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SHARES

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WHAT'S GONE WRONG AT DISNEY?

Its magic touch has been lost across streaming, cinema, TV and theme parks


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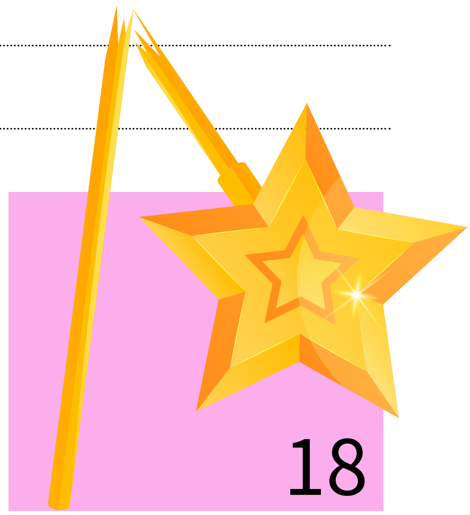


Three important things in this week's magazine

What's gone wrong at Disney?

Big streaming losses, a costly upgrade of its parks and a troubled TV arm are all putting the entertainment giant on the back foot.

The Artemis SmartGARP approach to global stocks

How this fund uses data to identify opportunities from markets around the world.

ARM blocked from ISAs

The nature of Cambridge-headquartered chip designer's US listing means UK investors can't hold them in the tax-efficient wrapper.

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.

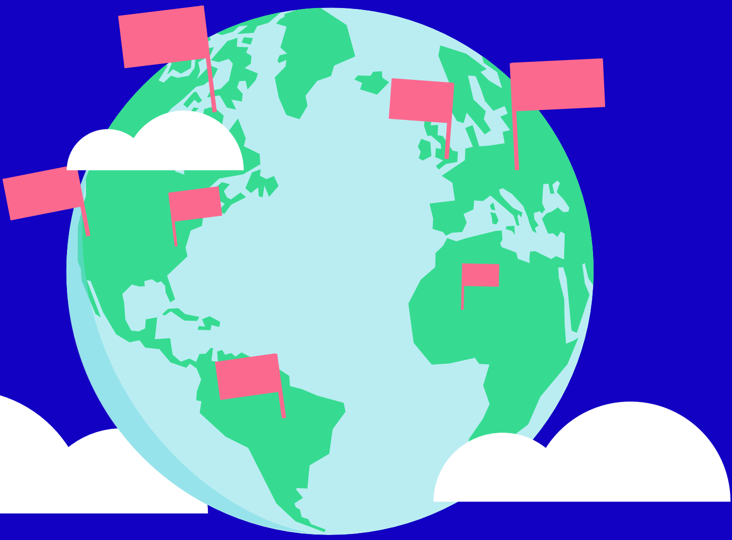
Over the past week we've written a variety of news stories online that do not appear in this magazine, including:

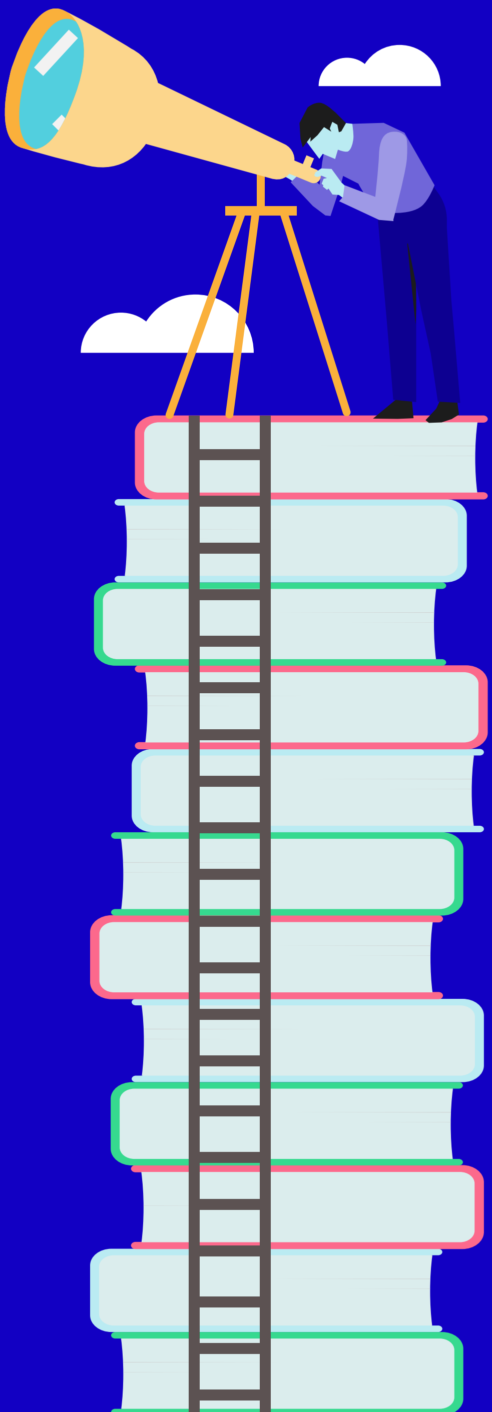
The top ETFs that investors have been snapping up in September

Is sports car maker Aston Martin Lagonda racing towards a take private deal?

Tortilla Mexican Grill serves up resilient first half as sales jump 22%

Wizz Air sees 21% increase in passengers but GTF engine issues weigh





The UK stock market is almost back on top in the European rankings

A strong run in September and weakness in France could restore its crown

It's not often the UK stock market gets to blow its own trumpet but in September the FTSE 100 was the best-performing major global index, gaining 2.3%, while Germany's Dax lost 3%, the S&P500 lost 4% and the tech-heavy Nasdaq 100 ended the month 4.5% lower.

Key drivers of international weakness were the continued rise in bond yields, which is particularly negative for the valuation of growth companies, and concerns over a resurgence of inflation as oil prices topped $90 per barrel.

However, the big increase in crude prices was good news for the FTSE for a change as it pushed the price of index heavyweights **BP (BP.)** and **Shell (SHEL)** up 9% and 8% respectively.

There were also strong performances from pharmaceutical major **GSK (GSK)**, miners **Glencore (GLEN)** and **Anglo American (AAL)**, banking groups **HSBC (HSBA)** and **Barclays (BARC)** and media firm **RELX (REL)**.

And there is further reason to cheer, as according to *Bloomberg* the dollar market value of UK listed stocks amounted to $2.9 trillion at the end of last month against $2.93 trillion for the French market.

It's a far cry from earlier this year, when the French stock market was riding high with a market value of $3.5 trillion buoyed by enthusiasm for luxury goods companies and the prospect of the Chinese economy reopening while the UK was the most unloved market globally according to a survey of investors carried out by Bank of America.

Now, strategists at major banks are turning positive on the UK market thanks to its lowly valuation – on a forward price-to-earnings (PE) ratio, the FTSE 100 currently trades at a 35% discount to the MSCI World Index according to *Bloomberg* – and signs inflation is cooling, meaning the Bank of England may no longer need to raise interest rates at its next meeting on 2 November.

Barclays' strategist Emmanuel Cau goes so far as to call UK stocks 'a good place to hide' and says energy exposure – which accounts for 14% of the FTSE 100 – and easing inflation could start to reverse the outflows from the stock market, while HSBC's Max Kettner turned a buyer of UK equities this month for the first time since early 2021.

In contrast, the economic slowdown in China is having a negative effect on analyst and investor sentiment in French luxury stocks, and with **Hermes (RMS:EPA)**, **Kering (KER:EPA)**, **L'Oreal (OR:EPA)** and **LVMH (MC:EPA)** making up a fifth of the value of the CAC index it may only be a matter of days before the market cap of the UK market overtakes France once again. [IC]

BP and Shell have followed oil prices higher

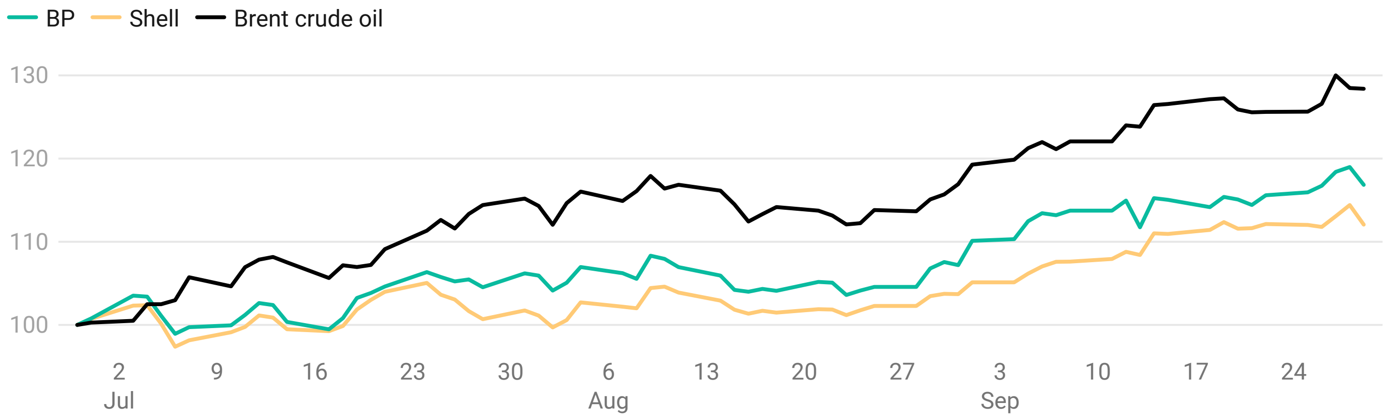


Chart: Shares magazine • Source: LSEG. Rebased to 100

Federal Trade Commission lawsuit could be the first step in an Amazon break up

Landmark competition challenge might offer eventual investment opportunity

An antitrust lawsuit from 17 states and the Federal Trade Commission against **Amazon (AMZN:NASDAQ)** represents the US government's biggest regulatory challenge yet against the e-commerce giant, one that could see the $1.34 trillion company eventually broken up.

The landmark case targets Amazon's retail platform, alleging that it's harmed shoppers and sellers alike on a massive scale. Through an alleged 'self-reinforcing cycle of dominance and harm', the plaintiffs claim, Amazon has run an illegal monopoly in ways that are 'paying off for Amazon, but at great cost to tens of millions of American households and hundreds of thousands of sellers'.

In response, Amazon has argued the case is 'wrong on the facts and the law' and warned that a victory for the FTC would lead to slower shipping times or higher prices, including perhaps for Amazon's Prime subscription service.

If the FTC wins this case one scenario for Amazon, as perceived by many analysts, would be for the court to order a massive break-up of the company, possibly splitting the company into three; Amazon's first-party retail business (selling goods directly to consumers), it's third-party retail arm (providing a platform for other sellers), and the cloud computing business AWS, or Amazon Web Services.

Amazon is the largest e-commerce company in the world, but it is also the world's largest cloud-services company with AWS, and it has other major revenue streams like the various services it offers to third-party sellers, digital advertising, and subscriptions.

Last year, AWS made 16% of Amazon's rough $514 billion total revenue but, crucially for investors, the cloud business accounted for virtually every dollar of its £12.25 billion operating profit. The retail side is super low margin and has struggled for years to generate profits.

Chart: Shares magazine • Source: LSEG

Fund managers and analysts have been hoping Amazon would strip AWS out from retail, including Terry Smith, the founder and lead manager of the popular **Fundsmith Equity (B41YBW7)** fund. In July, Smith told fund shareholders that he was selling down its Amazon stake primarily because Amazon has been committing too much capital to retail.

Many analysts agree. In a note issued in response to the regulatory probe, DA Davidson analyst Tom Forte, wrote that 'in the event the government breaks Amazon into three parts; 1) first-party retail, 2) third-party retail, and 3) cloud computing', that the stock would still likely be 'worth more on a sum-of-the-parts basis, if the lawsuit ends in the company getting cut into pieces'.

Forte calculates a sum-of-the-parts valuation as much as $193 per share, 48% above the current $129.46 share price.

The legal challenge could take years to get through the courts and appeals process, and Wedbush analysts warned investors that a 'material change to the company's structure is unlikely'. [SF]

Disclaimer: The author has a personal investment in Fundsmith Equity.

Greggs experiences some growing pains but there is no cause for alarm

This year's store roll-out target has been pared back but trading remains strong

The difficulties in hitting its ambitious growth targets were laid bare in **Greggs' (GRG)** third-quarter trading update (3 October) and combined with a lack of earnings upgrades the shares continue to lose the momentum they had built up over late 2022 and into 2023.

