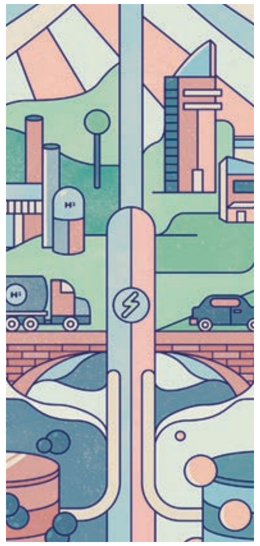
JM FINN

No.36 *Autumn 2021*

Prospects

The JM Finn Quarterly Periodical

No.36
Autumn 2021



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Cover Illustration:
Adam Mallett/Everything–Connected

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Welcome

As we start moving our default working location from home to the office, albeit with a greater measure of flexibility, there is a shared sense of excitement across our London based staff for our new office.

All being well, we will move into 25 Copthall Avenue in early October; and not before time. We were recently reminded how overdue this move is when staff arrived one morning to find the pipes above their desks had burst and the floor was flooded. Now that remote working is engrained in our approach, thankfully it did not impact their day, but it did seem rather serendipitous that this happened in the month before we were due to move. Many clients who have visited our Coleman Street office will have noticed the lovely décor in our client meeting area. Sadly, this same comfort has not extended to our staff floors and I would like to thank everyone based in London for their patience, which I believe will be deservedly rewarded once we are in situ in Copthall Avenue.

As well as welcoming all our teams there, I very much hope that those clients who have started travelling again, will come and visit us as, despite discovering the benefits of video conferencing, I do believe we lose a lot of the nuance and subtleties to a relationship that face-to-face meetings offer. But as ever, we will look to remain flexible to suit your needs.

Despite a sharp fall in July, markets have been relatively flat during the summer. The outlook remains positive but we continue to keep a close eye on those indicators that might suggest increased inflation. John Royden uses his regular "Bond in focus" slot, to look at the arguments that are driving the direction for inflation, whilst Brian Tora suggests in his article on page 20, that the current supply chain issues may drive increased productivity, which could help the impending unemployment problem caused by the ending of the furlough scheme.

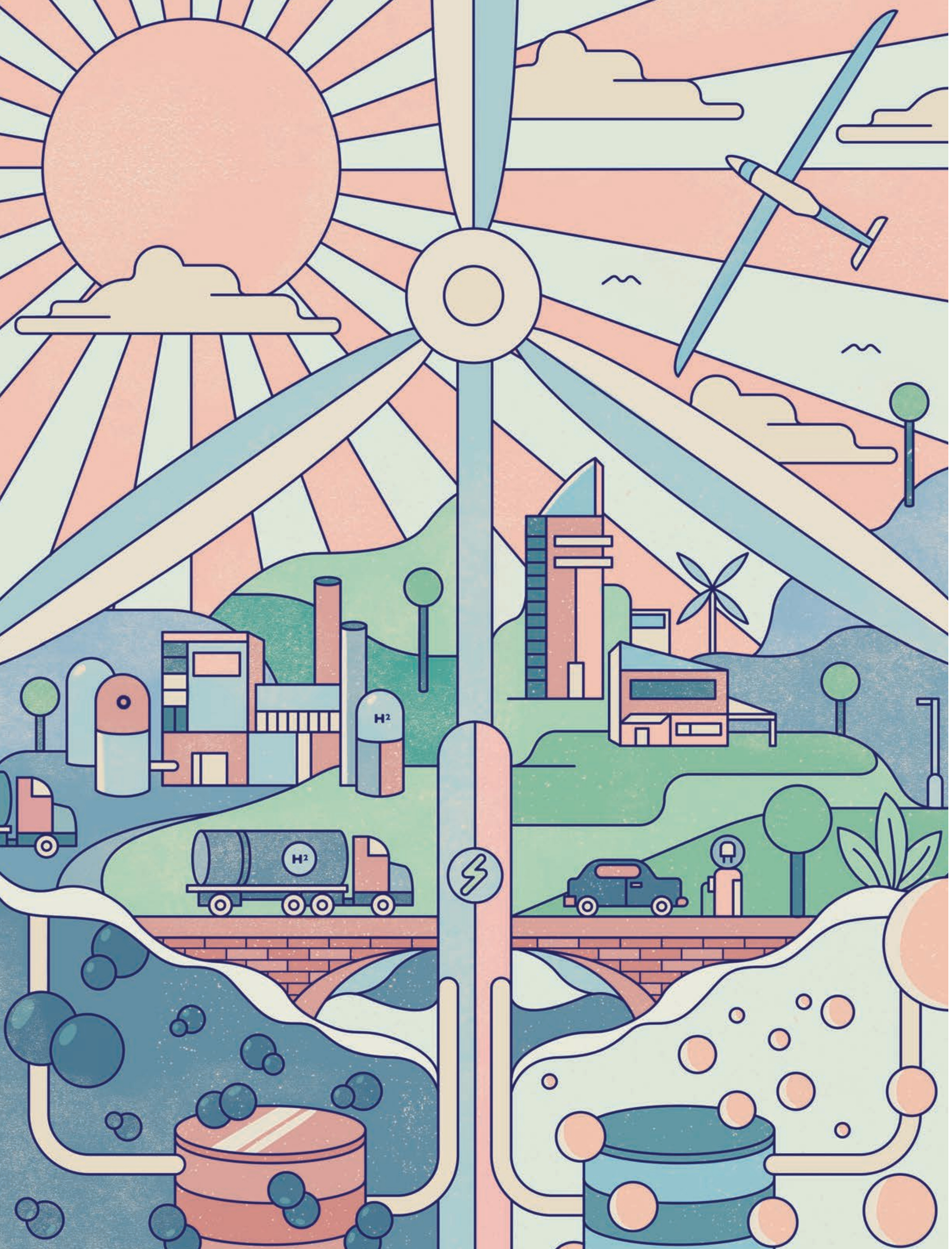
Elsewhere, we discuss the importance of taking control of your pension. When talking to clients, we realise they often exclude their pension when discussing their overall wealth situation, but often a pension is the largest and most important asset so it can be important to review your pension(s) as you would your ISAs or investment accounts. Our wealth planning team are well versed in helping clients with their retirement plans and we would encourage everyone to dig out their old pension paperwork to see if any consolidation can help enhance your retirement.

With tax rises on the horizon, it may also be a good opportunity to review how your wealth is structured, so please do talk to your investment manager if you feel a conversation with one of our wealth planners might be worthwhile.

As schools go back and the summer ends, there is very much a new term feeling and one that we must hope continues. We will of course be ready for any announcements from the government about social distancing, but the narrative now seems to be about looking forward and working out how we pay for the last 18 months.

Hugo

Hugo Bedford
CEO



Editorial

Energy transition: Understanding Hydrogen

James Ayling, CFA
Research Analyst

Illustration by Matt Glasby

It is increasingly apparent that the world needs to rapidly decarbonise and switch towards cleaner energy generation technologies or face unfavourable climate change and lasting planetary damage. Hydrogen offers clean fuel potential to reach global net zero targets so we asked James Ayling to provide an educational hydrogen overview.

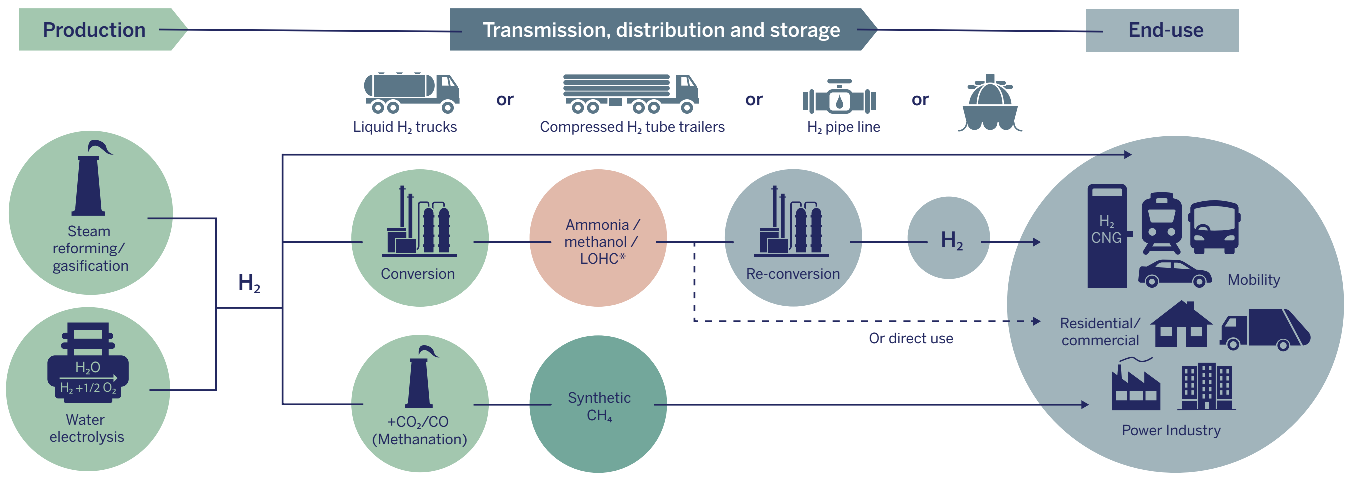
The dream: Wind blows a turbine to make electricity, which performs electrolysis on water, splitting it into hydrogen and oxygen. Hydrogen then travels through the gas grid network to my home where a combined heat and power system provides all my energy needs and waste water from this system becomes my source of drinking water.

Currently global production of pure hydrogen is c.74m tonnes per year, against which c. 830m tonnes of CO2 are by-produced as a pollutant. Today, hydrogen is far from green with low carbon hydrogen accounting for <5% of production of which renewable-energy-produced hydrogen is <1%. Current major uses of pure hydrogen include refining oil and creating ammonia for fertilisers (c. 90% of demand). Yet, hydrogen use could broaden significantly if costs decline over the next few decades.

Although hydrogen is an abundant element, it is principally found within chemical compounds such as water or methane from which it needs extracting. Hence, it's an energy store not an energy source. And, despite hydrogen being a colourless gas, production has become an increasingly colourful affair, reflecting varying carbon intensity production pathways.

