vietnamese shares and we look at the relevant funds which focus on this geography.

## Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:



Irn-Bru maker AG Barr shares fizzle higher on strong first half trading



Aviva back on the 'acquisition trail' with £460 million AIG buy



Why Card Factory shares are down despite a 70% jump in profits



Ascential shares surge on event-driven revenue growth and return to profit



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# How mooted UK policy changes could impact businesses and investors

Infrastructure and tobacco companies are on tenterhooks

**P** rime minister Rishi Sunak has floated and announced big policy changes recently from delaying a ban of the sales of new petrol and diesel cars, pulling back on phasing out gas boilers and introducing a New Zealand-style anti-smoking policy.

There has also been the public discussion of abandoning or at least curtailing the zero-carbon high-speed railway to the north of England – better known as HS2. According to HS2's website the project has '£23-billion contracted into the supply chain and around 350 active sites between the West Midlands and London, supporting almost 30,000 jobs'.

Then there is the personal finance overhaul reportedly being considered by Sunak's chancellor Jeremy Hunt.

This could include increasing IHT (inheritance tax) limits or potentially even abolishing them entirely. AJ Bell head of retirement policy Tom Selby says: 'Politically, raising IHT thresholds – or even going a step further by abolishing the tax altogether – is likely to be appealing, particularly given we are closing in on a general election.'

'However, IHT has been a reliable cash cow for the Exchequer, generating £2.38 billion in 2009/10 but rising to £6.1 billion last year.'

Other reported changes include a shake-up of ISAs which could encompass the phasing out of some forms of ISA like the Lifetime ISA and Innovative Finance ISA, an increase in the annual allowance with the potential for some allowance to be specifically given over to investments in UK-listed stocks.

We should find out more on 22 November when Hunt delivers his Autumn Statement.

Infrastructure and construction groups like **Balfour Beatty (BBY)** and **Kier (KIE)** have both been awarded Phase 2 contracts for the HS2 and will miss out if the project is not completed. It is



too early to say how abandoning the Birmingham-Manchester leg, a move which is yet to be confirmed, will affect the companies in the short term but long-term revenue may be affected.

Smaller businesses like **Costain (COST)**, geotechnical engineering firm **Keller (KLR)**, equipment rental outfit **VP (VP.)** and ground engineering company **Van Elle (VANL:AIM)** could also lose out.

If the Government introduces a ban on selling cigarettes to anyone born on or after January 1, 2009, in the UK, the revenue stream of **British American Tobacco (BATS)** and **Imperial Brands (IMB)** will be affected. Reports of stricter regulation saw Imperial and British American shares fall 6% and 3% respectively.

A delay in the move away from gas boilers (now scheduled to 2035) is a headwind for companies like **Homeserve** now owned by **Brookfield Asset Management (BAM:NYSE)**. [SG]

**DISCLAIMER: Financial services company AJ Bell referenced in this article owns Shares magazine. The author of this article (Sabuhi Gard) and the editor (Tom Sieber) own shares in AJ Bell.**

“**Reports of stricter regulation saw Imperial and British American shares fall 6% and 3% respectively.**”



# US stocks endure worst week in six months amid rate fears and seasonal ennui



Other factors like auto industry strikes and a government shutdown are spooking investors

**H**istorically, the autumn months have not been kind to investors in shares with September and October historically weak relative to other periods of the year.

The two months have also registered some of the worst declines in history including the stock market crash of 1987.

We are not suggesting a repeat is on the cards for 2023 but it is noteworthy that the benchmark S&P 500 index had its worst week since the mini-banking crisis in March in the week ended 22 September.

The index fell four straight days to cap a 3% weekly loss while the technology focused Nasdaq dropped 3.6% and the Dow Jones Industrials average fell 2%.

A hawkish Federal Reserve meeting (20 September) certainly didn't help stock market sentiment as US bond yields continued to hit multi-year highs and the US dollar touched six-month highs as the central bank said interest rates would remain higher for longer.

Also weighing on stocks is the impact of falling inflation on real yields. That is, the rate of interest after accounting for inflation.

If the Fed holds rates steady while inflation falls back towards its 2% target, the real yield increases. On Friday (22 September) the real yield moved up through 2% which some commentators believe represents a very 'restrictive' policy stance.

Another worry for investors is the looming government shutdown if a budgetary compromise cannot be reached before the 1 October deadline when current federal funding ends.

A shutdown would force up to 900,000 government workers to stay at home and

## Biggest US fallers for the week ending 22 September 2023

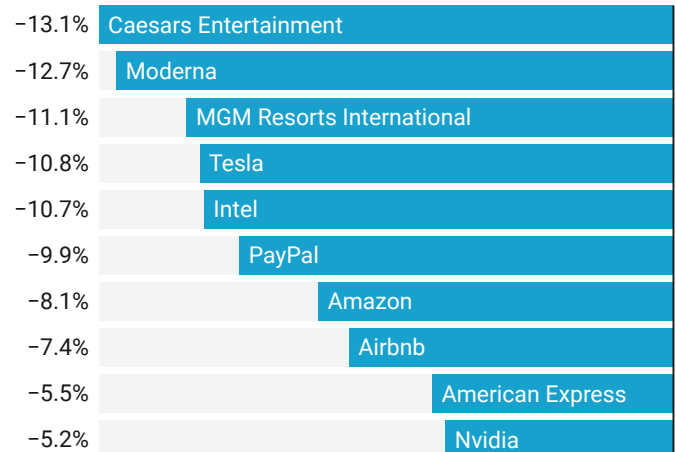


Chart: Shares magazine • Source: Stockopedia

cause disruption to the economy. Republican house speaker Kevin McCarthy has suggested a 45-day extension of government funding to allow more time for reaching agreement on spending cuts.

At the weekend US president Joe Biden warned closing government would jeopardise military pay, food safety and education programmes.

One market-related repercussion of a closed government is that important economic data releases will be postponed such as non-farm payrolls which are due on 6 October.

In other words, it could add further uncertainty for markets. Lastly, the ongoing UAW (Union of Auto Workers) strike took a turn for the worse on Monday (25 September) after thousands more workers joined the picket lines.

A yawning gap between the demands of the unions and the three auto makers, **Ford Motor (F:NYSE)**, **Stellantis (STLA:NYSE)** and **General Motors (GM:NYSE)** suggests the strikes could persist for weeks.

Investors are concerned about the impact on auto supply chains which could see rising pressure on new car prices while lost production might mitigate the inflationary impact as it dampens economic output. [MG]

“**The looming government shutdown if a budgetary compromise cannot be reached**”

# What Aldi's expansion plans mean for its rivals and suppliers

The dominance of own-label goods is a clear threat to big brands

**T**his week, discount retailer Aldi revealed UK sales in the year to December 2022 increased by £1.9 billion or 14% to a staggering £15.5 billion, a new record in its 33 years of operating here.

The company, which has attracted around one million more customers to its stores over the past year, said rising living costs have created 'a shift in attitudes', adding that a 'new generation of savvy shoppers have turned their back on traditional, full price supermarkets'.

According to the latest figures from Kantar Worldpanel, Aldi's market share of UK grocery spending in the 12 weeks to the start of September was 10.1% compared with 9.3% in the same period a year ago.

The firm is already the UK's fourth-largest grocer by market share, having overtaken Morrison at the start of 2023, and is closing in on third-placed Asda which has been losing share over the last 12 months.

Its rapid growth – which was 17.1% in the 12 weeks to 3 September compared with 8.1% for the sector as a whole – has been fueled by an insatiable appetite for new store openings. It is far from finished.



The firm, which operates more than 1,000 UK stores, said it plans to open another 18 sites before the end of the year and is committed to opening more than 500 new UK stores altogether, investing more than £1.4 billion during 2023 and 2024.

**Tesco (TSCO)** may still control more than a quarter of the UK grocery market, and may have gone some way to counter the threat from Aldi with its price-match campaign, but it can't afford to let the discounter park yet more tanks on its lawn and Aldi's actions ramp up the pressure ahead of its first half results on 4 October. The same goes for **Sainsbury's (SBRY)**.

For branded goods producers, the prospect of Aldi increasing its market share with its store roll-out is just as ominous.

'One of the big stories of recent times has been the boost in own-label sales which dominate Aldi and Lidl's shelves,' says Kantar's head of retail and consumer insight Fraser McKevitt.

'Sales grew again by 9.9% in the latest month and supermarket lines now make up over half of everything we buy. This is equivalent to a £3 billion shift in sales away from brands. The discounter model of offering everyday low value and fewer promotions has caught on in the wider market, with only 26% of spending now on deals compared with 38% a decade ago.' [IC]

## Aldi 12-week sales growth vs UK grocery market 2022-2023

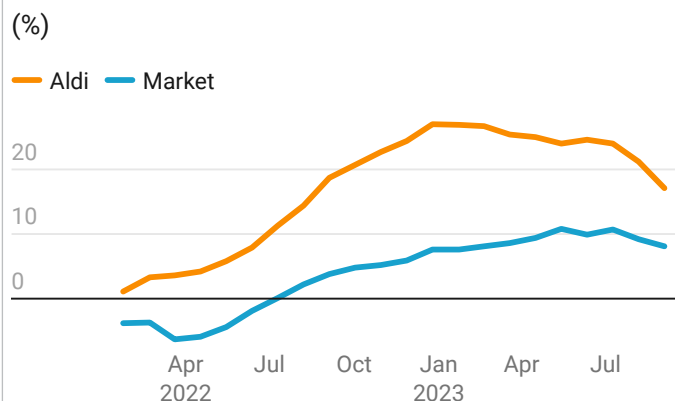


Chart: Shares magazine • Source: Kantar Worldpanel



# Shares in Orcadian Energy pick up speed as they gain more than 200% in two weeks

**Company has constrained working capital as it looks to tie up agreement with new partner**

North Sea oil and gas minnow **Orcadian Energy (ORCA:AIM)** has seen its share price increase more than four-fold to 14.5p since mid-September.

The big driver is a proposed farm-out deal on its Pilot project in the central North Sea (18 September). Orcadian has granted exclusivity on a provisional agreement with an unnamed operator until 30 November to allow all the details to be finalised, including

licence expansion and extensions.

Assuming the deal goes through, Orcadian would maintain an 18.75% stake in the project with the operator covering all the costs until first oil is produced. This is an endorsement of the development's potential but also of the North Sea as an oil province after several operators have seen profit (though not cash flow) wiped out as they factor in the impact of windfall taxes.

Orcadian could receive \$200,000 if and when the transaction completes and a further \$3 million once the field receives development approval. Stakes are high with the business



## Orcadian Energy



acknowledging it has cash of just £90,000 with a monthly cash burn rate of a little less than £20,000. [TS]

# DFS Furniture sees shares fall 30% year-to-date in a tough market

**Sofa seller reduces dividend but analyst highlights brand strength**

Shares in **DFS Furniture (DFS)** have lost nearly 30% of their value so far in 2023 as the sofa seller has struggled with weak demand and inflationary pressures.

In the company's recent set of results, DFS saw its full year profits for the 12 months to 25 June almost halve to £29.7 million compared to last year. DFS's revenue was also down 5.3% to £1.08 billion.

The company reduced its total ordinary dividend for the year to 4.5p compared to 7.4p in 2022.

So, what's gone wrong for DFS? Despite opening more Sofology showrooms this year bringing the total to 58 and strengthening its Home category, DFS has fallen victim to a tough economic climate.

Simply consumers have been spending less due to the cost-of-living crisis. This hasn't stopped DFS launching 'exclusive brand partnerships' and trying to broaden its appeal into higher price points. Shore Capital analyst Eleonora Dani continues to see strengths in the business which could stand it in good stead



## DFS Furniture



when the backdrop improves. She says: 'We think DFS's strong brand awareness puts the company in an excellent position to capitalise on consumer spending in the home-related categories.' [SG]



## Greggs' roll-out in focus as shares start to sag

Budget food seller is set to update on its third quarter trading

Budget food-on-the-go outfit **Greggs (GRG)** reports its third quarter trading update on 3 October.

The company's affordable food options have helped bake some resilience into its demand profile despite pressured household budgets. It continues to roll out new sites as well as keeping some existing sites open for longer to capture trade throughout the day.

Greggs has set a target to open 150 net new stores every year. After adding just 50 in the first six months of the year, investors will want to see evidence of a ramp up in the third quarter to provide confidence in its ability to meet its growth ambitions.