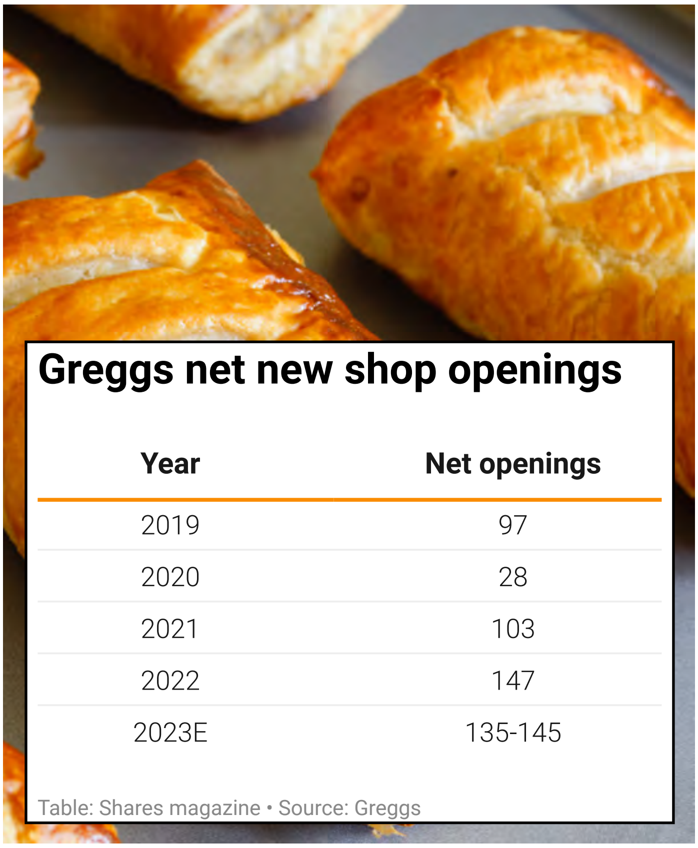
There were things to like from the statement, including strong like-for-like sales growth, further market share gains and a welcome easing in the rate of cost inflation, giving management the confidence to reiterate full year guidance. Shore Capital stuck with its year-to-December 2023 forecast for a rise in adjusted pre-tax profits from £148.3 million to £163.2 million.

The sausage roll king said it expects to open between 135 and 145 net new stores (openings minus any closures) in total this year, below its previous forecast of 150 sites. This news is slightly disappointing and suggests achieving medium-term expansion targets could prove a bit more challenging for Greggs amid uncertain economic conditions. It may imply Greggs is encountering rising competition for good shops available at more reasonable rents or could simply be a short-term timing issue.

In any event, achieving this new guidance would still represent a record year for the absolute number of new shops opened as Greggs expands into new locations and relocates shops to better premises within existing catchments, and the FTSE 250 company insisted it sees a strong pipeline ahead for 2024.

Greggs had a total of 2,410 shops trading at 30 September 2023 (1,928 company-managed shops and 482 franchised units) and still has a runway for growth given its big ambitions to have significantly more than 3,000 shops in the UK alone. A challenging target set under the previous management and one which current CEO Roisin Currie is likely to be judged on.

Greggs argues the brand remains underrepresented in retail parks, railway stations, airports, roadsides and supermarkets.



Greggs net new shop openings

Year	Net openings
2019	97
2020	28
2021	103
2022	147
2023E	135-145

Table: Shares magazine • Source: Greggs

Total sales for the 13 weeks to the end of September were up 20.8%, driven by like-for-like growth of 14.2% and new store openings. Underlying growth was helped by more customer visits, wider adoption of the Greggs App and loyalty scheme, and increased evening trade.

Delivery sales are among the growth opportunities available to Greggs, which had previously highlighted 'good progress' in the first half in 'improving operational service levels' through its existing partnership with Just Eat.

Greggs is stepping up its home-delivery offering, having begun an accelerated roll-out on the Uber Eats platform across 500 of its stores alongside its existing service with Just Eat, with further expansion planned for next year.

Despite its seeming ubiquity, Greggs' share of the competitive food-on-the-go market remains fairly small and there are still consumers who don't have convenient access to its offering. [JC]

Moving HIGHER

Future shares jump 20% as publisher paints an improved full-year picture

The company has been hit by a tough macroeconomic environment and advertising downturn

Shares in **Future (FUTR)** have risen nearly 20% to the 857p mark after it said (29 September) that its adjusted full year profits will now be £254.1 million 'in line with board expectations.'

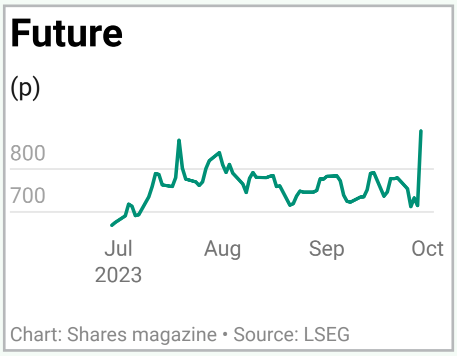
This figure represents 'a turnaround' of sorts for the publisher who warned back in May that its full year profits were likely to be 'towards the bottom end of current market expectations'.

The publisher also said in the short trading update ahead of its numbers for the year ending 30 September 2023 (scheduled for 7 December), that trading conditions continued to be mixed for the rest of 2023.

Future, which includes brands such as *TechRadar*, PC Gamer, *Marie Claire* and *Country Life*, said its 'audience numbers had stabilised during the second half' and it has had 'positive month-on-month momentum in the final quarter'.

The recent rise in share price rise contrasts sharply to its year-to-date performance – a fall of nearly 33%, as the company struggles with a global advertising downturn.

Karl Burns, analyst at Canaccord Genuity is cautious about Future's outlook: 'Trading within the core Digital Media divisions (excluding comparison site GoCompare) remains challenging, with weak consumer spending in the digital advertising market. Digital advertising and affiliate product trends have been broadly in line with the first half, where both saw an H1 organic decline of 22% and 24%.' [SG]



DOWN in the dumps

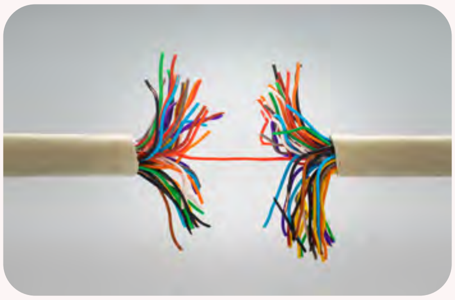
Why Digital 9 Infrastructure's shares are down 60% over one year

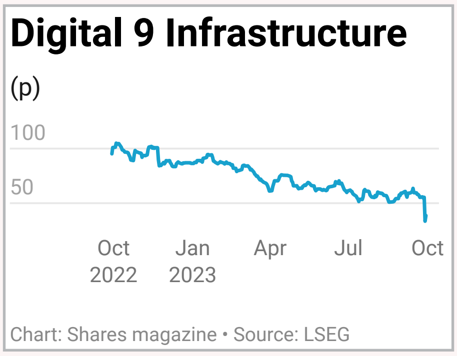
Dividend suspension and syndication delay trigger fresh sell-off at struggling internet infrastructure investor

Digital infrastructure investor **Digital 9 Infrastructure (DG19)** slumped 40% as disappointing first-half results (28 September), showing an 8.8% drop in net asset value (NAV), and the suspension of the dividend sent investors heading for the exits.

This extended 12-month losses to more than 60% with the suspension of the payout described as a 'screeching U-turn' by Investec given the board had reconfirmed the 6p per share full year target as recently as July. Rising borrowing costs, the inability to raise fresh equity and the need to fund its growth capital expenditure pipeline have reduced the actual cash available for distribution.

The timing and value of the potential syndication of a majority stake in Verne Global, arguably the trust's highest growth asset for which multiple bids at or around NAV have been received, remains outside of management's control. This is worrying investors since the company's position as a going concern relies upon the transaction concluding successfully.





Now languishing on a massive 62% discount to NAV, D9 will begin a strategic review and given the dramatic share price plunge, Stifel thinks the fund is now a live target for an acquirer. [JC]

Chart: Shares magazine • Source: LSEG

Could a wet summer derail recovery at Wetherspoons?

Strong share price gains means pubs group is under pressure to deliver

The UK's biggest pub group **JD Wetherspoon (JDW)** is due to release its full year results to 31 July on 6 October and, given strong trading in the first 10 weeks of the final quarter, they are likely to at least meet expectations.

That looks like a bare minimum given positive investor sentiment with the shares racking up gains of more than 70% over the last year as the pandemic becomes a distant memory and consumers flock back to pubs.

In July, the company said it expected to meet profit expectations after seeing accelerating like-for-like sales growth of 11% in the first 10 weeks of its final quarter.

Chair Tim Martin said he anticipated a similar outcome in the first half of the 2024 financial year to the second half of 2023. Investors will be looking to see if that positive outlook is maintained.

One fly in the ointment is the lousy summer weather with a particularly wet August. Numis analysts note the CGA tracker for the pubs segment dropped from 7% in July to 4.9% in August.

Numis therefore anticipates current trading to be no better than their 7.2% annual growth assumption for the year. 'Absent a strong pick up in market conditions in September, an increase to guidance appears unlikely,' says the broker. [MG]

What the market expects of JD Wetherspoon

	EPS (p)	Revenue (£bn)
Forecast for 2023	29	1.9
Forecast for 2024	40	2.1

Table: Shares magazine • Source: Stockopedia. Year end 31 July

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS
6 October: JD Wetherspoon
9 October: SCS Group, YouGov
12 October: Dechra Pharmaceuticals

HALF-YEAR RESULTS
11 October: Sanderson Design

TRADING ANNOUNCEMENTS
11 October: Marston's
12 October: Hays, EasyJet

Soft drink and snack giant PepsiCo's earnings have surprised positively twice this year

However, the share price has fallen as the firm faces political headwinds

Despite **PepsiCo (PEP:NASDAQ)** having twice beaten earnings forecasts this year, by an average of 8%, and twice raised its outlook, the shares have fallen close to their lowest level since January on concerns over pricing and its continued presence in Russia.

Although the firm raised its sales guidance in July and held out the prospect of further price hikes not affecting demand for its drinks and snacks, it is meeting growing resistance from governments and retailers.

In France, finance minister Bruno Le Maire has singled out PepsiCo, **Nestle (NESN:SWX)** and **Unilever (ULVR)** for not 'cooperating' in limiting price rises, and hypermarket giant **Carrefour (CA:EPA)** has stuck price warnings on each firm's products in an attempt to 'tell manufacturers to rethink their policy'.

Meanwhile, the Finnish government has withdrawn Pepsi from sale in its parliamentary restaurants due to the company's continuing sales in Russia, where it quadrupled profits last year, generating negative publicity.

On 10 October the Harrison, New-York based firm is expected to post third-quarter earnings per share of \$2.18 against \$1.97 the previous year, on sales of \$23.4 billion against \$22 billion, when it reports on 10 October.

For the full year, the consensus expects earnings per share of \$7.48, an increase of 10.2%, and sales of \$92.2 billion, an increase of 6.7%. [IC]

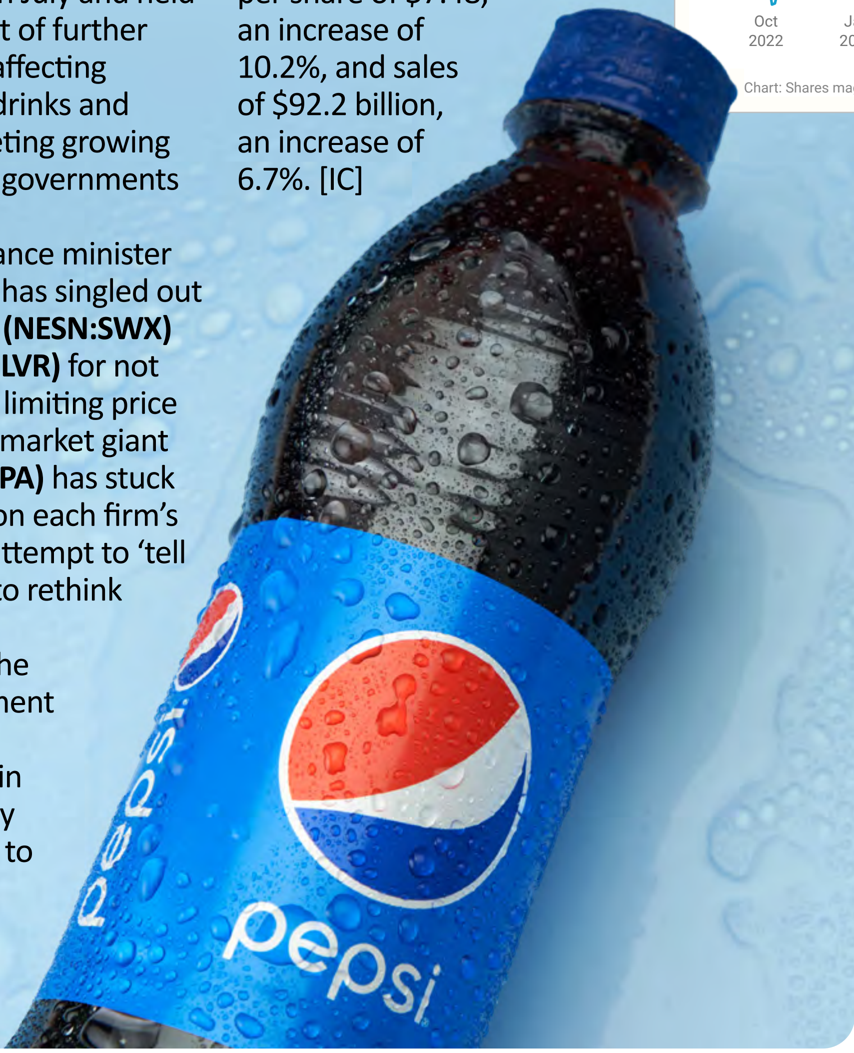
What the market expects of PepsiCo

	EPS (\$)	Revenue (\$bn)
Q3	2.18	23.4

Table: Shares magazine • Source: Yahoo Finance

PepsiCo

Chart: Shares magazine • Source: LSEG



US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

6 October: Tilray
10 October: PepsiCo, AZZ
11 October: BlackRock, Applied Digital
12 October: Delta Air Lines, Walgreens Boots, Domino's Pizza, Commercial Metals, Alcoa, Washington Federal, Smart Global

Why now is great time to buy exposure to biotechnology

The sector trades at a big discount to the wider market

BUY

iShares Nasdaq Biotechnology ETF

(BTEK) 467p

Fund size: £319 million

The biotechnology sector should be a major beneficiary of an ageing world population and strained government health budgets as companies develop new drugs to treat chronic diseases.