> **Despite hydrogen being a colourless gas, production has become an increasingly colourful affair.**

Today, most hydrogen is produced from steam reforming fossil fuels, namely methane from natural gas. This well-established industrial process relies on extensive gas pipeline infrastructure. In this process, high temperature steam reacts with methane to produce hydrogen. This is termed 'Grey hydrogen' as it is sourced from fossil fuels and emits carbon dioxide (CO2) as a by-product pollutant. Policymakers hope to improve Grey hydrogen, in the nearer term, by employing carbon capture technologies to extract the CO2 before it enters the atmosphere; creating 'Blue hydrogen' and, a CO2 storage problem!



Meanwhile, 'Green hydrogen' is seen as hydrogen nirvana – renewable electricity is used, via electrolysis, to split water into hydrogen and oxygen - a heavily decarbonised production process. Green hydrogen offers the most exciting long term potential, with a highly complementary conduit to deal with the intermittency challenge of renewables. Today alkaline electrolysers are the most mature technological approach but, a number of high-tech UK companies are delivering innovations in newer electrolysis methods, such as proton exchange and solid oxide. Yet cost, reliability and durability present meaningful commercialisation headwinds for green hydrogen ahead. Another colour, 'Turquoise hydrogen' is gaining increased literature reference as an interim step toward Green hydrogen. Preferably using renewable energy as the process' energy source, it is produced from methane pyrolysis, which splits methane into hydrogen and solid carbon. Hence, no CO2 is produced negating carbon capture and storage needs.

Further colourful variants of hydrogen exist with more emerging from various R&D stage technologies globally. However, the direction of travel from policymakers grows clearer; decarbonised methods are preferred, so scale-up investment is needed to bring down greener production costs.

Given the vast size of the global energy system, large volumes of hydrogen would need to be produced, stored and distributed across geographies and, despite hydrogen's high energy density by weight, it suffers low energy density by volume which makes moving and storing hydrogen more challenging.

> **Green hydrogen offers the most exciting long term potential.**

Hydrogen can be produced and used on-site which works well for industrial settings but this isn't sufficient for widespread use particularly as renewable based source energy is, to a fair degree, a geographical game; the UK benefits from a competitive advantage in wind so our hydrogen production is likely to be concentrated around coastal areas.

If, then, hydrogen needs to be produced at sites far from use, as investors, we need to consider the transport and storage costs akin to traditional fuels – the fundamental economics aren't really different. Local distribution could be covered by pipeline infrastructure, for which countries already have knowledge and experience from working with natural gas, albeit leakage problems, for hydrogen, would be worse! Transnational distribution is more troublesome. Shipping is more likely but here hydrogen's volume weakness means either converting into denser compounds such as Ammonia or liquefying, which requires -253 degrees Celsius; both processes will consume additional energy inputs and hence costs.

Similarly low volume density implies higher storage costs. Small storage can be achieved through pressurised storage vessels but for large scale storage, there are two more likely stores; salt caverns and, disused oil and gas fields. Here hydrogen will have to compete with CO2 based storage needs; planetary decarbonisation necessity may rank atop hydrogen.

Traditional demand for hydrogen is focused around industrial processes; oil refining, fertiliser and methanol production. These are critical modern-day processes that impact our daily lives. But future opportunities across heat, power and transport may dwarf current demand volumes.

In heat, hydrogen could be used either directly or indirectly through boilers or combined heat systems to provide commercial or residential heat. Furthermore, hydrogen use in industrial heating could be expanded to high temperature applications such as making steel – to heavily decarbonise production.

In power, hydrogen could be input into fuel cells to produce electricity with water produced as waste. Useful applications alongside generalised commercial and residential building power include back-up decentralised power generation for key infrastructure assets such as data centres and hospitals.

In transport, hydrogen refuelling could be as quick as petrol or diesel refuelling; outperforming battery charge times. I expect applicability to centre on heavy transport where batteries are likely to be less capable and depot based infrastructure is more acceptable e.g. shipping, aerospace, trucking and, plant machinery.

Long term prospects for hydrogen appear bright. Hydrogen offers wide applicability across heat, power and transport end markets but hydrogen is not a complete energy panacea. Current technology risks are aplenty and ahead meaningful cost reductions are needed to unlock hydrogen's fuller potential. Government subsidies or improved carbon pricing mechanisms could help accelerate hydrogen adoption. Nevertheless, investors may be wise to look across supply, distribution and demand verticals when seeking hydrogen exposure.

IMPERIAL BRANDS

Rheanna Filmer
Assistant Research Analyst

PRICE
£15.34

52 WEEK HIGH-LOW
£16.86—£12.03

NET YIELD
7.83%

HIST/PROS PER
10/6.2

EQUITY MARKET CAP (M)
£14,513

Imperial Brands (IMB) is a multinational nicotine (née tobacco) company. They are the fourth largest nicotine company globally, and their largest markets are the USA and Germany. The Tobacco & Next Generation Products (NGP) division is the larger of IMB's two and accounts for 88% of revenues. 'Tobacco' is the sale of traditional combustibles (e.g. cigarettes) and 'NGP' refers to the sale of generally "less harmful" vapour products.

IMB has struggled recently; in addition to an inhospitable regulatory environment for its traditional combustibles, they have struggled to get a handle of the NGP market and consumer. A new chair and CEO were appointed in 2020, and the business underwent an in-depth market analysis to identify strong growth drivers and, perhaps more importantly, which initiatives to abandon. For example, IMB cancelled an initiative introducing NGPs to some of their larger combustible markets as a result of poor consumer uptake. Subsequently, they have expanded the salesforce for combustibles in their largest markets.

IMB's challenge now is executing these new strategies. However well they execute though, the tobacco industry is ultimately in structural decline as global tobacco sales volumes decline c.4% per annum globally.

Please read the important notice on page 1.

Guest Editorial

The business of fear

By Mind Zone Coach, Gary Boyes

I have loved the unique game of golf for many years and think there is just no sport that comes close. It is a pure game of consequence (much like business and life).

The more I play and the more I watch the experts play, the more I appreciate the fact that it is not just about the skill of hitting a golf ball consistently, but also how much the mind comes into play, particularly at times of so-called 'pressure'. Jack Nicklaus, regarded by many as the greatest golfer with a record to justify that, once said: 'Pressure is what you live for. If you are going to be successful in life, you are going to have pressure'.

Clearly, that works outside of golf also. In your work life or personal life, there will be a multitude of 'pressures' that you will have to tackle and overcome, sometimes on a daily basis. Meeting deadlines, ensuring business matters are carried out professionally, efficiently and with a return on investment. If it was easy dealing with this pressure, everyone would do it, surely.

Pressure, or fear, is a strange phenomenon though and starts in your mind that 'something will go wrong' (or more than likely will go the way you are thinking if you are feeling that 'fear'). Bizarrely, once money is involved on the outcome of a golf match, or perhaps a business deal, the pressure/fear heightens!

Now, time here for a little context; yes, you want to be successful at whatever you do, but let's have a reality check here regarding pressure or fear. Fear is not knowing where your next meal is coming from for your family, fear is being confronted by a potential life-changing incident, a dangerous threat to your life… it's not about winning a game of golf or completing a deal that isn't going to have life-threatening outcomes.

> **Pressure is what you live for. If you are going to be successful in life, you are going to have pressure.**
> *— Jack Nicklaus*

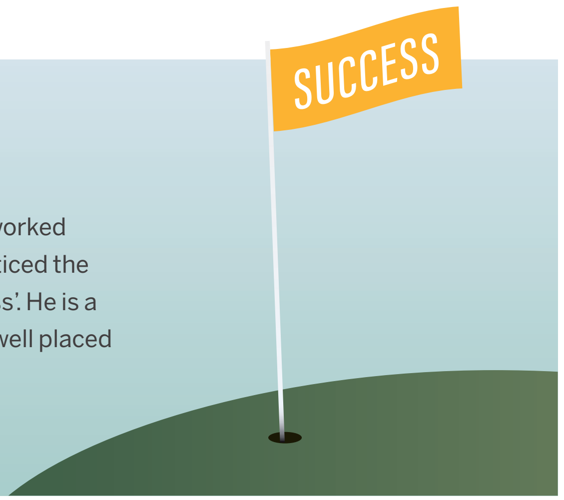
> **As you walk down the fairway of life, you must smell the roses, for you only get to play one round.**
> *— Ben Hogan*

So if that is the case, why does our brain trigger this 'fear' response, at the slightest hint of self-imposed pressure? Well fear has been described as a survival response, created since man first walked the earth. The amygdala, a small, yet important part of the brain, is designed to warn us of potential harm and situations. Now things have moved on from the possibility of being eaten by a T-Rex, yet the amygdala will liken, for example in a game of golf, several missed putts to the next opportunity, and start the process of the 'fear factor'! (This is why momentum is so crucial to great golf). If you have missed four 3-foot putts, how are you going to feel on the next one? In the business world, just because you have not been as successful as you would have liked, does not mean it ALWAYS has to be that way. Change, adapt, rinse and repeat; it's the only way we have ever made progress.

Now think about this. How many times does the 'fear factor' strike during your working life or personal life, especially over the past 18 months of enforced lockdowns, damage to the economy, mental well-being and other associated 'pandemic' situations?

Fear itself is not an issue, it is our reaction to it that matters and how we control it (or not). You will agree that when you feel fear, tension will build in your mind and body, perhaps a headache or migraine occurs, your immune system starts to falter and the mind wanders to consider a less than ideal situation.

You see, your mind will always do what it 'thinks' is best for you (not ALWAYS what you actually want, but what it thinks will please you)... so if you are giving it messages, either conscious or subconscious, it will start to filter those into commands and attempt to 'please you'! Let me explain. Remember that time you were 'being good' and on a health kick or diet? As you open the fridge door, the chocolate or wine is sitting there. You see them on the fridge shelf, effectively saying 'Eat me' or 'Drink me' but you stop yourself, you are 'Being good'! Your mind starts giving you messages. 'But you like chocolate, it's tasty, it makes you feel good, it's a treat, you deserve it'! The wine is shouting out, 'It's been a long week; you know you love a chilled glass of wine'. You argue with your subconscious. 'Well maybe just one glass won't hurt and two squares of chocolate'? As you sit down and enjoy the tastes, have you noticed how your mind, quite smugly, says 'See, I told you that you'd enjoy it'! Be very mindful of how you talk to yourself, internally. Perhaps change the narrative?