A strong start to the year for the shares has stalled and they have slipped since the summer. First half results reported on 1 August were robust and flagged easing cost inflation. However, a lack of earnings upgrades let to a round of investor profit taking from which the stock is yet to recover.

Berenberg analyst Matthew Chadwick says: 'In recent weeks key topics of debate on Greggs have been the sustainability of its strong like-for-like growth amid a challenged UK macro backdrop, and the cost inflation outlook, which looks to have eased somewhat over the past 12 to 18 months.'

'As cost inflation comes down, we believe the business can return to double-digit pre-tax profit growth in financial year 2023 and subsequent years. The company's ambitious roll-out target is supported by a healthy balance sheet.' [TS]

### What the market expects of Greggs

	EPS (p)	Revenue (£bn)
Forecast for 2023	119	1.5
Forecast for 2024	122	1.8

Table: Shares magazine • Source: Stockopedia

## UK UPDATES OVER THE NEXT 7 DAYS

### FULL-YEAR RESULTS

**29 September:** CAP-XX

**5 October:** Volusion

### HALF-YEAR RESULTS

**29 September:** CMO, Frenkel Topping, Directa Plus, Personal Group

**3 October:** Inspiration Healthcare, S&U, Tortilla Mexican Grill

**4 October:** Tesco

### TRADING ANNOUNCEMENTS

**2 October:** Pennon

**3 October:** Greggs

**5 October:** CMC, Ferrexpo





# Can Constellation maintain its momentum after Modelo milestone?

There are some nagging growth concerns at the beer, wine and spirits maker

Beer, wine and spirits maker **Constellation Brands (STZ:NYSE)** posts its second quarter earnings on 5 October, covering the three months to 31 August 2023.

It has been a landmark year for the company, whose portfolio of brands includes Corona beer, Casa Noble tequila and Meiomi wine, as its Modelo Especial Mexican lager overtook Bud Light to become the top selling US beer brand. This followed a backlash over the latter's social media campaign with transgender influencer Dylan Mulvaney.

First quarter earnings saw better than expected margins, though beer depletions – a metric measuring the number of cases sold to distributors – were slightly short of consensus forecasts.

Investors will be watching this measure closely to see if there are further signs of slowing demand after a run of price hikes from Constellation and as cost-of-living pressures continue to bite. Progress on a premiumisation strategy will be in focus as the company looks to build up its pricing power by

targeting the higher end of the market.

The trajectory of costs will also be closely monitored amid hopes that inflationary pressures may be starting to ease and an update on the company's \$4 billion investment in troubled Canadian cannabis producer **Canopy Growth (CGC:NASDAQ)** may also be anticipated after positive noises on the legal status of the industry. [TS]

## Constellation Brands



## What the market expects of Constellation Brands

	EPS (\$)	Revenue (\$bn)
Q2	3.35	2.82

Table: Shares magazine • Source: Yahoo Finance

## US UPDATES OVER THE NEXT 7 DAYS

### QUARTERLY RESULTS

**29 September:**

Carnival

**3 October:**

McCormick & Co

**4 October:**

Lamb Weston

**5 October:** ConAgra, Constellation Brands

# JOHCM UK Dynamic consistently profits from positive corporate change

This fund invests in recovery plays, hidden growth stocks and special situations

## JOHCM UK Dynamic

(B4T7HR5) 314p

Fund size: £1.3 billion



Savvides seeks to profit from understanding and backing companies undergoing positive corporate change. This one of the biggest drivers of stock returns but is often misunderstood or underappreciated by a wider market slow to price in change, creating opportunities for disciplined investors.

The long-term capital growth-focused fund typically features a mixture of restructuring or recovery plays, cheap or hidden growth stocks or other special situations. Within his approach, Savvides likes to build a margin of safety into his analysis using a 'Valueplus' strategy which helps him to avoid companies that are fundamentally flawed.

The manager places great importance on the strength of the balance sheet and cash flow management and *Shares* likes the fact that each stock held within JOHCM UK Dynamic must pay a dividend or be expected to do so by Savvides within the next 12 months, which gives the portfolio an attractive yield approaching 4%. Ranked first quartile in the IA UK All Companies sector over one and three years, the fund has generated cumulative returns of 71.4% over the latter timeframe, more than double the 29.4% from the sector.

JOHCM UK Dynamic is a fairly concentrated fund with 40 holdings as of 31 August, with the bulk of assets invested in the FTSE 100 and FTSE 250. The top 10 includes pharmaceutical giant **GSK (GSK)**, which remains cheap relative to the sector, British Gas-owner **Centrica (CNA)**, which Savvides notes has been 'particularly transformed over the last few years, most visibly through a remarkable balance sheet turnaround', and the UK's largest listed private equity firm **3i (III)**. Other top positions are energy major **BP (BP.)**, lender **Barclays (BARC)**, publishing and education play **Pearson (PSON)** and UK property investor **Land Securities (LAND)**. [JC]

Investors who lack the time to follow the twists and turns of inflation prints, interest rate moves or central bank proclamations and their impact on often volatile markets could be better off putting money to work in funds focused on idiosyncratic stock stories or special situations, where returns are driven by self-help and largely uncorrelated to the broader market.

One such vehicle is **JOHCM UK Dynamic (B4T7HR5)**, a £1.3 billion UK equity fund that has consistently outperformed the FTSE All-Share Total Return index benchmark since launch in 2008.

Manager Alex Savvides' tried-and-tested approach, accessible for a low ongoing charge of 0.68%, sees him seek out the best capital growth opportunities across the market cap spectrum. The end result is a mixture of high quality yet unloved and under-researched stocks with scope for powerful reratings.

## JOHCM UK Dynamic

(p)



Chart: Shares magazine • Source: LSEG

BUY



# Leading US animal health firm Zoetis has a long growth runway

Digital solutions and data insights are an increasing strategic focus for the business

## Zoetis

(ZTS:NYSE) \$175.7

Market cap: \$81.8 billion

Since being spun out of pharmaceutical giant **Pfizer (PFE:NYSE)** a decade ago shares in leading animal health company **Zoetis (ZTS:NYSE)** have gone up more than five-fold.

UK peer **Dechra Pharmaceuticals (DPH)** has delivered shareholders a similar return over the same period but is leaving the UK stock market after accepting an all cash £4.5 billion takeover from Swedish private equity firm EQT in June 2023.

*Shares* believes Zoetis is a good fit for investors looking to maintain exposure to the animal health sector which offers attractive long-term growth drivers.

Getting exposure to growth stocks rarely comes cheaply and Zoetis shares trade on an average price to earnings multiple of 30.7 times forward earnings, a similar rating to Dechra.

However, the rating must be compared with expected growth

## Zoetis

(\$)



Chart: Shares magazine • Source: LSEG

BUY

and the US firm is forecast to grow EPS (earnings per share) by 19% in 2023 and a further 12% in 2024 according to LSEG data.

The quality of the business and the growth trajectory suggest an attractive risk to reward. In addition, investors can buy the shares at a 29% discount to December 2021 highs.

Zoetis is the world's largest animal health company and generated \$8 billion (£6.5 billion) of revenue in 2022 which makes it almost 10 times larger than Dechra.

The company has high net profit margins of around 27% and a return on equity over 50% demonstrating higher than average profitability.

The firm provides animal medicines, vaccines, diagnostics, genetic tests, and precision animal health with a market presence in over 100 countries.

Around 65% of revenue is generated from treating companion animals and 35% from animal stock products.

The company has built a diverse, durable, and innovative product portfolio which includes 15 blockbusters (annual revenue greater than \$100 million) across 300 product lines.

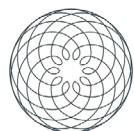
Zoetis is the market leader in pets, cattle, and fish across the US, Asia and Latin America while holding number two positions in Eastern and Western Europe.

The business operates in growing markets characterised by sustainable drivers including increased humanisation of pets where owners are prioritising health and wellness of their animals.

Since 2017 Zoetis has grown faster than the underlying market delivering 69% revenue growth compared with 34%. Meanwhile net income has grown faster than revenue, almost doubling as operating margins have expanded.

A growing global population means there will be an estimated two billion more mouths to feed by 2050 according to the United Nations. This in turn means more healthy animals are needed to meet increased protein demand.

All in all, Zoetis is a great way to play the long-term growth trend in animal healthcare. [MG]



## Investing in India's growth story

**AIE is well-positioned to benefit from the country's remarkable economic rise...**

Regardless of which side of the opinion divide you fall, it is hard to deny that Narendra Modi's time in power has seen substantial change in India, much of it beneficial for domestic and foreign investors. That the majority of Asia-focused investment trusts are overweight to Indian equities today is arguably one crude sign of that.

Some of this is due to steps taken by the government. For example, in the last nine years of Modi's time as prime minister, his government has scrapped over 2,000 obsolete laws to enhance governance and ease of doing business. Complicated rules, such as land ownership laws and bankruptcy regulations, were altered to make them more efficient.

Other changes pre-date the current government coming to power but have really come into fruition during its tenure. Most notably, the large-scale roll out of India's Aadhaar identification system. This was launched in 2010 and, according to data released by the Indian government at the end of 2021, 99.7% of the adult population had the biometric ID – no mean feat in a country of 1.4bn people.

Many of these developments shine through in the **Ashoka India Equity (AIE)** portfolio. As one simple example, the trust's largest two holdings are in financials – ICICI Bank and Cholamandalam Investment and Finance (Chola), both of which have benefited from the increasing number of Indians that have access to financial services.

The former may be familiar to those familiar with the Indian equity market. However, Chola has seen extremely impressive returns in the last five years, during which time revenues at the lender have risen almost three-fold.

The rapid rollout and success of new digital applications, whether it be Aadhaar, UPI or even the COVID vaccine tracker, is also indicative of the technological prowess India possesses. As AIE Investment Director Ayush Abhijeet noted at a presentation earlier this year, the country continues to produce a world-leading number of STEM graduates. That the current CEOs of Alphabet and Microsoft are both graduates of Indian universities is testament to that fact.

For the AIE managers, the Indian sector continues to offer attractive growth, with companies providing a range

of goods and services, whether that be developing their own technology, providing consulting services, or providing outsourcing services to other businesses. This is being supported by a rapid increase in cross-country internet connectivity, with capacity growing at a compounded annual rate of 35%.

There have been some concerns that the sector, much like its US equivalent, is too highly valued. This is plausible but it's worth noting that the IT Nifty 50, an India tech index, is trading below its 5-year average on a price-to-earnings basis as at 24/08/2023. Perhaps more importantly for AIE investors, companies in the trust's portfolio continue to justify higher valuations by delivering on growth.

For example, specialist manufacturer Avalon Technologies, currently AIE's largest tech holding, noted in a recent analyst call that it expects revenue growth for this financial year to be between 15% to 25%, despite its US business remaining almost flat so far. Similarly, technology outsourcing firm Coforge, another major AIE holding, delivered a 21.4% year-on-year increase in sales at the end of last quarter.

Those results and the investments the AIE managers have in those two sectors arguably reflect the strength and nature of their stock picking process. The managers place huge emphasis on corporate governance, as well as taking a valuation-conscious approach to stock picking, where they make use of a proprietary cash flow analysis system.

We see the corporate governance component expressed more in sectoral weightings. The managers like financials and technology, for example, but tend to avoid sectors like utilities and real estate, which are more heavily regulated and often involve state-owned enterprises.

On the cash flow side, the managers like the sort of growth that the firms we have examined display but do not ignore valuations. Instead firms have to demonstrate recurring and sustainable cash flow growth, which can mean paying higher earnings multiples if those cash flows justify doing so.

It's a process that has worked well so far. Since AIE debuted on the London Stock Exchange just over five years ago, the trust has continued to outperform both its peers and the benchmark.

That's not guaranteed to continue but for investors looking for fund managers to navigate India's increasingly attractive economic growth story, AIE may be an option they want to consider.

Click [here](#) to read our latest research on Ashoka India Equity...

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# Continued recovery in travel is coming through in SSP's results



The lack of market support for the shares belies the group's attractions

**SSP** (SSPG) 203.7p

**Loss to date: 23.4%**

We initially recommended shares in travel retail firm **SSP (SSPG)** back in May as a way to play the rebound in travel both in the UK and around the world as businesses and consumers returned to their pre-pandemic routines.

We argued that, at half their price from three years ago, the shares looked good value with plenty of recovery potential.

## WHAT'S HAPPENED SINCE WE SAID TO BUY?

A month after our recommendation, the group, which principally operates food concessions in stations and airports, posted a strong start to the second half with revenue 10% above the same period of 2019 driven by North America where domestic air travel and market share gains saw revenue almost 25% above pre-pandemic levels.