After underperforming the major indices since the end of the pandemic, the NBI (Nasdaq Biotechnology Index) offers great relative value and the prospect of superior earnings growth.

The sector trades at a 18% PE (price to earnings) ratio discount to the S&P 500, and at a 26% discount to its historical 10-year average PE, according Yardeni Research.

The current rating and negative sentiment look anomalous against the backdrop of superior earnings growth which has averaged 15% a year over the last decade.

It is no surprise to investment managers at **International Biotechnology Trust (IBT)** Ailsa Craig and Marek Poszepczynski who have argued the sector is characterised by big up and down cycles.

Given the cutting-edge science which companies in the sector are developing it is understandable to see periods of over-exuberance followed by big downturns and an exit of capital.

In turn, rock-bottom valuations attract mergers and acquisitions which starts the cycle all over again, leading to the next up-cycle.

The current down cycle has been exacerbated by the speculative interest in the sector during the pandemic.

Even large successful firms such as leading vaccine maker **Moderna (MRNA:NASDAQ)** which discovered the first Covid-19 vaccine based on mRNA technology have had a rough two years.

After leaping over 10-fold during the pandemic the shares have lost 78% of their value since August 2021.

Craig and Poszepczynski believe the sector remains unloved but sense winds of change as the trust has started to benefit from predatory interest in the sector with six companies being 'picked-off' over the last few months and **Eli Lilly (LLY:NYSE)** has just announced the $1.4 billion takeover of cancer biotech **Point Biopharma (PNT:NASDAQ)**.

While buying individual biotech companies is not for the faint hearted and best left to the professionals, getting exposure through an tracker provides a less bumpy (although bumpier than the S&P 500) ride.

As well as getting sector diversification, investors gaining exposure to the index also benefit from broader equity diversification, because biotech tends to move independently from other equity sectors and indices.

A cost-effective way to track the NBI is through the **iShares Nasdaq US Biotechnology ETF (BTEK)** which has an ongoing charge of 0.35% a year.

Top holdings include Moderna, human therapeutics giant **Amgen (AMGN:NASDAQ)**, software and analytics firm **Vertex VERX:NASDAQ)** and **Gilead Sciences (GILD:NASDAQ)**. [MG]

iShares Nasdaq Biotechnology ETF

Chart: Shares magazine • Source: LSEG

Succession fears are overblown at Kainos: pick up the shares now

Unsettled spell for the stock offers an enticing entry point for investors

Kainos

(KNOS) £11.18

Market cap: £1.4 billion

Belfast-based digital services business **Kainos (KNOS)** has high-quality metrics in spades, and *Shares* believes the stock offers long-term upside. In its most recent financial year (to March 2023), the company demonstrated return on capital employed, operating margins and return on equity of more than 40%, 14% and 35%, according to data from *Stockopedia*.

Yet the shares are trading on a March 2024 price to earnings multiple of about 24, and an EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) of barely 16, 'close to five-year lows,' according to Shore Capital analysts, after near-22% decline for the shares since June.

Kainos is a FTSE 250 IT business that does three things. First, it helps (typically large) organisations transition their processes and operations into the 21st Century digital world. Kainos is one of the key IT expertise suppliers to UK government departments, often writing bespoke tools and software services for the Cabinet Office, Home Office, Driver & Vehicle Licencing Agency, Department for Transport, Land Registry and others.

BUY

Chart: Shares magazine • Source: LSEG

Second, the company is one of 40-odd global accredited installation providers for Workday, the $56 billion US human resources and financial planning software platform. Kainos provides implementation and testing for users of Workday enterprise management tools. Last, there is Evolve, a healthcare and life sciences arm that provides the NHS with things like electronic medical records that help streamline the service the NHS can deliver to patients.

The sharp share price drop since the summer is largely down to investors unnerved by June's announcement that chief executive Brendan Mooney would be standing down after 22 years in the top job, and 34 with Kainos. His replacement Russell Sloan, an internal appointment, can't match that stretch – he's only been with Kainos 24 years.

This is a measure of how well Kainos is run, and that its top talent doesn't feel the need to move elsewhere for exciting career progression. That's hugely encouraging for investors in an environment where tech talent is in short supply.

Sloan will stamp his own personality on Kainos in time but, crucially, he admits little need to change the pattern of the company's knitting - why alter what's worked so well for years.

Kainos is a Belfast University spin-out which listed on the London stock market in 2015. Since then, revenues have gone from about £60 million to this year's estimated £424 million (£479 million is forecast for fiscal 2025). Since 2018, 35% has provided a floor for both return on capital employed and return on equity, while operating margins have averaged 15%.

There are significant opportunities ahead thanks to its ability to internalise and monetise new generative AI capabilities, such as building Microsoft Co-Pilot into its tools, and large contracts continuing to flow from central government. [SF]

Cut losses on XP Power after profit warning and suspension of dividends

The company is in discussions with lenders to flex its debt covenants

XP Power (XPP) £11.20

Loss to date: 52.6%

We flagged power switching and electronic controls specialist **XP Power (XPP)** at the start of the year, believing a 2022 sell-off had created a good entry opportunity into a high-quality business which had been too harshly punished for a stretched balance sheet and weakness in some of its end markets.

> "XP is a decent business but arguably overextended itself in making acquisitions and this left it vulnerable to any downturn in trading"

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

The shares made decent initial progress and, with some volatility along the way, were trading roughly in line with our entry point until recently.

In April we reacted positively to news of a solid start to the year for the company and, while first-half results were mixed with a drop in new orders, the market did not seem too alarmed with the order book still standing at a healthy £250 million.

However, that all changed with an ugly profit warning on 2 October thanks to weak demand from China, where the recovery story has stalled despite the lifting of zero-Covid restrictions.

The current order book has shrunk to around £225 million, with no recovery yet in the semiconductor manufacturing sector, although customers are said to be positive on the outlook for 2024 and 2025.

With revenue and profits seen below expectations, and a knock-on effect on working capital, net debt – which currently stands at £163 million – is seen rising further meaning gearing will be 'close to or above current covenant limits in the near term'.

XP is scrambling to get covenant and liquidity flexibility from its lenders for the remainder of 2023 and into 2024. The plan to suspend dividends and investment in a new Malaysian plant speak to the financial pressure the business is under.

XP Power

Chart: Shares magazine • Source: LSEG

WHAT SHOULD INVESTORS DO NOW?

XP is a decent business but arguably overextended itself in making acquisitions and this left it vulnerable to any downturn in trading. Painful as it is, the suspension of the dividend is sending us a message we cannot ignore and at this point investors should cut their losses. [TS]

Inflation Reduction Act and CHIPS Act Likely to Build More Momentum for U.S. Infrastructure

Since its passage in late 2021, the Infrastructure Investment and Jobs Act (IIJA) has been hailed as a major step toward rebuilding America's aging infrastructure. In our view, the IIJA is indeed a generational investment that has only just begun to impact companies in the infrastructure space. Perhaps because of the IIJA's notoriety, discourse on how other recent legislation might contribute to U.S. infrastructure seems lacking. The Inflation Reduction Act (IRA) and Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act are designed to bolster U.S. competitiveness in disruptive technologies such as renewable energy, batteries, and electric vehicles (EVs), as well as semiconductors. Both packages are likely to encourage the build-out of manufacturing capacity, distribution networks, and other American supply-chain assets, adding to the tailwinds behind U.S. infrastructure spending.

The IRA and CHIPS Act Necessitate New Construction

The Inflation Reduction Act is the United States' largest-ever investment in combatting climate change, providing around $370 billion to bolster sustainability efforts, increase energy security, and lower energy costs.[1] The bill uses tax credits as the main mechanism to attract clean tech and renewable energy manufacturing to the United States, and there's evidence that the strategy is working.

According to the White House, since the IRA's passage in August 2022, "at least $45 billion in private-sector investment has been announced across the U.S. clean vehicle and battery supply chain."[2] An estimated $150 billion has poured into the country for utility-scale clean energy initiatives, more than the total spent between 2017 and 2021.[3] Some of these investments were in the works before the bill's passage but, in our view, the IRA is largely responsible for the deluge of domestic spending on clean tech investments in recent months.

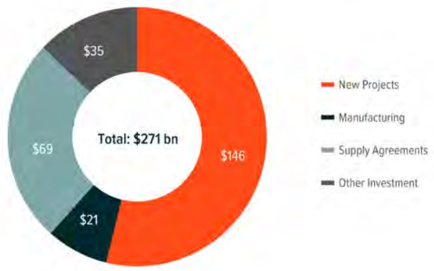
In addition to production incentives, IRA investments can also benefit infrastructure companies in various ways. For instance, as renewable energy capacity grows, the grid needs upgrades. Solar and wind power, which rely on natural resources, can be intermittent. Therefore, it's crucial to invest in transmission infrastructure and energy storage to handle output fluctuations.

IRA investments can benefit infrastructure in various ways, like upgrading the grid for growing renewable energy capacity, especially vital due to the intermittency of solar and wind power. The U.S. Department of Energy aims for a 60% expansion in electricity transmission capacity by 2030 to achieve clean energy goals.[4]

Another way for IRA investment to flow into the infrastructure sector is that the bill supports energy efficiency measures that could catalyse demand for retrofitting existing structures to comply with new and future standards.

COMPANY SPENDING SPREE ON NEW CLEAN ENERGY PROJECTS IN FIRST YEAR OF IRA ($ BILLION)

Sources: Global X ETFs with information derived from: American Clean Power. (2023, August). Clean Energy Investing in America | Report.



The CHIPS Act incentivises the construction of new domestic semiconductor manufacturing. The bill doles out $50 billion to boost U.S. competitiveness in semiconductors, including $39 billion in direct spending on chip production.[5] Compared to the IIJA and IRA, the CHIPS Act is in the earliest stages of implementation, as applications for funding opened in March 2023. However, since its passage in August 2022, over $210 billion in private investments toward semiconductor projects has been announced in 20 states, according to the Semiconductor Industry Association.[6]

Supply Chain Reorientation Likely to Keep Manufacturing Spending High

The COVID-19 pandemic, Russia's invasion of Ukraine, trade tensions with China, and the fallout from these events have U.S. companies reconsidering their decentralised supply chains and looking for security in domestic capacity. Supply-chain localisation is an increasingly common topic in corporate presentations and news stories in the United States. By the end of Q1 2023, the prevalence of supply-chain reorientation buzzwords such as “reshoring” and “onshoring” in news stories increased by almost 9 times relative to pre-pandemic levels.[7]

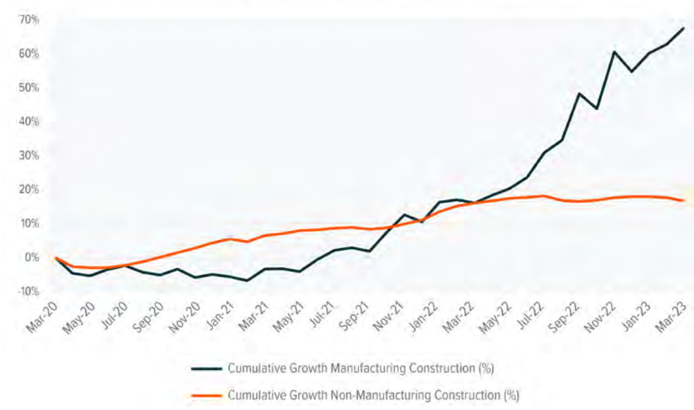
It’s not just talk, as increased construction activity related to manufacturing is already an ongoing, multiyear trend. As of March 2023, construction spending on manufacturing was nearly 70% higher cumulatively compared to the beginning of the pandemic, about 4x the pace of growth in other construction activity.[8] Furthermore, total U.S. construction spending related to manufacturing reached $108 billion in 2022, an all-time high.[9]

Conclusion: Multiple Opportunities for the U.S. Infrastructure Space

The IIJA, IRA, and CHIPS Act add to already structurally strong demand for infrastructure development in the United States. The IIJA sets up to provide a generational boost to construction demand, and there could be overlap with IRA and CHIPS Act measures that look to reconstitute U.S. disruptive technology supply chains. With this historical legislative support, companies across the U.S. infrastructure space appear poised to benefit over the next several years.

CUMULATIVE INCREASE IN U.S. CONSTRUCTION SPENDING RELATED TO MANUFACTURING VS. ALL OTHER CONSTRUCTION SPENDING SINCE BEGINNING OF COVID-19 PANDEMIC (%)

Source: U.S. Census Bureau. (2023, March). Construction Spending, Historical Value Put in Place.