Gary Boyes
The Mind Zone

Gary is a keen amateur golfer, with a single figure handicap. Having worked in the management & sales training environment for 20 years, he noticed the direct correlation between the 'powerful mind' and 'achieving success'. He is a qualified Mind Coach and having worked in the business world he is well placed to share in taking this 'success' to the next level.

gary@themind-zone.com

If you go through your whole life giving your mind the wrong message, you cannot then blame it for coming back and 'attempting' to do what it thinks you want!

Here are four areas to focus on and overcome the fear/ pressure factor:

1

Breathe!

Of course, it is vital to breathe to sustain life. Breathing is an under-utilised skill, in a range of situations though and perhaps I should say here, 'Controlled Breathing', as you can certainly be the one in control. When you are fearful or anxious about a situation, then your breathing can become more rapid, shallow, etc. NOT letting enough oxygen enter the bloodstream, which heightens the situation. 2 - 3 long, deep breaths, in through the nose and out through the mouth, will start to calm the system and help you focus.

2

Process!

You must create and use a successful process and stick to it. Any potentially 'fearful' situation will be minimised if you adhere to your success proven process.

3

Change the narrative!

Ensure you are talking to yourself the RIGHT way. Tell yourself, internally, what you WANT to do and visualise how that success will look.

4

Make GOOD mistakes!

Yes, I mean it. Not intentionally of course, but it is the only way that we improve, develop and find the correct solution. So make GOOD mistakes. Clearly never make the same mistake twice, adapt, change and go again.

> **I've missed more than 9000 shots in my career. I've lost almost 300 games. 26 times, I've been trusted to take the game winning shot and missed. I've failed over and over and over again in my life, and that is why I succeed.**
> *— Michael Jordan*

Like most people, I have always been fascinated by the mind but never imagined it would feature as prominently as it has in my professional life. As a child, teenager and young adult I was called 'lucky' many times. However, I can't even remember what I was meant to have been specifically 'lucky' about, but it was said enough times to have stuck with me. As I began to study the workings of the mind for the past 25 years it became more and more obvious why I was labelled 'lucky'; I was EXPECTING the outcome that I got. How much better would your life be if you started EXPECTING good things to happen?

Now as a disclaimer here, I do not claim to have super-powers (well no more than everyone has, but many don't use), nor am I a magician! A 'Permanently Positive' person, hmmm not always and yes, many things happen to me that 'weren't on the wish list'. But having the RIGHT mindset is a far better alternative than having the alternative.

And finally, a quote to make you think from Michael Jordan: 'I've missed more than 9000 shots in my career. I've lost almost 300 games. 26 times, I've been trusted to take the game winning shot and missed. I've failed over and over and over again in my life, and that is why I succeed'.

Remember, this life is no dress rehearsal.

JM Finn News

JM Finn partners with the Affordable Art Fair

The Affordable Art Fair is back and we are delighted to be sponsoring it again.

With 1000s of artworks from over 90 UK and international galleries, visitors will be spoiled for choice, whether looking for the perfect accent piece for your home, a bold new talking point, or daily inspiration for your workspace.

The very first edition of the Affordable Art Fair took place in London's Battersea Park in October 1999. Ten thousand art lovers descended upon the fair to browse and buy thousands of original contemporary paintings, sculptures, photographs and prints in a relaxed and friendly environment. Each year the team welcome over 185,000 art enthusiasts to their fairs globally, where they can discover a mix of local, national and international galleries showcasing a wide array of affordable artworks by established artists and rising stars.

The Affordable Art Fair's mantra is to help people learn about and fall in love with art, so each of the fairs are filled with a creative smorgasbord of artist performances, innovative talks and tours, hands-on workshops, kid's activities, live music and irresistible restaurants and bars; making them an ideal day out with family and friends.

Since the humble beginnings, over 2.8 million people have visited an Affordable Art Fair around the world, taking home over half a million pieces of artwork to loving new homes.

This year, the fair in Battersea will take place from the 21st – 24th October.

Look out for a number of immersive installations in addition to the Recent Graduates showcase to discover this year's exciting emerging talent from top UK art schools – one of the best opportunities to view and purchase breakthrough work before artists hit the big time.

•

Come and visit us at the Affordable Art Fair

BATTERSEA,
LONDON
21 - 24 OCTOBER
2021

Join us for the autumn edition of the Affordable Art Fair, Battersea and discover the joy of collecting art with 1,000s of original artworks, all priced between £50 – £6,000.

As part of our exclusive partnership with the fair, we have negotiated a two-for-one ticket deal. To take advantage of this, please visit their website at www.affordableartfair.com where you can purchase tickets using the code INVESTINART.

Understanding Finance

DUAL-LISTED COMPANIES

Rheanna Filmer
Assistant Research Analyst

A dual-listed company (DLC) is a company that is listed on multiple exchanges. This can be done in a couple ways: a "fully" dual-listed company has separate legal entities that are listed on separate exchanges but, operationally act as one company. A cross-listed company involves no separate legal entities, therefore the shares are essentially interchangeable across exchanges. This is structured in primary and secondary tiers with shares being issued at a single exchange (primary) and traded at multiple exchanges (secondary).

The benefits of a DLC structure include greater access to capital (especially for companies headquartered in emerging markets), more liquid shares and a larger public profile. The main drawbacks of a DLC are the costs associated with listing on multiple exchanges and maintaining compliance in multiple regulatory environments.

These days, most DLCs are cross-listed in the primary-secondary structure i.e. one legal entity. Often, a "fully" dual-listed company with separate legal entities only exists due to a merger between two publicly listed companies.

Both structures provide the DLC with the same benefits and drawbacks. Typically the companies looking to dual-list are very large multinationals. As such when you compare the "fully" dual-listed versus cross-listed structure, you can imagine how an already large, complex, multinational company separated legally for no additional benefit can be cumbersome. In fact, the legal separation can prove negative as disposals, acquisitions or large strategic changes can become particularly difficult to allocate.

To conclude, a dual listing can be beneficial for companies, particularly with a cross-listed (primary-secondary) structure. Attempts by "fully" dual-listed companies to move to a cross-listed structure should be welcomed by investors looking for companies with long term growth ambitions.

MODERNA

Michael Bray, CFA
Research Analyst

PRICE
$449.38

52 WEEK HIGH-LOW
$497.49—$60.12

NET YIELD
0%

HIST/PROS PER
NA/15.1

EQUITY MARKET CAP (M)
$181,390

You will undoubtedly have heard Moderna's name in recent months as a developer of one of the vaccines for COVID-19. Moderna has developed proprietary technologies to create mRNA (messenger ribonucleic acid) sequences that cells recognise and respond to as if they are produced in our body. Most importantly, this technology can prompt cells in the body to make proteins. Nearly every function in the human body (normal and disease-related) is carried out by one or more proteins. mRNA technology instructs the body to make particular proteins that can help treat or prevent disease. Once these instructions are in the cell, human biology takes over: ribosomes (the body's factory for making proteins) contained in the cells read the code and build the protein.

We know mRNA works in providing high protection against COVID-19, but it also has the potential to treat many other diseases such as cancer, HIV, cardiovascular, respiratory, autoimmune and rare genetic diseases. mRNA can both temporarily boost the production of needed proteins or inhibit the production of harmful ones – this is likened to using the body's own cellular machinery as an on-demand drug factory. However until further substantive clinical data is collected, the potential of mRNA remains confined to theory.

Please read the important notice on page 1.

Company Meetings

A spotlight on three of the key companies we've met during the past quarter.

We met or spoke with the companies below and you can learn more on any of these by contacting the person at JM Finn with whom you usually deal.

John Royden
Head of Research

Michael Bray, CFA
Research Analyst

Rhenna Filmer
Assistant Research Analyst

COMMUNICATION SERVICES
Linde

INFORMATION TECHNOLOGY
Halma

CONSUMER STAPLES
Ocado Group

MATERIALS
Anglo American,
Johnson Matthey, Rio Tinto,
Hill & Smith Holdings

FINANCIALS
London Stock Exchange
Group, Euronext,
JP Morgan Chase & Co,

REAL ESTATE
LondonMetric Properties,
Land Securities, British Land,
Shaftesbury,
Supermarket Income REIT

HEALTH CARE
Edwards LifeSciences,
GlaxoSmithKline, Genus

UTILITIES
SSE, National Grid, Pennon

INDUSTRIALS
Intertek Group,
De La Rue, Diploma,
Alpha Financial Markets
Consulting, ITM Power

1.

Anglo American

Price **£30.72**
52 week high-low **£34.29 – £17.16**
Net Yield **6.67%**
Hist/Pros PER **18/5.4**
Equity Market Cap (M) **£38,285**

Materials
Mark Cutifani, CEO & Paul Galloway,
Head of Investor Relations

We began our questioning with iron ore. Despite the emissions profile, Anglo include their iron ore division within their broader energy transition theme due to their higher grade ore producing lower emission steel and steel's use in the energy transition (e.g. wind turbines). As iron ore accounts for the highest proportion of earnings (47% of FY20 underlying EBITDA), it would be glaring if their largest division did not contribute to their long term strategic goals.

In 2021, Anglo spun off and sold all its thermal coal assets, however they continue to mine metallurgical coal. Mark and Paul acknowledged that the mining industry had lost the PR battle on thermal coal but can still see a strong investment thesis for metallurgical coal, while it is still necessary for the steel industry.

More in line with their long term "green" ambitions are their Platinum Group Metals (PGMs), copper and nickel divisions. Copper in particular is the focus of their near term growth projects in Chile and Peru. We discussed the growth in Resource Nationalism that has occurred there. Mark emphasised the close relationship Anglo have cultivated in all their host countries, and that they view community engagement and development as their best defence against this. The close relationship with both local and national governments has also allowed for, for example, tax stability agreements, which Anglo have with Peru until 2023.

Anglo American are well positioned to benefit from the long term trend towards a greener economy. In the short term however we have already begun to see commodity prices decline, which may constrain their ambitious growth plans in copper, PGMs and polyhalite.

2.