Only the UK and Ireland revenues were below 2019 levels, and that was mainly due to ongoing industrial action on the rail network.

The firm revealed the acquisition of most of the Midfield Concession airport units had completed earlier than scheduled meaning 'a modest level of sales benefit' with operating profit expected to be flat after purchase and integration costs.

In its full-year trading statement earlier this month, the group said strong underlying trading

## SSP Group



Chart: Shares magazine • Source: LSEG

momentum had continued and it expected to deliver revenue and EBITDA (earnings before interest, tax, depreciation and amortisation) 'at the upper end of the ranges previously indicated'.

Yet despite these positive updates, the shares have continued to drift, and the market reaction to the potential impact of a strong pound on 2024 earnings was to push the shares down a further 8% to a new nine-month low.

## WHAT SHOULD INVESTORS DO NOW?

In fairness, the company has done exactly what we hoped by improving revenue and returns and it has an enviable pipeline of opportunities.

Travel is back, and passenger numbers are almost up to pre-Covid levels, yet the shares are nearly 25% cheaper than when we picked them, so our inclination is to stick with our recommendation.

If investors don't rate the company, there's a good chance private equity will take it off the market and reap the upside instead.



# Can Asia thrive, with or without China?

*Elizabeth Kwik, manager of abrdn China Investment Company Limited*

- **Recent economic data from China has been weak with retail sales, industrial production and fixed asset production all missing targets**
- **The central bank is likely to announce stimulus measures in the second half of the year**
- **China's weakness does not dent the outlook for the wider Asian region**

China's reopening has not gone to plan. Businesses and consumers have emerged cautiously from the restrictions, economic revival has been slow and the country now appears to be wrestling with deflation. However, it doesn't dent the case for broader Asian markets – and even careful exposure to China itself.

The recent data emerging from China has worried investors: retail sales, industrial production and fixed asset production have all missed targets. The country tipped into deflation in July and there are ongoing concerns over the property sector and bad debts.

The result has been real weakness in Chinese stock markets since the start of the year. Elizabeth Kwik, manager of abrdn China Investment Company Limited, says: "The macroeconomic situation is concerning investors. The market has been disappointed with the pace of recovery since the reopening. People were initially expecting a V-shaped rebound and that has not been the case." This is also worrying for the rest of Asia. China has been an engine of growth for the



wider region, with countries such as Thailand particularly exposed to China reopening.

## REBUILDING CONFIDENCE

However, the gloom may have been exaggerated. Even if data has come in below expectations, it is showing growth. Elizabeth says: "Although the recovery has not been as quick as hoped, it doesn't mean there is no growth or opportunity. The recovery in services is underway and there has been a pick-up in retail sales. This should broaden out to the rest of the economy as the savings rate normalises – it is still very high. It's a question of rebuilding consumer confidence."

She believes that policy support will emerge to support the economy. The central bank is already starting to ease policy. It has the scope to do this because China is not struggling with the same inflationary problems that are hurting other large economies. She adds: "There is a lot of headroom for policy easing. The central bank is looking to do this more actively in second half of year. Local governments are yet to hit their loan quotas."

## ASIAN GROWTH

Elsewhere, there are few signs that the region is struggling in the face of China's weakness. Gabriel Sacks, manager of abrdn Asia Focus plc,

points out that some countries may even be beneficiaries. He says: "When we talk to companies in India, they reference the "China plus one" opportunity. A lot of countries are looking to benefit from that reconfiguring of supply chains away from China. We see Vietnam and Indonesia benefiting in particular."

He adds: "Based on recent consumer surveys, only 11% of people in the UK feel positive about the economic outlook. In India, only 2% of people of people feel pessimistic. Even in China where there's a lot of negative noise and a tough economic backdrop, it's about 50/50. We also see this positivity when we speak to companies. Inflation has surprised on the downside. That positions Asia better and once interest rates start to come down in the West, you'll see that happen in Asia as well. There is a good outlook for growth even if China grows more slowly."

## LOWER VALUATIONS

For investors, the negative sentiment surrounding China has pushed valuations lower. Elizabeth says: "Valuations are undemanding. Company earnings have not been downgraded as much as share prices would suggest." abrdn Asia Focus can invest across the region, but Gabriel and the team have been adding to China more recently because of the compelling valuations on offer.



The team have also been bullish on India but caution against jumping in at this point. While India appears to be firing on all cylinders – Prime Minister Modi recently had a successful visit with President Biden, the economy is strong, the corporate sector is buoyant – valuations are too high in some cases. Gabriel adds: “It is still our largest country weighting, but we’re trying to hold back our excitement because it’s consensus. Indian small caps have more than doubled over last three years, China has gone the other way.”

Regardless of the economic situation, the region is still tapped into a range of growth opportunities.

abrdn China Investment Company, for example, looks to benefit from China’s rapid adoption of technology, through areas such as cybersecurity, e-commerce and data centres, or its move to net zero through renewable energy, electric vehicle or battery storage.

For abrdn Asia Focus, Gabriel has been looking at leaders in the technology supply chain, who may be supplying behemoths such as TSMC or Samsung. Healthcare has been another important part of the portfolio, particularly in India where spending is very low, but growing fast. However, the most important theme in the portfolio is domestic

consumption growth, which remains a powerful long-term trend across the region.

China’s economic weakness should not obscure the opportunities across Asia, including within China itself. At the same time, weak sentiment has left valuations appealing, meaning investors may be getting access to growth themes at a lower cost. China’s reopening may not have gone to plan, but investors shouldn’t be deterred.

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

### Important information:

#### Risk factors you should consider prior to investing:

- The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company’s assets will result in a magnified movement in the NAV.
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. This may mean your money is at greater risk.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- The Company invests in smaller companies which are likely to carry a higher degree of risk than larger companies.
- Specialist funds which invest in small markets or sectors of industry are likely to be more volatile than more diversified trusts.
- As with all stock exchange investments the value of the Company’s shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.

- There is no guarantee that the market price of the Company’s shares will fully reflect their underlying Net Asset Value.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company’s shares.
- Movements in exchange rates will impact on both the level of income received and the capital value of your investment.
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# How a shift in the interest rate narrative is good for UK stocks

The market could rally once we get a clearer idea of when rates will start to fall

**U**K fund managers say we have got a once in a generation opportunity to buy great companies cheaply. This is all very well, but when is the UK stock market going to deliver a decent performance? We need a catalyst to trigger more buyers to bid up the shares.

One such catalyst is the Bank of England providing a clearer message on the direction of interest rates and when they might fall, according to fund manager James Henderson. We are not at that stage yet, but it is something to watch closely.

The Bank of England's decision to leave interest rates unchanged on 21 September could be the first step in this process. Prior to this event, the Bank had raised interest rates 14 times in a row so it feels as if the mood music is changing.

'It's still not clear what speed interest rates will come down,' admits Henderson. 'I find people are having trouble reading the Bank of England because the Bank of England is having trouble reading itself.'

The Bank's monetary policy committee voted 5-4 to keep the base rate unchanged at 5.25%. A day later, new data showed UK economic activity falling at its fastest pace since January 2021. The S&P Global/CIPS purchasing managers' composite index fell to 46.8 in September, down from 48.6 in August. A figure below 50 represents economic contraction.

Once you add in signs the jobs market is weakening and pockets of inflation are falling, it is hard to imagine the Bank of England will find new reasons to raise interest rates again. August's rate hike might represent the peak for this tightening cycle so the attention shifts to when rates might come down and therefore

when UK stocks become more attractive.

It might seem odd to suggest UK stocks will come into favour as the economy weakens. However, the stock market is forward-looking so investors might look past near-term negatives to focus on what a company could achieve in a lower interest rate environment, particularly those already doing things well.

There are certain companies who are already match-fit and might sail through a recession thanks to adjustments made as a result of inflationary pressures and the cost-of-living crisis.

For example, **Dunelm (DNLM)** has already sharpened its focus on value items and recently said freight costs are easing, which will help margins. **Next (NXT)** said it was reaping the benefits of having extra warehouse capacity and having efficiency gains in the business.

'You learn disciplines in a slowdown, you learn about cost cutting, about tough management decisions,' says Henderson. 'As things get better, you've got your costs under control, and as you get more sales, you find your operating margin opens up. On the upswing analysts never realise how operationally geared companies can be into a better sales environment.'

The UK stock market has gained a reputation for being full of low-growth, old economy companies. What's often overlooked is how mixed in with such companies are quality businesses that still have decent growth prospects. These are the shares you should be buying.

History suggests the point at which valuations are low and no-one is interested is the time to buy. If you miss this opportunity and valuations

remain depressed, there is a risk that someone comes along and takes over the good companies. That reduces the opportunities for investors which would be a bad outcome for everyone.



**Focus on what a company could achieve in a lower interest rate environment, particularly those already doing things well**

# AI SUPERSTAR

Everything you need to know about  
investing in **Nvidia**

We look at one of the world's hottest companies  
after a 190% year-to-date share price rally



By **Steven Frazer** News Editor

Investors have become obsessed with generative AI (artificial intelligence) this year, with **Nvidia (NVDA:NASDAQ)** the market's favourite way of playing the trend.

Shares in the Santa Clara-based microchip designer have more than tripled in value this year, as it began to dawn on the market there is big money to be made selling picks and shovels for generative AI applications.

Understandably, many investors might ponder

## Nvidia

(\$)

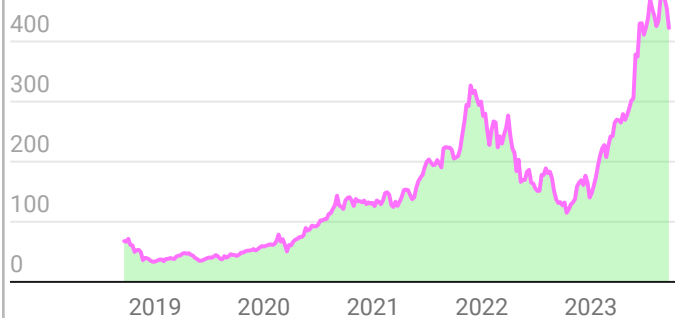


Chart: Shares magazine • Source: LSEG



## Can Nvidia live up to soaring expectations?

	Revenue (bn)	Earnings per share
Q1 2024	\$7.19	\$1.09
Q2 2024	\$13.51	\$2.70
Q3 2024f	\$16.07	\$3.35
Q4 2024f	\$17.53	\$3.68
Full year 2023	\$26.97	\$3.34
Full year 2024f	\$54.10	\$10.83
Full year 2025f	\$77.45	\$16.05
Full year 2026f	\$94.94	\$20.09

f=forecast. 31 January year-end

Source: Koyfin consensus

whether the easy money has already been made. At \$415, up from \$143 at the start of 2023, the company is now valued at around \$1 trillion, putting the stock on 38 times forecast earnings for the year to 31 January 2024.

Analysts are increasingly seeing more explosive growth for Nvidia in the years ahead and company forecasts have jumped, hence why investors have been happy to pay a premium rating for the shares.

Consensus has more than doubled for fiscal 2024, according to Koyfin data, and is up an average 43% for 2025 and 23% for 2026. The average consensus 12-month target price for the stock stands at \$641 – 54% higher than current levels – but the most bullish predictions point to the shares topping \$1,000 by late 2024.

### What Nvidia's valuation looks like at \$1,000 per share

#### Current Consensus FY 2025

EPS forecast	16.05
PE	62

Table: Shares magazine

## HOW NVIDIA GOT HERE

Demand for 'AI everything' is surging thanks to the launch of OpenAI's ChatGPT and other chatbot technologies. In May 2023, *Shares* explained some of the everyday uses for AI that have taken the

technology from [hype to reality](#), but sceptics have been waiting for the bubble to burst all year.

Those Cassandras have been left disappointed and massively out of pocket with Nvidia putting up knockout results. Second quarter (to 31 Jul) results in August saw the stock set record closing price highs of \$493.55 after the company smashed expectations and lifted full year hopes far higher, forcing analysts to tear up estimates and upwardly revise growth projections.

'A new computing era has begun,' said Nvidia founder and CEO Jensen Huang said in a statement. 'Companies worldwide are transitioning from general-purpose to accelerated computing and generative AI.'

Nvidia estimates there is something like a trillion dollars' worth of installed data centre cloud computing, and 'that trillion dollars of data centres is in the process of transitioning into accelerated computing and generative AI.' Nvidia sees two simultaneous platform shifts at the same time – cloud and generative AI, hinting at the exiting potential for its future revenue growth.

