A SHARE ADVISOR SPECIAL REPORT

5 SHARES TO RETIRE ON

Motley Fool®
Share Advisor®

March 2013

5 Shares To Retire On

Brought to you by **Motley Fool Share Advisor**

Dear Fellow Investor,

Taking trips to sunny beaches...

Enjoying fabulous food and fine wine...

Relaxing in peace and quiet in a country home...

Sports cars.

These are just a few of the things investors dream about when they look over their retirement portfolios.

Whatever your fancy, your retirement portfolio can be your key to financial freedom, and that freedom can depend on the quality of your investment decisions.

Unfortunately, there is no secret to immediate wealth, and building a successful retirement portfolio rests mainly on a savings schedule (i.e. living below your means, so you can put aside a decent amount) that can be boosted by choosing the right sort of investments.

Which shares you put into your portfolio depends on what type of investor you are. For example, how long do you have until retirement? How much volatility can you handle? Do you hold other asset types (bonds, property, or gold)?

However, we firmly believe that companies with healthy balance sheets, dominant market positions, and reliable cash flows should form the core of every investor's portfolio, retirement or otherwise. The five shares discussed in this special report demonstrate all or most of these characteristics, and we think they should form an excellent foundation upon which you can then add further investments.

At first glance, you might not think these five are most exciting of shares, but that's exactly the point. We're looking for shares that can form the heart of your portfolio – companies you can buy into and you shouldn't have to watch every day.

We reckon that a well-diversified portfolio should have at least 20 shares, so there is plenty of room to add some riskier, more exciting shares if you so choose.

And our selection of five shares begins with a giant in the world of consumer brands...

Nate Weisshaar & Nathan Parmelee
Senior Investment Analysts,
Motley Fool Share Advisor

Unilever
LSE: ULVR

Unilever (LSE: ULVR) boasts an impressive portfolio of brands across personal care (Lux and Dove), foods (Knorr and Hellmann's), home care (Cif and Surf), and refreshment (Lipton and Heartbrand). In fact, it has 12 brands that can boast more than €1 billion in sales a year, and its total annual sales come to more than £40 billion.

Unilever sells its products in 190 countries to 2 billion consumers every day, and over half of those sales are happening in emerging markets (a characteristic that sets Unilever apart from many of its competitors).

UNILEVER

LSE: ULVR
Market Cap: £68 billion
Yield: 3.2%

The company's sales to emerging markets grew over 11% last year, while sales in developed markets like America and Europe were mostly flat.

A combination of advertising and innovation should keep the company's brands prominent in consumers' minds, and up to speed with changing tastes and needs.

For example, Unilever spent nearly £5 billion on advertising in 2011, and more than £800 million creating new or modified products and packaging

Unilever's investment in its brands should also provide it with pricing power, as consumers tend to pay up for the quality that they have come to associate with their favourite products.

The ability to increase prices has become increasingly important in the current environment of austerity in Europe and North America, and in coping with rising input prices.

Unilever's products tend to be relatively inexpensive and purchased frequently (they're sometimes referred to as Fast Moving Consumer Goods, or FMCG), and they are sold around the world.

This should mean that, as long as the company's brand appeal remains intact, its cash flow should be relatively resilient, regardless of economic conditions. People like to eat and shower (though generally not at the same time), even when times are tough.

The company's focus on emerging market consumers should mean that it can also perform well when things pick up. Increased wealth and buying power in fast-growing markets should drive demand for more dishwashers and washing machines, which should create a whole new group of Unilever customers.

This steady stream of sales, and the company's emphasis on improving efficiency wherever possible, mean the company's £8 billion of net debt doesn't overly concern us.

Over the last twelve months, Unilever generated over £3.3 billion in free cash flow, which easily covered its debt obligations. Reassuringly, much of the company's debt maturities are spread out between 2015 and 2032, which shouldn't present too much of a repayment or refinancing problem.

Unilever's dividend yield isn't the highest around, but the company's strong cash flow should help bolster it in times of turmoil. That said, Unilever did reduce its final dividend payment in 2009, amid the worst of the financial crisis. Its payout has recovered since, and Unilever should be able to grow it going forward.

National Grid

LSE: NG.

As we said earlier, excitement isn't what we're looking for as we build the core of a retirement portfolio, so the boring activities of **National Grid** (LSE: NG.) could be just the ticket.

National Grid owns and operates the electrical lines and natural gas pipelines across England and Wales (as well as operating two electricity transmission networks in Scotland).

Across the Atlantic, National Grid has similar operations in the north east of the United States (locally referred to as New England). The company also owns and operates liquid natural gas (LNG) storage facilities, which help feed its pipelines.

NATIONAL GRID
LSE: NG.
Market Cap: £26 billion
Yield: 5.6%

The UK electricity operations generated £1.4 billion in operating income last year, or nearly 40% of the company's £3.5 billion in total operating income, while the US operations provided £1.2 billion (34%), and the UK gas distribution business generated another £763 million (21%).