De La Rue

Price **£1.84**
52 week high-low **£2.14 – £1.26**
Net Yield **0.00%**
Hist/Pros PER **54/12.2**
Equity Market Cap (M) **£364**

Industrials
Clive Vacher, CEO & Rob Harding, CFO

De La Rue is best known for its bank note printing operations, which started in 1813 and, sadly, a number of public scandals that pre-date current management. Past misfortunes have mostly been responsible for the share price falling from £10 back in 2012 to the £1.85 we have today. Clive Vacher, the CEO who joined in late 2019, is a self-confessed turn-around specialist and his tenure has been a baptism of fire.

At the time of the 2020 profit warning, with debt hitting banking covenants, he cut the dividend to zero, sold the ID (passport printing etc) division and adjusted the cost base by shutting the Gateshead printing plant to reduce print sites from five to four. The shares troughed at 40p.

Clive is now working on growth areas; its Currency division (75% of revenue) prints bank notes whilst its Authentication division (25% of revenue) supplies products such as the labels used to authenticate the source of cigarette packets and Microsoft software. In the former, paper bank notes are being substituted with polymer ones giving polymer a strong growth opportunity. Clive said he worries little about digital banking's existential threat to bank note printing - for at least the next 15 years. He is also enthusiastic about Authentication's growth prospects, pointing out that revenues doubled from 2018 to 2020 and he now hopes to take revenues from £77 million to £100 million by 2022. Key risks are that polymer bank notes, which last longer than paper, drive a slower replacement cycle and that competition erodes prospects for the Authentication division.

3.

Diploma

Price **£31.42**
52 week high-low **£31.66 – £17.02**
Net Yield **1.35%**
Hist/Pros PER **72/37.5**
Equity Market Cap (M) **£3,913**

Industrials
Barbara Gibbes, CFO

Like many industrial distributors, Diploma was initially hit hard by COVID-19. The business has however staged a recovery and the tone of our update call was upbeat. Barbara is increasingly confident in the momentum she is seeing in all divisions (Seals, Controls and Life Sciences) and the ability of the group to utilise its healthy balance sheet to carry out bolt-on M&A, a key tenet of the company's strategy.

Given rising global costs (freight, commodities etc.) we discussed the impact of inflationary pressures on the business. Diploma is potentially vulnerable to being caught between suppliers who increase their prices and customers who are not willing to budge on price. Barbara is however confident that they can pass through all price rises because of Diploma's value added proposition. They are not just a distributor that competes on price, they provide best in class distribution, technical and training support for customers. These value added services are why they have a 19% operating margin.

Diploma faces many competitors but say there are no big players like Diploma. Competition is highly localised and most do not offer value added services like them. If they do, Diploma will frequently make them an acquisition target. In the Life sciences division, the competitive pressures are stronger. There is some competition around winning exclusivity contracts from suppliers, but they try to mitigate this by making sure their technical sales team stay on top of the latest technology developments and contact fledging companies earlier than other peers to gain an advantage.

Please read the important notice on page 1.

How do I take control of my pension?

Atticus Kidd
Assistant Wealth Planner

Illustration by Adi Kuznicki

Research conducted by the Association of British Insurers (ABI) found that £19.4 billion of pension pots associated with 1.6 million people sit unclaimed.

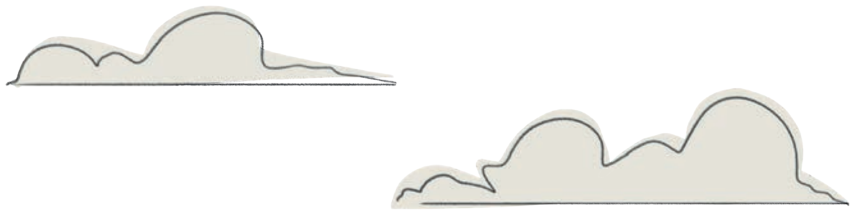
This works out at approximately £13,000 per pension pot and the primary reason identified for this was simply failure to update the pension provider when moving house. It may be optimistic to assume that a forgotten pension pot of considerable size is sitting somewhere in your name waiting to be claimed but this is the reality for a great many individuals in the UK.

This may also be associated with the phenomena of job hopping becoming more and more commonplace. With the dawn of auto enrolment this can mean numerous pensions with multiple providers, each with its own various features. With so many schemes and the associated paperwork that comes with them it can be a struggle to keep up to date with what you have and this ultimately leads to schemes being lost.

> **It can be a struggle to keep up to date with what you have and this ultimately leads to schemes being lost.**

There are steps you can take to avoid this happening and you may be glad to hear that in 2017 more than 375,000 attempts were made to contact customers which led to £1 billion in assets being reunited with the account holder but this is still a small fraction of the total left unclaimed.

The simplest solution would be to contact your pension provider and let them know of a change in your address whenever this occurs. However, it is often not that simple and as individuals move from job to job and house to house it may become increasingly difficult to keep track of what you have.



Some schemes benefit from economies of scale and so larger balances may lead to lowered overall charges.

Another option would be to consolidate your pensions. By combining the contracts it makes it easier to keep track of and manage these savings. Some schemes benefit from economies of scale and so larger balances may lead to lowered overall charges or you may wish to capitalise on a feature of an existing pension scheme that is not available in your other policies. Older contracts may have higher charges, less flexible methods to access your funds at retirement, limited online functionality or a limited array of investments and so a consolidation could help to meet certain financial objectives.

There are potential downsides to consolidation as some schemes could have exit penalties that will eat into the pot, the policy may benefit from certain guarantees or safeguarded benefits that are valuable and cannot be replicated by another scheme and, there are certain tax advantages to keeping separate pots where these qualify under the 'small pots' rules. Additionally, it is seldom a good idea to transfer out of an existing workplace pension that benefits from employer contributions as these would usually be forfeited on transfer.

When consolidating individuals typically consider either an existing contract such as their active workplace pension as the receiver scheme or they may choose to establish an entirely new contract such as a Personal Pension or SIPP (Self Invested Personal Pension). The key difference between a workplace scheme and a SIPP is that the SIPP typically offers a wider range of investments and can offer greater flexibility at retirement, but will usually cost more than a workplace scheme. If looking to consolidate, the best option for a contract will require research and have to be compared to your existing situation and financial objectives.

In the majority of cases, it is possible for an individual to complete a consolidation process and implementation of a new scheme themselves where desired. This involves filling in the relevant forms and/or speaking with your providers to arrange a transfer. However, as we have learned with the £19.4 billion in unclaimed pensions, paperwork and speaking to providers is not everyone's strong suit and this ignores the analysis required in order to move forward with an appropriate contract. If you are uncertain as to whether switching out is appropriate for you, then you should seek advice or guidance from a financial adviser.

> **As we have learned with the £19.4billion in unclaimed pensions, paperwork and speaking to providers is not everyone's strong suit.**

At JM Finn we offer a service termed our pension policy summary which lays out the details of a client's existing policies and provides the basis of a discussion surrounding the features of their pensions and their potential role in retirement planning. Through this document we can highlight any valuable features that may be worth retaining or any number of factors that may be relevant to your situation. With all of the details available it is then possible to make an informed decision as to the most appropriate step forward. Unfortunately we are not yet able to work out whether you are one of the 1.6 million with an unclaimed pension but by familiarising yourself with your schemes and potentially taking some action early it may prevent an extra name being added to that list.

Ensuring you have your pensions in order could make a considerable difference to your pension in retirement. The FCA published a study of the non-workplace pension industry in 2019, they made various findings including; low levels of consumer engagement, consumers assuming they had selected a 'standard' investment, charges being highly complex across the market, older and smaller pots attracted higher charges, similar consumers paying materially different charges for broadly comparable products, little switching between products and weak price competition. All of these factors could be to the detriment of your retirement planning and so ensuring correct and thorough analysis is conducted on your existing pensions as well as any prospective new scheme is essential. Andrew Tully, technical director at Canada Life, estimated that £250 billion of pension pots could benefit from consolidation based on this study.

It is ultimately up to you to take control of your pensions.

It is ultimately up to you to take control of your pensions. This could be by ensuring your existing schemes are registered with the right address or by considering consolidation whether that be purely for simplification purposes or to access a contract with lower fees, better investment options and/or greater flexibility at retirement or on death. Making sure your pensions are structured in a manner that suits you and your retirement objectives can help to make things considerably easier at retirement. If you are not comfortable tackling such big decisions alone it is possible to seek the help of a financial adviser who will be able to either provide guidance that will help you to come to your own decision or advice where the relevant analysis will be conducted on your behalf with your details in mind and a proper solution found and implemented.

The above pertains to defined contribution (DC) policies. Where considering movement of defined benefit (DB) schemes these will be subject to separate considerations and procedures.

Economic Focus

Supply Chain Sclerosis

Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Jordan Atkinson

Empty shelves in supermarkets, restaurants closing through lack of fresh supplies, no milkshakes in McDonalds – all these have been a feature of recent news coverage. What is causing all these problems and do they have any significance for investors?

The answer to the first question is Brexit and the pandemic, though determining which is most important is not easy. As for the second question, of course there are implications in the investment world, but some will be of a positive nature, even if there are clear negative aspects to the disruption we presently face.

It is hard to disentangle these two defining factors that threaten to interfere with our supply of festive goods this Christmas. Brexit might initially appear a more straightforward influence to assess, but it is still difficult to determine how things might ultimately pan out. The pandemic affects us all, so the disruption we are facing is being shared in some measure all around the world and we still do not know what the final outcome might be, if indeed there is one. It is worth looking at the specific areas of disruption to try to determine what the future might hold.

It is believed that 14,000 or more European HGV drivers returned home as a consequence of both Brexit and the pandemic.

Take the current shortage of lorry drivers, often blamed on European drivers leaving the UK. True, it is believed that 14,000 or more European HGV drivers returned home as a consequence of both Brexit and the pandemic, with just a few hundred subsequently returning. The main reason for this mass migration of these transportation workers is far from clear, but this absence of drivers has simply added to a problem exacerbated by difficulties in recruiting new drivers because the pandemic has interfered with training programmes. In addition, the so-called pingdemic further reduced the supply of those able to work.