## NVIDIA'S IPHONE MOMENT

The world is suddenly awash in all sorts of AI wizardry, with more websites, tools and apps coming every day, and Nvidia's GPUs (graphics processing units) dominate the AI chip market. Some estimates suggest an 80% or more market share.

'I call it the iPhone moment,' Nvidia's Huang said in an interview with *The Wall Street Journal*, comparing his company's position in generative AI to the way **Apple's (AAPL:NASDAQ)** smartphone essentially ushered in a new era of tech.

'All the technology came together and helped everybody realise what an amazing product that can be and what capabilities it can have,' said Huang.

Nvidia believes there is a \$1 trillion market opportunity with a new generation of advanced chips to power a range of applications, from data centres to electric vehicles and healthcare.



## NVIDIA'S AI OPPORTUNITY

Nvidia's estimates are underscored by market researchers and analysts for enormous AI growth potential. Consultancy McKinsey believes 70% of companies will be using at least one type of AI by 2030, and investment bank Morgan Stanley forecasts the AI industry will generate \$1 trillion in annual revenue by 2050.

JPMorgan named AI as one of its hot themes for 2023, saying that with the emergence of ChatGPT, and other generative AI-powered chatbots, the future of work is set to be disrupted.

Nvidia's AI chips dominance is not set in stone, but the company has been building competitive advantages for years to sustain leadership in its markets, and analysts see evidence that customers are willing to pay a significant price premium and to wait months to obtain its chips.

'Customers will wait 18 months to buy an Nvidia system rather than buy an available, off-the-shelf chip from either a start-up or another competitor,' says Futurum analyst Daniel Newman. 'It's incredible.'

What Nvidia's Q2 results also show is how its business has switched from a gaming-first to AI-first business. The company's gaming unit was once the main driver of revenue, and while it continues to grow – Q2 gaming revenue increased 22% year-on-year to \$2.49 billion – it's now overshadowed by data centre income.

Nvidia's data centre business generated \$10.32 billion in Q2 revenue, up 141% from the previous quarter and 171% up on a year ago.



### NVIDIA'S OPPORTUNITY VISION

- Automotive: \$300 billion
- Chips and Systems: \$300 billion
- Nvidia AI Enterprise Software: \$150 billion
- Nvidia AI Omniverse Software: \$150 billion
- Gaming: \$100 billion





Professional services and automotive remain bit-part players. Professional visualisation Q2 revenue was up 28% to \$328 million from the previous quarter but fell 24% year-on-year. Automotive, which has been a demand bright spot lately for other chip vendors, reversed 15% to \$253 million on Q1, although it was up 15% year-on-year, with many of the supply chain issues in the motor industry now resolved or easing up.

## IS NVIDIA BEING AGGRESSIVE WITH BOOKING REVENUES?

The obvious risk for investors is achieving slower than forecast growth and how that would impact on the stock rating. As the table shows, a modest 10% cut to earnings forecasts coupled with a de-rating of the stock would see a painfully compounded sharp shock for the share price.

There are other concerns. For example, as one of the world's largest chip manufacturers, **TSMC (TSM:NYSE)** produces most of Nvidia's chips, as it does for many other clients. If TSMC's capacity

struggles to match chip demand, it could lead to long delays, potentially creating a ripple effect for Nvidia revenues that are beyond its control.

Analysts have also been taking a hard look at the company's balance sheet and cash flows, and some worry about what they see. In Q2, trade receivables surged 73% quarter-on-quarter and 33% year-on-year, 'eye-catching figures even as sales rose 88% quarter-on-quarter and doubled year-on-year,' says AJ Bell investment director Russ Mould.

Trade receivables is cash yet to be collected for orders already placed. This is normal business practice but when trade receivables suddenly jump, it could mean a couple of things.

First, it might mean that Nvidia shipped a large number of chipsets at the very end of the quarter (and therefore did not have time to collect cash payment). Second, and more worryingly, the company might have pulled forward sales from long-term contracts without getting the cash payment, an aggressive revenue recognition policy that could lead to revenue misses in future quarters.

## FINAL THOUGHTS ON NVIDIA

Given the surging demand for Nvidia chips, it would be puzzling why the company would spin revenues in this way. Perhaps it really did get a surge of late orders; we don't know at this stage, but it is something for investors to watch.

What we do know is that Nvidia's headline free cash flow has been steadily improving in recent years, until falling off a cliff last year, possibly the impact of chip market oversupply.

### Double-whammy forecast threat

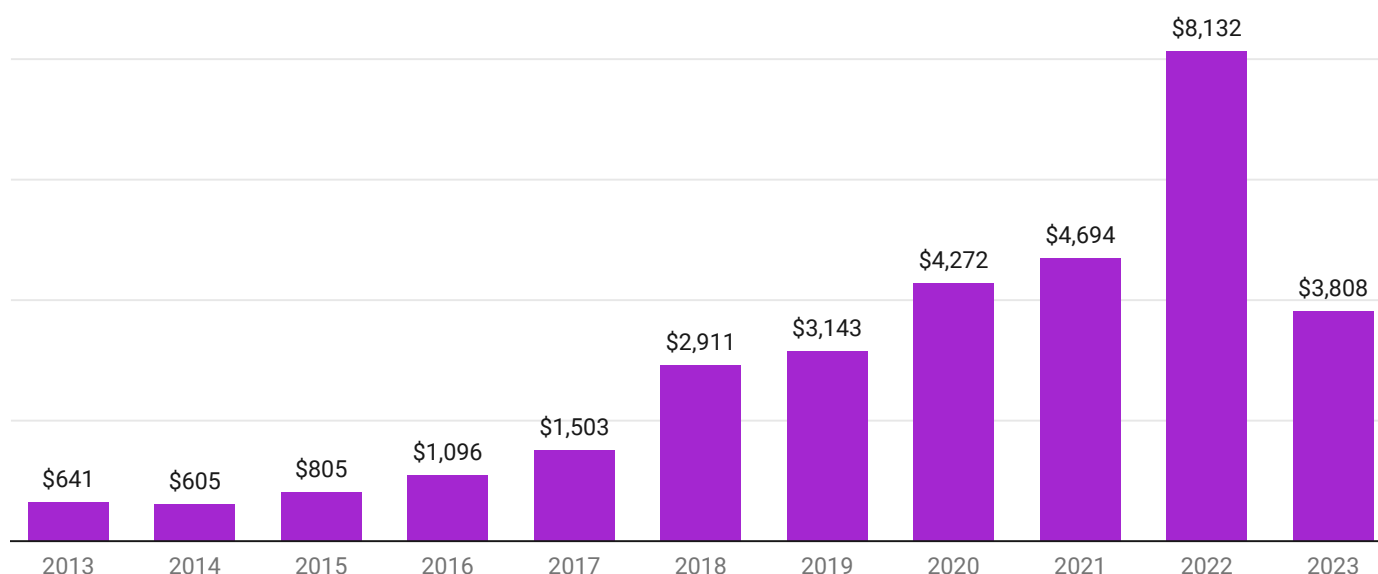
Implies a \$114 share price fall, or 25%

Share price on 2024 FY EPS \$10.8 and 42 PE	\$454
What happens on a 10% EPS cut and de-rating to PE 35	\$340

Table: Shares magazine

## Nvidia's free cash flow fell off a cliff last financial year

Free cash flow (\$m)



31 January year-end

Chart: Shares magazine • Source: Macrotrends

Share-based payments – part of director remuneration – can also skew profitability, although this may also explain the swathe of director stock sales recently. Since Q2 results (23 Aug), nearly 480,000 shares have been sold by board members, according to AJ Bell data, worth more than \$218 million.

This may simply be directors diversifying their own portfolios during the handful of times a year when they are allowed to trade their own stock, although sceptics may feel there is something more sinister at play.

Nvidia's meteoric rise this year has pushed the **Blue Whale Growth Fund's (BD6PG78)** stake to 9.6% of the fund, just shy of the 10% single stake limit for UCITS funds, but manager Stephen Yiu remains a [huge fan](#).

He recently told *Citywire* there were 'no real competitors' to Nvidia, even with rival **Advanced Micro Devices (AMD:NASDAQ)** attempting to make progress in chip technology used in AI applications.

'We have to assume there will be competitors in the future but there's huge growth potential for Nvidia over the next five years,' he said, noting that only 5% of data centres currently use Nvidia chips, something that could change rapidly over the coming years.

Whether you agree with Yiu and most analysts, or hold a more cautious view of the stock, its sheer

scale means you are likely to own a slice of Nvidia in your portfolio, even if you don't realise it.

If you own a fund tracking the S&P 500, Nasdaq Composite or Nasdaq 100 indices or a global growth fund, you'll no doubt have some level of Nvidia exposure. For most investors, that will be plenty.

**DISCLAIMER: Author Steven Frazer has a personal investment in Blue Whale Growth Fund. AJ Bell cited in this article is the owner of Shares magazine. Steven Frazer and editor Daniel Coatsworth own shares in AJ Bell.**



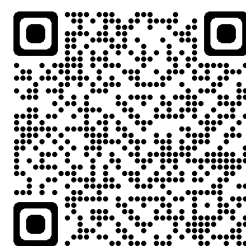


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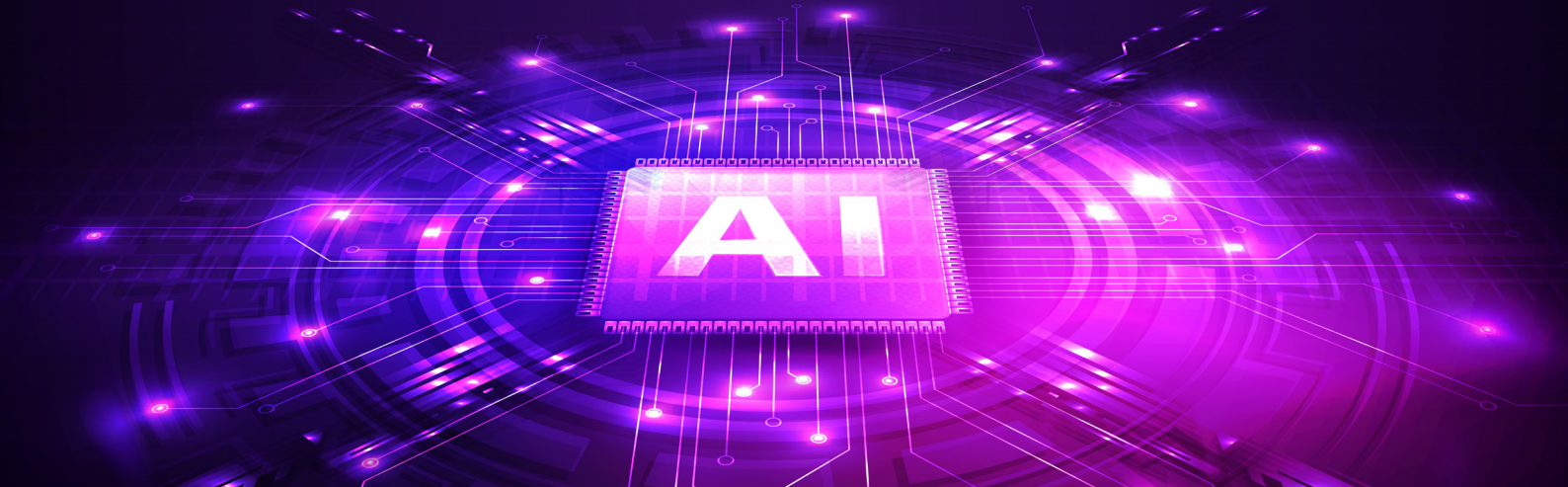
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# Chip opportunities beyond AI: the stocks that matter

There is more to the semiconductor sector than Nvidia



**G**enerative AI (artificial intelligence) has dominated the semiconductor conversation this year. But while the technology has enormous potential in this space, there are also lots of opportunities elsewhere in the semiconductor sector.

Industries like automotive, healthcare, pharma, education, transportation and professional services are all being impacted by a shift to a digital world, and that means more chips to power machines, run software applications and monitor the world around us.

Microchips (another term for semiconductors) are becoming increasingly vital in the modern world, and demand will only increase in the future.