We think National Grid has a pretty nice set up. Aside from a couple of power plants in the US, most of what the company does involves charging others for using its power lines or pipes – a toll booth scenario, you could say.

Apart from storm damage and basic maintenance, the daily operations of National Grid shouldn't be all that intense – it can almost just sit back and watch the cash roll in.

However, there is no such thing as a free lunch. The company's assets require heavy up-front investment – National Grid spent £3.4 billion on capital investment last year, and plans to invest £40 billion through 2021.

Its assets are vital to the economy and customers, and this provides the company with a monopoly. As a result, the bulk of its operations are regulated in both the UK and US. This means the government provides the company with nearly guaranteed returns, in exchange for the promise of stability.

As long as National Grid makes the necessary investment in its distribution networks to keep the juice flowing, it has an excellent chance of making a solid return on that investment.

This arrangement also allows National Grid to fund its investments through affordable debt, because its lenders know there should be relatively stable cash flows underpinning the company.

This is why investors don't seem overly concerned about the massive £26 billion in net debt on the company's balance sheet.

Of course, fluctuations in economic activity and the weather can alter how much demand there is for electricity and gas (if fewer widgets are getting manufactured, there will be less demand for electricity, and unseasonably warm winters mean less gas is needed for heating).

However, we reckon there are few things more reliable in our modern society than the ongoing need for energy.

This backdrop has allowed National Grid to reward its shareholders with a strong and growing dividend. Since 2007, National Grid's dividend has grown an average of 6% per year, and last year it was up 8%.

We think National Grid offers long-term investors an attractive income stream, and it's just the type of investment we're looking for at the heart of a retirement portfolio.

Tesco
LSE: TSCO

Times have been tough for **Tesco** (LSE: TSCO) recently, with the company's first profit warning in a generation sending the shares down more than 15% in one day back in January 2012.

However, we think that this company remains the king of retail in the UK. What's more, its international presence sets it apart from rivals such as **Sainsbury** (LSE: SBRY) and **Morrison** (LSE: MRW), which rely solely on the UK for their custom.

Tesco shoppers provide the company with £65 billion in revenue annually, with two-thirds of that coming from the UK. Tesco also has a significant – and growing – presence in South Korea, Thailand, Poland, Hungary, and the Czech Republic.

TESCO
LSE: TSCO.
Market Cap: £27 billion
Yield: 4.3%

The company is also nurturing its presence in China, Turkey, Malaysia, and Slovakia. Each of these markets should offer meaningful growth opportunities, well above what is available at here in the UK.

Speaking of the UK, Tesco is still feeling the heat from its competitors – especially heavy discounters like Aldi and Lidl. In response, CEO Philip Clarke and his team have implemented a £1 billion update to its UK shops and in-store offering, in order to improve Tesco's standing among its customers.

It is still early days – it takes time to turn around a behemoth like Tesco – but there have been early signs that it's winning back customers.

Tesco accounts for 30% of the UK grocery market, and continues to invest in maintaining its dominance. The nature of this investment has changed, however, with an end to the land wars and building of daunting hyper-markets. These days, Tesco is building out its network of convenience stores (under the Metro label), and bulking up its online shopping offer.

The stock market doesn't appear to be happy with Tesco currently, because its once impenetrable image of retailer extraordinaire has been punctured. Meanwhile, the efforts to shore up its home market mean profits are likely to be flattish this year and possibly the next.

However, Tesco's new investment plan should result in stronger cash flows, because capital expenditure is likely to be lower. This means even if operating income is flat this year, free cash flow should be up from the £2.1 billion achieved last year.

This cash flow provides decent cover for its dividend, and we think the company's balance sheet is in better condition than it may appear on first glance. The maturities on its debts are spread out from 2014 to 2057, and backed by a property portfolio currently valued at £37 billion.

So while Tesco may be under some pressure currently, we think the company's dominant market position and strong cash flow should allow management to implement its new strategy, and guide the company through to better times.

We reckon current investor doubts have resulted in an appealing discount on Tesco shares. What's more, we believe that savvy investors that take advantage of this deal could see their retirement portfolios benefit handsomely down the road.

Diageo

LSE: DGE

When building a strong core for your retirement portfolio, big can be beautiful, because large companies should have the geographic and product diversification to weather most storms. And in the spirits business, they don't come any bigger than **Diageo** (LSE: DGE).

Diageo also appeals because of the relatively defensive nature of its products – people continue to buy alcohol in good times and bad, and often view it as a small luxury, and seem to be willing to splurge a bit on brand names.

DIAGEO
LSE: DGE
Market Cap: £46 billion
Yield: 2.4%

Speaking of which, Diageo has lots of brand names: Johnnie Walker – the world's number 1 Scotch whiskey, Smirnoff, Bailey's, Captain Morgan, and Guinness are just a few of the headliners among the company's dozens of labels.

Diageo gets 66% of its sales from spirits, and can claim 8 of the top 20 spirit brands in the world. The worldwide popularity of Guinness drives its beer business, which contributes just over 20% of annual sales.

The remainder is composed of wine and ready-to-drink beverages (a rather confusing title for pre-mixed cocktails).

Just as impressive as its brand portfolio is its global reach. Diageo's products are sold in 180 markets around the world. Last year, emerging markets accounted for 40% of total sales, and the bulk of sales growth.

Recently, Diageo has splashed out £1.3 billion for Mey Icki, the largest distiller in Turkey, £1.3 billion for a controlling stake in India's United Spirits, and £280 million for Brazil's Ypioca.

Over the past five years, Diageo has poured out £7.3 billion to promote its brands. All this activity has pushed its net debt up to £7.5 billion, but we think this looks manageable, given its £1.6 billion of free cash flow last year. Additionally, Diageo was able to refinance £1.6 billion of its debt in the last year at very attractive rates and nice long maturities.

Although Diageo's dividend yield is lower than most blue chips, its payout has been growing nicely recently. It's up an average of 6% per year over the last five year, and 8% on last year.

The spirits industry is a rather mature one, especially in Europe and North America, but we believe that Diageo's strong brand portfolio and growing presence in the rapidly growing emerging markets should provide it with the ability to keep growing cash flow – and its dividend – for years to come.

Adding Diageo shares to the core of your retirement portfolio could have you enjoying a little high-end tipple, when you eventually kick back and enjoy those dreamy sunsets on foreign beaches.

GlaxoSmithKline

LSE: GSK

Saving for retirement is all about building up an insurance policy against the uncertainty of the future. If we knew exactly how much our golden years were going to cost us, it would take some of the stress out of our working life.

Unfortunately, we can't see the future with that amount of precision. However, as science helps us live better for longer, it does seem likely we'll be using more and more pharmaceutical products.

GLAXOSMITHKLINE

LSE: GSK

Market Cap: £65 billion

Yield: 5.2%

As one of the largest pharmaceutical companies in the world, **GlaxoSmithKline** (LSE: GSK) should benefit from demographic trends in developed economies, like Europe and the US, as well as the rising wealth and demand for modern healthcare in emerging markets.

Of course, pharmaceutical companies are currently under significant pressure from generic drug makers, as well as budget constrained governments (collectively their largest customers).

This has resulted in slowing sales and falling margins (not the most attractive characteristics for a long-term investment you might think).

However, GlaxoSmithKline has recognised the realities facing its business, and outlined a strategy for dealing with this challenging environment since the arrival of current CEO Sir Andrew Witty in 2008.

Over the past four years, GlaxoSmithKline has increased its focus on emerging markets, streamlined operations in its slower growing markets, and refined its all-important research and development (R&D) programme.

It has decreased its reliance on the US and European markets, from nearly 75% to just over 60% of total sales, and formed partnerships with several emerging market players, like Aspen in South Africa, Dong-A in South Korea, and Dr. Reddy's Laboratories in India.

Since 2008, sales to emerging markets have more than doubled, and now account for over a fifth of GlaxoSmith-Kline's business.

And all is not lost in developed markets. Despite a tough operating environment, GlaxoSmithKline still reported sales in excess of £26 billion over the past year (admittedly down slightly from the previous year), which it converted into £5.2 billion in free cash flow. This prodigious cash generation goes towards paying dividends (providing an very attractive yield) and buying back shares.

GlaxoSmithKline's massive cash flow generation also fuels its enormous R&D budget, which currently exceeds £3.5 billion a year.

This push for innovation is important to the continued success of the company, as blockbuster drugs lose their patent protection and give way to generic competition. GlaxoSmithKline's current drug pipeline has 8 potential new releases over the next two years.

With the costs of healthcare under ever-increasing scrutiny, the future of GlaxoS-mithKline may be different from what it has experienced in the past. But we think the company has been taking the right steps to adapt to this new reality.

Whatever the future brings, GlaxoSmithKline is likely to be a part of it, and we think its shares should provide a solid base for a retirement portfolio.

How you could retire with financial confidence

All the five shares we have highlighted in this report have broad global exposure, dominant market positions, and/or strong brands that should provide steady cash flows that long-term investors look for.

We firmly believe that building a portfolio with shares like these as a base is a great first step for any retirement portfolio.

What's more, we hope that the market's moodiness will give you the chance to add to your positions in the shares several times between now and when you're finally ready to retire.

But although we think investing in the 5 shares we've told you about today could certainly be an excellent way to start securing your retirement, we want you to have access to everything we believe you need to retire with full financial confidence.