But it is not just road freight that is providing a block on getting goods transported from manufacturer to consumer. Ocean freight has also suffered. According to Hapag Lloyd, the German transportation company, some 12% of the world's ocean shipping fleet was laid up by early this year due to the pandemic. Yet demand for goods has been on the increase as consumer behaviour changes as a consequence of the measures introduced to combat Covid. The result has been to push freight rates higher – good news for shipping companies, but less so for retailers and their customers.

Other issues disrupted international trade, with the closure of the Suez Canal back in March an unwelcome further influence. Freight rates soared in some areas, with rises as much as 350% being recorded. Even at the most basic level it now costs 50% more to ship a container than it did before coronavirus struck. Moreover, as demand becomes more robust as restrictions to deal with Covid are removed, port facilities are becoming over stretched. With investment in shipping infrastructure lagging the boost to demand that the change in consumption patterns has engendered, little wonder that this situation is both adding to inflationary pressures and slowing the rate of recovery from the pandemic-induced recession.

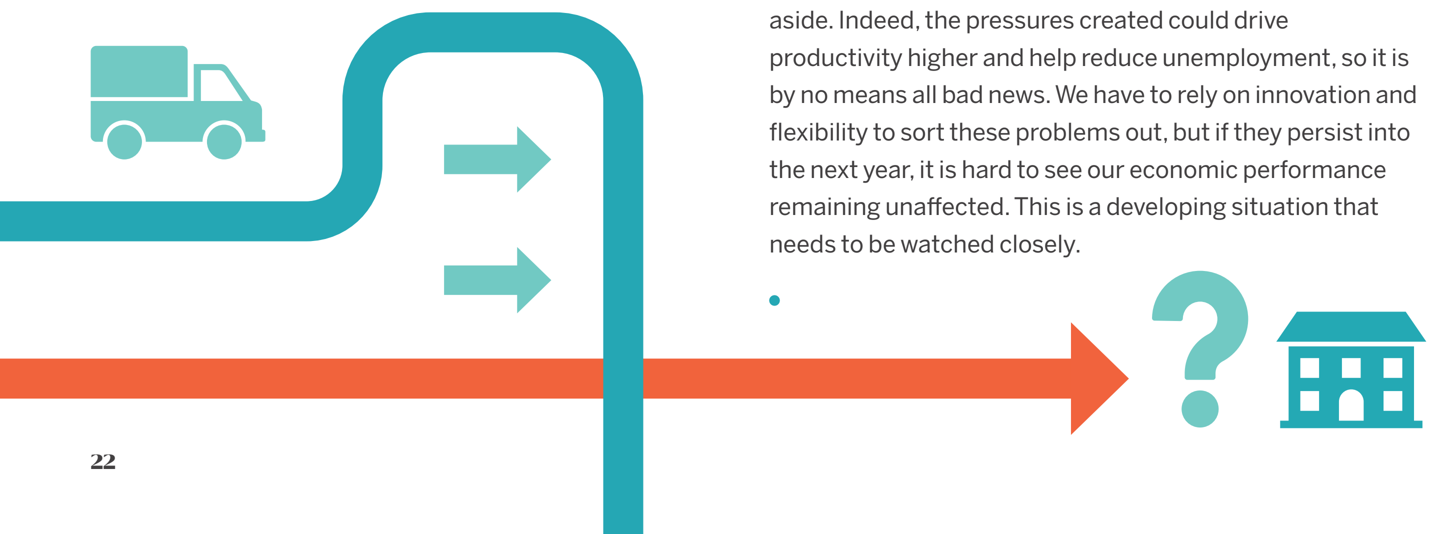
The restricted supply of some goods is producing a knock-on effect elsewhere. A shortage of semi-conductors is impinging on a number of industries, most notably car manufacturing, as recent figures have demonstrated. Mobile phones are similarly affected. Several consumer giants, like Unilever, have also pointed to the negative impact of supply chain disruption. It seems that escape from the coronavirus pandemic is going to be far from straightforward.

It seems that it is the lowest paid jobs that are not being filled, so perhaps one consequence of this will be to push labour rates higher.

There are other industries where labour shortages are having an adverse effect. Agriculture has suffered from a lack of workers to harvest some crops, while in my part of the country, suppliers of chicken products have complained of having insufficient staffing levels to cope with demand. Again, it seems that it is the lowest paid jobs that are not being filled, so perhaps one consequence of this will be to push labour rates higher, with a possible further knock-on effect for inflation.

Recent numbers from emerging markets confirm that the rate of global economic growth is slowing. Similarly, sterling pulling back from recent highs underscore the growing belief that our own economic recovery is being adversely affected by both supply chain issues and the expectation of yet more disruption occurring as the new rules governing trade with our erstwhile European partners add to the complexity of shipping goods between here and the Continent.

So far markets have managed to shrug these concerns aside. Indeed, the pressures created could drive productivity higher and help reduce unemployment, so it is by no means all bad news. We have to rely on innovation and flexibility to sort these problems out, but if they persist into the next year, it is hard to see our economic performance remaining unaffected. This is a developing situation that needs to be watched closely.

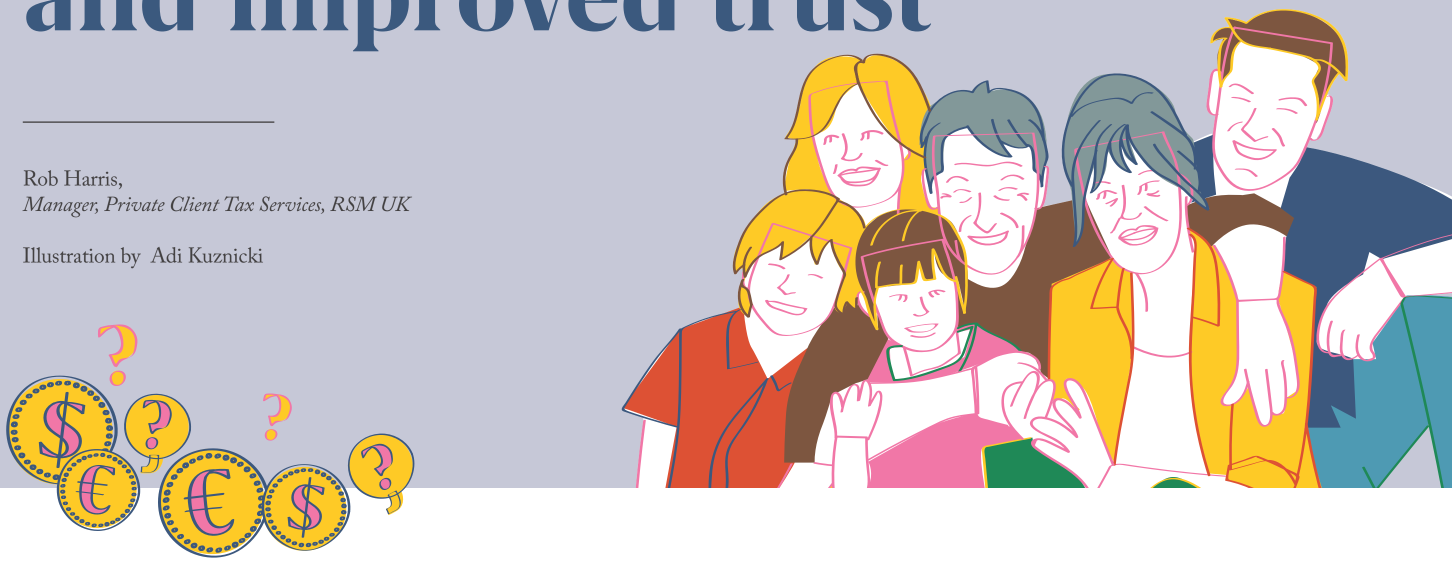


Independent view

Family investment companies: the new and improved trust

Rob Harris,
Manager, Private Client Tax Services, RSM UK

Illustration by Adi Kuznicki



UK discretionary trusts have been used for many years to transfer assets out of individuals' estates and to the next generation without passing control over the underlying assets or the income arising from them.

One of the benefits of a trust is to remove assets from an individual's estate, resulting in less being assessable to Inheritance Tax ('IHT') on death. However, successive Governments have eroded the tax advantages of using trusts. In 2005, there were an estimated 220,500 taxpaying trusts in the UK. The latest statistics show this has now fallen by nearly a third to around 151,000.

In 2005, there were an estimated 220,500 taxpaying trusts in the UK.

Family investment companies ('FICs') have become increasingly popular with wealthy families in the last decade as a potential alternative structure.

Why the move? The tax consequences on transfers into a discretionary trust

If a person has not used any of their IHT nil rate band (currently £325,000), they can transfer assets with a value up to this amount to a discretionary trust with no upfront IHT charges.

Typically, a trust set up today will incur a 20% upfront inheritance tax cost on assets settled in excess of £325,000. For example, if listed shares were transferred to a discretionary trust worth £500,000, the IHT charge would be £35,000.

There are other reliefs that can reduce the upfront tax charge, but these are broadly limited to gifts of business assets and agricultural property. Trusts also have IHT charges which can be up to 6% of the total value of a trust's assets on each 10-year anniversary.

> **Typically, a trust set up today will incur a 20% upfront inheritance tax cost on assets settled in excess of £325,000.**

What is a Family Investment Company?

A FIC is simply a company which holds investments that would otherwise be held by family members personally. FICs are often established by a parent or grandparent, who will normally retain control of the company and therefore of the company's assets.

Other family members will hold shares in the FIC, entitling them to income or capital from the FIC on a winding-up. However, importantly, they are not typically in control of when they receive any profits.

The control the transferor can retain in a discretionary trust structure can therefore be replicated in a FIC.

FIC versus Trust

Advantages

— No inheritance tax on entry or 10-year anniversaries for a FIC

This allows unlimited funds to be transferred into a FIC without triggering an IHT charge. A trust is usually limited to the available nil rate bands.

— Tax on underlying investments

A discretionary trust pays tax at the top rate of tax on income and capital gains. When the trust makes distributions, these are paid with a tax credit to the beneficiaries.

A FIC pays corporation tax on income and gains. Currently, this is 19%, rising to 25% from 1 April 2023. However, in most circumstances companies do not pay tax on dividends received. It is usually possible to structure a portfolio for a FIC which results in tax being deferred until investments are sold or distributions are made.

However, FICs may not be appropriate for portfolios geared towards capital growth. The FIC will pay corporation tax on realised gains and there will then be a tax cost on extraction from the FIC.