Take automotive, for example. It is estimated that a modern non-electric car is installed with something like 1,000 chips, compared to up to 3,000 in an average electric vehicle. Tesla cars are believed to include nearer 3,500 even after efforts to reduce chip requirements during supply shortages a few years ago. They control safety, security and access systems, powertrain and electrical systems, and comfort, infotainment and connectivity applications.

So, while **Nvidia (NVDA:NASDAQ)** has emerged as the dominant chip designer for AI, there are multiple alternative investment opportunities in the wider chips space.

## EXAMPLES OF RELEVANT COMPANIES

US chip giant **Qualcomm (QCOM:NASDAQ)** is a major supplier of vehicle-to-everything (also known as V2X) chips and is in talks to acquire Israeli firm Autotalks. V2X can help improve traffic management and road safety, as well as helping to reduce carbon emissions.

The deal will require EU approval 'to ensure that customers such as original equipment manufacturers or infrastructure managers retain access to V2X technology at competitive prices and conditions,' the European Commission said in a statement in August 2023.

**Intel (INTC:NASDAQ)** CEO Pat Gelsinger is engineering a massive project to enhance the company's core PC central processing unit and computer server offerings, with the company ready to roll out its Meteor Lake PC chips later in 2023. In 2024, Intel will introduce its next-generation Granite Rapids and Sierra Forest server CPU units.

In June 2023, the company reached an agreement to spend \$32.8 billion to build two new manufacturing facilities in Magdeburg, Germany, already dubbed the nation's 'Silicon Junction'.

It's also worth noting that public-private chip-manufacturing deals point to a geographical shift as increasingly fractious technological battle lines are drawn between China and the West.

### Five biggest chip stocks (excluding Nvidia)

	Market cap (bn)	2023 YTD performance	Five year annualised return
<b>TSMC</b>	\$432.3	16.3%	17.3%
<b>Broadcom</b>	\$342.8	50.1%	29.8%
<b>ASML</b>	\$220.8	6.2%	28.9%
<b>Advanced Micro Devices</b>	\$162.1	56.7%	26.3%
<b>Texas Instruments</b>	\$147.2	-0.7%	10.9%

Source: Morningstar, Google Finance

### TRANSFORMING HEALTHCARE

Elsewhere, UK chips architecture design champion **ARM (ARM:NASDAQ)**, which in September rejoined the stock market with a listing in the US, is helping to power the transformation of Saudi Arabia's healthcare system.

In tandem with clinical stage biotech Nano Cures, ARM will establish a fabrication plant to manufacture logic chips, while an advanced microprocessor design centre is expected to be established in the Kingdom's smart city, Neom.

**Infineon Technology's (IFX:DE)** chips are used by a range of industries, including healthcare, automotive and manufacturing, and can be found in internet of things devices. The German semiconductor maker's goal is 'to be the leader in power systems,' according to CEO Jochen Hanebeck.

'With our strong portfolio geared at the long-term trends of decarbonisation and digitalisation, we are addressing the right structural themes,' Hanebeck told analysts on the Q3 2023 earnings call in August.

Infineon is also currently leading the EU-wide Listen2Future project, launched in February, which will develop ultrasound sensors that can be used in the medical field, such as for detecting heart disease. Medical devices can transform the early diagnosis, treatment and monitoring of health conditions.

While medical devices account for less than 1% of the total chip market, it's vital that the healthcare sector benefits from a ramp up in semiconductor manufacturing, because a shortage poses a risk to patient health.

To mark the first anniversary of the US CHIPS and Science Act, which was signed on 9 August 2022, the medical device trade body in the US, AdvaMed, reminded president Joe Biden's government that medtech should not be forgotten when it comes to securing supplies of chips manufactured domestically.

The trade body has also published a strategy outlining six priorities to help the US strengthen its



## Datacentre revenues (inc AI)

(\$bn)

2021 Q2 2021 Q3 2021 Q4 2022 Q1 2022 Q2 2022 Q3 2022 Q4 2023 Q1 2023 Q2

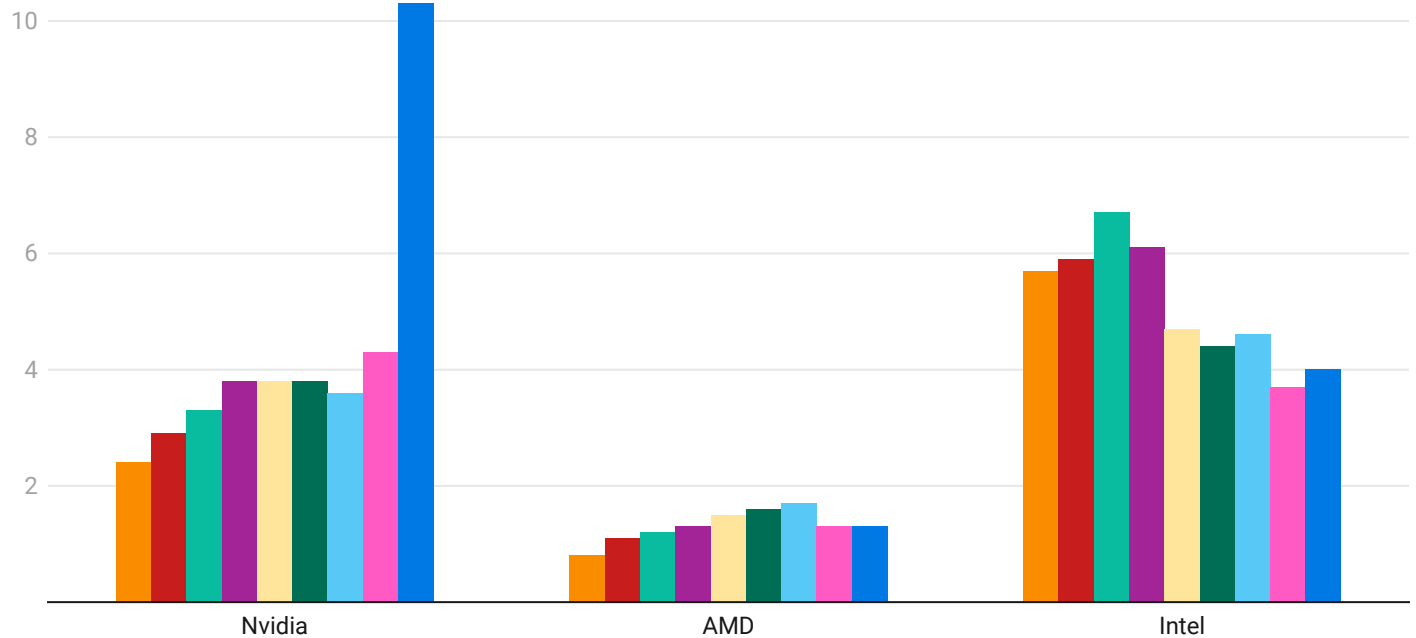


Chart: Shares magazine • Source: Visual Capitalist

supply chain resilience. This includes a long-term prioritisation of semiconductor chips and critical components for medtech devices and stresses the need for public-private partnerships.

### AI CHIPS WITH EVERYTHING

Such developments mean circling back to AI, which promises to get smarter and become essential as devices, not just in healthcare but across various industries, and that will require more advanced semiconductors.

Nvidia has teamed up with US medical device developer **Medtronic (MDT:NYSE)** to embed its AI healthcare platform Clara into endoscopy devices with the aim of improving clinical decision-making, patient care and outcomes.

‘We believe that collaborating with AI companies and developers like Nvidia is essential to driving innovation within the medical device industry,’ said Giovanni Di Napoli, who runs the gastrointestinal business at Medtronic.

Christopher Gannatti, global head of research at WisdomTree, puts Nvidia’s runaway success down to a combination of ‘great messaging, great

marketing, great vision and amazing technology,’ but it is important to remember that it relies on contract manufacturing to turn its intellectual property into physical chips.

So, despite all hoopla surrounding Nvidia and its stunning share price rally in 2023, it’s worth noting that Taiwan’s TSMC – short for **Taiwan Semiconductor Manufacturing Company (TSM:NYSE)** – remains the largest semiconductor manufacturer in the world, producing an estimated 60% of the world’s chip supply and more than 90% of the most advanced chips.

### SEMICONDUCTOR PICKS & SHOVELS

Earlier in the year TSMC’s share price reflected that dominance, with its US-listed stock up nearly 45% in June. The last three months have been another story, as China’s economic woes and government intervention in free markets lowered sales expectations and dragged the share price down.

TSMC’s revenues were up 6.2% on a monthly basis in August, prompting Wedbush analyst Matt Bryson to call the performance ‘a good start’ to the new quarter, even as China reportedly banned



## Chip stocks landscape

Fabless (designer but not manufacturer)	Integrated suppliers	Foundry manufacturers	Equipment suppliers
Nvidia	Texas Instruments	TSMC	ASML
Broadcom	Micro Technology	Samsung	Applied Materials
Advanced Micro Devices	Intel	GlobalFoundries	Tokyo Electron
Qualcomm	Toshiba	Semiconductor Manufacturing International	Lam Research
Marvell Technology	Microchip Technology	United Microelectronics	Teradyne
MediaTek	Infineon		
	NXP Semiconductors		

Source: SOX, TechInsight, IC Insights

iPhones for government workers. Any expansion to such a ban could hurt TSMC's share price as the company is a big supplier of chips to **Apple (AAPL:NASDAQ)** hardware.

Morningstar analysts cover a range of stocks in the semiconductor space, and recent analysis found many trading near fair value or undervalued, yet most have deep and wide economic moats.

Dutch lithography equipment manufacturer **ASML (ASML:AMS)** has one of the deepest and widest moats of all, so while it only ranked fairly valued at the time, the company and stock continue to be viewed favourably by Morningstar.

'As the largest and most advanced supplier of photolithography equipment, the company exhibits considerable scale and technological superiority relative to its competitors,' said analyst William Kerwin. 'Its technical expertise and large R&D budget serve as barriers to entry,' and while competitors do exist (Kerwin name-checked Nikon and Canon), these have substantially less capacity and technical merit.

### USING TRACKER FUNDS TO INVEST IN CHIPS

Now could be a good time to back semiconductor stocks, with 2024 set to be a big year for the sector. Data from Yardeni Research shows consensus

revenue and earnings growth estimates for S&P 500 semiconductor stocks in 2024 pitched at 17.4% and 37% respectively.

Even if we factor in the potential skew of Nvidia's rampant expansion – 45% revenue and 50% earnings growth next fiscal year (to January 2025), according to Koyfin – plus its \$1 trillion market cap weighting, investors could still see better returns from this sector than the overall market during the next 12 to 18 months.

Over three, five and 10-year periods, the S&P Semiconductor Select index has generated annualised total returns of 19.7%, 23% and 23.9% a year, respectively. That is roughly double the benchmark which is the S&P Composite 1,500 index which covers approximately 90% of the market cap of US stocks.

The S&P Semiconductor Select index has endured just two down years (2018 and 2022) over the past decade to 31 December 2022.

While chip stocks make up 4% of the S&P 500 index, they represent 16% of the Nasdaq 100, so owing a fund that tracks the performance of the latter index may be enough for many investors seeking exposure to the sector. Alternatively, there are plenty of other options either via individual stocks or from specialist funds.

### SEMICONDUCTOR ETFs

Website *JustETF* lists 85 technology themed funds listed on the London Stock Exchange, most of which will have some exposure to the sector.

For example, the **Amundi MSCI Semiconductors ESG Screened UCITS ETF (SEMG)** seeks to track the MSCI ACWI Semiconductors & Semiconductor Equipment ESG Filtered index, a collection of large and mid-sized companies across 23 developed and 24 emerging markets that are active in the chips space.

The £106 million fund's largest holding is Nvidia at 27.6%, followed by TSMC (11%), Broadcom (9.2%) and ASML (6.8%). It has a 0.35% ongoing charge. There is a dollar-denominated version under the code SEMU.

Alternatively, the **VanEck Semiconductor UCITS ETF (SMGB)** is much bigger at £757 million, and while it includes all of the big names mentioned above, it also holds stakes of more than 5% of assets in Qualcomm, **Advanced Micro**

**Devices (AMD:NASDAQ), Texas Instruments (TXN:NASDAQ)** and Intel. It is a much more concentrated option, tracking just 25 stocks compared to the Amundi ETF's 70. The ongoing charge is also 0.35%.

**HSBC Nasdaq Global Semiconductor UCITS ETF (HNSS)** claims to be the only London-listed ETF that tracks the Nasdaq Global Semiconductor 80-company strong index, and has the same 0.35% ongoing charge.