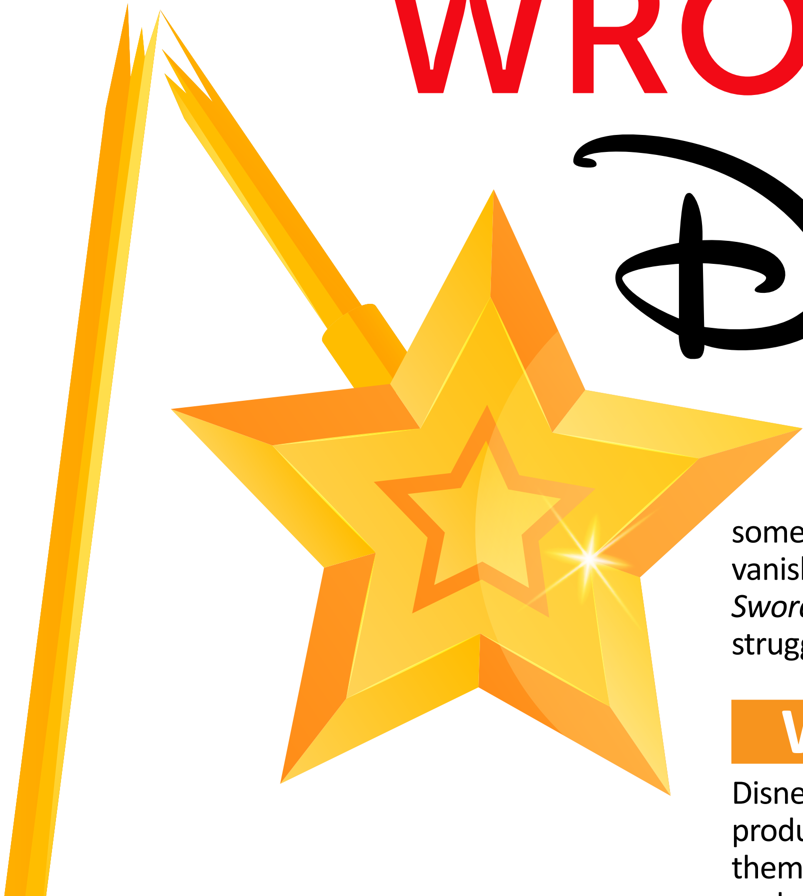


Related ETF

The Global X U.S. Infrastructure Development UCITS ETF (PAVE LN) seeks to invest in companies that stand to benefit from a potential increase in infrastructure activity in the United States, including those involved in the production of raw materials, heavy equipment, engineering, and construction.

[1] The Inflation Reduction Act of 2022, H.R. 5376, 117th Cong. (2022, August).
[2] U.S. Department of the Treasury. (2023, March 31). Treasury Releases Proposed Guidance on New Clean Vehicle Credit to Lower Costs for Consumers, Build U.S. Industrial Base, Strengthen Supply Chains.
[3] American Clean Power. (2023, April). Clean Energy Investing in America.
[4] U.S. Department of Energy. (2022, January 12). DOE Launches New Initiative from President Biden’s Bipartisan Infrastructure Law To Modernize National Grid.
[5] CHIPS and Science Act, H.R. 4346, 117th Cong. (2022, August).
[6] Semiconductor Industry Association. (2023, April 25). The CHIPS Act Has Already Sparked $200 Billion in Private Investments for U.S. Semiconductor Production.
[7] Bloomberg, L.P. (n.d.). News Trends. Accessed on May 1, 2023.
[8] U.S. Census Bureau. (2023, March). Construction Spending, Historical Value Put in Place.
[9] The Wall Street Journal. (2023, April 8). America is Back in the Factory Business.

WHAT’S GONE WRONG AT DISNEY?



By **Steven Frazer** News Editor

Walt Disney (DIS:NYSE) used to be one of those stocks that even cautious investors could rely on. For the past 40-odd years the share price has steadily chugged higher, and investors have been repaid for their faith with a reliable stream of dividends year after year.

Yes, there have been stumbles along the way, even the most dependable stocks falter now and then. Disney floundered during the internet bubble in the late 1990s, again during the great financial crisis, and now, the company is once more facing a crisis of Hollywood epic proportions.

Since March 2021, the stock has lost almost 60% of its value. With the return of former CEO Bob Iger failing to revive its fortunes despite some initial excitement. To put the situation another way, in just two and a half years Disney has seen something like $220 billion of shareholder value vanish. That’s quite the trick, one even *The Sword and the Stone’s* wizard Merlin might struggle to match.

WEB OF BUSINESSES

Disney’s business used to be straightforward – produce a regular stream of hit movies and use them to lure millions of holidaymakers to its theme parks. And it quickly latched on to the idea that it could re-release its catalogue of classic cartoons at cinemas every seven years or so, tapping into to a new generation of kids to wow.

Dismal Disney annualised returns

Chart: Shares magazine • Source: Morningstar, total return

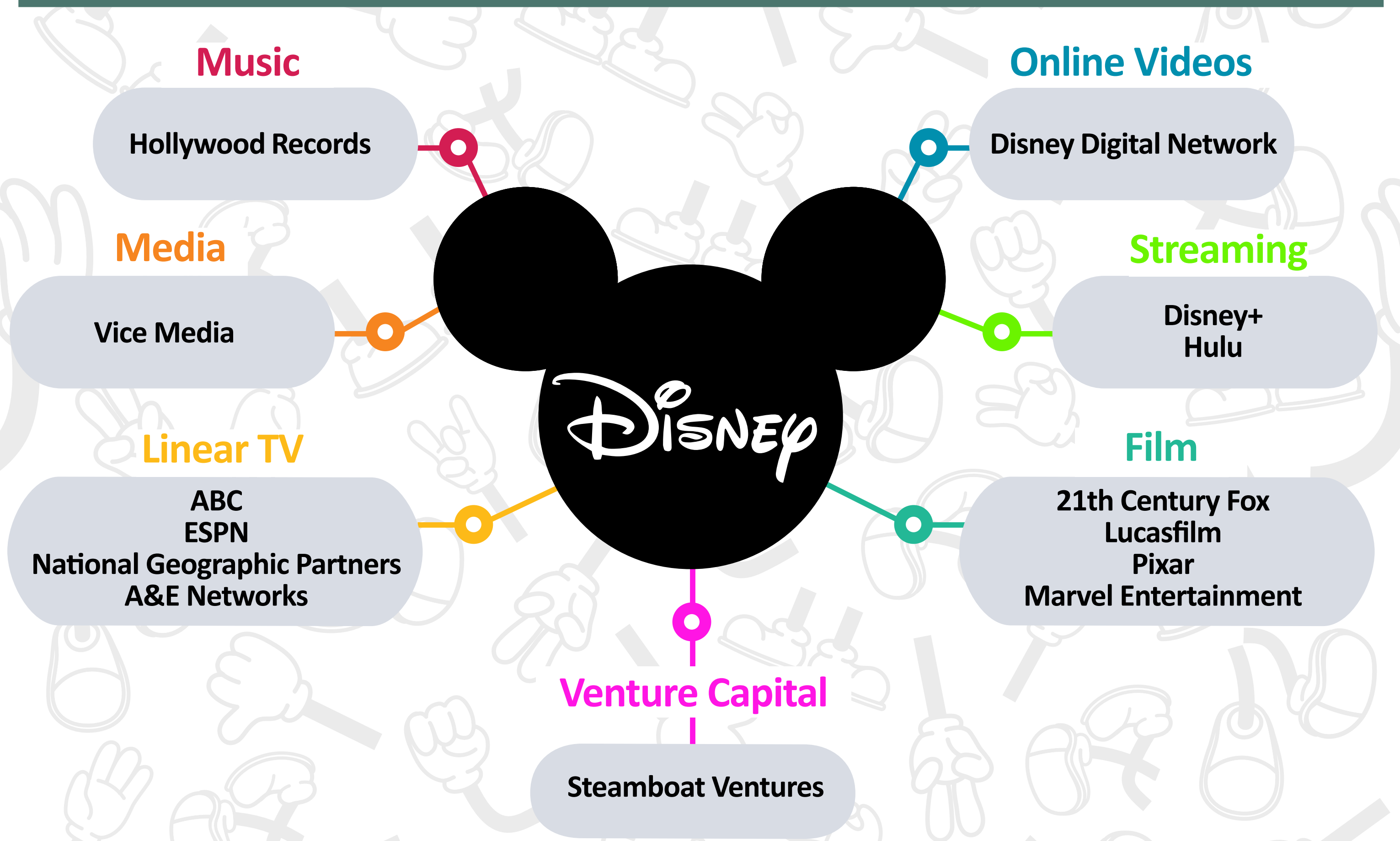
But the internet age has not been kind. Children have so many more ways to entertainment themselves these days, spending hours on connected gaming devices with their mates, or watching a deluge of streaming TV apps.

Today's kids are also a more knowing bunch, and where once the thought of meeting Mickey in the flesh at the Magic Kingdom would have drawn cheers and looks of wonder, the experience doesn't carry quite the same cachet as it once did.

Disney has adapted to the digital challenge in several ways, spending billions of dollars on extra content (Star Wars, Marvel) and launching its own streaming app Disney+. This has had limited success and it is still its tried and trusted theme parks that are carrying the business.

Reports show that attendances at everywhere from Magic Kingdom to Walt Disney World to Universal Orlando are down in 2023. The thinking is that while high prices during a cost-of-living crisis have played their part, there is also a normalising effect going on in the wake of the bumper crowds as lockdown restrictions were lifted after more than a year of enforced stay at home holidays.

DISNEY BRAND UNIVERSE



Disney's Parks, Experiences and Products business (DPEP) is generating much higher profits in fiscal year 2023 (to end Oct) than it did in fiscal year 2019, according to Moffett Nathanson analyst Michael Nathanson. The analyst forecasts $12.3 billion from DPEP this year, up from $9.6 billion in fiscal 2019, stripping out the Pandemic-impacted years in between for a cleaner comparison.

The trouble is Disney's media arm is in turmoil as its linear TV cable arm haemorrhages subscribers and the streaming business continues to lose money. There is a very real sense that something is always going wrong at the House of Mouse.

After a record fiscal 2018, Disney had a near-record year in fiscal 2019 where everything was going right. Its parks business was booming while its film studio was churning out blockbuster after blockbuster, propelling Disney's box office revenue to an all-time $11.1 billion record.

Roll forward a few years and it's clear that box office income is failing to march past levels in a post-pandemic world, while streaming service Disney+, once seen as the answer to death of cable TV fears, continues to run up losses and subscriber growth is now on the back burner as investors focus on streaming profitability.

Disney's latest earnings report (9 August) got a mixed response from analysts and investors. There was progress under the returning Bob Iger. This included cost-cutting and a gradual move toward streaming profitability, including plans for a new ads-backed pricing tier and crack down on streaming account sharing, ripped straight from the pages of the **Netflix (NFLX:NASDAQ)** playbook.

But there were challenges also, such as further declines in the linear TV networks business, and limp box office business, particularly from its Marvel Cinematic Universe. Kicking off the year with *Ant-Man and the Wasp: Quantumania*, the

Return on capital and margins have collapsed

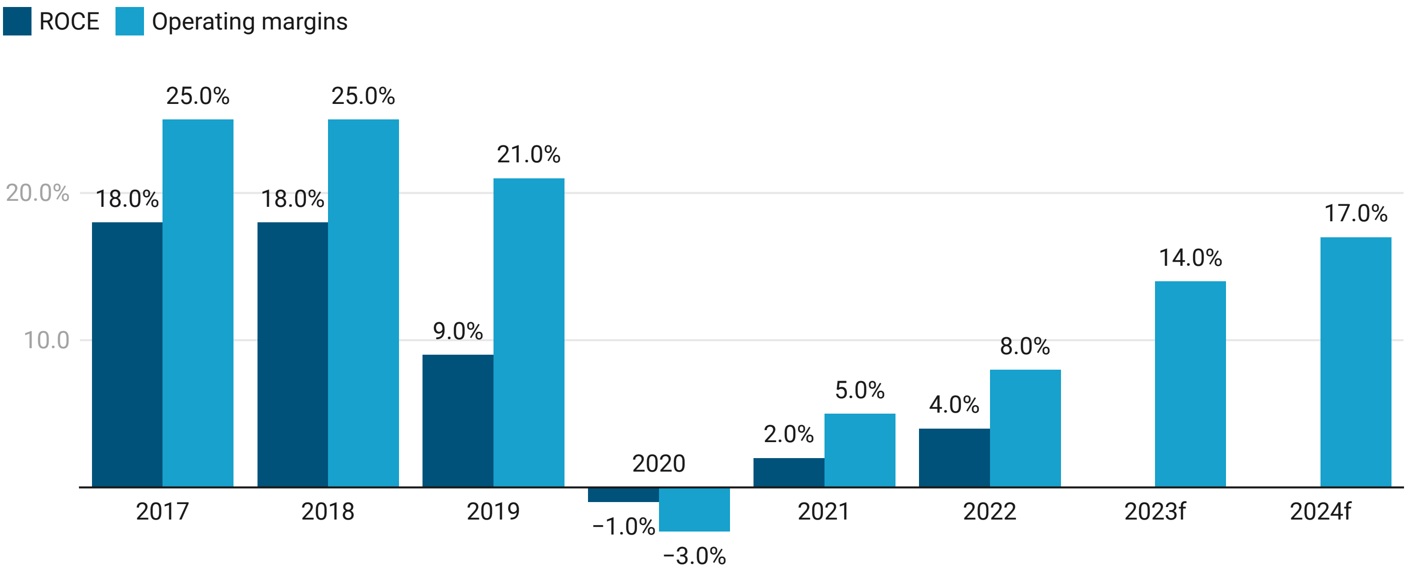


Chart: Shares magazine • Source: Stockopedia, f = Koyfin consensus forecast, ROCE = return on capital employed film grossed less at the box office than almost every other Marvel Studios movie with its takings coming to just $476.1 million, according to reports, half of which is retained by cinemas.