Disadvantages

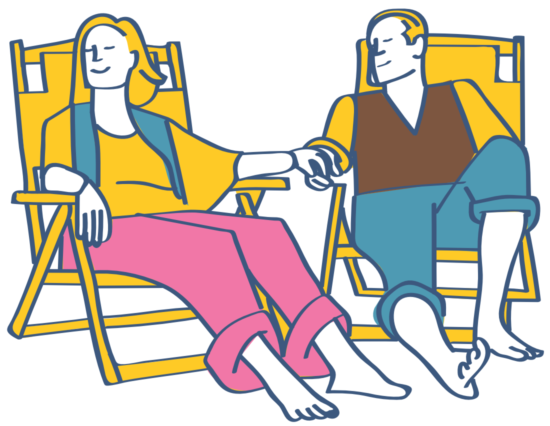
— Capital gains tax on assets transferred in

If a share portfolio is transferred into a trust and the shares are worth more than when they were bought it is usually possible to 'holdover' the gain, resulting in no tax being payable by the transferor.

It is not usually possible to holdover gains on transfers into a FIC and transfers may therefore give rise to a CGT liability on the transferor. Thought therefore needs to be given on what is transferred into a FIC.

— Flexibility

Most modern discretionary trusts give trustees broad powers to add and remove beneficiaries. FIC structures have less flexibility, although it is possible to mitigate this with appropriate planning.



A long term move to FICs for wealthy individuals?

With the ability to transfer limitless assets into a FIC without an IHT cost, FICs can be a very effective Inheritance Tax planning structure and are coming to supplant the role once occupied by trusts in the tax strategies of wealthy families. As one might expect, HMRC have taken an interest in their use as tax planning structures and set up a specialist team to look into them.

Over the summer the team reported back and, from the brief comments provided from the review outline that HMRC found "no evidence to suggest those using FICs were more inclined towards avoidance" and that "FICs are now looked at as business as usual rather than having a dedicated team".

Whilst the Government could look to mute the effectiveness of FICs through new legislation, it would appear that HMRC accepts FICs are acceptable structures within the context of wealth management and asset protection.

This article is of a general nature and does not constitute specific advice. It is recommended that you seek advice from a qualified professional, which can be tailored, to your personal circumstances.

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NIKE

Michael Bray, CFA
Research Analyst

PRICE
$163.59

52 WEEK HIGH-LOW
$174.38—$111.74

NET YIELD
0.67%

HIST/PROS PER
45/37.9

EQUITY MARKET CAP (M)
$258,979

Nike is the global leader in sports apparel and footwear and is regarded as one of the strongest fashion brands globally. It operates many key categories which include Running, Basketball, Football, Men's Training, Women's Training, Action Sports, Sportswear, and Golf.

Nike has demonstrated an unparalleled ability to translate performance-inspired product innovation and key athlete sponsorships into broadly appealing authentic footwear and apparel that appeals to the masses. In recent years, innovation fuelled growth has enabled Nike to consistently raise the average selling price for many products.

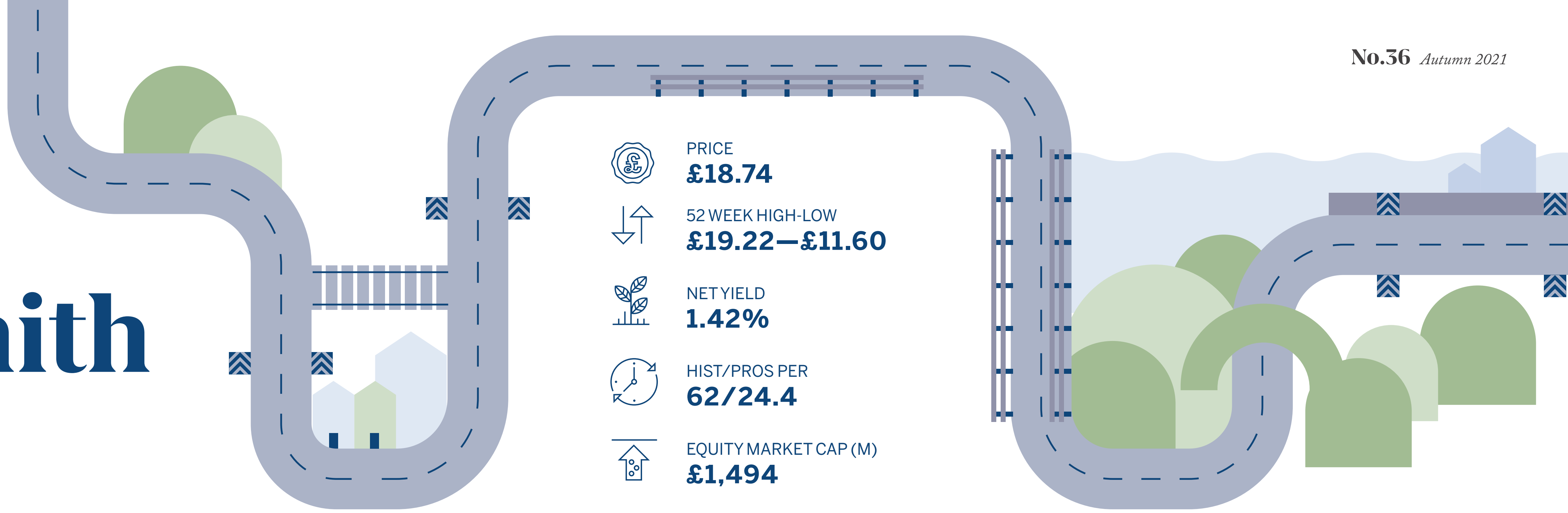
It is also considered to have one of the best online presences for an apparel and footwear brand. The investments it has made in this area has enabled it to seamlessly integrate its digital presence with its physical retail offering, and is supported by an ecosystem of apps and membership offerings which collects customer data. This enables Nike to tailor customer product suggestions and quickly direct investment into areas of demand. China is the fastest growing major region for Nike and represents 19% of revenue. Although growth in the region is likely to remain attractive for some time, this does come with added political risk, evidenced by the recent concerns regarding Xinjiang cotton.

Please read the important notice on page 1

Stock in Focus

Hill & Smith

Henry Birt
Research Assistant



Hill & Smith began its life when Henry Smith began working for Edward Hill leading to the establishment of the company originally known as Hill's Ironworks in 1824.

Originally trading in products such as fencing, wrought iron shafts and piston rods, the company has grown to amass myriad further capabilities since then. Hill & Smith is one of those companies that makes lots of objects we take for granted every day, but from temporary barriers used to protect road construction workers, to steel lintels used to support doorways, they provide products which no country can function without.

Hill & Smith is a holding company made up of 40 individual operating units. These units are broken up into three reporting segments: Roads & Security (40% of revenue), Utilities (32%) and Galvanising (28%). Geographically, the group is tilted towards the US with 71% of operating profit coming from across the Atlantic. 26% comes from the UK and the remaining 3% comes from the rest of the world (ROW). The group has delivered a ten year revenue growth of 5.8% with 1.7% organic.

> **Key products in the portfolio are the temporary and permanent road safety barriers in the UK and the crash cushions in the US.**

The Roads & Security segment, which has an operating margin of 6.5%, operates predominantly within the UK and US with smaller operations in Australia, France and Sweden. Key products in the portfolio are the temporary and permanent road safety barriers in the UK and the crash cushions in the US. The Security sub-segment contains several UK-based businesses, which provide products such as hostile vehicle mitigation (HVM) solutions - think concrete barriers on London Bridge - and perimeter security - think fences at events and data centres.

The Utilities segment operates in the UK, US and India and has an operating margin of 11.1%. This collection of businesses design, manufacture and supply products for the power generation, utilities, construction and other industrial sectors.

Finally, there is the Galvanising segment, which provides over half the operating profit for the group and has an operating margin of 21.1%. Galvanising is the process of applying a thin layer of zinc coating to steel or iron to prevent corrosion. Galvanising has existed for c.150 years, however due to cost effectiveness and efficiency, there remains little competition. Hill & Smith runs plants in the UK, US and France, with US delivering the highest operating margins thanks to limited competition and high barriers to entry.

The common thread tying these segments together is their focus on niche products, in markets where stringent regulation requires greater protection and sustainability and where they can identify long term growth drivers. To allow the subsidiaries to flourish and be run effectively by the people who know the market best, Hill & Smith runs an autonomous operating model. The businesses are allowed to operate as if they were single entities with their own management team being trusted to make the most sensible decisions for the company.

Over the last year, Hill & Smith has seen a change at the helm with Paul Simmons, previously of Halma, joining as group CEO. Since his appointment, Paul has implemented a more focused approach to the group and has shifted the focus to higher quality acquisitions and more organic growth. He is a proponent of the autonomous operating model and will continue to allow the subsidiaries free rein to run their businesses.

Paul's inauguration came at a time when many of Hill & Smith's businesses were not operating at full capacity, with many still recovering from pandemic disruption. The group's tilt towards the US proved fortuitous as the relatively light lockdowns and classification of many of Hill & Smith's businesses as 'essential' precluded the worst. This will hopefully continue to be a beneficial tilt as infrastructure spending in the US starts to materialise. The UK was most severely hit, with many plants and factories having to close.

Now, nearly nine months on, most of Hill & Smith's businesses are back up and running and the most recent results saw a strong performance. However, the Security business remains disrupted by the lack of public gatherings. We would expect continued progress here, albeit timing remains uncertain.

As fears of lockdowns subsided, those associated with reopening have prevailed and now the group faces wage and raw material inflation. Hill & Smith has historically been able to pass through increased costs to its customers, aided by the flexibility of its autonomous operating model. However if prices keep rising, this may prejudice their pass-through pricing power and impact profitability. This risk will be one to watch in the coming months.

Please read the importance notice on page 1

Bond focus

The inflation fence. Which side to get off?

John Royden explores the much discussed, but important direction for inflation.

John Royden,
Head of Research

Illustration by Jordan Atkinson

In the Spring 2021 edition of Prospects, I concluded: "we are inclined to the view that the world is being seen with rose tinted glasses right now and that whilst the trajectory with rates is on the up, the risks of a mismatch with economic growth is underestimated by the market".