The HSBC Nasdaq Global Semiconductor ETF offers exposure to all of the big names previously mentioned, with Nvidia again its biggest stake at just under 9% of assets. But this is a much smaller fund, with around £20 million of assets under management, largely because it was only launched in January 2022.



By Steven Frazer News Editor

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## Find out which indices and sectors have performed the best over the last decade

Picking the right region or sector is not easy, but can be very rewarding over longer periods

**T**his article identifies the regions and sectors from across the globe which have produced the best returns over the last 10 years, as well as uncovering how consistent those returns have been.

Consistency is important because the more prices move up and down the greater the impact on overall performance.

One example illustrates the point. An index which loses 50% in any year needs to double to get back to breakeven, whereas one which falls by 25% only needs to go up by a third to reach parity.

Just because a region or sector has done well over the last decade, doesn't mean it will be the best performer over the following decade. That said, cycles can often last longer than expected so it is important to identify the underlying drivers.

The prevailing economic landscape, including the level of interest rates, growth and inflation, tends to favour certain types of investments over others. When conditions change big rotations can occur.

It should come as little surprise that the technology-heavy Nasdaq 100 is the best-performing major equity index over the last 10-years posting a total return of 371%.

After the Federal Reserve began to hike interest rates in 2022 to fight inflation, however, the technology sector became one of the worst performers because valuations of higher-growth companies are more sensitive to interest rates than lower-growth firms.

Recent investor excitement about the potential for AI (artificial intelligence) has thrust the technology giants into the limelight once again, while technology stocks could also outperform if economic growth slows or the economy goes into recession.

### HOW DID WE FIND THE WINNERS?

To narrow down the universe, *Shares* used Sharepad software to screen for

“**Consistency is important because the more prices move up and down the greater the impact on overall performance**”

## The best performing indices and sectors over the last 10 years

Name	10-year performance	Number of years it has gone up in the last 10
ISE National 100 (Istanbul)	866%	7
FTSE 350 Sector Industrial Metals & Mining	669%	7
PHLX Semiconductor Index	604%	6
Nasdaq OMX Solar Total Return	516%	7
FTSE All-Share Sector Leisure Goods	489%	6
S&P 500 Telecom & IT Index	383%	8
Nasdaq 100	366%	8
Nasdaq Composite	259%	8
S&P BSE 100 Index (Mumbai)	239%	9
Nasdaq OMX Renewable Energy Generation Total Rtn	217%	7
Nasdaq OMX Wind Total Return Index	202%	7
FTSE World Index (GBP)	197%	8
Nasdaq OMX Recycling	193%	6
Dow Jones US Select Health Care Providers Index	192%	9
S&P/TSX Capped Consumer Staples	189%	10
Nasdaq OMX Clean Edge Smart Grid Infrastructure Index	185%	6

Table: Shares magazine • Source: Sharepad, data to 22 September 2023

indices and sectors which have delivered a CAGR (compound annual growth rate) of at least 6% per year since 2013.

That is a tough hurdle to overcome, and helped cut the starting universe from hundreds of indices and sectors to less than 20.

The data was then sieved again to identify the most consistent. Only one sector from the starting universe has made a positive return every year and delivered a compound annual growth rate of at least 6%.

That accolade goes to the S&P/TSX Canadian capped consumer staples index, which caps the maximum weight of constituents.

While there isn't a way to play the Canadian consumer staples market, which is relatively small, there are global alternatives such as the **Xtrackers MSCI World Consumer Staples ETF (XWCS)**.

Staples have historically been a good relative performer during tough times as their revenues and profits are more insulated from falling economic activity.

### WHICH ARE THE STANDOUT PERFORMERS?

Surprisingly, the Turkish equity market is the best-performing index over the last decade with a return of 866% which is equivalent to a CAGR of 25% per year.

One caveat to be aware of is that the Turkish economy has suffered a big bout of inflation in recent years which has pushed interest rates up to 30%.

Sky-high inflation, which is running at a 60% annual rate, has had a big impact on the currency (Turkish Lira) causing it to lose value against the pound.

The pound purchased around three Lira in 2013, but today the exchange rate is 33 Lira to the pound. This means the 866% gain on the Turkish stock market would not translate into the same gain when translated back into pounds.

Currency risk and political risk are real concerns when investing in Turkey. But with a growing population, the country could be an interesting place to invest if the government can bring inflation back under control.

For investors willing to take on added risk, the **Lxyor MSCI Turkey Acc ETF (TURL)** is a relatively cheap way to access large and midcap Turkish companies with an ongoing charge of 0.45%

per year.

There may be concerns currently over the global chip market after the world's largest contract chip manufacturer **TSMC (2330:TPE)** asked major suppliers to delay delivery of high-end equipment, but over the long term the sector has rewarded investors.

The Philadelphia Stock Exchange Semiconductor Index, known as the SOX, has delivered a total return of 604% over the last decade or the equivalent of a CAGR of 22% per year.

The index, which is comprised of 30 of the largest US companies involved in the design, manufacture and sale of chips, has also been one of the most volatile with a positive return in just six out the last 10 years.

With AI affecting more industries and technologies, the demand for semiconductors is set to continue and provides a positive tailwind for the industry.

One way to play the chip theme is the **HSBC Nasdaq Semiconductor ETF (HNSS)** which has an ongoing charge of 0.35% per year.

With the world transitioning towards renewable energy, it is perhaps not surprising to see the solar energy sector among the big winners of the last decade.

The Nasdaq OMX Solar Total Return index has delivered investors a 516% return, equivalent to a CAGR of 20% per year. One way to play the increased investment in the sector is through the **Invesco Solar Energy ETF (RAYS)**.

It is the only ETF which tracks the MAC Global Solar Energy index, which is comprised of 44 stocks. The fund was launched in 2021 and is relatively small with \$44 million of assets.

### DIVERSIFICATION PAYS

One interesting feature of the best-performing indices is that the FTSE World Index makes the top 12 with a return of 197% or around 11% per year.

This demonstrates the benefit of broad diversification. In other words, rather than trying to pick out the best geographies and sectors it can often be better to have a little bit of everything.

The index measures the performance of around 3,900 large- and mid-cap companies across developed and emerging markets. The **Invesco FTSE All World ETF (FWRG)** tracks the index for a relatively competitive fee of 0.15% per year. [MG]



## Sample list of ETFs covering the best performing indices and sectors

ETF	Ticker	Ongoing charges (%)
Invesco FTSE All World Acc GBP	FWRG	0.15
Lxyor NASDAQ 100 Acc GBP	NASL	0.22
Xtrackers MSCI World Consumer Staples Acc GBP	XWCS	0.25
SPDR MSCI World Comm Svcs Acc USD	WTEL	0.30
HSBC NASDAQ Global Semiconductor Acc USD GBP	HNSS	0.35
iShares Healthcare Innovation Acc GBP	DRDR	0.40
Lyxor MSCI Turkey Acc GBP	TURL	0.45
WisdomTree Recycling Decarbonation Acc GBP	RECY	0.45
Global X Renewable Energy Producers Acc GBP	RNRU	0.50
Global X Wind Energy Acc GBP	WNDG	0.50
FirstTrust Nasdaq CleanEdge Smart Grid Acc GBP	FGRD	0.63
iShares MSCI India Acc USD GBP	IIND	0.65
Invesco Solar Energy Acc GBP	RAYS	0.69

Table: Shares magazine • Source: Morningstar, Just ETF



By **Martin Gamble** Education Editor



# Find out which of the BRICS has done best in stock market terms

India is the star turn over three and 10 years and Brazil has shone recently



**A**s the BRICS (Brazil, Russia, India, China, South Africa) grouping prepares to become BRICS+ and add six new countries to its ranks at the beginning of 2024 – it is an interesting exercise to look back at which of the BRICS has done best in stock market terms over the last decade.

For obvious reason we have set aside Russia. Of the remaining quartet and using the relevant MSCI index for each country, over the last 12 months the winner is Brazil. The company's position as a major commodities exporter has served it well during a period of high prices and inflationary pressures.

This means it also scores well on a three-year view but the best annualised return over that timeframe has been chalked up by India. A combination of strong growth, positive demographic drivers and economic reforms have helped power Indian stocks to record highs as it became the world's fourth most valuable

equity market.

Over 10 years India is the clear winner, too – powered by companies like conglomerate **Reliance Industries (RELIANCE:NSE)** and IT outfit **Infosys (INFY:NSE)**.

Despite a difficult 12 months for the Chinese stock market, China comes in second place for 10-year performance as innovation in areas like e-commerce and electric vehicles has helped unlock potential in the world's second largest economy.

This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit [www.temit.co.uk](http://www.temit.co.uk)

## Which BRICS stock market delivered the biggest returns?

Index	Gross 1-year return	Gross annualised 3-year return	Gross annualised 10-year return
MSCI India	1.3%	14.5%	10.5%
MSCI China	-31.7%	-0.4%	5.7%
MSCI Brazil	11.2%	10.5%	1.8%
MSCI South Africa	0.7%	4.0%	0.2%

Data to 31 August 2023, performance in USD

Table: Shares magazine • Source: MSCI

# Emerging markets: BRICS to expand, Chinese consumption and global trade

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



**1. BRICS expansion:** The BRICS summit in South Africa in August announced the expansion of the group to include potentially six new members in early 2024. The BRICS+ grouping continues to focus on building a multipolar world and giving a voice to developing countries, also known as the Global South. The inclusion of three Middle Eastern countries has implications for global energy security as it raises the group's share of global oil reserves to 41%. It will also increase the relevance of the New Development Bank, the BRICS multilateral lending organisation which has loans and investments of \$21 billion. The expansion of BRICS may create new investment opportunities that our on-the-ground presence can uncover.

**2. Impact of deflation on Chinese consumption:** Chinese consumer prices declined 0.9% in July, and producer prices dropped 4.4%. There is increasing anecdotal evidence that Chinese consumers are postponing purchasing decisions for goods due to expectations of falling prices. This contrasts with the continued appetite among consumers to spend on services. The consumer price index service component remains in positive territory, rising 1.2% in July. Travel, leisure and health services are proving to be more resilient parts of the Chinese economy. Nevertheless, until confidence improves in the real

estate sector, Chinese households are expected to remain cautious in their spending decisions.

**3. Global trade:** The world's largest shipping company recently revised down its forecast for global container demand, a proxy for global trade, to between 1% growth and a 4% contraction. The forecast is consistent with the 18% decline in an index of global container shipping costs this year. Given the importance of trade and manufacturing to emerging markets, the continuation of the destocking cycle is a concern. Nevertheless, in emerging markets there are new growth opportunities, including renewable energy, the electrification of transport and semiconductors.

## TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TMIT)

### Portfolio Managers



Chetan Sehgal  
Singapore



Andrew Ness  
Edinburgh

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

## Are you an Emerging Markets Guru?

10 quick questions – some amazing answers.

Take the quiz and see how you score.



# Which companies might be next to spin off or demerge part of their business?

Streamlining is often well-received by shareholders

**S**pin-offs, demergers and disposals are often good news for investors, although it's not often a firm sees its share price rise when it has to pay someone to take assets off its hands, especially when those assets were previously thought to be earnings positive.

In the case of hospitality firm **Restaurant Group (RTN)**, however, that is exactly what happened.

The group, best known for its Wagamama chain, agreed earlier this month to sell its leisure division comprising themed restaurants Frankie & Benny's and Chiquito to private equity firm Epiris for the nominal sum of £1 while paying the buyer £7.5 million for the privilege.

The company claimed there was a 'compelling strategic rationale' to the deal, namely the two brands were loss-making so getting rid of them, even at a substantial cost, would improve operating profits while reducing indebtedness and could lead to a re-rating of the shares, which is exactly what happened.

This got us thinking, could other companies be tempted to follow suit and sell or demerge some of their assets with a view to raising their margins and the earnings multiple at which their shares trade?

## NEW BROOMS AND 'FRESH EYES'

Restaurant Group isn't the only firm to have received a warm welcome to its plans to slim down.

Even though it swung to a thumping first-half operating loss and passed its interim dividend, car and home insurer **Direct Line (DLG)** saw its shares jump the most on record for a single day when it announced it was selling its brokered commercial insurance operations.

Selling the business for £520 million plus up to £30 million in earn-outs puts the firm on a much



firmer financial footing, taking away the risk it might have to raise equity and at the same time giving it the option of restarting dividends.

Interim chief executive Jon Greenwood said the sale 'crystallises an attractive valuation and focuses the group fully on retail personal and direct small business commercial lines insurance customers,' and analysts and shareholders duly applauded.