While the shares briefly responded well to the results, enthusiasm evaporated faster than Marvel creation *Quicksilver*.

INVESTOR RETURNS HAVE COLLAPSED

One of the biggest problems for investors is that Disney continues to spend increasingly vast sums while the return on that investment gets worse. Operating expenses have nearly doubled since 2017 to $76.2 billion in fiscal 2022 yet return on capital employed has shrunk from 18% (2017 and 2018) to low single digits – 3.7% in 2022.

Operating margins have gone from 25% to 7.9% last year, and net income is barely half what it was a decade ago. This decline is one of the best arguments for why Disney stock has shown weakness. Return on equity has gone from 24.2% in 2018 to 3.5% last year.

Disney is now betting $60 billion in a decade long refresh of its theme parks and cruises. It is a strategy that has split analyst opinion, with many offering their backing, but others wondering when investors will see a return on this enormous outlay.

Bank of America analyst Jessica Reif Ehrlich remains a key Disney bull, citing 'new areas of optimism,' including new management cost savings forecasts of more than the $5.5 billion, and targets for Disney+ subscriber net additions would accelerate in the current fiscal fourth quarter.

Others are more wary. Macquarie analyst Tim Nollen summarised the latest results with a note to clients headlined, 'So much going on, but not much change to numbers.'

'We believe in long-term success of streaming services, including ESPN, as well as the studio and parks franchises, but we see too many near-term issues to support a more constructive view.'

Other analyst worries include rising Disney+ prices while content gets reduced, not exactly a winning message to potential new subscribers. 'Even if the severe price/value shift is accepted by consumers, it's still not clear if the rate of direct-to-consumer profitability improvement will more than offset the rate of linear profitability attrition,' said TD Cowen's Doug Creutz, which he estimates at more than $2 billion year-on-year in fiscal 2023.

Shares saw a promising opportunity in the stock at the end of last year, which is why Disney was one of our *Best Ideas* for 2023. The stock surged early in 2023, prompting us to reassess that, having jumped 26% on our original buy idea, the 'benefits from the restructuring have now been priced into the shares while the challenges faced by the streaming business remain a risk'.

Since then, Disney shares have slumped, wiping out all those gains and more, demonstrating the merits of locking in profit.

SHOULD YOU BUY DISNEY?

There are analysts that claim that Disney stock traditionally trades at a 20% to 25% premium to the S&P 500. The stock's price to earnings multiple for fiscal 2024 is about 16, versus the S&P's approximate 20-times rating, but such a comparison doesn't necessarily consider the structural changes in the way we are all consuming TV and films in today's digital world.

Disney undoubtedly has a collection of fantastic brands, but so does healthcare firm **Johnson & Johnson (JNJ:NYSE)** – Johnson & Johnson Baby Lotion, antihistamine Benadryl, pain relief drug Tylenol. Yet the healthcare company has vastly better return on capital, return on equity and operating margins than Disney (11.7%, 17.4%, 16.4%).

In *Shares* opinion, there is anything but a compelling reason to own Disney shares right now, and we believe there is better value to be found elsewhere on the stock market.

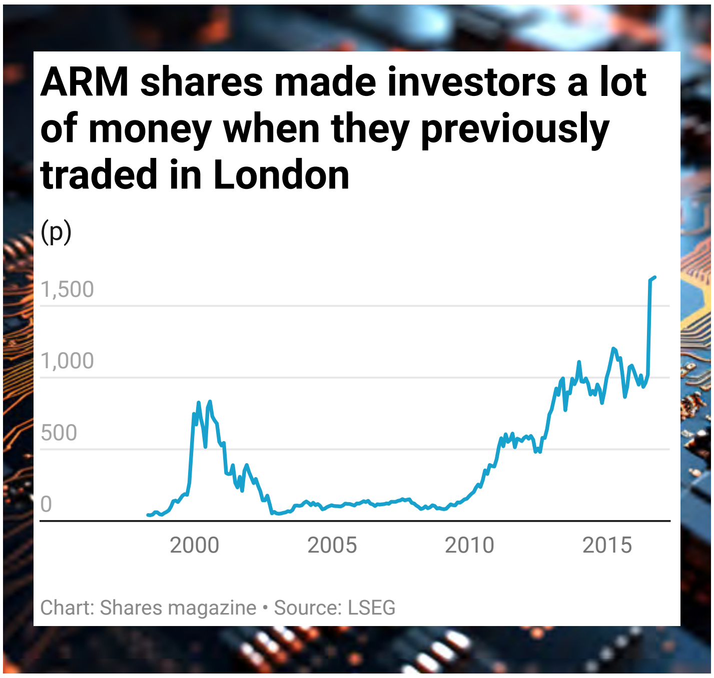
Can I buy ARM shares now the company is listed in New York?

The nature of the firm's US listing means it cannot be held in ISAs

When it was announced earlier this year that Cambridge-headquartered chip design firm **ARM Holdings (ARM:NASDAQ)** was coming back to the stock market, there was a great deal of anticipation among UK investors.

But first they were dealt the disappointing news there would be no London listing for a big British tech success story and now another blow has been delivered.

Anyone who had owned the shares prior to the company's £24.2 billion takeover by Japanese investment holding company **Softbank (9984:TYO)** in 2016 would have enjoyed large profits.



However, for someone who wants to buy the shares today in the hope of further gains, the process isn't quite as simple as it once was, as we will explain.

Originally, Softbank had planned to sell ARM to US chipmaker **Nvidia (NVDA:NASDAQ)** in 2020 for around $80 billion but the US Federal Trade Commission blocked the deal on the basis it would hurt competition in the market for AI chips and those used in self-driving cars.

The UK and the European Union also said they would scrutinise the Nvidia deal, at which point Softbank opted for a public offering in the US where it hoped it would achieve a higher profile and a higher rating for ARM than if it floated on the UK market.

Softbank argued the UK wasn't doing enough to attract tech companies, so it didn't bother with a secondary listing here and floated the shares on Nasdaq instead in the form of ADRs.

ADRs, or American Depository Receipts, are certificates issued by a US depository bank representing a fixed number of shares in an overseas company, usually on a one-for-one basis, allowing US investors to buy stocks which otherwise wouldn't be available to them without the company having to list directly on a US exchange.

UK investors can still buy ADRs – including ARM – through a dealing account or a SIPP (self-invested personal pension), but *not* through an ISA (individual savings account).

The reason for this distinction is the underlying shares represented by the ADR aren't themselves listed on a regulated exchange, and therefore under HMRC rules they do not qualify as an ISA investment in their own right.

Shares contacted ARM's public relations team to ask whether there was any plan to list the company's shares directly on the UK stock market at some point, to make life easier for domestic investors.

The firm's response was as follows: 'ARM chose to list in the US because that is where our semiconductor peers are listed. We have listed ADRs because we are a company incorporated under the laws of England and Wales listing in the US. We are open to considering a secondary listing in the UK in the future.'

By **Ian Conway** Companies Editor

What a change of management means for investors in popular trust Mid Wynd

Incoming Lazard duo look for the highest quality global firms

As highlighted in our 'funds with stamina' story on 31 August, one of the investment trusts that has achieved at least a 6% total return in seven out of the past 10 years is **Mid Wynd International (MWY)**. This is the popular global fund managed for the past decade by Simon Edelsten at Artemis which looks for growth from long-term trends. But with change afoot in the management of the trust, can its consistent performance be maintained?

Focused on quality stocks and with a disciplined approach intended to make it more resilient at times of crisis, the relatively concentrated portfolio offers exposure to several compelling structural growth themes including 'Automation', 'Sustainable Consumer' and 'Lower Carbon World'.

Mid Wynd did underperform the benchmark in the year to June 2023, with net asset value total returns of 5.6% lagging the 11.3% from the MSCI All Country World Index. This underperformance was mainly due to Mid Wynd not owning **Nvidia (NVDA:NASDAQ)** and **Apple (AAPL:NASDAQ)** and arose despite strong performances from other holdings such as **Microsoft (MSFT:NASDAQ)**, **Amazon (AMZN:NASDAQ)**, **Alphabet (GOOG:NASDAQ)** and **Adobe (ADBE:NASDAQ)**.

WYND OF CHANGE

These were Mid Wynd's last results (6 September) under Artemis, as the mandate moves to Lazard Asset Management at the beginning of October 2023. In February, it was announced that Simon Edelsten, who had built a strong retail investor following, will retire from Artemis at the end of 2023 and that fellow manager Alex Illingworth is also leaving the business. The news prompted Mid Wynd's board to review proposals from a number of fund management groups with Lazard eventually awarded the mandate.

MID WYND INTERNATIONAL

- **AIC Sector** – Global
- **Ticker** – MWY
- **Share price** – 717p
- **Discount to NAV** – 1.5%
- **Dividend yield** – 1.1%
- **Ongoing charges** – 0.61%

Source: The AIC, Artemis

LAZARD LOOKS A DECENT FIT

Although it is a storied name in the world of finance, Lazard doesn't currently manage any investment trusts though it previously managed the World Trust Fund, a fund of funds investment company wound up in 2019. Lazard has an overwhelmingly institutional client base and is less well-known to UK retail investors.

Mid Wynd – Top 10 holdings (as of 31 July)

Amazon	3.3%
Alphabet	3.3%
Unitedhealth	3.1%
Mastercard	3.0%
LVMH	2.9%
TSMC	2.9%
EssilorLuxottica	2.8%
Thermo Fisher Scientific	2.8%
Microsoft	2.7%
SingTel	2.7%

Table: Shares magazine • Source: Artemis

Mid Wynd – Theme Split (as of 31 July)

Automation	17.9%
Sustainable Consumer	16.5%
Low Carbon World	15.7%
Online Services	14.1%
Healthcare Costs	9.9%
Digital Finance	7.6%
Scientific Equipment	7.3%
Screen Time	7.1%
High Quality Assets	0.3%

Table: Shares magazine • Source: Artemis

But as the Mid Wynd board explained in the annual results statement, this lack of awareness of Lazard as a manager of UK retail funds 'was not a deterrent to the board in appointing the company as manager of our assets.

'The board specifically sought out managers who, while producing excellent performance, were potentially not well known to retail investors. The over-riding priority for the board was to find the best manager pursing an approach to investment not dissimilar to that familiar to investors in our company.'

Reassuringly for Mid Wynd's investors, Lazard follows a similar stock selection approach to Artemis. Both focus on identifying high quality companies with strong sustainable profitability which can compound over the long term and Lazard's 'Global Quality Growth' strategy aligns well with the Mid Wynd ethos, which includes investing at the right valuations in companies which have the potential to compound investors' capital at attractive and sustainable rates.

MEET LOUIS & BARNABY

Mid Wynd's new managers are fundamental stock pickers Louis Florentin-Lee and Barnaby Wilson, co-managers of the Lazard Global Quality Growth strategy which delivered a net total return of 248.8% after fees, versus 176.1% (gross) for the MSCI All Country World Index and 138.2% for the IA Global sector over the 10 years to June 2023.

These excess returns are a product of their disciplined approach to assessing the sustainability

of high returns on capital from quality companies and, crucially, of not overpaying for their shares. Economic theory asserts that high returns in an industry will attract increased competition, which means the returns on capital achievable will eventually decline.

However, this 'fade' in returns has not always materialised and there are companies which have consistently reported high returns despite the threats from increased competition.

Leaning on the experience of a team of around 70 analysts, Wilson and Florentin-Lee's day job is to scour the globe to find similar high-quality businesses with this form of replicable high return with limited or no 'fade' to returns on capital. And since these companies achieve particularly high returns on re-invested capital, they tend to re-invest their cash back into the business and pay low levels of dividends as a result. But for investors, the compounding effect from re-investing the cash flows from high-returning businesses to secure higher future returns is particularly rewarding.

WHAT CAN INVESTORS EXPECT?

Existing and prospective Mid Wynd shareholders can expect the portfolio to be concentrated with high active share and low portfolio turnover. 'Our typical holding number is about 40 to 50 stocks', Florentin-Lee informs *Shares*. 'And the Global Quality Growth approach is very simple, we buy great companies, but where we have a good conviction and understanding in the thing that makes them great, the competitive advantage or economic moat, and where we've developed conviction those moats will last into the future and allow the business to maintain high returns on capital.'

Florentin-Lee and Wilson make sure they purchase shares in these elite businesses 'when the market is anticipating a decline or a "fade" in their returns on capital faster than we would expect.

'The idea is we own these companies for many years to allow our clients to get exposure to those compounding earnings and cash flows and that's really what drives the returns of the portfolio, because essentially they are sharing in the economic wealth these businesses are producing.'

The misconception the Lazard managers take advantage of is the fact the market 'applies the economic law of competition too broadly to these great companies, i.e., that these great returns will attract competition and thereby push down their returns on capital to a cost of capital or a corporate average,' continues Florentin-Lee.

While they accept competition and disruption exist, Florentin-Lee says 'we can point to companies that have been able to defy that economic law for decades. Microsoft's been doing it for 30 years, **Coca-Cola (KO:NYSE)** for over 50 years and parts of **LVMH (MC:EPA)** for well over 150 years. We're going to find and invest in companies where we determine that the company will sustain its returns for longer than the market expects. And we've designed investment tools that help us establish that conviction.'

Another point to note is that Lazard is differentiated from other quality growth approaches through ensuring the sources of competitive advantage are widely diversified, including brands and technology, as well as other factors such as scale, strong position in niche industries, providing critical low-cost components or regulation.

This broader spread of competitive advantages in the portfolio 'allows us to gain exposure to a wider range of sectors than perhaps other quality managers,' says Florentin-Lee. 'But not all sectors – we've never invested in utilities, telecoms, oil majors, those business don't consistently generate the returns on capital that we insist on.'

Wilson makes the point that turnover in the Lazard Global Quality Growth strategy has averaged 'between 10 and 15%, so that's an average holding period of seven to 10 years, whereas the current manager (Artemis) has a turnover significantly higher than that'.

He also understands that ESG factors can significantly impact the ability of businesses to generate profits and significantly impact the way in which these companies are valued. 'Part of the role of our analysts is to make sure they've understood any ESG factors that could impact on the ability of a business to continue to make the level of returns that we would hope it will make going forwards.

What we're trying to deliver for clients in terms of outcomes is very, very similar to the current manager, but the way in which we're going to do it is a little bit different.' Wilson also notes that Mid Wynd 'gives us the opportunity to bring that institutional investment approach and make it available to retail investors.'

Shareholders can expect changes to the portfolio, which currently holds stocks ranging from luxury goods giant LVMH and US healthcare and insurance firm **UnitedHealth (UNH:NYSE)** to payments processor **Mastercard (MA:NYSE)** and Taiwan's **TSMC (2330:TPE)**, the world's largest contract chipmaker, but also some similarities in holdings between new and old investments.

Florentin-Lee says he and Wilson 'will be sensibly but as quickly as possible transitioning it to our Global Quality Growth strategy, so it will be exactly the same. There are lots of names that are already in the portfolio, so once we've got our hands on the trust, a Mid Wynd investor won't open their portfolio and go "what the hell?" when they see it.'

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

This fund has a smart way to find good value stocks globally

Artemis SmartGarp Global's manager says the UK, China and Japan offer the best opportunities

A screening tool used by asset manager Artemis suggests investors need to look at unloved parts of the market, not chase 2023's winning trades. This year, investing in AI-related names including $1 trillion chip designer **Nvidia (NVDA:NASDAQ)** was a way to get rich, yet Artemis' SmartGARP tool suggests that is not the best place to go fishing.

'Our system has been sending a consistent message that the most attractive prospective returns are to be found in parts of the market that have fallen out of favour, not chasing the mega-cap growth stocks in the US,' says Peter Saacke, who runs the **Artemis SmartGARP Global Equity Fund (B2PLJP95)**. He suggests the UK, China and Japan are throwing up the best opportunities.

The goal is to find stocks globally which offer growth at a reasonable price. Outperformance has been impressive over the past 20 years with the fund delivering a 600% total return versus 498% from the MSCI All Countries World index priced in sterling.

On a shorter-term basis, the performance of the fund is mixed. It has lagged the benchmark on a five and 10-year view but outperformed on a three-year basis.

HOW DOES THE SYSTEM WORK?

Artemis created the SmartGARP system to take the emotion out of investing. It analyses factors such as earnings growth, valuation, revisions to earnings estimates and ESG (environmental, social and governance). The system scores companies between zero (worst) and 100 (best), and Saacke principally focuses on those scoring 90 or more and he sells holdings if their score drops below 50.

This could lead to the argument a computer is running the show, but Saacke insists there is still a need for human intervention. 'We try to codify everything we have got in our heads. But the one thing you can never codify is new information, new datasets becoming available, and us analysing them. This refinement of the process needs a human.

'SmartGARP, however smart we make it, will always be a simplification of the real world, and the real world is messy.'

Accounting changes and the impact of acquisitions and disposals are examples of areas which need human analysis, explains the fund manager. He says it takes time for analysts to update their models to reflect acquisitions, and that you have to question if big deals are worth it.

'Our programme runs every night automatically

Artemis SmartGARP Global: Top 10 holdings

Company	% of portfolio
Alphabet	2.3%
Meta Platforms	1.9%
JPMorgan Chase	1.7%
PICC Property & Casualty	1.6%
Unum Group	1.6%
Microsoft	1.6%
Sinotrans	1.5%
Philip Morris	1.4%
Toyota Tsusho	1.4%
HSBC Holdings	1.4%

Table: Shares magazine • Source: Artemis, as of 31 August 2023

How the fund's performance compares to its benchmark

	1 year	3 years	5 years	10 years	15 years	20 years
Artemis SmartGARP Global	3%	41%	33%	165%	281%	600%
MSCI All Countries World index	5%	29%	47%	169%	329%	498%

Table: Shares magazine • Source: FE, total return in sterling

and it never sleeps. But it's good to have someone on top who says, "hang on a minute" when analysing stocks.'

NO EMOTION APPROACH

The fund has positions in various banks, a sector which typically draws a Marmite reaction from investors. Some love the dividends and are happy to hold for a long time, others don't like the tightening regulation, the poor history of mistakes such as mis-selling, and the complexity of the accounts.

SmartGARP does not feel any emotions, it just recognises that companies in the banking sector can trade on low price to earnings multiples, they typically pay a growing stream of dividends and offer high yields, says Saacke. The computer's conclusion might be that certain stocks in this sector are trading at the wrong price.

LONG VERSUS SHORT-TERM HOLDINGS

The manager says the best returns for the fund have come from stocks which maintain a decent score for more than 18 months. Yet this is not a typical buy and hold portfolio. The manager looks for opportunities and is happy to own stocks for short periods.

For example, **Johnson & Johnson (JNJ:NYSE)** became a new position approximately six months ago but it did not hang around for long. 'The healthcare company is well diversified, has a very stable earnings profile and fantastic balance sheet. The shares had de-rated so we bought as it was scoring in the high nineties.

'Everything was going swimmingly well but then analysts cut forward earnings estimates and the score dropped to the fifties. We sold because of specific news flow on litigation.

'It is a good example where it looked like things were aligning, the stock re-rated after we bought and earnings were going up. Then suddenly, it goes the other way.'

VALUE TILT

At the end of June, Artemis SmartGarp's portfolio was trading on an average 8 times earnings versus 15.8-times from the MSCI All-Countries World Index benchmark.

THOUGHTS ON THE UK AND CHINA

The fund's top holdings include **Alphabet (GOOGL:NASDAQ)**, **JPMorgan Chase (JPM:NYSE)** and **PICC Property & Casualty (2328:HKG)**, the latter being mainland China's largest non-life insurance company. In a period when China is firmly out of favour with the markets, the presence of this stock illustrates how the fund is happy to look anywhere for opportunities and not simply in places doing well.

'We invest in companies, not countries. If you look at the headlines coming out of China, you would not want to touch it with a bargepole. Our job is not to pass judgment on politics but just the merits of individual companies, albeit factoring in

political and geopolitical risk.'

That might explain why it is also happy to hold UK shares despite an uncertain economic backdrop and the market being widely unloved by investors. The key attraction is being able to invest in companies whose growth prospects are undervalued by the market.

'The election in the UK next year is not going to suddenly transform the landscape into a booming economy, but at the starting valuations, you can easily see plenty of companies delivering strong profit growth – and that is not reflected in valuations.'

Similarly in China, sentiment is depressed and valuations are 'crassly low' that it just requires news flow to become slightly less negative for share prices to shoot upwards, implies the fund manager.

You will also find positions in Irish and Greek banks in the portfolio, again not the obvious places someone might expect to make money. They have been through tough times but they are now heading in the right direction, argues Saacke.

The manager's ethos is to start with a stock not priced for perfection. Instead, it focuses on things priced for poor outcomes and if they can deliver even moderate success, it believes it stands a good chance of making money.

That sounds like a high-risk approach if one were to blindly look at the cheapest stocks on the market. However, if you screen the universe to find cheap stocks with positive qualities (as per the Artemis fund approach), it theoretically helps to reduce the risks. Filtering out the ones which are likely to implode on unwelcome news.

DISCLAIMER: The author has a personal investment in Artemis SmartGARP Global.

By **Daniel Coatsworth** Editor

Is the buyback boom a help or hindrance for stock markets?

Companies on both sides of the Atlantic have proved very keen to purchase their own shares

The FTSE 100 continues to paddle sideways and is barely any higher now than it was in spring 2017, some six-and-a-half years ago. Such a turgid capital return has at least been supplemented by dividends and also share buybacks, which have played an ever-greater part of shareholder returns in the past few years, both in the UK and the USA.

Members of the UK's elite index, the FTSE 100, have announced share buyback schemes worth £46.9 billion so far in 2023. That is the second-highest sum on record and trails only the £58.2 billion returned via this mechanism in 2022.

Buybacks reached a record in the US last year as well but the pace of cash returns via share repurchase schemes has just started to slacken on the other side of the Atlantic. Research from Standard & Poor's reveals that the total value of buybacks by members of the S&P 500 index fell 20% year-on-year in the second quarter.

Those advisers, clients and fund managers who view buybacks as a good thing must now decide whether a slower run rate is a potential warning sign of tougher times ahead, at least for the buoyant US equity market. Equally, they may view any pick-up in volumes as a good thing.

Those who view them as financial engineering, and thus with greater scepticism, could be forgiven for thinking that the 2021-23 buyback splurge is a contrarian indicator, since share repurchase schemes proliferated near the equity market tops of 2006 and 2018 and all but disappeared when stocks were at their cheapest in 2009 and 2020.

CASH BONANZA

America's Securities Exchange Act of 1934 outlawed share buybacks as it deemed large-scale share buybacks could be a form of wilful share price manipulation. That was only repealed in 1982 by the Reagan administration, with rule 10b-18, and since then buybacks have become increasingly popular.

There are four arguments put forward in favour of share buybacks.

- If a company is generating surplus cash, then it can return it to shareholders and let them decide what to do with it, rather than splurge it on an unnecessary acquisition or capacity

UK buybacks on course for at least second-biggest total on record in 2023

£ (billion)

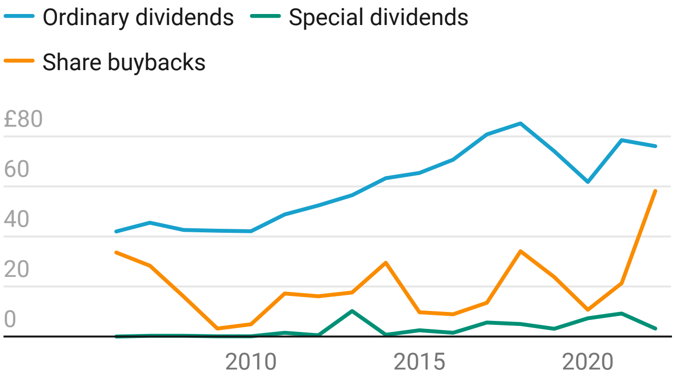


Chart: Shares magazine • Source: Company accounts

US buyback rate has cooled a little in the first half of 2023

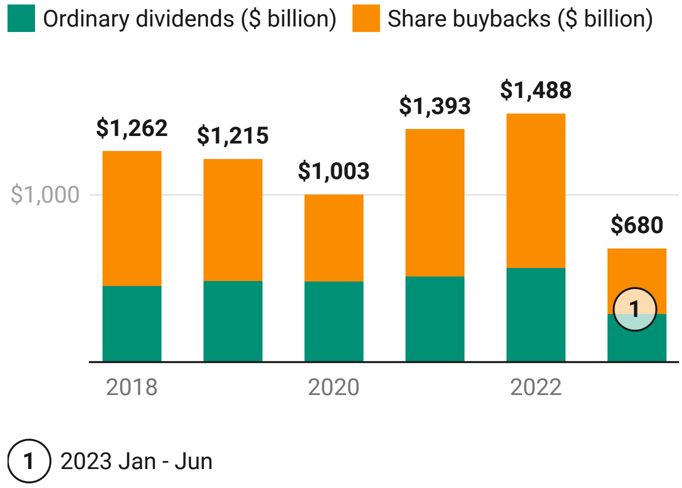


Chart: Shares magazine • Source: Standard & Poor's research

increases where risk-adjusted returns are less certain. This argument proved compelling for much of the last decade when record-low interest rate meant cash in the bank earned nothing.

- Buybacks can work for individuals depending on their tax situation, and whether they prefer to be taxed on a capital gain (buyback) or dividend (income).
- Anyone who elects to retain their shares will a firm buys back stock will have an enhanced stake in the company and thus be entitled to a bigger share of future dividends (assuming there are any).
- They can also suggest that a management team feels a company's shares are undervalued, so any move to buy back stock can be seen as a vote of confidence in the firm's near and long-term trading prospects.

All of these have been put forward to justify the boom in buybacks in both the UK and US.

Equally, there are four reasons to treat share buybacks with some degree of caution.

- A buyback could be used to massage earnings per share figures by reducing the share count at limited cost. This could be used to trigger management bonuses or stock options and is also less easy to do, and harder to justify, when interest rates on cash exceed 5%.
- There is a danger that firms fund buybacks with debt, potentially weakening their balance sheets and competitive position in the long term. That may have looked smart when interest rates were zero, but it could look dumb if the cost of money stays higher for longer than expected.
- It is easier for a board to sanction a buyback programme, or its cancellation, than it is to increase, cut or waive a dividend. Dividend cuts attract far more attention (and opprobrium).
- History shows companies have a habit of buying stock back during bull markets (when their stocks tend to be more expensive) and not doing so during bear ones (when their stock tends to be much cheaper). For example, buybacks in the US topped out in 2007 and collapsed in 2008 and 2009 only to reach new highs in 2018 as stock prices reached new peaks. A similar pattern can be seen in the UK.

PRICE DISCOVERY

Buybacks can also provide support to a share price; thanks to the steady stream of purchases they provide. Investors must therefore ask themselves what might happen if that crutch is kicked away, although they can take comfort (to varying degrees) from the identities of the biggest share repurchasers on both sides of the Atlantic.

Apple was the biggest buyback in 2023

10 biggest stocks for share buybacks in 2023

UK - 2023E	£ billion	US - H1 2023	$ billion
Shell	10.7	Apple	39.9
BP	5.0	Alphabet	29.5
HSBC	3.2	Meta Platforms	13.0
NatWest Group	2.6	Microsoft	11.2
Glencore	2.2	Exxon Mobil	8.7
Diageo	2.2	T-Mobile US	8.5
Lloyds	2.0	Wells Fargo	8.0
Standard Chartered	1.6	Chevron	7.9
Barclays	1.3	Marathon Petroleum	6.2
Unilever	1.2	Broadcom	5.6

UK total represents total payments and announcements so far in 2023. US total represents the amount paid in H1 2023.

Table: Shares magazine • Source: Company accounts, Standard & Poor's research

Sceptics will be on the look-out for any signs of a deceleration in buybacks, especially in the US. Accusations of financial engineering may mount if there are any more accidents like those that have befallen **General Electric (GE:NYSE)** or **Intel (INTC:NDQ)**. Some argued big buybacks meant those two firms focused too much on financial engineering and not enough on physical engineering, in an uncanny echo of the terse accusation outlined by J.M. Keynes in his 1936 book, *General Theory of Employment, Interest and Money*: 'When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.'

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

7 BIG pension myths busted

Covering everything from who can contribute and when, up to what happens when you die

YOU CAN'T PAY INTO A SIPP IF YOU HAVE WORKPLACE PENSION

Unlike an ISA you can pay into more than one pension in each tax year. With an ISA you cannot pay into two of the same type. Lots of people will have been auto-enrolled into their company workplace pension but might want to put some extra money away in their SIPP (self-invested personal pension) – and there are no restrictions on doing this.

The only thing you need to be aware of are the annual limits on what you can contribute to a pension – which is for all pensions you have, rather than per pension. For most people that annual allowance will be £60,000, but you also can't put more into your pension than you earned in any year – so if your earnings are lower, your annual limit will be too.

YOU CAN'T HOLD PENSIONS WITH MORE THAN ONE COMPANY

People with more than one job might find that they are eligible to join more than one company's workplace pension scheme – and there are no problems with that. If you have more than one job each of your employers will check if you're eligible to join the company pension scheme – but will base it on your earnings with that job, not on all your earnings.

If you didn't want to contribute to two company pension schemes at once you could choose to opt out of one of them. If you do that it's worth considering whether you're giving up employer matching, which could be valuable. Also, you should think about whether you want to increase the contributions you're making to the remaining pension scheme – to compensate for not paying into the other scheme.

YOU CAN'T PAY INTO A PENSION IF YOU'VE ALREADY WITHDRAWN MONEY FROM IT

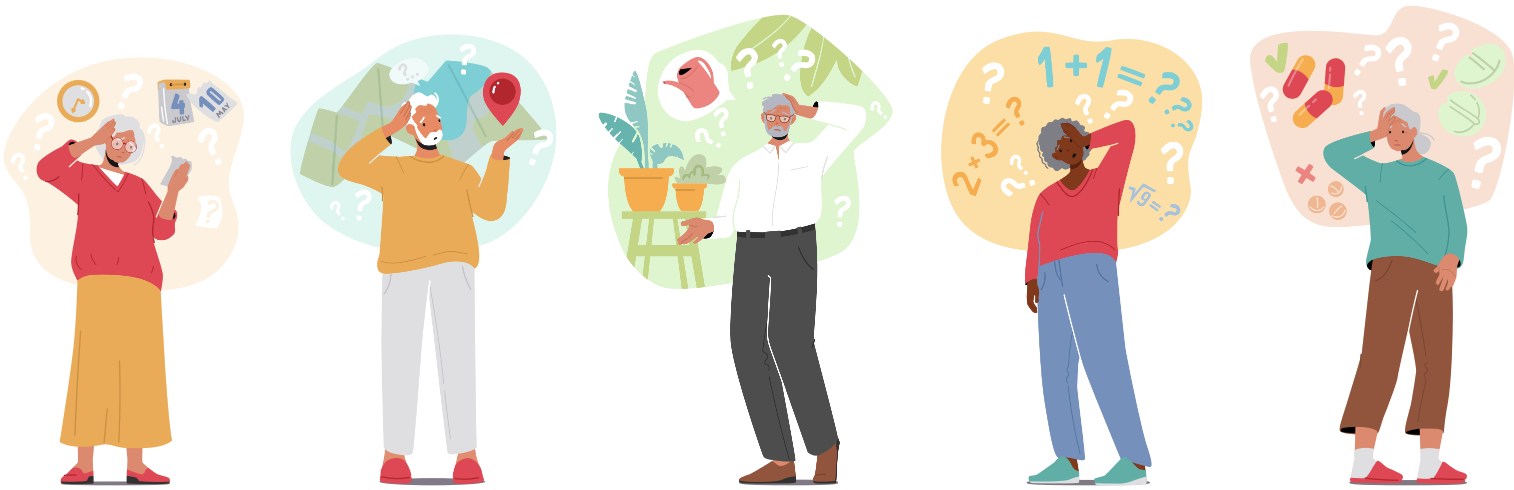
You might think that once you've accessed your pension and taken a payment from it – whether that's a lump sum or a regular income – that you can't pay into a pension anymore. But that's not the case. If you've accessed your pension you might have a lower annual limit that you can pay into the pension – catchily called the Money Purchase Annual Allowance.

It means that you can only pay up to £10,000 a year into your pension – including tax relief and any employer contributions. And if you've only taken your 25% tax-free lump sum then you can continue to have your full annual allowance.

You also need to remember the income rule from earlier – you have to have earned enough in a year to equal your pension contribution. There is a little loophole on this though, as if you don't earn anything you can still pay up to £2,880 a year into a pension, which will get topped up with Government tax relief to make a total contribution of £3,600.

SOMEONE ELSE CAN'T PAY MONEY INTO YOUR PENSION

As well as your own pension, you can also contribute to the pension of family (or even friends). This can be a good way of using up a spouse's pension allowance or of gifting money to children or grandchildren to be tucked away for the long term.



You can only contribute up to 100% of the individual's earnings into the pension (up to the £60,000 limit that everyone has) or you can pay in the £3,600 that non-earners can have in their pension. Whatever the contribution, the pension holder is eligible for tax relief on the contribution (claimed through their self-assessment tax return if a higher or additional rate taxpayer). If you're gifting money to someone other than your spouse you just need to bear in mind the inheritance tax gifting rules.

I CAN'T GET A PENSION BECAUSE I'M SELF EMPLOYED

If you're self-employed you won't have the benefit of an employer setting up a pension scheme for you and making contributions, but you can still pay into a pension. You can set up a personal pension or a SIPP and make contributions to it. You pension provider will claim basic-rate tax relief from the Government on your behalf, and then if you're a higher or additional rate taxpayer you could reclaim more tax relief through your tax return. You could also consider using a Lifetime ISA for your pension saving, have a look at the pros and cons here.

MY PENSION WILL DIE WITH ME

It depends what type of pension you have as to what happens to it on death. A defined benefit pension may pay out a continuing pension or a lump sum to your beneficiaries or it might cease on your death. The same is true if you'd used your defined contribution pension to buy an annuity. With both you need to check the details of the scheme to see whether it will carry on paying out after death.

With a defined contribution pension (like a SIPP) the pot of money remains and will be allocated to your beneficiaries – so you don't need to worry about it vanishing when you die. There are different tax charges on the pot depending on how old you are when you die, whether you've already accessed the pension, and also on how your beneficiaries take the money from the pension – either as a lump sum or as an income. The benefit of pensions is that they don't count as part of your estate for inheritance tax purposes.

YOU CANNOT SELL ANY INVESTMENTS UNTIL YOU'VE REACHED RETIREMENT

Whether you have a workplace pension or a SIPP you can buy and sell investments throughout your life. With a workplace pension you are likely to have more limited options, but you can switch between different funds and investment options within the pension scheme. With a SIPP you'll have far more investment options open to you and you can buy and sell investments whenever you want. When you buy and sell you're not withdrawing money from the pension – it still remains in the pension tax-efficient wrapper.

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

What next for UK wind? We go on site at a big new onshore development

Backed by Octopus Renewable Infrastructure Trust, the Cumberhead wind farm has capacity of 50 megawatts

The future of wind-powered energy in the UK looks uncertain after the recent failure of the Government's offshore wind auction to attract a single bidder and a rolling back of net zero targets.

However, as this author's recent visit to the official opening of the Cumberhead wind farm in Scotland shows, there are still projects being developed onshore as the country looks to transition away from fossil fuels.

BOOTS ON THE GROUND

The 50-megawatt development encompasses 12 turbines which are located alongside existing assets on a larger site. These turbines are among the largest in the UK and must be seen to be believed – towering upwards of 150 metres above the South Lanarkshire hills on which they sit.

Stepping inside these devices, they have the cavernous air of a modern-day cathedral with a winch lift at the bottom and a ladder leading up as high as the eye can see.

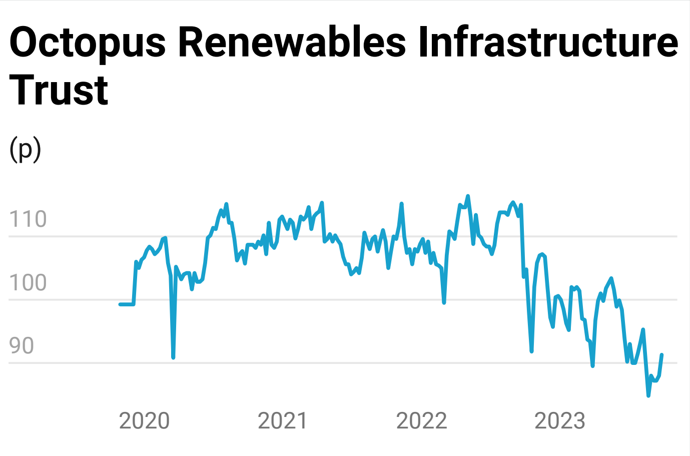


Chart: Shares magazine • Source: LSEG

This is the largest wind asset in the **Octopus Renewables Infrastructure Trust (ORIT)** portfolio. A power purchase agreement has been secured with personal care products firm **Kimberly-Clark (KMB:NYSE)** (the company behind brands like Huggies and Kleenex) to supply around 160,000 megawatt hours of renewable energy a year from the development.

As well as other onshore wind sites in the UK and Europe, Octopus Renewables Infrastructure Trust has an offshore wind farm off the Lincolnshire coast as well as solar assets and a battery storage project in development in Bedfordshire.

WHY HAS ITS SHARE PRICE BEEN WEAK?

Rising interest rates have led to higher discount rates on long duration assets like those owned by Octopus Renewables Infrastructure Trust. As a direct result, investment vehicles like this one have seen their share prices fall. Put simply, the higher the discount rate, the lower the present value of future cash flows.

David Bird, manager of Octopus Renewables Infrastructure Trust and Tom Sieber, our Deputy Editor at the the Cumberhead wind farm

Two key elements make up the discount rate – the risk-free rate, which is typically taken as the yield on government bonds, and the risk premium which reflects the risk associated with investing your money.

The risk-free rate has moved materially higher and Octopus Renewables Infrastructure Trust shares, which often traded at a premium to net asset value before rates started going up, are now trading at a 16% discount.

REASONS TO INVEST

Discussing the trust's strategy on site on what was, ironically, an unseasonably still and sunny day for the west of Scotland, manager David Bird says: 'Because we're only a third in the UK we've been less affected as it is only really in the UK where the rate has gone up for longer and faster.

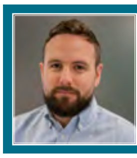
Bird argues that although the yields on bonds may now compare more favourably to the yield available from trusts like Octopus Renewables Infrastructure Trust (currently 6.4%), there are other reasons to invest.

'The thing those bonds don't have is the inflation linkage. We have a lot of inflation linkage in our revenues and by building projects like Cumberhead we're crystallising capital growth and that's not something you're going to get from bonds.'

Bird says the company is looking at asset sales to help fund its pipeline of prospective investments given the difficult environment for raising cash in the market.

Running the rule over the trust, which has an ongoing charge of 1.12%, in the wake of its recent first half results (21 September) Liberum says it continues 'to be encouraged by both the high growth and high cover of the dividend, diversified portfolio and attractive discount to net asset value'.

Liberum says the trust's financial headroom means 'the fund is well placed to continue accretive growth despite the difficult current environment for raising equity'.


By **Tom Sieber** Deputy Editor

Editor's View: Tom Sieber

How investors might be disadvantaged as paper share certificates are phased out

There is a danger that a choice popular with millions of shareholders will disappear

Many of us hold shares through a nominee account with an investment platform but a good portion of UK investors continue to have their shareholding directly recorded with the relevant company.

As part of efforts to get rid of paper share certificates, plans are afoot which could effectively remove this option.

Share registrar Computershare says it has between 8.5 and 10 million shareholdings in certificated form. Its head of UK registry Michael Sansom says many people in this position only have one or two holdings. His best guess is there are around five million investors in this category and the number has remained stable for several years.

'We want to get rid of paper certificates as much as the next person,' says Sansom. 'The question which arises is to what extent in future people should have that choice (to have direct legal title on their shares). We believe they should. What is being proposed would take away that choice.'

> **"We want to get rid of paper certificates. The question which arises is to what extent in future people should have that choice. We believe they should. What is being proposed would take away that choice."**
>
> **Michael Sansom**

In a nominee account your shares are held in the name of your broker or platform so, although you are still the 'beneficial owner', the companies in which you invest have no clue who you are.

Shareholders who participate directly with a company through physical shares currently have fee-free rights to receive dividends, vote and ask questions at annual and other company meetings as well as taking part in corporate actions like share placings.

These shareholders could end up paying for such rights should they move into a nominee account with an investment platform or broker. While most platforms currently help shareholders to access these activities, not all do so and sometimes there are fees attached.

The taskforce addressing this issue has concluded there are two viable options. The recommended approach is all currently certificated holders will have to find themselves an intermediary. Sansom adds: 'The other approach is to legislate to remove the need for issuing a paper share certificate. You could digitise the remaining elements of their holding but still allow them to retain direct legal title.'

We reported in May on a petition and 'Share Your Voice' campaign launched by **Marks & Spencer (MKS)** which hit out at the difficulties in having open communication between companies and ordinary shareholders. There is a risk the proposed dematerialisation/digitisation plans could hinder retail investors' ability to hold businesses to account.

Sansom says that although the consultation period has ended there is a case for anyone affected or exercised by this issue still getting in touch via this email address before the final recommendations are published, likely at some point next year.

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Kristy Fong, Investment Manager

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Paul Baay, CEO

Touchstone Exploration (TXP) is a Canadian-based upstream oil and gas exploration and production company currently active in the Republic of Trinidad and Tobago. It is an independent onshore oil producer in Trinidad.

Atome Energy (ATOM)
Olivier Mussat, Chief Executive Officer

Atome Energy (ATOM) is the first and only green hydrogen, ammonia and fertiliser production company listed on the London Stock Exchange. CEO, Olivier Mussat tells us more about the company and it's plans for the future during our Shares Investor Evening on 27 September 2023.

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

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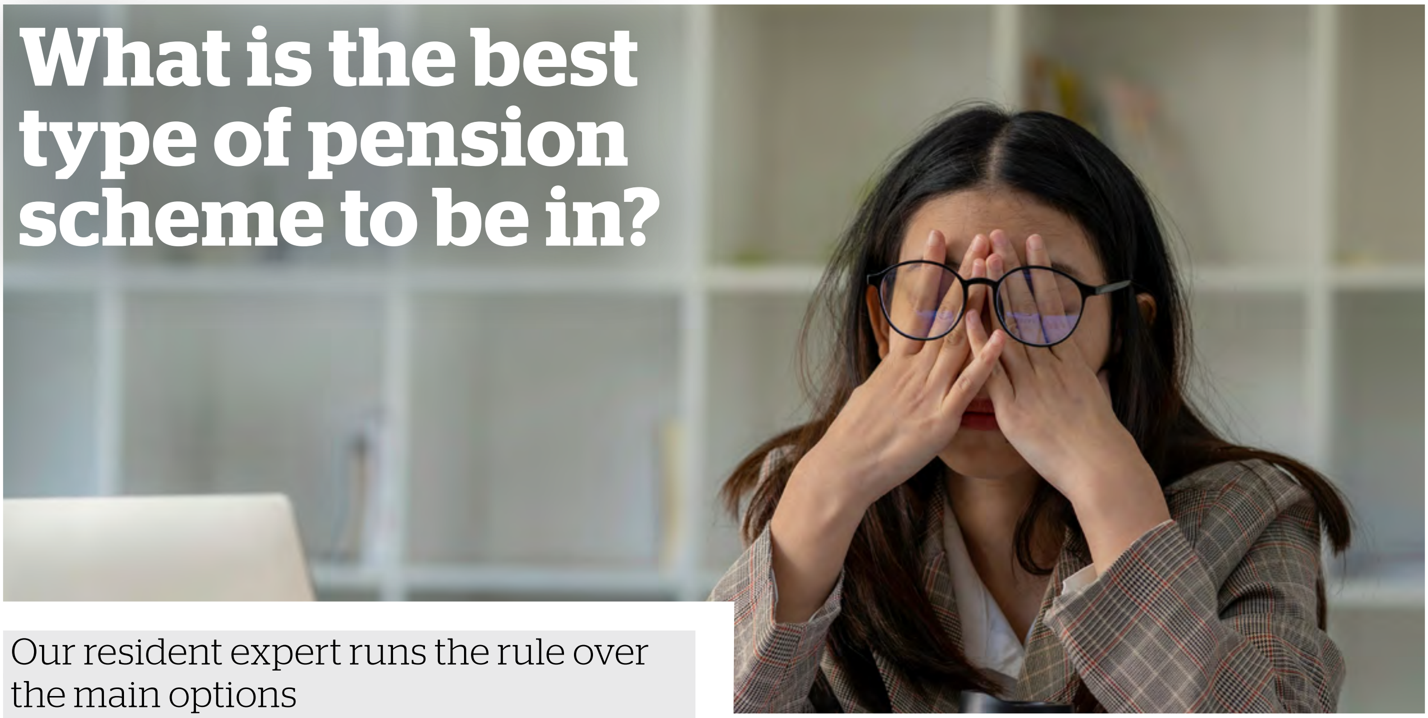
What is the best type of pension scheme to be in?



Our resident expert runs the rule over the main options

I'm disillusioned in my desk job and considering a career change. Obviously pensions are only one consideration but I was wondering which careers give the best options? It's pretty clear that it's the public sector jobs that come out on top, but what are the ultimate 'best' schemes out there?
Anonymous

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

There are broadly two types of workplace pension scheme available in the UK – 'defined benefit', or DB, schemes and 'defined contribution', or DC, schemes.

As you suggest in your question, DB schemes are primarily the preserve of the public sector these days, with most private sector DB schemes closed to new members.

THE GOLD STANDARD

If you are lucky enough to benefit from a DB pension, you are very much in receipt of a gold standard retirement package. Your retirement income will be based on the number of years you are a member of the scheme and your salary, and you will receive your pension at your 'normal retirement age'. This is often, but not always, pegged to the state pension age, which is currently 66 but due to rise to 67 by 2028 and 68 by 2046.

For each year you are a member of a DB scheme, you will 'accrue' a right to a proportion of your 'career average' or 'final' salary. Public sector schemes shifted to a career average basis a few years ago as part of wider pensions reforms initiated by the coalition government.

Different DB schemes will have different accrual rates. As an example, if you are a member of a one fiftieths accrual career average DB scheme, for every year you are a member of the scheme, you will build up a right to one sixtieth of your average salary. If you were a member of that scheme for 30 years and had an average salary of £60,000, your annual pension at normal retirement age would be £30,000 a year.

This income will also usually come with valuable inflation protection and your spouse may receive a portion of your retirement income if you die too. In addition, most DB schemes allow you to receive a tax-free lump sum, although you may need to accept a reduction in your retirement income in exchange.

Most DB schemes will require you to pay a percentage of your salary into the scheme in order to accrue a pension. These contribution rates will vary from scheme to scheme, and sometimes within schemes as well.

DEFINED CONTRIBUTION SCHEMES

The majority of Brits will be building up a retirement pot via a workplace DC scheme, with personal pensions such as SIPPs offering an alternative for those who value a bit more choice and flexibility.

Where DB schemes promise you an income from a certain age that is backed by your employer, DC schemes allow you to build up your own pension pot, usually via a combination of employee and employer contributions and upfront pension tax relief. Your money is then invested for the long-term, with any growth your fund enjoys completely tax-free whilst in the pension.

Under automatic enrolment rules, your employer has to provide you with a pension scheme that meets minimum standards. In terms of contributions, one of the key components of building a decent retirement pot, the auto-enrolment minimum is 8% of earnings between £6,240 and £50,270, with 4% coming from the employee, 3% from the employer and 1% via pension tax relief. However, lots of employers offer DC schemes with much more generous matched contributions than this, so it's worth checking with your employer (or prospective employer).

You can access your DC pension from age 55 (rising to age 57 in 2028) but, unlike a DB scheme, it is up to you to decide how to turn that pot of money into a retirement income. You can buy a guaranteed income from an insurance company (an annuity), keep your pension invested while taking a flexible income (drawdown) or take ad-hoc lump sums direct from your retirement pot. You can also mix and match these options. It's crucial when doing this you consider the sustainability of your withdrawal plan, as taking too much, too soon could leave you relying on the state in your later years.

SUMMING UP THE DIFFERENCES

In summary, DB and DC schemes are very different, with different strengths and weaknesses. A DB scheme offers security in retirement backed by your employer and often comes with generous terms, whereas DC is more flexible and allows you to build a retirement income plan to suit your needs.

DC schemes also give you the opportunity to invest for long-term growth, although this is not guaranteed as investments can go down in value as well as up. In addition, a DC pension allows your beneficiaries to get anything left in the pot when you die, whereas DB will generally die with your spouse/dependant.

Regardless of which type of pension is on offer, it's really important to check the pension terms when you're scouting for jobs, because ultimately this will be a key part of your overall remuneration package.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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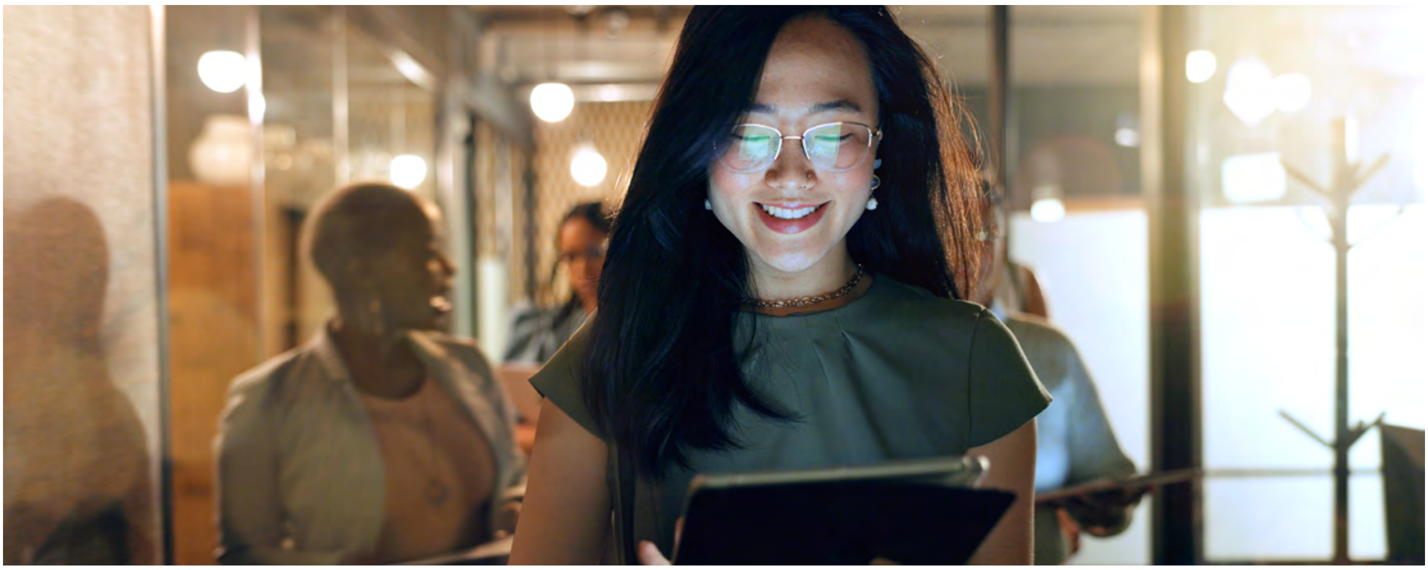

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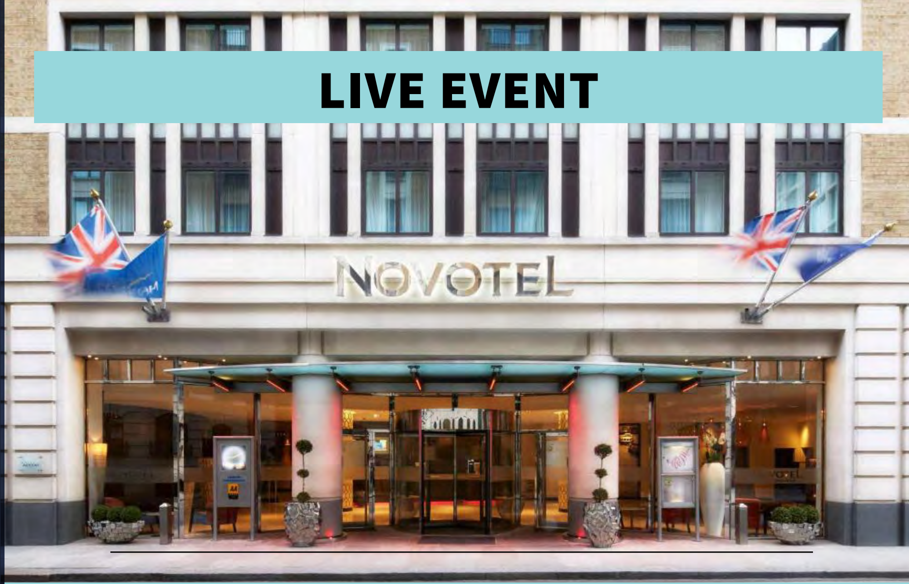

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