As we said at the start of this report, it's no secret we believe a well-diversified portfolio should consist of at least 20 shares. And we want to offer you this unique opportunity to start building that portfolio immediately... by joining us at *Motley Fool Share Advisor* right now.

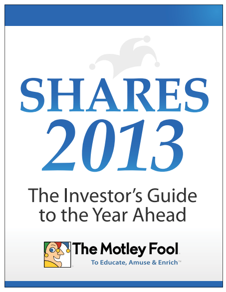
Because as a special thank you for taking the time to download this report, we want to give you an incredible offer today. Right now, we're slashing **50% OFF** your first year's subscription to *Share Advisor* if you join us through this special report.

That means you'll gain access to everything the *Share Advisor* community has to offer, which includes:

- **Our TWO Latest Share Recommendations, Every Month:** You'll receive TWO fully researched, high–conviction share recommendations every month from the *Share Advisor* analyst team… that's one growth and one income pick that we consider have *superior* money-making potential.
- **Ongoing Coverage:** We won't leave you guessing once we've recommended a company! Easy-to-follow 'buy-hold-and-sell' guidance advice for all of our current share picks in the service comes as standard.
- **All Back Issues:** Providing you with all *Motley Fool Share Advisor* recommendations and commentary since inception. If there's any share you're interested in that's ever been covered by the *Share Advisor* team, you can use our complete archives to access all the information we have on it.
- **Weekly Updates:** With updates every week, you get all the important information you need to know about right away — from buying and selling shares to our analysis of specific developments. You'll also have access to all previous updates on our members-only website.
- **Discussion Boards:** Talk with other members and learn more about each company you're invested in. Our team of analysts is also available via the discussion boards to answer any questions you have about the recommendations we make, as well as anything else about investing.
- **Live Interactive Scorecard:** Our scorecard lets you keep track of how we're doing relative to the UK stock market, and it's updated throughout each trading day.

PLUS! Your FREE copy of *Shares 2013: The Investors Guide to the Year Ahead*.

This 'must-have' resource for any serious investor could be your key to making money in the market this year. **In all, you'll have immediate access to what we believe are 8 top share ideas with potential to boost your returns in 2013… right at your fingertips!**



And although we normally charge £199 per annum simply for access to all of *Share Advisor*'s actionable information, with today's special offer we'll slash that price in half.

That's an incredible 50% discount, giving you everything we just told you about at the special introductory price of just £99 for your first year.

What's more, we'd like to offer you this compelling opportunity – if at any time in the first 30 days of your membership you aren't completely satisfied, just let us know, and we'll REFUND YOUR SUBSCRIPTION IN FULL. NO QUESTIONS ASKED. (Your FREE copy of *Shares 2013* is of course yours to keep, with our compliments.)

But you need to act now. Because we want you to have all the information you need to follow up with further investments, expand the base of your portfolio, and build the best investing strategy you can for your retirement.

CLICK HERE to take advantage of this special introductory offer today!

Sincerely,

Nate Weisshaar & Nathan Parmelee
Senior Investment Analysts,
Motley Fool Share Advisor

Disclosure: Nathan Parmelee owns shares of GlaxoSmithKline. Nate Weisshaar and The Motley Fool owns shares of Tesco. The Motley Fool has recommended shares of Unilever.

RISK WARNING

- The prices of all shares, and the income from them, can fall as well as rise.
- You run an extra risk of losing money when you buy shares in certain smaller companies including “penny shares”.
- There is a big difference between the buying price and the selling price of these shares. If you have to sell them immediately, you may get back much less than you paid for them. The price may change quickly, it may go down as well as up and you may not get back the full amount invested. It may be difficult to sell or realize the investment.
- You should not speculate using money you cannot afford to lose, or rely on dividend income for non-discretionary living expenses.
- Some securities may be traded in currencies other than sterling, and may also pay dividends in other currencies. Changes in rates of exchange may have an adverse effect on the value of these investments in sterling terms. You should also consult your stockbroker about any additional dealing or administrative charges.
- We have taken all reasonable care to ensure that all statements of fact and opinion contained in this publication are fair and accurate in all material aspects.
- Investors should seek appropriate professional advice from their stockbroker or other adviser if any points are unclear.
- This report gives general advice only, and the investments mentioned may not necessarily be suitable for any individual.

A MOTLEY FOOL SHARE ADVISOR SPECIAL FREE REPORT

For all queries please email CustomerServices@Fool.co.uk
Alternatively you can call us on 0207 462 4300 (Mon-Fri, 9am-5pm).

Authorised by The McHattie Group, St Brandon’s House, 29 Great George Street, Bristol, BS1 5QT.
Tel: 01179 200 070 | Fax: 01179 200 071 | Email: enquiries@mchattie.co.uk
The McHattie Group is authorised and regulated by the Financial Services Authority.