Greenwood was following in the footsteps of Amanda Blanc, chief executive of composite insurer **Aviva (AV.)**, who shortly after taking the top job three years ago set about paring the business back dramatically, selling most of its non-UK operations and refocusing the group while returning billions of pounds to shareholders.

Bringing in a new chief executive can often be a good way to shake up a company. There have been

## Direct Line

(p)

220  
200  
180  
160  
140

Oct  
2022

Jan  
2023

Apr

Jul



Chart: Shares magazine • Source: LSEG



## CEO changes to FTSE 100 companies in 2023







	Company		In	Out
1	Vodafone		Margherita Della Valle	Nick Read
2	Rolls-Royce		Tufan Erginbilgic	Warren East
3	Whitbread		Dominic Paul	Alison Brittain
4	Prudential		Anil Wadhvani	Mark FitzPatrick (interim)
5	Rightmove		Johan Svanstrom	Peter Brooks-Johnson
6	Halma		Marc Ronchetti	Andrew Williams
7	United Utilities		Louise Beardmore	Steve Mogford
8	RS Group		Simon Pryce	David Egan (interim)
9	British American Tobacco		Tadeu Marroco	Jack Bowles
10	Diageo		Debra Crew	Ivan Menezes
11	Unilever		Hein Schumacher	Alan Jope
12	InterContinental Hotels		Elie Maalouf	Keith Barr
13	NatWest		Paul Thwaite	Alison Rose
14	Hargreaves Lansdown		Dan Olley	Chris Hill
15	Reckitt		Kris Licht	Nicandro Durante (interim)
Announced but only effective in 2024				
16	Legal & General		Antonio Simoes	Nigel Wilson
17	Spirax-Sarco Engineering		Nimesh Patel	Nick Anderson
18	BT		Allison Kirkby	Philip Jansen
19	Pearson		Omar Abbosh	Andy Bird

Table: Shares magazine • Source: AJ Bell

new CEOs at 15 companies in the FTSE 100 this year, with a further four joining in 2024.

At aircraft engine-maker **Rolls-Royce (RR.)**, one of the first firms to change CEO this year, new man Tufan Erginbilgic has certainly lit a fire under the shares, which have more than doubled in price since January, with his ambitious transformation programme aimed at delivering a 'step-change' in the firm's financial performance.

Erginbilgic has also promised a strategic review which will allow the firm to prioritise investments

towards the most profitable opportunities. This suggests underperforming businesses could be for the chop.

Rather than speculate on the outcome of the review, its findings – together with a set of new medium-term financial targets – are due to be revealed before the year-end, most likely at the capital markets day in late November.

Consumer products group **Unilever (ULVR)** – which has been under pressure from shareholders for some time to improve its returns – has a new

chief executive as of three months ago and will have a new chair from the start of December, so investors will be looking for signs of change.

One of the most pressing issues facing new boss Hein Schumacher, who promised to view the firm through 'fresh eyes', is what to do with its Russian business given many of its peers have already bowed to shareholder pressure and either sold up or walked away.

There probably isn't an ideal solution, but operating in Russia doesn't sit with the firm's highly prized corporate profile and we suspect drawing a line under the problem would go down well with shareholders and non-shareholders alike.

### NEVER SAY NEVER

Meanwhile, with luxury goods firms seeming to have lost some of their lustre and even high-end consumers no longer spending quite as freely as they were, we wonder whether mining group **Anglo American (AAL)** might consider now to be the right time to demerge its De Beers diamond business.

Ties between the two firms go back almost a century, and it was De Beers which kept the plates spinning during the mining cycle low from 2013 to 2016, but in the light of weakening sales (which were down 10% on the previous cycle in August and down 42% on the same cycle last year) questions are being asked.

Berenberg analyst Richard Hatch argues new boss Duncan Wanblad, who took over from veteran Mark Cutifani last year, should make use of the ongoing discussions with the government of Botswana, which owns 15% of De Beers but has a wider economic interest in the diamonds, 'to undertake a strategic review of the business and

ask whether these assets should remain under Anglo American's stewardship'.

Hatch points to the fact De Beers' financial results have been 'increasingly weaker, and are not showing signs of material improvement', and the business lags the broader group on most metrics such as ROCE (return on capital employed), operating margins and free cash flow conversion, so divesting it would improve Anglo's financials and could improve its rating in the process.

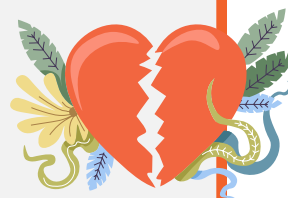
Moreover, from a strategic point of view, 'while management has argued there remains a place for a diamond business in a portfolio centred around future-facing commodities, we question the presence of diamonds in a business focused on enabling the energy transition,' adds the analyst.

### HOW SPIN-OFFS CREATE VALUE

We said at the outset that spin-offs and demergers are often good news, that is because they typically add value for shareholders in both the legacy

#### THE BENEFITS OF DEMERGERS OR CORPORATE BREAK-UPS

Shareholders are putting pressure on companies to focus on what they do best and not take a conglomerate approach.

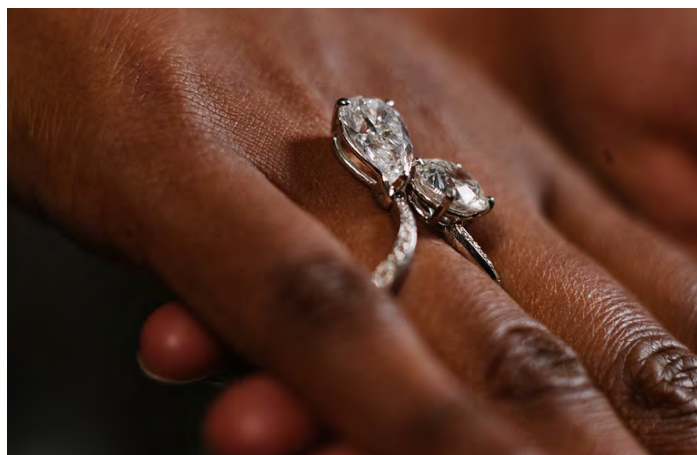


It can be hard to manage multiple businesses operating in a range of industries, hence why many companies are going down the demerger or asset sale route to tighten their focus.

A demerged business can allow management to take control and make the decisions that best serve their needs rather than a larger plc conglomerate.

They can be more entrepreneurial when working as part of an independent company and compensation for key personnel can be more closely aligned with business objectives and performance.

There is an argument to suggest demerged businesses tend to be better managed as the directors are responsible for their own profit and loss account, rather than working on initiatives across a wider group.





owners of the assets and owners of the new entity.

The US market has a rich history of spin-offs, from the break-up of **AT&T (T:NYSE)** or 'Ma Bell' as it was known in the 1980s to **eBay's (EBAY:NASDAQ)** split with **PayPal (PYPL:NASDAQ)**, **Altria's (MO:NYSE)** divestment of **Philip Morris International (PM:NYSE)**, and **Abbott Laboratories**

**(ABT:NYSE)** spinning off its biopharma business **AbbVie (ABBV:NYSE)**.

UK firms have typically been less proactive, in retrospect, but the spin-off of consumer health company **Haleon (HLN)**, a joint venture between drug giants **Pfizer (PFE:NYSE)** and **GSK (GSK)** which was established as an independent company in July 2022, could have been a turning point.

GSK shareholders were given 54% of the shares in Haleon (80% of GSK's original 68% stake) for free, which wasn't to be sniffed at as the firm is now valued at £30 billion and is a FTSE 100 company.

Industrial group **Melrose (MRO)** spun off its automotive components business **Dowlais (DLS)** as a separate entity earlier this year. **Whitbread (WTB)** sold its Costa coffee chain to **Coca-Cola (KO:NYSE)** in 2019 and is now understood to be considering a sale of its restaurant arm, which includes Beefeater, Brewers Fayre and Cookhouse Pub.

**Ashtead's (AHT)** UK business has been a drag on the group in recent years and could be a logical contender for a sale. **Ocado (OCDO)** has a 50:50 joint venture with **Marks & Spencer (MKS)** and selling its share to the retailer could be a way to raise a decent chunk of money.

ON 2 OCTOBER, **Kellogg's (K:NYSE)** will split into two 'stronger, more focused' companies.

The US-listed shares will be renamed Kellanova and this part of the company will focus on snacks and emerging markets including Pringles and Pop-Tarts.

The other side of the business will also trade on the New York Stock Exchange under the name of WK Kellogg and focus on cereals including Corn Flakes, Special K and Rice Krispies. Its stock market code will be KLG.



By Ian Conway Companies Editor





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# Can the latest tie-up between the US and Vietnam spark interest in this frontier market?



Vietnam has one of the fastest economic growth rates in the world

**O**n 10 September, US President Joe Biden signed a series of historic deals with Vietnam involving plane orders, semi-conductor design centres, the digital economy and human rights.

The rapprochement between two countries which were once so bitterly opposed was far more than symbolic and could mark a turning point both for foreign direct investment and for investors in Vietnam's stock market.

Under the terms of the deal, Vietnam Airlines will buy around 50 narrow-body 737 Max jets from aircraft-maker **Boeing (BA:NYSE)** in a deal valued at roughly \$7.5 billion.

Meanwhile, **Microsoft (MSFT:NASDAQ)** will make a 'generative artificial intelligence (AI)-based solution tailored for Vietnam and emerging markets,' said the White House, and **Nvidia (NVDA:NASDAQ)** will partner with Vietnam's multi-national telecommunications company Viettel and multi-sector corporation Vingroup on AI projects in the country.

Dominic Scriven, chairman of Dragon Capital (a business which has been investing in Vietnam for almost three decades, even prior to the country's stock market being launched), said 'the deepening

of the two nations' trading relationship could see Vietnam taking a strategic role in the US's goal to build a resilient semiconductor supply chain. This is a mutual commitment towards walking a forward-looking path of innovation, co-operation and mutual economic prosperity.'

Quynh Le Yen, a portfolio manager at Dragon Capital, said: 'We consider this to be as significant an inflection point in the growth in the Vietnamese economy as the normalisation of trade relations with the US in 1994.'

'The upside potential of even deeper trade ties with the US heralds a further acceleration of Vietnam's growth.'

Vietnam is among the US's top 10 trading partners and the US is Vietnam's second largest trading partner.

In 2022, bilateral trade totaled \$124 billion, consisting of \$109 billion of exports to the US and \$14.5 billion of imports.

## WHY INVEST IN VIETNAM?

One of the main reasons to invest in Vietnam is it has one of the fastest economic growth rates in the world.

According to the General Statistics Office, the



country's gross domestic product in 2022 was \$409 billion, increasing 8% year-on-year. In 2023, the government is targeting GDP growth of between 5.8% and 6.2%.

Vietnam was also the UK's 40th largest trading partner, according to the latest data from the Department for Business & Trade.

In the first quarter of 2023, total UK imports from Vietnam amounted to £5.7 billion, an increase of 15.8% or £776 million compared to the same period last year.

'The macro picture looks positive as well, with Vietnam continuing to benefit from large conglomerates shifting manufacturing to the country. More than 50 large US firms have visited Vietnam this year, as have over 200 Korean companies,' said analyst David Kimberley at Kepler.

Vietnam's strategic location in Southeast Asia is another benefit due to its proximity to China's borders, as is its membership of ASEAN (the Association of Southeast Asian Nations) and its access to regional shipping lanes.

### SUCCESSFUL ECONOMIC POLICIES

In marked contrast with big Western economies, Vietnam's central bank has been cutting interest rates which has been beneficial to its economy, helped market liquidity and encouraged investors to re-enter the financial markets to trade.

The current daily turnover across Vietnam's three exchanges averaged \$583.5 million in the first half of 2023 and rose to \$843 million in June, following a fourth rate cut.

There are, however, a few reasons not to invest in Vietnam.

### THE FIGHT AGAINST CORRUPTION

Vo Van Thuong, the new president appointed in March this year, has vowed to continue the country's efforts to fight corruption.

Vietnam has been attempting since 2016 to crack down on corrupt business practices and restore trust in the ruling communist party but it has been an uphill struggle.

Some of the corruption has involved energy projects being delayed due to missing signatures from officials and several property developers being arrested.

Despite this ongoing fight, foreign investors haven't been deterred. According to data from



Investment Monitor, in the first 10 months of 2022, foreign direct investment in Vietnam rose by 82%, the second-highest growth rate in Asia-Pacific.