The mismatch manifested itself as Delta COVID-19 spread across the world. Rates peaked at the end of March with the US ten-year at 1.73% and the UK ten year gilt at 0.87%. The same rates now stand at 1.23% and 0.53%.

We cannot attribute all of the decline in rates to Delta; the Chinese have initiated a crackdown on the tech industry, which has dented expectations for the rate of economic growth, and the Fed became a bit more hawkish, which increases the risk of rates being raised by official dictate. The logic that followed was that a hawkish Fed means less inflation and lower chances of run-away inflation, so lowered expectations for rates in the future as well. We could see inflation expectations coming down in the market, as time progresses.

Talking about inflation sounds like a bit of a broken record. But it is where we are and it is the primary driver of interest rates going forward. Arguments for higher inflation include:

— the pent up demand from high cash balances at banks

— too much fiscal stimulus

— rising freight costs and a sub-optimal COVID-19-compromised supply chain

— too much work deterring subsidy, which drives wage inflation as the incremental benefit of working diminishes, coupled with subsidy incentivising people to carry on looking for their ideal job

— a focus on maximum employment in preference to short term inflation from central banks

— de-globalisation

— the demographic effect from retiring baby boomers spending the same, but producing less, in their retirement.

With these points in mind, you could conclude that we are at the end of the 40-year trend of weak inflation and lower rates. The arguments for lower medium term inflation include:

— the fact that economies are nowhere near full-employment, suggesting wage inflation will be kept under control, as illustrated by the Phillips Curve (the chart that plots inflation vs unemployment)

— COVID-19 has led to higher inflation but this is transitory in nature as evidenced by the 5 year inflation swap charts, suggesting a high inflationary blip

— Quantitative easing (QE) is not inflationary because banks don't lend in an environment where it is not profitable to do so and so the velocity of money stays low

— cash balances are saved to pay anticipated taxes to pay down government debt, rather than being spent

— less travel at the same time that strong business capex and investment expands capacity.

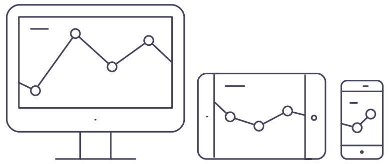
"Talking about inflation sounds like a bit of a broken record. But it is where we are and it is the primary driver of interest rates going forward.

With the Amazon effect (price transparency) as well as the technology effect (greater efficiencies) in your mind as well, you could conclude that we are heading back to the deflationary orbit of low interest rates forever.

In the short term the jury is still out. However, what turns the argument for me in the longer run is that we are now stuck in a world where the only answer to QE is more QE at the next down turn. I can imagine that democracies will never vote for a default cycle again. This leads to a low growth and lower interest rate zombie economy as Darwinian forces are moderated.

JM Finn News

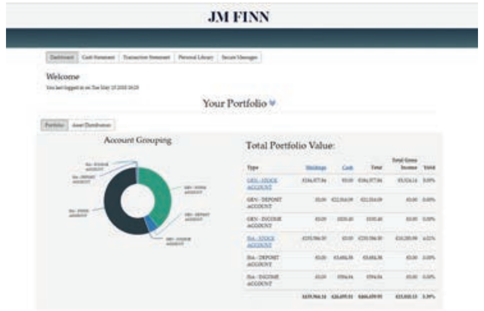
JM Finn's portal wins award



We were delighted to win the award for best App / Portal of the year at the 2021 Brand Management & Reputation Awards, from Citywealth.

Our many users will know the benefits of having a portal and recognise that our focus on our clients' needs leads us to continue evolving our accessibility whilst ensuring we continue to innovate as needed.

As a reminder, the key features of our portal are:



View the current value of your portfolio

Download on the App Store

Available on your desktop computer, laptop or download our app by searching "JM Finn" on Google Play or the App Store

Secure log-in from your smart phone or tablet via biometric (if available) identity check

Access transaction statement and cash statement

View a consolidated holdings report, by family group or by individual portfolio

Fraud alert function

Send and receive secure messages with your Investment Manager

Comprehensive Personal Library allowing for paperless reporting

To register for access or to move to paperless reporting, please contact your investment manager

Senior investment manager joins JM Finn's Winchester office

We are delighted that Bill Tibbits has joined JM Finn, based in our Winchester office, which opened in September 2019.

Bill commented: "Having started my career at JM Finn, I am delighted to be coming back. I know the team well and am pleased that I will be able to continue offering clients a bespoke portfolio management service. Coupled with their wealth planning proposition, I can't wait to introduce all my contacts to all we have to offer at JM Finn."

Bill started his investment management career at JM Finn in 2004, before joining Singer and Friedlander, who were acquired by Williams de Broë in 2009, who in turn were acquired by Investec, where Bill has spent the last nine years.

THE BRAIN TUMOUR CHARITY

A CURE CAN'T WAIT

Thanks from John Royden

Many readers will have read last edition's report about Head of Research, John Royden's attempts to swim the length of Lake Geneva.

He set off from Chateau Chillon on the banks of Lake Geneva in mid-August on a clear day with lovely water. He had a strong swim through day and night, but unfortunately, at the 22 hour point the medics made the decision to pull him from the water for his own safety. He had swam 26 miles in 22 hours.

We are very proud of his attempt and all agree that his sister Emma, whose memory he was raising funds for, would be proud. Whilst initially frustrated and disappointed, the wonderful messages of support and donations he received were overwhelming and he has already booked the slot to go back next year and finish what he started.

Whilst in Switzerland John visited Dr Spencer Watson at the Ludwig Institute in Lausanne. This is one of many amazing research projects that The Brain Tumour Charity has invested in, and John was inspired and assured that The Charity only selects the very best, pioneering research and that every penny donated really does have the maximum impact through The Charity.

Many thanks to all of those who helped John raise in excess of £350,000 for The Brain Tumour Charity.

SALESFORCE

Michael Bray, CFA
Research Analyst

PRICE
$257.20

52 WEEK HIGH-LOW
$275.22—$201.51

NET YIELD
0.00%

HIST/PROS PER
57/57.8

EQUITY MARKET CAP (M)
$248,773

An increasing portion of the global economy is now reliant upon digital technologies. IT spend on digital transformation – the adoption of digital technology to improve business processes - is overtaking traditional IT expenditure and is likely to continue to enjoy attractive growth.

At the centre of this is investment in customer experience management (CXM) software solutions; Salesforce.com ('Salesforce') dominates in this product category. Salesforce's CXM products enable companies to have a '360-degree view' of their customers, whereby they better understand their needs, can discern intent, understand where they go to consume information, know which channels they use to communicate, how and when they purchase products, and how they prefer to be engaged with brands both online and offline. Salesforce not only provides solutions for CXM but also for sales, marketing, digital commerce, HR, financial management and many of other functions making it a behemoth of the software industry.

Although revenue growth for Salesforce has consistently been strong, concerns remain over its profitability versus peers, given the growth at all costs attitude pursued by CEO Marc Benioff, which has often led to large and expensive acquisitions.

Please read the important notice on page 1.

Collectives commentary

The UK - In from the naughty step

Richard Penny
Fund Manager of CRUX UK Special Situations Fund

From the moment the Brexit referendum was decided, the UK stock market has been labelled as "too difficult" by many investors. In the intervening five years, the UK has lost considerable ground against other global stock markets.

The political and economic uncertainty that prevailed for close to four years until the Brexit trade deal was agreed in December 2020, saw the UK move to a 50-year discount against global equities. It didn't help that at this time many of the alternatives such as the US or China had a much more appealing exposure to the Technology sector.

The Brexit trade deal has meant that the outlook for sterling and for the UK economy is less uncertain than it has been for some time. The UK stock market and currency have performed so poorly prior to this deal, there is now scope for the UK to recover some of its lost ground.

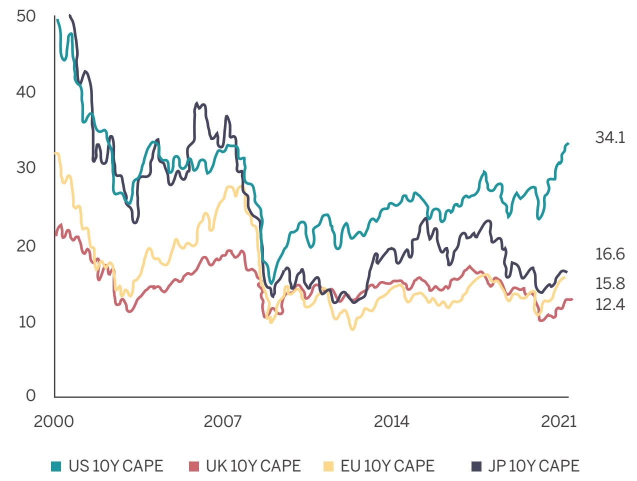
The other factor for global stock markets has been the economic impact of lock downs, necessitated by the COVID-19 virus.

The global stock market fall in Q1 2020 and subsequent recovery, against an economy that is only just recovering, is a conundrum for many. How should we value a collection of companies where we don't really know the prospects for profits?

"How should we value a collection of companies where we don't really know the prospects for profits?

One tried and tested way to do this is to use a 10-year average of profits for a market and divide it by today's price level. This gives us an indication of the earnings power/ potential of a market even if it is not quite firing on all cylinders. This measure is called the Shiller PE or cyclically-adjusted PE (CAPE).

Figure 1: 10Y Cyclically Adjusted Price/Earnings



The graph in figure 1 shows that the UK is trading relatively cheaply against its long-term average, as opposed to the US market which has only been more expensive twice - in 1929 and 2000.

This indicator does not predict short-term movements in markets but is a good longer-term indicator and when the CAPE has been at similar levels previously in the UK, the market has delivered double digit percentage returns over the next ten years. This leads us to conclude that the UK is cheap longer-term. The US trading at nearly 3 times the valuation per pound of long-term profits is somewhat expensive.

However, as all shoppers know, sometimes low prices do not necessarily indicate a bargain. The UK, with its large positions in banks, insurance, oil, mining and tobacco companies, is certainly less glamorous than the US, with Facebook, Amazon, Netflix and Google. That said, even if we control for these factors by using global sector averages, then the UK is still cheaper than its US counterpart. The choice appears to be between the UK, which is cheaper with lower growth, and the US which is decidedly expensive but has better faster growth.