There are also ongoing geopolitical tensions with Taiwan to consider.

### WATCH OUT FOR HIGH FEES

Anyone considering investing in Vietnam should note high charges imposed by the fund managers.

There are three Vietnam-focused investment trusts on the London Stock Exchange. **VinaCapital Vietnam Opportunity Fund (VOF)** has ongoing costs of 1.5% and a 3% dividend yield, according to AIC data. It has generated a 49.5% share price total return over the past five years.

**Vietnam Holding (VNH)** invests in high-growth companies in Vietnam focusing on domestic consumption, industrialisation and urbanisation. It has a 2.74% ongoing charge, the highest of its investment trust peer group, but the best five-year total return at 61.8%.

The other investment trust in the group is **Vietnam Enterprise Investments (VEIL)** which has a 1.9% ongoing charge and has generated a 27.3% five-year total return.

Kimberley at Kepler says of Vietnam Enterprise Investments: 'The trust's extensive, on-the-ground team has delivered annualised returns to shareholders in excess of 12% over more than two decades of investing in the country's equity market.'



By **Sabuhi Gard** Investment Writer



# BECOME A BETTER INVESTOR WITH SHARES



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# What's new in news and entertainment media and what does it mean for investors?



Big changes are happening and it is a big challenge for businesses to keep up

**T**he medium of news and entertainment is constantly evolving, and its evolution brings both opportunity and misfortune to entrepreneurs and investors alike.

The advent of TV programming in the 1940s and 50s created an advertising bonanza but impacted cinema attendance while the arrival of streaming services and social media platforms created new opportunities but has taken a good bite out of broadcast viewing figures and advertising revenue on linear platforms.

## SHIFTING HABITS IN CONSUMING NEWS AND MEDIA

The number of people purchasing a paper to peruse with their morning coffee has been waning for decades and the cost of delivering hours of rolling reports has forced many outlets, including the BBC, to scale back.

Back in the early 2000s I worked for the short-lived ITV News Channel, it consumed material and its launch prompted a huge hiring surge which would have caused investors to wince. Drones like me worked round the clock to feed the beast with negligible impact on viewing numbers.

One man who understands the foibles of news better than most is Rupert Murdoch so the shock announcement that he's quitting his position at

the top of both **Fox (FOX:NASDAQ)** and **News Corp (NWS:NASDAQ)** was pretty momentous.

Whatever you think about his political influence or his conservative values he's a newsman first and over the decades he's put billions into his media empire which includes Fox News, *The Sun* and *The Wall Street Journal*.

## CHANGING OF THE GUARD

The question is what now? Whilst succession plans have been carefully and strategically crafted and the man himself has vowed, he'll still be very much involved in the day to day running of things, investors recognise times are changing.

Murdoch is 92 years old, but even if he was still in his 60s the golden era of so called 'legacy media' seems to have lost its shine.

July heralded a major milestone for traditional broadcast and cable television viewership in the United States when less than half of all viewing was on linear TV according to Nielsen.

And at the same time **Walt Disney's (DIS:NYSE)** returning boss Bob Iger made it clear he was considering sloughing off parts of the company that weren't a strategic fit with the company's future.

Among those parts, the glossy and costly ABC News. How much of that is about cushioning the costs of the company's streaming platform and





## Walt Disney



Chart: Shares magazine • Source: LSEG

how much of that is future proofing the businesses can only be speculated at.

There have been plenty of rumours that Disney is right sizing itself ready to become a target for takeover. Its network of theme parks, music studios, movie production houses and a handy place for all that output to be viewed makes sense as a holistic business, its entertainment arm is something of an outlier.

But that's not to say it doesn't have value, just that it could require the kind of vision and support Rupert Murdoch always brought to his acquisitions, especially those news outlets.

Could Byron Allen be cut from a similar cloth? Comedian turned media mogul, Allen's bid was confirmed by his spokesperson, but the speculation ABC was one of the assets about to be sold sent a shiver through that newsroom, especially amongst some of the well-paid presenters.

Disney's scale means it has deep pockets and there's concern a new owner might not be

prepared or able to fund the operation in the same way.

But Disney's pockets have been mined to fund improvements elsewhere in its empire. Tens of billions are being funnelled into its parks to boost attendance and bring the magic to new audiences in new places.

The announcement of that level of capex spend rattled investors but here the company can point to past success, it can't really do the same for news operations. Particularly given projections for a continued decline of traditional TV viewing.

### DECLINE OF TRADITIONAL TV VIEWING

Big events, particularly sporting events, pull in audiences but even here the streamers are making inroads. For news itself, whether it be broadcast or print, there has been continued pressure not least from alternative news which thrives on conspiracy theories that mainstream media is merely a puppet of the elite.

Even Murdoch's Fox News, which is still the most popular news outlet in the United States, has faced huge criticism over its dealings with presidential contender Donald Trump.

The close relationship between media and politics was always something of a double-edged sword, but now more than ever it must be a consideration for investors.

Players like Fox, News Corp, Disney, **Comcast (CMCSA:NASDAQ)**, **ITV (ITV)** and **Warner Bros Discovery (WBD:NASDAQ)** are still profitable and popular with some investors. But the game has changed, and the players need to keep up.





# What are the rules around pension contributions once you take a tax-free lump sum?



Our resident pensions expert has the answer

*If you crystallise a pension and take the full tax-free lump sum, how much per year can you still contribute thereafter? With funds left in the pension, can you still buy and sell investments as you see fit so long as you only contribute no more than that allowed?*

**Simon**



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

'Benefit crystallisation events' are points when your pension savings are tested against your available lifetime allowance. These include taking your 25% tax-free cash, entering drawdown, buying an annuity and turning 75.

The lifetime allowance charge has been removed for the 2023/24 tax year, with the lifetime allowance being scrapped altogether from April 2024. Between now and then, these benefit crystallisation events will continue in the background.

The maximum tax-free cash someone can take is one quarter of the £1,073,100 lifetime allowance (i.e. £268,275). With the lifetime allowance due to be abolished next year, the government has said the maximum tax-free cash someone can take will be held at £268,275. Those with protection who are entitled to more tax-free cash than this will retain this entitlement.

To access your 25% pensions tax-free cash, you need to choose what to do with the remaining 75% of the pot. You could buy an annuity, for example, or keep your money invested by entering drawdown. Neither action will affect the amount you can contribute each year to a pension.

This overall 'annual allowance' (for personal and employer contributions combined) is set at £60,000 for most people, while your personal contributions are limited to 100% of your UK earnings.

This means if you have taxable earnings of

£30,000 during the tax year, this is the maximum you can personally contribute to a pension during that year.

If you are a very high earner, your annual allowance may also be reduced by the annual allowance '[taper](#)'.

If you flexibly access taxable income from your retirement pot, the money purchase annual allowance or MPAA will be triggered, reducing your annual allowance from £60,000 to £10,000.

Flexibly accessing your pension includes taking an income via drawdown (note you can allocate funds to drawdown without taking an income) or withdrawing an ad-hoc lump sum direct from your pot.

If you trigger the MPAA, you lose the ability to carry forward up to three years' unused annual allowances from the three prior tax years in the current tax year.

Flexibly accessing your pension is a big decision, particularly for anyone planning to subsequently make significant pension contributions.

In relation to the second part of your question, there is no link between how much you contribute to a pension and your ability to buy and sell investments within that pension.

If you have allocated funds to drawdown, they will remain invested until you choose to withdraw them. Investments should be managed as appropriate regardless of whether new contributions are made.

## DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to [asktom@sharesmagazine.co.uk](mailto: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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Co Chief Executive  
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Co Chief Executive  
**Reabold Resources (RBD)**

London 13 September 2023



### Reabold Resources (RBD)

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

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**Adam Smith**  
V.P Business Development  
**Oroco Resource Corp**  
(TSX-V:OCO.V)



### Oroco Resource Corp (TSX-V:OCO.V)

Adam Smith, V.P Business Development

The Santo Tomas deposit is a newly emerged copper giant with a recently announced 8.5 billion pound/3.9 million tonne copper resource delineated by an extensive 2-year long exploration drill program. This mineral resource statement was announced in May 2023 and the company is now focussing on a Preliminary Economic Assessment of Santo Tomas that is to be published in H2 2023.



**Lindsay Dixon**  
FD  
**STV Group (STVG)**

London 13 September



### STV Group (STVG)

Lindsay Dixon, FD

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# Five levers that can deliver a bigger pension

There are plenty of ways to improve your chances of having a financially comfortable retirement

**P**ensions have a reputation for being arcane and complicated, and there are elements of the pension system which can be hard to get your head around. But when you boil it down, a pension is simply a tax efficient investment plan. Here are five levers you can pull to boost your retirement savings.

## 1. INCREASE CONTRIBUTIONS

The more you put into your pension, the more you will get out. But you don't necessarily have to do all the heavy lifting yourself.

If you're employed, your employer is obliged to pay into a pension on your behalf, usually on the provision you make some contributions yourself.

Often a company will match your contributions up to a certain level, for instance offering to pay 6% of your salary into a pension provided you pay in 6% too. Try and contribute enough to get the maximum from your employer.

## 2. SPEND MORE TIME SAVING

Starting contributions earlier gives more time for them to grow, and also means more money going

into your pot overall.

Clearly this is something to action at the beginning of your pension saving journey. But even if you're mid-way through, you can still give your pension more growth potential by retiring a bit later.

If you've hit retirement without as much as you'd like in your pension, you might want to consider working for longer. Many people are now phasing their way into retirement as an active choice, not just to give their pension a boost, but to keep actively engaged in the workplace too.

## 3. IMPROVE PENSION PERFORMANCE

Contributing more, starting early or retiring late are all quite laborious ways to boost your pension. You have to put your hand in your pocket, one way or another.

There are other pension levers you can pull that require a bit of attention, but no hard cash.

Improving performance is one such device. If you invest £5,000 a year in a pension, after 30 years it would be worth £349,000 if you get 5% growth, £505,000 if you get 7% growth, and £743,000 if you get 9% growth.



So, improving performance can be quite a powerful lever to pull when it comes to boosting your pension, without actually having to commit more money. There are fundamentally two ways you might do this.

The first is to take more risk with your pension investments. Generally speaking, the higher the risk profile of your portfolio, the greater the long-term rewards should be. The thing about risk is that sometimes it comes home to roost, and returns are consequently disappointing.

At the very least you should expect a choppier ride by taking more risk, even if it does ultimately yield better results. If you're uncomfortable taking more risk, then you should leave this lever alone. It's important to be able to sleep at night.

Many people are in a position to take more risk with their workplace pension because they are shunted into a default fund, which is usually medium risk because it has to be appropriate for the workforce as a whole.

That might be fine for some, but if you're more adventurous, or still some way to retirement, you might well consider dialling up the risk by investing more in shares, and less in cash and bonds.

As well as risk, you can improve returns by backing active fund managers that perform well.

Some would say there's no point whatsoever in picking active funds, and simply tracking the market is a better approach.

That's a legitimate viewpoint, and it's certainly true there's no way of guaranteeing in advance that a given fund manager will beat the market. But the longer a fund manager has delivered outperformance, the more likely this is a result of skill rather than luck.

It still doesn't ensure outperformance going forward, but by pulling together a portfolio of such managers, you give yourself a good chance of improving the performance of your pension, especially compared to some of the very weak active management that is often found in pension funds.

#### 4. REDUCE CHARGES

A further factor that will affect the final size of your retirement pot are the pension charges you pay. These can come in two main forms, fund management fees and the pension wrapper or



platform charges.

Often these two can be bundled together in one charge, especially in workplace pensions. You might therefore be able to reduce charges by moving to a cheaper fund or a cheaper platform.

The savings you make might seem small, but because they build up year in year out, they can add up over time. If you get gross investment returns of 7% over 30 years, your pension would be worth £419,000 if charges add up to 1% a year, or £460,000 if they come in at 0.5% per year.

#### 5. PLAY SMART WITH WITHDRAWALS

The last major lever you can pull comes when you draw your pension, and there are a number of things you can do to boost your income at this juncture.

If you're buying an annuity, it's essential to shop around for the best rates, as you'll be locking into this income stream for life.

Also consider whether you might want to keep some of your pension invested for the long term, generating income and growth into your later retirement years.

Finally, pension withdrawals are now largely flexible, unless you're lucky enough to have a final salary scheme, so manage those withdrawals to minimise the tax you pay, by trying to stay under thresholds that would push you into a higher rate of income tax.



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



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

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