Can we find growth in the UK market but not pay a high price for it? What if we were to look in the UK for companies that offer some of the growth prospects of their transatlantic cousins? The answer is surprisingly interesting. The UK is home to a good number of interesting technology businesses and has some world leading healthcare companies.

While many of these may not be household names such as Microsoft or Oracle, these businesses are often growing faster, very well run and - after the Brexit sell off - far cheaper than the US majors.

Internet or cloud-based computer software companies have been particularly popular in the US and change hands for 12-15 times annual revenue. Similar companies in the UK will generally be c.3-4 times annual revenue for similar levels of growth. These UK companies are normally small or micro sized.

The UK punches above its weight in life sciences having four of the World's top 10 Universities for healthcare research. In the US there has been a huge boom in biotech and healthcare stocks related to gene and immuno-therapy. This is in marked contrast to the UK where such companies have been handed a much lower valuation.

"The UK punches above its weight in life sciences having four of the World's top 10 Universities for healthcare research.

Many see the UK as an 'old world' value market with few growth companies. For those prepared to delve a bit deeper there are plenty of interesting smaller UK growth businesses available at discount prices. Perhaps in post-Brexit UK, we do not have to make a choice between business growth and low valuation.

Asset allocation and sector focus

As part of our focus on providing a high quality, personalised investment service, we look to support our investment managers in their decision making when it comes to constructing client portfolios.

Our asset allocation committee is one example of this, via their monthly output showcasing their views on a global basis; this is then complemented by a sectoral view from the stock selection committee. The combination of these top down and bottom up opinions is an important resource for our investment managers to validate their own investment theses or to generate new investment ideas.

These committees, which consist of members of our research team and a number of investment managers, aim to provide a view that seems most suitable in the current climate. The output of the monthly meetings remains a suggested stance and it is important to note, that the views expressed are those of the committees and may not necessarily be those of your individual investment manager.

Here we present a snapshot of the current views.

Sector Views

Overweight · Neutral · Underweight

Materials	Short term drivers include sustained high commodity prices and the growth-to-value rotation. Long term, the sector is in flux from more traditional commodities to new green economy commodities.
Consumer Staples	We like the sector for its high quality businesses and the resilience over the pandemic period. The sector is expected to deliver only modest growth and is viewed as a bond proxy, it is therefore vulnerable to a rising interest rate outlook.
Consumer Services	As lockdown conditions ease, support measures have helped mitigate weakness in consumer balance sheets. Savings have scope to reduce and banks are now expanding credit. Normalised spending patterns offer tailwinds for consumer names.
Financials ex Banks, Life Insurance, Property	This includes a broad range of stocks which are generally geared to investment markets. Valuations not at a level to turn more positive.
Financials Banks	Banks are benefiting from the continued steepening of yield curves. US banks are best placed, followed by UK and then European banks.
Financials Property	Whilst acknowledging the difficulties on the high street and concerns over liquidity in open ended vehicles we do see value in some areas. We would rather see more visibility on the impact from easing the lockdowns.
Financials Life Insurance	The main business problem is a lack of growth for any company that is without exposure to Asia.
Real Estate	Global real estate may offer better value but again caution on bond proxy status and impacts from the pandemic.
Health Care	Growth and defensive attributes and demographic tailwind. Distinguish between pharma/healthcare/biotech sub sectors. A key theme reinforced by the current crisis.
Industrials	We see increasing evidence that economic activity is improving and see this broadening out over the coming months. We recently changed to a positive stance on the sector.
Energy	Short term catalysts such as pandemic recovery and sensible OPEC target production growth drove oil price rally. The sector remains under pressure on environmental concerns.
Information Technology	We like the structural tailwind that provides support for the sector. However, heightened valuations are susceptible to rising bond yields. We favour cyclically exposed names likely to benefit as the economy unlocks.
Communication Services	A number of sub-sectors performed well through the pandemic, such as online gaming and online media. Changed behaviours will persist and see further growth. Digital advertising names have cyclical upside potential. We continue to avoid more traditional telcos.
Utilities	Sector has some safe haven support, however is not immune from the slowdown as business customers suffer.

Asset Allocation

Overweight · Neutral · Underweight

UK EQUITIES	
UK	Positives: Cheap on a relative PE basis. Brexit risk, an unlucky resurgence of Delta COVID 19 and unlikely Scottish devolution risk are priced in. Heavy on cyclicals which will do well if global growth continues and if China relaxes. Expected mild inflation will help asset prices. Fiscal responsibility driving "Goldilocks" growth. Rate rise not imminent. Negatives: FTSE100 is heavy on ESG-poor oils and miners and lingering inflation risk.
INTERNATIONAL EQUITIES	
North America	Positives: Fears of over-heating are waning with on-going support coming from large but post-peak fiscal spending programs aligned with a perception that any deceleration of economic and employment growth will deter monetary tightening. Slow global recovery could draw out tech rally. Ending wage support schemes should increase the supply of workers and help control wage inflation. Past peak stimulus. Negatives: Re-start of rotation out of growth/ tech into value.
Europe	Positives: The €750 billion Recovery Fund is now being invested. Christine Lagarde is dovish helping asset prices. Negatives: Too much ESG focus could increase cost of capital. 3% inflation might press ECB hawks to taper. The doom loop for local banks is a black swan to watch whilst high unemployment is still a drag.
Japan	Japanese equities have risen on the back of Suga's resignation and likely political change. Positives: Japanese valuations appear attractive and positioning looks light. The Yen has the potential for reverting to safe harbour mode if COVID-19 variants extend the pandemic. Japan is overweight industrials and consumer discretionary for the value trade. Negatives: We are cautious of much needed corporate reforms delivering on their promises although more share buy backs will help. The vaccine roll out has been unimpressive. Watch for quiet Bank of Japan tapering.
Asia Pacific	Positives: China is not imploding under a debt burden as many once feared and we are impressed with the China's ability to exercise monetary restraint without driving an overly negative reaction. We think that regulatory crackdowns are coming to an end. Korea and Taiwan should benefit from the surplus of semiconductor chip demand. Negatives: Rebound in USD through to 2022 might hurt emerging markets in this region.
Emerging Markets	We have a preference for China, Korea, Russia, and Mexico. The near term risk is focused on Latin America if the USD strengthens and if China's tightening leads to more stalling commodities. Positives: USD weakness seems likely in the long term (post rates adjustment) and a gradual improvement in commodity prices (linked to a Chinese infrastructure stimulus) could help markets sensitive to commodity exports. Brazil, India and Russia have managed their third COVID 19 waves lower. Negatives: COVID-19 variants into relatively unvaccinated populations are always a worry and raises the risk premium. Political risk remains and supply chain issues abound.
BONDS	
Conventional	The prospect of inflation, driven by the temporary impact of base effects and demand being fed into a sub-optimal supply chain continues to be a concern.
Index Linked	Pricey inflation hedge. Positives: Hedge against inflation increasing from loose monetary and fiscal policy and a compromised supply chain. Negatives: Expensive negative yield curve in the UK.
Corporate bonds	Given our overweight equity position, we would prefer to be underweight corporate bonds. There is a possibility that corporate spreads could reduce further but we continue to think the upside from spread contraction has probably reached its limit.
CASH	
Cash	Cash has a poor yield but keep some on the side-lines for a possible pullback.
PROPERTY	
Property	Real estate lies somewhere between equity and bonds and we still prefer equities. Choose exposure with care and avoid poor quality retail.
ALTERNATIVES	
Alternatives	We prefer to make more precise calls in equity, cash and fixed income. We like infrastructure and gold as diversifiers within the sector.

Meet the manager

Charles Bathurst-Norman

Investment Director, London

Lives Wimbledon

Family Married with two young children, a puppy, a cat and a vocal African Grey parrot.

Started at JM Finn 2004

Favourite Book Catch-22, Joseph Heller

Hero Sir David Attenborough

Passion Spain for its vibrant colours, festivals, culture, food and wine, with a dash of horseracing and cricket.

Most proud achievement Helping found Critical NHS, a charity helping front line NHS staff during the pandemic by sourcing meals from local restaurants, generously supported by JM Finn.

Favourite film The Shawshank Redemption

What is your outlook for the UK market over the next few years?

I remain optimistic that a combination of excess savings, pent-up demand and a range of accommodative 'laissez-faire' government incentives should facilitate a robust recovery over the next few years absorbing the excess in the labour market as the furlough scheme ends. Rising cost pressures from supply chain issues and a reversal of temporary tax cuts could cause inflation to rise this year. However, inflationary pressures appear to be the result of a short-term rebound in prices and the spare capacity in the economy should see inflation moderate to pre-pandemic levels next year. The Catch-22 is the delicate task the Bank of England faces in unwinding stimulative polices and when to raise interest rates, which is likely to unsettle markets.

Are there particular areas of the global market that excite you at the moment?

Two themes that do excite me are in businesses tackling some of humanity's biggest challenges; decarbonisation and healthcare. The sheer scale and benefit of renewable energy becoming mainstream and shifting to a low-carbon economy, coupled with the healthcare innovation surrounding gene editing and synthetic biology, are themes that could be the next beneficial revolutions to transform our societies.

What is your starting point when looking to invest in a company?

A disciplined approach to investment selection, seeking well-managed companies with long-term growth prospects, at valuations underpinned by strong fundamentals, is always a key starting point. These businesses typically have high barriers to entry and products or services that command pricing power. A client reminded me of Warren Buffett's famous quote "only when the tide goes out, do you discover who is swimming naked" and if the uncertainty of the last 18 months has taught us anything, it is that companies with these attributes can adapt and endure even the most challenging of circumstances and still thrive.

In your view, what is more important for an investor to focus on, the investment portfolio or appropriately structured wealth?

With my investment management hat on, the investment portfolio for any client is the core focus for achieving their financial goal. However, I always encourage clients to review their financial situation regularly, such as making the most of tax efficient structures, establishing retirement goals and estate planning to protect them and their family; all key foundations to achieving their long-term financial goals. Investing is a lifelong process and every client's investment cycle has different time horizons, objectives and risk tolerances that recalibrate along that journey. Having a tailored proposition that combines both the bespoke investment management of their portfolios and a personalised wealth planning service is integral to a successful long-term financial plan.

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1946—2021

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested.