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Contents

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Welcome

Our spring issue of Prospects marks the 50th edition since we launched the magazine back in winter 2012. Rather fittingly, US politics also dominated global news at that time with Barack Obama featuring on the cover ahead of his second term as President.

Thirteen years later, with the second Trump administration getting into its stride, the world is experiencing a huge change of order. So much historically taken for granted, for better or worse, is being questioned or turned on its head and this is likely to continue to play out in markets over the coming months.

One area of interest is the dominance of the Big Tech companies and their regulation and this is the subject of our editorial on page 4. Whilst these firms seem to dictate both the headlines and drive global market growth, debate has long remained over the degree to which they should be permitted to monopolise markets without government intervention. Research Analyst Henry Birt explores whether Trump's previous approach to regulation is likely to continue over the course of his new term.

Moving to government policy in the UK, the effects of last year's Autumn Budget continue to be felt by many – particularly the planned changes to estate planning. More families will be caught by inheritance tax (IHT) as thresholds remain frozen, home values rise and personal pensions, (specifically SIPPs) are set to be brought within estates for IHT purposes from 2027. As a result, offshore bonds have found themselves in the spotlight as a possible tax-efficient vehicle for families looking to accumulate wealth in a tax-free wrapper, thus passing on more to their loved ones. Wealth Planner Clare Julian covers the risks and benefits of these investment bonds on page 18.

Most of our clients will have received notification of our new investment strategies, which will see client portfolios falling into one of five risk profiles. This is a change to how we look at matching client risk tolerance to the investment approach, and we hope this will give you a better understanding of what to expect from your investments alongside more consistent return profiles.

On the theme of risk and reward, the 'Independent View' on page 22 comes from our new partner, behavioural finance specialist Oxford Risk, here talking on the topic of understanding behavioural finance and the role it can play in helping individuals to determine the level of risk they are comfortable taking when investing. Oxford Risk provide our new Risk Tolerance Questionnaire which will help the basis of conversations on which of the new investment profiles to select.

In our investment market roundup series, our Head of Investment Office, Jon Cunliffe highlights a fundamental shift in policymaker thinking towards boosting GDP growth to reduce debt burdens, which should broadly support growth in equities this year. So, whilst we look ahead with some trepidation as the geopolitical landscape shifts around us, we also continue to see great opportunities for those prepared to invest on longer-term fundamentals.

Hugo

Hugo Bedford
CEO

Editorial

Antitrust or anti-tech?

Henry Birt
Research Analyst

Share prices of "Big Tech" companies have risen dramatically in recent times, yet these behemoths have come under increasing regulatory scrutiny. With a new administration recently occupying the White House, we have looked at the history of antitrust regulation in order to provide some insight into what the next four years may hold for the Big Tech companies.

The historical divide: economic structuralism vs. consumer welfare

At the core of antitrust regulation, two schools of thought have historically jostled for leadership. In much of the 20th century, the theory of economic structuralism dominated. This theory – notably advocated by US Supreme Court Justice Louis Brandeis – propounded the idea that concentrated market structures promote anticompetitive behaviour. The theory also recognised conflicts of interest as an area of focus. For example, economic structuralists highlighted the risk of allowing a dominant clothing supplier to enter the clothing retail market, fearing that the supplier may use preferential access to its product to entrench its position versus other retailers. The theory underpinned enforcement up until the 1970s, with courts blocking mergers which were determined to lead to uncompetitive market structures.

In the 1970s and 1980s, as with many other parts of political and economic policy, theories originating from an American 'freshwater' university began to challenge the incumbent doctrine. The 'freshwater' universities (so named due to their proximity to the American Great Lakes), began challenging the prevailing doctrine espoused by the 'saltwater' universities (those lining the American east and west coasts, such as Havard, Yale and the University of California).

The theory emanating from the University of Chicago – and most closely associated with Robert Bork, Former Solicitor General of the United States– departed from the prevailing focus on market structure, focusing instead on consumer welfare as the metric for assessing competition. If consumers didn't receive higher prices, the concentration of a market was not inherently a concern.

Big Tech in the spotlight

Once the focus on consumer welfare supplanted economic structuralism, many industries saw significant consolidation. The defence, healthcare and tech industries have all seen the big get bigger, with oligopolistic structures now the norm. The 1998 US government case against Microsoft, for illegally monopolising the web browser market, represents an aberration in the general trend of antitrust regulation at the time.

This consolidation across industries has not gone unnoticed in antitrust circles and, over the last decade, many have advocated a return to a focus on economic structuralism – as practiced by Brandeis over half a century ago.

The rise of the 'neo-Brandeisians' was evident throughout President Biden's administration. Antitrust enforcement in the US is split between the Department of Justice (DoJ) and the Federal Trade Commission (FTC). Biden appointed Big Tech sceptics to head of both agencies. The former FTC Chair, Lina Kahn, famously wrote a paper at Yale highlighting the anticompetitive tactics of Amazon. Khan alleged that the prevailing Chicago school methodology was inadequate for regulating online platform businesses.

> A target for DOGE is likely to be antitrust enforcement.

> Remedies proposed by the DOJ have focused on forcing Google to divest parts of its business and share more data with peers.

The neo-Brandeisians focused on two areas: merger control and business model regulation, with the latter arguably the most consequential for America's tech giants. Just before Biden's arrival, in 2020, the DoJ brought a case against Google, alleging it had monopolised the search and advertising markets. The verdict delivered in August 2024 ruled that Google acted illegally to maintain a monopoly in online search. Since then, remedies proposed by the DoJ have focused on forcing Google to divest parts of its business and share more data with peers. Whilst continued watering down of remedies is likely, this represented a step up in antitrust scrutiny.

Given Kahn's background it came as little surprise when, in September 2023, the FTC sued Amazon, alleging that it was a monopolist that stifled competition, reduced quality and subsequently raised prices for consumers. The lawsuit echoed many of the concerns Kahn had detailed in her paper six years earlier and was again emblematic of a shift in antitrust rhetoric. Both Meta and Apple have received increased antitrust scrutiny too.

A firmer approach to antitrust regulation is not just a North American phenomenon. Outside of the US, the implementation of the EU's Digital Markets Act (2023) and Digital Services Act (2024) has provided more teeth to European regulators to curtail the power of the Big Tech companies.

> Trump's first presidency demonstrated anything but a laissez-faire approach to antitrust.

Trump and Tech's complex relationship

The question that now poses itself, is how regulation of Big Tech will change under President Trump's second term. With the traditional Republican penchant for hands-off regulation, and judging by the amount of Big Tech bosses occupying front-row seats at Trump's inauguration, one would be forgiven for assuming a more modest approach to antitrust is inevitable. We would argue, as is common with much Trumpian policy, that such a view is too simplistic and in fact his thinking on the topic doesn't always comply with traditional Republican norms.

Trump's first presidency demonstrated anything but a laissez-faire approach to antitrust and the Google case mentioned above was first filed at the end of Trump's first term. The President has also often had a fractious personal relationship with certain Big Tech bosses, most notably Amazon's Jeff Bezos. Even before his election in 2016, Trump attacked Bezos on X (Twitter at the time). The feud seems to have stemmed from Bezos's personal ownership of the Washington Post, which was critical of Trump in the lead up to and during his first presidency. Trump consistently, and erroneously, alleged Bezos bought The Post to lower Amazon's taxes and that Amazon was the owner of The Post. Recently, Trump's relationship with Bezos and the wider Big Tech group does seem to have improved, but Trump is famously capricious.

J.D. Vance, Trump's VP pick, is also an antitrust hawk and has in the past been a surprise supporter of Lina Kahn's work under the Biden administration. The pro-worker, pro-consumer, anti-elite narrative is one rare area of often bipartisan agreement.

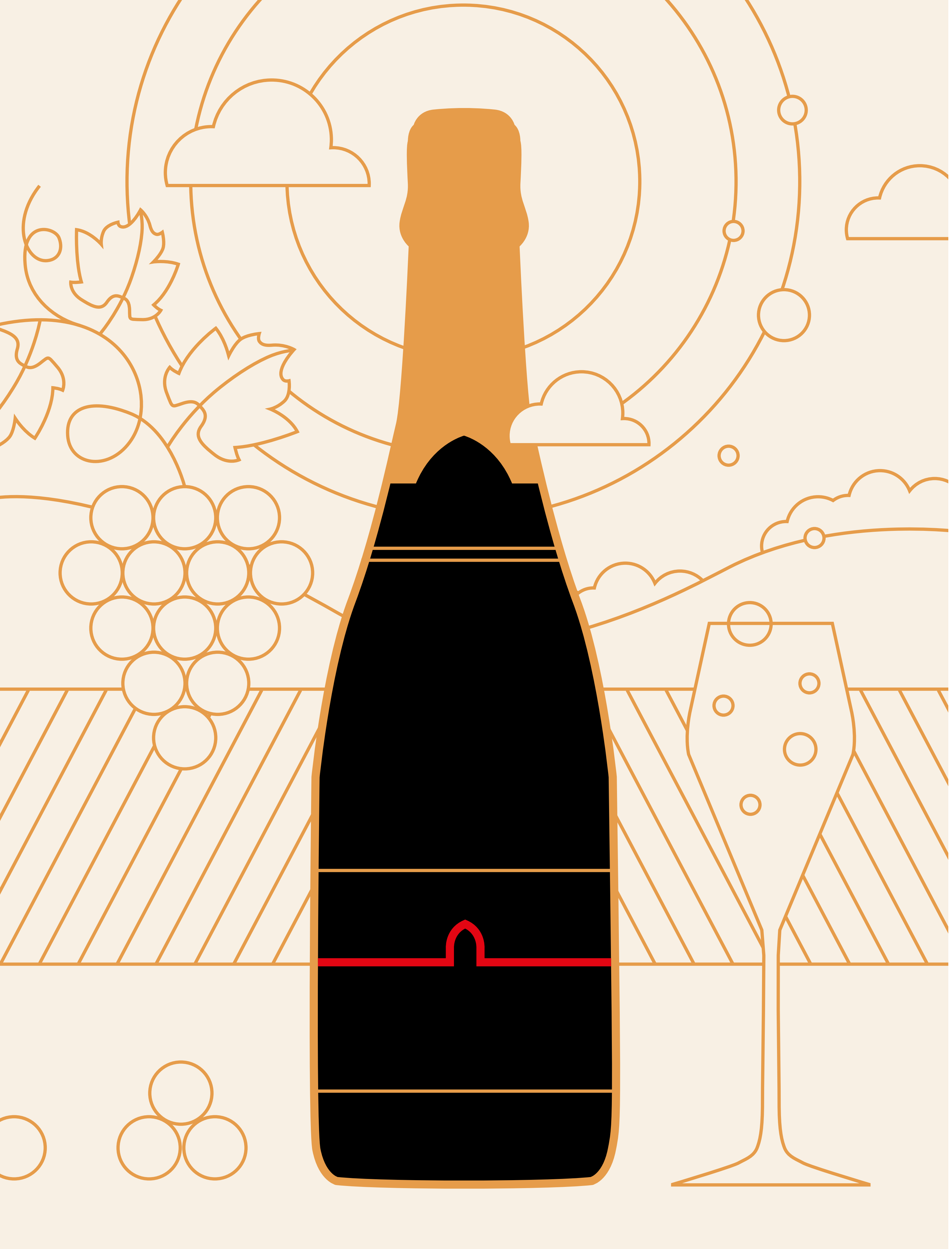
More recently though, the closer tie between Trump and Big Tech is hard to ignore, most notably, the appointment of Elon Musk to the newly created Department of Government Efficiency (DOGE). This burgeoning relationship between Big Tech and the Trump administration is surely positive for Silicon Valley while it lasts.

A target for DOGE is likely to be antitrust enforcement. The One Agency Act, recently reintroduced by US Congressman Ben Cline, would aim to combine FTC and DoJ's enforcement capabilities under the roof of the DoJ. This combination would increase executive control over antitrust. The president can fire political appointees at the DoJ, whereas the FTC is a bipartisan agency independent of the executive, where commissioners can only be fired with cause. Whilst nothing has been confirmed yet, Cline has met with Elon Musk to discuss the proposal, and it does intuitively fit with DOGE's focus. What this means for Big Tech regulation is less certain, given Trump's uneven commitment to antitrust enforcement. Either way, it would make the Big Tech companies more sensitive to whims of the president.

Four more years of uncertainty

The last five years have seen the rise of economic structuralism and the neo-Brandeisians. Whilst nurtured under a Biden presidency, the uptick in antitrust scrutiny began under Trump. Newfound bonds with the likes of Elon Musk and the increasingly symbiotic relationship between Trump and Big Tech will likely temper this regulatory fervour for now. Yet, if history is any guide, the often-erratic policymaking of President Trump is hard to predict and a swing back toward a more hawkish position should not be discounted.

Please read the important notice on page 1.



Guest editorial

Home grown: the rise of English sparkling wine

Susie Goldsmith
Head of PR, Sponsorship & Events, Chapel Down

With a mission to 'change the way the world sees English wine', Chapel Down has played a pivotal role in establishing English sparkling wine as a category of increasing international recognition. Here, they discuss the rise of one of the world's most exciting new wine regions.

The English wine industry: a region of growing significance

The South of England provides an ideal terroir for the production of high-quality sparkling wine. The region shares the same chalk soil composition as champagne and benefits from a cool climate and an extended growing season. These conditions contribute to the production of wines with pronounced freshness, balance, and purity of fruit.

The English wine industry has experienced significant growth in recent years and is now the fastest-growing agricultural sector in the UK.

As of 2023, the United Kingdom has over 1,000 vineyards. This expansion reflects a significant upward trajectory, with the total area under vine now covering more than 10,000 acres (a 123% growth over the past decade). Over two thirds of these vineyards are planted with the classic champagne grape varieties, Chardonnay, Pinot Noir and Pinot Meunier, and 75% of the country's total wine production is sparkling.

Sales of English wine continue to buck wider market trends, increasing by 10% in 2023 to a total of 8.8 million bottles. Sparkling wine sales, in particular, have seen exceptional growth, rising by 187% since 2018 to 6.2 million bottles, while still wine sales have increased by 117% to 2.6 million bottles over the same period.

This growth can be attributed to a combination of climatic, economic, and consumer-driven factors. Rising temperatures have improved grape growing conditions in the UK, leading to greater yields and enhanced quality. Producers have capitalised on this opportunity by expanding vineyard plantings, further solidifying the industry's position. At the same time, consumer preferences have shifted towards locally produced wines, fuelled by sustainability considerations and a strong appetite for supporting British brands. Tourism has also played a significant role, with visits to UK vineyards and wineries rising, driving direct-to-consumer sales and strengthening brand loyalty. Chapel Down now welcomes approximately 60,000 visitors a year for winery tours and tastings at its brand home and retail experience in Tenterden, Kent.

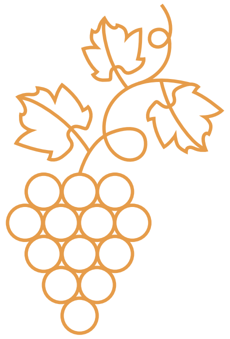
Beyond domestic growth, English sparkling wine is increasingly recognised on the global stage, earning prestigious international awards. This was exemplified in 2024 when Chapel Down Rosé was awarded the 'Best in Show' trophy at the Decanter World Wine Awards, one of only 50 wines to receive this distinction from more than 18,000 global entries. It is the first English sparkling rosé to ever achieve this accolade. Chapel Down was also crowned Wine GB's 'Supreme Champion' with Kit's Coty Coeur de Cuvee 2016. Its wines have also gained the support of leading British chefs and sommeliers, and English sparkling wine is now served in the UK's finest restaurants, bars and hotels.

Chapel Down: the market leader in English wine

Chapel Down is England's leading and largest wine producer, with more than 1,000 acres under vine across the South East of England. The majority of its vineyards are located on the chalky, south-facing slopes of the North Downs, with its Kit's Coty vineyard being widely considered one of the finest vineyards in the country.

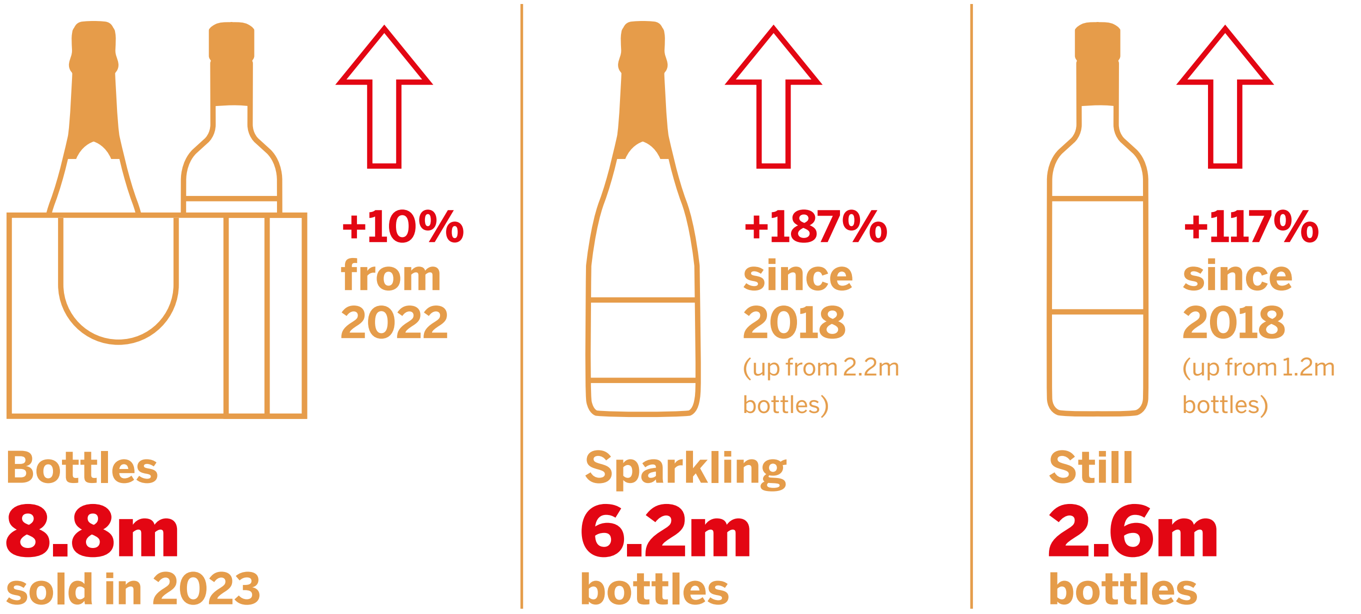
This distinction is due to its exceptional terroir, which closely mirrors the conditions of the champagne region in France. The vineyard benefits from free-draining chalk soils that provide excellent water retention while encouraging deep root growth, leading to concentrated flavour development in the grapes. The south-facing aspect ensures maximum exposure to sunlight, promoting optimal ripening and the development of complex aromatics. Combined with the region's uniquely long growing season and cool climate, which preserve acidity and freshness, Kit's Coty produces wines of remarkable purity, finesse, and structure.

> “English sparkling wine is increasingly recognised on the global stage, earning prestigious international awards.



UK wine industry growth

Data from WineGB Industry Survey 2024



Chapel Down continues to build its status as the leading brand of the English wine industry, supported by its high-profile partnerships as the 'Official English Sparkling Wine' of England Cricket, Royal Ascot and Tom Kerridge's Pub in the Park, amongst others.

Distribution and international expansion

Chapel Down's wines are available in leading UK retailers, including Harrods, Majestic, Waitrose, Marks & Spencer, Tesco, and Sainsbury's, where the company held a 34% market share in sales of English sparkling wine in 2024. The wines are also listed in more than 2,400 premium hospitality venues, including The Langham and The Pig Hotels.

The company continues to strengthen its direct-to-consumer business through e-commerce and its brand home in Tenterden, while expanding its international presence. Chapel Down's wines are now stocked in 35 UK travel hubs, including London Heathrow, Gatwick, London City, and Eurotunnel, and exported to many international markets, including the United States and Scandinavia.

In 2023, Chapel Down became listed on the AIM market of the London Stock Exchange, providing investors with an opportunity to support the UK's growing wine industry. With over 10,000 shareholders, the company offers an investor benefits package, including a 33% discount on full-priced wine purchases, complimentary guided tours at the Chapel Down winery and priority access to new vintages for shareholders with holdings of 2,000 shares or more.

As demand for English sparkling wine continues to increase, Chapel Down remains at the forefront, driving quality, innovation, and brand recognition within this developing category.

For further information, visit chapeldown.com

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In focus

Markets in focus

Jon Cunliffe
Head of Investment Office

Despite concerns that global growth would weaken in the latter stages of last year, economic activity ended 2024 on a solid footing, with the long-anticipated US slowdown yet to materialise. Consumption growth has remained supported by solid hiring and wage growth, and any softness in the manufacturing sector has been more than offset by a strong service sector.

The US Central Bank (Federal Reserve) cut its key interest rate by 0.25% at its November and December policy meetings. However, the resilience of economic growth and stickiness of service sector inflation has prompted it to pare back its interest rate guidance to just two more rate cuts in 2025.

Outside the US, however, economic data has remained mixed. On a bright note, China has seen a cyclical pickup in activity on the back of the People's Bank of China's dovish monetary policy pivot in September. We still expect long-term structural headwinds to growth from weakness in the real estate sector and soft consumption. The latter will require targeted fiscal support and the outlook for the next few months looks reasonably bright.

Eurozone growth continues to be dragged down by weakness in France and Germany, with the latter challenged by weak export growth and intense competition from the state-subsidised Chinese electric vehicle (EV) sector. The European Central Bank (ECB) cut its key interest rate by 0.25% at both its October and December meetings and whilst there remains a generally better growth dynamic in peripheral Europe, the ECB looks set to deliver another four 0.25% rate cuts by year end.

The UK has seen business and consumer confidence deteriorate in the wake of the October Budget. Projected government borrowing exceeded expectations and the increase in employers' national insurance contributions landed badly with industry. After the Bank of England Base Rate cut, and with the implementation of front-loaded fiscal stimulus measures, there is now a somewhat shallower path of UK rate cuts anticipated in 2025. Whilst we expect at least three 25bps rate cuts in the UK this year, the Monetary Policy Committee (MPC) could probably do more, not least because growth estimates are being revised lower. However, a more aggressive MPC could cause long-term inflation expectations to lose their anchor, particularly if there is Trump-induced weakness in long-dated US treasuries.

Elsewhere, Japan has experienced a more favourable growth dynamic. Wages have been rising in real terms and consumption growth has picked up. Furthermore, it looks like the economy has finally exited the deflationary trap it entered in the 1990s. With the US Federal Reserve less dovish than last Autumn, there should be more scope for the Bank of Japan to increase interest rates on the measured basis from their current 0.50% level.

With Donald Trump's decisive victory in the US Presidential Election, the US equity markets initially focussed on the positive impact of his tax cutting and deregulation agenda and recorded strong gains. Towards the end of last year, the prospect of less monetary policy support from the Federal Reserve, reflecting the risks to inflation from tariffs and curbs on immigration, generated volatility in US stocks which continued into the new year. Outside of the equity market, the biggest beneficiary of this Trump-fuelled US exceptionalism was the US Dollar, which continues to be well supported versus other G8 currencies.

> It looks like the economy has finally exited the deflationary trap it entered in the 1990s.

Outside of the US, we have seen a reduction in growth expectations for its trading partners. The effect of tariffs is to create a form of supply side shock which will be most keenly felt in China, but also the Eurozone, and the key risk is a tit-for-tat trade war which creates a stagflationary economic environment. This risk was initially felt in a noticeable underperformance of Chinese and European equities during the autumn, but towards the end of the quarter, a nascent belief that the threat of tariffs could prove a bargaining tool for the incoming US administration saw these regional equity markets perform relatively better.

As we look to the rest of the year ahead, we need to recognise that there has been a significant shift in the thinking of policymakers around the globe. After the global financial crisis, policymakers focused on shrinking debt/GDP. Now, policy is set to boost growth, with monetary and fiscal policy aligned to support nominal GDP growth and inflate away the government's debt burden.

In the round, this policy mix is reflationary and supportive of broad-based asset price appreciation, with equities as the main beneficiary. Notwithstanding this, we do recognise uncertainties around the US administration's delivery of its policy agenda, which are likely to cause periodic bouts of higher-than-average market volatility.

Consistent with this reflationary outlook is our view that we will see a broadening out of corporate earnings delivery both by region and sector. With this in mind, we also expect equity performance to be less highly concentrated than in 2024, which saw earnings delivery and market performance heavily concentrated in the "Magnificent 7" US mega-cap tech giants.

Our regional equity preferences continue to include Japan, which in addition to a much more favourable domestic growth outlook is benefitting from long overdue corporate reforms to facilitate business portfolio restructuring and increase corporate investment. This should also help ensure that its business and earnings cycles are less correlated with the rest of the world.

Elsewhere, we are relatively bullish on Asia Ex Japan because of its favourable prospective growth differentials compared to the rest of the world — relatively high levels of operating leverage in the corporate sector make these regional markets 'growth-facing'.

We also favour UK equities based upon the prospects of stronger corporate earnings delivery leveraged to this year's anticipated pick up in domestic growth, weaker Sterling, which boosts the overseas earnings of large-cap stocks, and attractive valuations.

The view on US equities is a closer call. On the one hand, the so-called Artificial Intelligence ecosystem may deliver sufficient earnings growth to justify the future earnings expectations of the most highly rated technology companies. In this case, the valuation gap between these and the broader corporate universe could begin to narrow as the latter essentially play catch up.

However, on the other hand, there is the prospect of lower adoption of new AI technologies, with companies less willing to invest in them. In this scenario, the valuation gap would narrow via a de-rating of the most highly-rated stocks.

> Trump's policy agenda could cause a further, potentially unsustainable, rise in the budget deficit.

At this juncture, it is hard to say which way this will play out, so we have favoured a modest underweight to US equities. This reflects the risk that highly-rated equities come under pressure as long-dated US government bond yields rise sharply to capture the risk that Trump's policy agenda could cause a further, potentially unsustainable, rise in the budget deficit.

This leads us to fixed income. We expect 2025 to be a year of solid returns in bonds, with short and intermediate-dated yields falling modestly. We are slightly more cautious on longer-dated bonds, reflecting the fiscal concerns above, but would nonetheless use any material increase in yields as a platform to increase the interest rate risk of our bond allocation.

Please read the important notice on page 1.

Company Meetings

A spotlight on three of the 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.

Jack Summers, *Research Assistant*
William McCubbin, *Assistant Research Analyst*
Henry Birt, *Research Analyst*

CONSUMER DISCRETIONARY
Technogym
Auction Technology Group
Greggs

INDUSTRIALS
Schneider Electric
Rational
engcon
Diploma

CONSUMER STAPLES
Nestlé
Cranswick

INFORMATION TECHNOLOGY
Skyworks Solutions
AppLovin
Blackbaud
NetApp
Rambus
Reply
Siltronic
SPS Commerce
Universal Display Corporation

FINANCIALS
DLocal

HEALTH CARE
GE Healthcare
Bruker

1.

Auction Technology Group

Equity market cap (M) £ 704

Consumer discretionary
John-Paul Savant, CEO, Tom Hargreaves, CFO

Auction Technology Group (ATG) is a provider of online auction marketplaces. It provides a platform for over 4,000 auction houses to list their lots online, giving auctioneers access to a wider range of potential customers and affording bidders a wider selection of items.

50% of revenue currently comes from commissions taken as a percentage of the 'hammer value'. This revenue is most closely linked to transaction volume and implicitly has an inflation linkage baked in. ATG also derives fees from auction houses for a range of value-added services. ATG has built these value-added services out in recent years, and they provide, Savant argued, an increasingly significant contribution to growth. Services range from marketing, paying services and shipping.

In shipping, the company has created a marketplace for fulfilment and has arrangements with Parcelforce and FedEx among others. ATG provides a price to a bidder, leaving them to determine what shipping they require.

In terms of ATG's main industry verticals, beyond the more traditional Art & Antiques (A&A) channel, it also targets the Industrial and Commercial (I&C) vertical where auction houses sell equipment, machinery and vehicles for a range of industries such as manufacturing, industrial and pharmaceutical.

Since its Initial Public Offering (IPO), ATG's performance has been mixed. Management argued at the time of the IPO that whilst A&A is cyclical, the I&C vertical would exhibit countercyclicality due to an increased level of transactions from liquidation sales. This has not been borne out. The hope is that the network effects exhibited by marketplaces such as eBay may apply here too. The network effect provides a formidable competitive advantage, but ATG will have to build more scale if it is to secure this advantage.

2.

NetApp

Equity market cap (M) $ 20,303

Information technology
Mike Berry, CFO

NetApp can be thought of as a data infrastructure company that facilitates more streamlined handling, storage and management of data. NetApp's single pane products allow its customers to access and control data regardless of where it is stored, be it on-premise or in the cloud from a singular location. This has clear benefits to customers from an operational efficiency standpoint. This core offering is supported by value-added cyber security and ransomware protection services. NetApp offers an externally verified 99% data recovery rate from these services in the event of a hack or breach, provided the customer has correctly set up and configured the NetApp product.

Competitors include Ace Data Storage, Pure Storage and the incumbent market leader Dell. NetApp has been able to grow ahead of the market by capturing market share from Dell and Pure Storage. Whilst unique in configuration, the hardware each employs is generic, and so it is the quality and usability of the software element that is the key differentiator. As a testament to NetApp's quality, Mike highlighted Amazon Web Services' (AWS), Azure's and Google Cloud's reliance on NetApp's technology in supporting their distribution of cloud products, with owners Amazon, Microsoft and Alphabet respectively unable to replicate this technology successfully in-house thus far.

As things stand, it does appear that NetApp has a compelling competitive positioning within its market. However, given there are several well-established players in this market and the rate of change within the industry is fairly high at present, it would not be unreasonable to question the durability of NetApp's competitive advantage on a forward-looking basis.

3.

Universal Display Corporation

Equity market cap (M) $ 7,292

Information technology
Brian Millard, CFO

Universal Display Corporation (UDC) is a US-listed company, specialising in research, development, and commercialisation of organic light-emitting diode (OLED) technologies and materials, which is a key component in the creation of electronic screens. They hold over 6,000 patents globally, where they are the dominant player in the OLED market, supplying proprietary materials and licensing their technologies to leading manufacturers like LG Display and Samsung Display.

They hold a near-monopoly in key OLED components, particularly high-performance red and green phosphorescent materials. Competitors Merck and BASF entered the market but struggled to bypass the patent barriers. Currently, the largest threat to the business is seen in emerging technologies such as microLEDs – however production costs for these are currently high, making them uncompetitive.

OLEDs face further competition from cheaper alternatives seen in liquid crystal displays (LCDs), limiting their use to high-end electronics. As a result, UDC captures ~40% of the smartphone display market, but has a smaller share in TVs, tilting towards high-end devices. Growth opportunities exist in tablets, wearables, and automobile displays.

UDC's financial positioning remains strong, with a solid net income margin and return on invested capital, although its valuations remain high at 35-45 times earnings.

Looking towards the future we talked about the pioneering work which is being undertaken in phosphorescent OLED (PHOLED) technology, improving power efficiency, which is especially useful in handheld devices where battery power is often a limiting factor. The company is also advancing OLEDs for portable devices.

UDC's focus is to continue to innovate in this fragmented market, attempting to capitalise on emerging trends and applications.

Please read the important notice on page 1.

Wealth planning

Offshore investment bonds

Clare Julian
Wealth Planner

Last year's Autumn Budget introduced changes to the inheritability of pensions, which are intended to take effect from 2027. This will see more estates fall into the ambit of Inheritance Tax (IHT) and will increase the potential IHT liability for those with pension funds. As a result, offshore investment bonds are coming increasingly into focus as a possible vehicle for tax-efficient wealth transfer to family members.

While both onshore and offshore bonds exist, a key difference is that discretionary portfolio managers are permitted to manage portfolios in the latter – so the focus here will be on offshore bonds. In recent years, the investment scope of offshore bonds has been widened to allow for direct stocks to be held, as well as investment funds.

With the limitations in place on annual ISA allowances and pension contributions, investment bonds have a valid place in the financial planning discussions of a growing number of clients. The ability to hold these policies within trust has broadened the conversation further. These trusts can take a variety of forms to suit differing needs, including gift trusts, discounted gift trusts and loan trusts.

What are the hallmarks of offshore bonds?

Designed to help promote investment growth, an offshore investment bond is a tax-efficient single premium investment policy.

The underlying investments within the offshore bond structure benefit from 'gross roll up'. Set up in low or tax neutral jurisdictions such as the Isle of Man or Dublin, this ensures there is very little, if any tax payable within the fund. Having the investments grow free of tax on income and gains, (subject to the tax rules of the jurisdiction) substantially bolsters the potential for investment growth.

Tax is deferred: no tax on growth is due unless a 'chargeable event' such as a withdrawal is made. When tax is payable, it is a charge to income tax, rather than capital gains tax.

A key benefit of the offshore bond structure is that they can be split into a number of 'segments' at the outset of investment, giving the holder flexibility to keep some segments, assign away others, or encash a portion of the bond without crystallizing the entire gain. This in turn allows for more precise and careful planning to mitigate a potential tax liability. The greater the number of segments within the bond, the more exacting and meticulous the planning may be. Therefore opting to split the bond into the maximum permitted number of segments is usually advised. The tax-deferred compounding capability of the investment, and flexibility to manage when and how taxes are paid, are key advantages to this form of investment structure, particularly for those who have already exhausted their other investment allowances and exemptions.

Assigning, withdrawing and topping up

The ability to assign bond segments without triggering a tax change could for example be useful for those who wish to pass along some of their wealth to adult children. By assigning some or all of the bond to the children, it becomes theirs to do with as they wish. Only when the children encash their investment is there a reckoning to tax, and this is measured against their own marginal rate of tax. This scenario is therefore particularly attractive when the assignment is made by a higher/ additional rate taxpayer to those who have a lower marginal rate of tax.

The policyholder is permitted to withdraw up to 5% of the initial amount invested each year, without any immediate charge to tax, until 100% of the original amount invested has been drawn back. After this time, any further withdrawals are treated as chargeable gains and are subject to income tax. The income tax deferral can be helpful for those who may be a higher/ additional rate taxpayer now, but are likely to find themselves in a lower tax band later in life once they retire.

If the 5% per annum withdrawal allowance is unused in a year, it accumulates. The availability of this allowance, and the flexibility it affords, enabling the bond holder to stop, start or vary the withdrawals within the permitted withdrawal allowance, can be attractive.

The tax liability can sometimes be limited, through the possible availability of various reliefs. 'Time apportionment relief' can reduce the potential tax burden in some situations where an investment bond holder has been non-resident during some of the investment period. A relief known as 'top slicing' can help reduce the tax on a chargeable gain. However, this is not available to all, and therefore professional guidance or advice is highly advisable.

“A relief known as 'top slicing' can help reduce the tax on a chargeable gain. However, this is not available to all, and therefore professional guidance or advice is highly advisable.

So who are offshore bonds likely to be suitable for? They could potentially be relevant for long-term investors, high-net-worth individuals, individuals saving for their children or investors with lump sum capital. Other groups include those with inheritance tax concerns, high-income professionals, trustees, and Court of Protection deputyship cases.

Whilst investment bonds can offer considerable benefits, there are, of course, disadvantages too. Offshore bonds often have higher fees compared to other investment products – and fees are chargeable both at the point of set up, and on an annual basis. Although growth is tax-deferred, tax liabilities arise upon withdrawal or encashment, and gains may be taxed at the bondholder's marginal income tax rate. Having funds tied up inside an investment structure such as this does add an additional barrier to how accessible the funds are because of the need to go via a third party to access them.

Offshore bonds are also complex products due to their unique taxation and taking financial advice is essential for anyone considering an investment in such a structure. Ongoing servicing and advice is often also required, which can add to costs.

If this is an area which you think may be of relevance to you, please speak to your investment manager to be put in touch with JM Finn's team of Wealth Planners.

The information provided in this article is of a general nature and is not a substitute for specific advice with regard to your own circumstances. You are recommended to obtain specific advice from a qualified professional before you take any action or refrain from action.

Independent View

Understanding behavioural finance

Greg Davies
Head of Behavioural Science, Oxford Risk

As JM Finn partners with behavioural finance specialist Oxford Risk to help clients determine their attitude to risk, Greg Davies explains the role behavioural finance and risk profiling can play in helping investors to understand their capacity for taking risk.

There is no such thing as the 'best' investment. Only the best investment for someone.

On some level, we all know this already.

It would be odd if a carefree graduate with decades of earnings potential ahead of them were recommended the same portfolio as a wary retiree now entirely reliant on their investments for income.

This is why we have 'risk profiling'. Investments can go down as well as up, different investments have different propensities to go down and up to different extents, and investors can differ wildly in their willingness to trade off the ups against the downs.

But it doesn't stop with financial risks and returns.

Investments do not exist in a vacuum. They are inescapably intertwined with the financial position, financial personality and wider circumstances of the lives they are serving.

A suitable investment portfolio should be judged not only by its snapshot financial return, but by its ongoing emotional return too. And if emotions get too hard to handle, it can lead to panic selling and consequently any long-term financial return becoming entirely theoretical. Not all costs are as clear as the panic seller's. The person who holds on, but suffers in silence, pays not in money, but in mental fatigue – costly both in itself, and through the knock-on mechanism that we are all more prone to mistakes (in every area) when we are stressed.

Human investors simply want the best return they can get, relative to the stress, anxiety, and discomfort they are going to have to bear along the journey. And each investor's personality will make them prone to anxiety in specific ways. 'Behavioural finance' recognises this, and, by using psychometric assessments to establish each investor's unique financial personality on multiple dimensions, offers prescriptions for what is most likely to provide emotional comfort in the most cost-effective way.

Behavioural finance in practice

It has been shown again and again in behavioural research that our decisions are hugely influenced by the way information is presented to us.

And just as there is no 'best' investment, there is no 'best' way to report on those investments, no 'best' way talk to clients in turbulent markets, and no 'best' way to structure an investment decision-making process. To be effective, all these require personalisation. What comforts, fascinates, or imbues one individual with confidence may concern, frustrate, or confuse another. Many an interpretation can emerge in the gap between the message that's sent and the one that's received.

> Behavioural finance makes finance relevant to real life.

This can be frustrating in one way, but is also great news in another. Because it means there's rarely a need to change a portfolio itself (via the one, very clunky 'level of risk' lever) to radically change the experience of owning it.

The order in which information is presented, the frequency and length of reports, what you choose to emphasise, such as the stories behind particular holdings, or dialling up or down the role of the adviser depending on the investor's need for involvement to feel in control, and even the tone messages are delivered in, can all meaningfully affect the overall investing experience.

A further important aspect is timing. We know that merely disclosing all potentially relevant information well in advance of when an investor needs to use it doesn't help them. However, give them precisely relevant information at the time they are making their decision, and you've got a fighting chance of helping them towards a better outcome.

The exact prescriptions for these preventative measures will differ for each patient, depending on their behavioural traits and tendencies. Just as some will avoid eating junk food most effectively with a support group while others would rather work away in isolation, some behavioural interventions could target the portfolio itself by tailoring which asset mix will make the investor most comfortable, while others could tailor communication to help investors cope with times of market stress. A rich financial personality profile allows each investor's portfolio and adviser engagement to be deeply personalised and tailored to their needs, providing both financial returns and emotional comfort.

Finding the best solution in practice

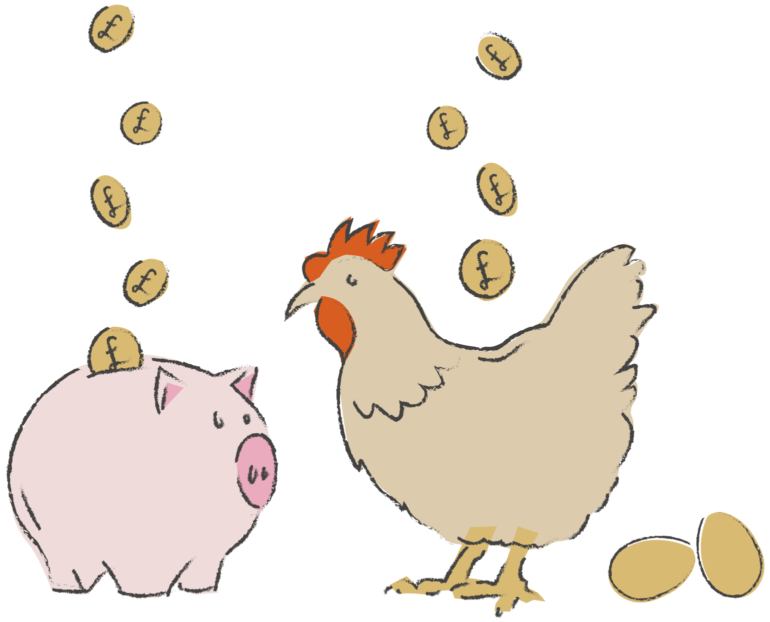
Personal finance is behavioural finance. Behavioural finance makes finance relevant to real life. It bridges the gap between the mathematically optimal model village of the textbook and the more practicable, but more psychologically complex world where humans live, in all their haphazard glory.

Ultimately, the true job of a wealth manager is not to give clients a theoretically 'optimal' solution, but to give them the best solution they could realise in practice. Investment plans that better understand investor behaviours help those investors reap the financial and emotional rewards of behaving better with their investments.

Please read the important notice on page 1.

Stock in focus

Cranswick



Jack Summers
Research Assistant

At first glance, many investors would be forgiven for concluding that Cranswick was a rather uninspiring business, especially given the current excitement in other areas of the equity market.

Cranswick earns almost all of its revenues in the UK, from end markets that generally exhibit relatively slow growth and that are, by nature, restrictive in terms of profitability potential. However, there are arguments to be made that this business, from which the majority of readers will indirectly buy products on a weekly basis, is one that warrants a closer look.

The origins of the business lie in rural East Yorkshire when, in 1972, a group of pig farmers joined forces to establish a mill producing pig feed. Fast forward to the present, Cranswick still grows and mills animal feed but this is now a small cog in a vastly different business.

Cranswick's traditional business now is the supply of fresh pork (26% of revenue) and chicken (17% of revenue) into major UK supermarkets. Cranswick is well established in fresh pork as the UK's largest processor but has a considerably smaller presence in fresh chicken, having only entered this market in 2016. According to AHDB (Agriculture and Horticulture Development Board), UK pork consumption has been slowly declining for some time, and whilst chicken consumption has been growing, this has been gradual. Cranswick's impressive growth in these segments is therefore attributable to the capture of market share from competitors and there are several reasons as to why this has been possible. The first is the relative level of vertical integration throughout the rearing system: all chickens and c.55% of pigs are bred in-house versus the general industry norm of external sourcing. This not only enhances traceability but also reduces exposure to the element of market price volatility derived from supply and demand imbalances. On top of this, management has been able to utilise a robust balance sheet to build and maintain a best-in-class asset base of farms and processing facilities with welfare and hygiene front of mind. This level of relative operational excellence contrasts with competitors which have historically exhibited poor profitability and as a result have low quality, underinvested asset bases.

> Cranswick's impressive growth in these segments is attributable to the capture of market share from competitors.

Equity market capitalisation (m)
£2,651

52 week high-low
£53 - £38

Net dividend yield
1.9%

Price/earnings ratio
19

At c.7% market share this strategy undoubtedly has a growth runway in chicken — provided Cranswick can successfully expand capacity at its Eye facility in Suffolk. In pork however, supermarkets may start to feel uncomfortable with supplier concentration beyond current levels of c.30%.

The contracts Cranswick holds with supermarkets for the most part in the fresh pork and chicken parts of the business are quite unusual in that they are cost-of-production based. The price paid per unit is considerate of the cost-of-production (variable) with an agreed margin (fixed) added on top. In times of high inflation, such as in 2022/23 where grain and energy prices were impacted by Russia's invasion of Ukraine, profitability is protected. However, in times of cost deflation supermarkets reasonably seek to push prices lower. Ranging between 6-7%, margins therefore are stable with somewhat of a floor and ceiling present, revenue growth however is vulnerable to headwinds from negative price contributions in times of cost deflation. Typically, it would be reasonable to expect consumer staples companies to raise prices during periods of cost inflation and hold them otherwise.

Cranswick also produces a variety of gourmet (17% of revenue) and convenience (39% of revenue) products including premium bacon and sausages, Mediterranean charcuterie and antipasti, cooked meats and slow-cooked meats such as pulled pork and ribs. Such product ranges diversify revenue by product type and increase addressable market into growthier areas. Built both in-house and through acquisitions, for the most part, this value-add part of the business makes sense, however, it is difficult not to question if portfolio synergies exist between traditional products and olives, hummus or antipasti.

More recently the business moved into pet food, with the reward of a supply contract from Pets at Home. Utilising and squeezing value out of what would otherwise be waste products from other parts of the business fits nicely into the vertically integrated model. And, whilst currently only a small part of the business, pet food is a growing market which adds further space to grow into.

Cranswick's management is likeable from an investor standpoint. They are straight-talking and good executors, unwilling to do too much at once in terms of investment projects. Despite continually investing in the business and its asset base over the years, return on capital employed (ROCE) has consistently exceeded a mid-teens percentage which points to good capital allocation.

Please read the important notice on page 1.

Collectives Commentary

For Jevons’ sake

Ali Unwin
Fund Manager, Polar Capital Global Technology

Ali Unwin, Fund Manager on the Polar Capital Global Technology team considers the wide-reaching impact of DeepSeek on the AI landscape.

DeepSeek is a Chinese artificial intelligence (AI) research lab that spun out of a Chinese hedge fund called High-Flyer. The launch of DeepSeek’s R1 model was accompanied by a research paper detailing several key innovations which allowed the model allegedly to be trained for far less cost than leading Western counterparts, while delivering comparable cutting-edge performance. The costs of running live data through a trained AI model to then make a prediction or solve a task (known as inference costs) when using the model were also significantly cheaper.

R1 sent shockwaves through equity markets as investors scrambled to understand the implications for future AI infrastructure spending, and NVIDIA lost c$600bn of its market capitalisation (-17%) in one trading session – the most of any company, ever. Markets soon recovered their footing as the ‘true’ training costs of the DeepSeek model were estimated to be perhaps north of $1bn when considered on an apples-to-apples basis to Western counterparts. Within days, upward revisions to Meta Platforms (Meta), Google, Amazon and Microsoft’s plans for capital expenditure on AI infrastructure calmed investor nerves.

The collapsing cost of using models soon after their introduction has been a constant feature of the AI landscape. The cost of inference had fallen 20x even before DeepSeek was revealed. Indeed, the open-source nature of Meta’s Llama models (from which DeepSeek was reportedly ‘distilled’) is intended to create these types of innovation at the ‘trailing edge’, refining, advancing and ultimately commoditising the leading-edge work.

The more important issue for investors to consider is the broader implication of ever-cheaper and ever more powerful AI. Satya Nadella, CEO of Microsoft, wrote of the DeepSeek news: “Jevons' Paradox strikes again! As AI gets more efficient and accessible, we will see its use skyrocket, turning into a commodity we just can’t get enough of.” So what is Jevons' Paradox? Writing in 1865, economist William Stanley Jevons argued that the increasing efficiency of coal use (e.g. steam engines that extracted more work from the same amount of coal) would – paradoxically - lead to more coal being consumed. The phenomenon is applied today to describe situations where technological developments that increase efficiency paradoxically result in an increase in overall use of the technology rather than a decrease.

At Polar Capital, we believe AI will prove to be the next general-purpose technology in the mould of electricity or the internet and we expect every industry to be reimagined in its wake. Existing profit pools will be reallocated and huge new industries will be created. PhD-level intelligence will likely soon be available on demand for a negligible incremental cost, the implications of which will be far-reaching as new applications become economical. These might include ubiquitous real-time AI in every device, embedded in everyday objects, providing constant personalised assistance. It may mean models that were previously deemed too computationally expensive to deploy in production (e.g. extremely large language models for niche applications, hyper-personalised recommendation systems) become feasible. We could see an explosion of AI applications in every sector of the economy and in our daily lives because using AI has become so much more efficient.

In the Polar Capital Artificial Intelligence Fund, which mainly invests in non-technology AI beneficiaries, we are lucky to have a front row seat for the early adoption phase and are already seeing a wide range of companies adopt AI. They should stand to benefit as AI gets cheaper and more efficient (as Jevons suggested), and can be applied economically to an ever broader, more complex set of use cases.

Axon Enterprise, manufacturer of TASERs and police bodycams, has a new AI tool called Draft One. This takes the audio feed from a police officer’s camera and auto-drafts incident reports, saving officers 82% of the time it would normally take. This is not a trivial saving given report writing consumes up to 40% of an officer’s time, leading to one third of UK police officers considering leaving the police service.

We are close to reaching real-time AI assistance from the complete range of medical disciplines on Intuitive Surgical’s robots, or a researcher having access to cross-disciplinary scientific expertise in real time as they conduct experiments. Low-cost inferencing of more advanced AI will allow companies such as Walmart, Tesco and Dick’s Sporting Goods to solve the most complex inventory management and logistics problems to reduce wastage and maximise sell-through.

> “As AI gets more efficient and accessible, we will see its use skyrocket, turning into a commodity we just can’t get enough of.

Amara’s Law states: “We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run”, but this may not be correct in the case of AI. We are extremely optimistic on the speed of AI adoption given the cost to use a given level of AI falls around tenfold every 12 months. The comparable figure for semiconductor advances (Moore’s Law) saw costs fall c2x every 18 months.

There has never been a more exciting time to be a technology investor, and DeepSeek should be seen as Jevons himself would have seen it: “The more we render it efficient and economical, the more will our industry thrive, and our works of civilisation grow."

Bond focus

Bond market outlook

Jon Cunliffe
Head of Investment Office

This year's fixed income outlook is finely balanced, with a high degree of uncertainty surrounding the impact of the incoming Trump administration's policy agenda on growth, inflation, central bank policy, government borrowing and geopolitical risk – in short, all the things which bond managers fret about.

However, before we talk about Trump, we do need to discuss the UK economic outlook. The Labour government's recent budget landed badly with business, with the rise in employers' National Insurance contributions criticised for weakening conditions in the labour market, driving up costs and harming business and consumer sentiment.

However, it is the prospect of increased supply of UK gilts to the market which has been a bigger focus of the UK bond investor since the autumn. With the budget fiscally looser than expected, gross gilt issuance is now expected to exceed £300bn per annum, roughly £30bn more than had been anticipated. Moreover, this unhelpful backdrop was amplified by the increase in inflation expectations over the next 18 months as a response to the government's front-loaded fiscal stimulus measures.

However, and notwithstanding the foregoing, it is the US Treasury market rather than domestic factors which have been driving the recent volatility in UK bond yields. The US Treasury market remains the world's largest and most liquid bond market, and it continues to exert a dominant influence on all other sovereign bonds. The likelihood of higher US government borrowing under Trump and the upside risks to inflation from his trade and immigration policies have been the key driver of higher US Treasury yields.

Whilst this narrative in the bond market has been generally negative, the rise in government bond yields in recent months has been substantial and both the UK gilt and US Treasury markets have made a reasonable adjustment to higher issuance and sticky inflation. Elsewhere, the number of interest rate cuts expected in the US and UK is now much more modest. In isolation the UK's disappointing growth trajectory versus last autumn's more optimistic expectations supports a more substantial reduction in UK base rates than currently discounted and, if there is a risk, it's that the Monetary Policy Committee reduces its interest rate below the 4% level expected in the 4th quarter this year.

“ The US Treasury market remains the world's largest and most liquid bond market, and it continues to exert a dominant influence on all other sovereign bonds.

It is uncertainty around Trump's policy agenda which tempers our optimism on the degree to which UK rates may ultimately fall and the extent to which gilts can rally. Whilst the UK is running a significant budget deficit with a high level of debt/GDP, these figures are dwarfed by the US, with estimates that on the back of Trump's fiscal policies the latter could reach 140% over the next ten years. Elsewhere, whilst the markets are anticipating a modest impact from tariffs on growth and inflation, a dangerous escalation to a full-blown trade war is currently viewed as a remote possibility. This backdrop would deliver weaker growth and higher inflation which could spell trouble for long-dated US Treasuries and have a knock-on impact on long-dated UK gilts.

As yields have risen over recent months, we have become more optimistic on UK gilts, and we expect further declines in short and intermediate dated yields over the course of this year. Elsewhere, the rise in long-term gilts yields to their highest level in 27 years has prompted long-term investors to increase their allocations to the 15 year+ sector. Whilst we have sympathy with this view, we will look for greater clarity on the outlook for US public finances before recommending a bigger weight to the longest dated UK gilts.

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Please read the important notice on page 1.

JM Finn News

JM Finn awards roundup

The firm has had a great year for awards: here is a snapshot of just some of them.

For the fourth consecutive year, JM Finn was voted Best Wealth Manager 2024 in the Good Money Guide Awards. Thank you to everyone who voted for JM Finn again – we are proud that the positive feedback to the Good Money Guide award reflects our own client survey results.

JM Finn also won Private Client Asset Manager of the Year 2024 at the 2024 Magic Circle Awards, while JM Finn's York team were named Wealth Manager of the Year at the Yorkshire Financial Awards 2024.

The Charities team won the Best Charity Investment Service in the 2024 City of London Wealth Management Awards, where Lucy Coutts, Investment Director and Head of the York office (who many readers may have heard of from her regular appearances on BBC Radio) was also voted Wealth Manager of the Year.

Watch this space for more in the near future (we hope!): we are currently shortlisted for the Private Asset Management (PAM) Total Wealth Planning category and in three categories at the City of London Wealth Management Awards (COLWMA): Charity Investment Service, Discretionary Wealth Management, and Wealth Management Company of The Year.

Hampshire Art Fair 2025

Are you on the lookout for new art? For those of you based in Hampshire, it could well be worth paying a visit to the spring event hosted at the Nadia Waterfield Fine Art Gallery from 26th April to 18th May, sponsored by JM Finn.

The gallery specialises in contemporary fine art and is nestled in the heart of the picturesque Hampshire countryside, specialising in beautiful original paintings, sculptures, ceramics and furniture. Representing a broad cross-section of art from around the UK and abroad, the gallery exhibits work from both acclaimed artists, alongside exciting, new, emerging talent. Over the years, Nadia Waterfield Fine Art has earned a well-deserved reputation for exhilarating exhibitions, eclectic artists and first-rate hospitality.

For more information please visit: nadiawaterfieldfineart.com

Understanding finance

Crunching factors: finance's hidden drivers

William McCubbin
Assistant Research Analyst

When understanding how individual assets, asset classes, or even whole portfolios behave, a useful analytical tool for an analyst is factor analysis. A factor is a variable or characteristic, with which individual asset returns are correlated.

The most common factors historically have been size, value, momentum, and quality. These factors are positively related to long-term return premiums and are often referred to as rewarded factors. Then you have unrewarded factors, such as idiosyncratic risks, because of their ability to be diversified away by holding a diversified portfolio of companies.

One of the most well-known factor-based models is the Fama-French three-factor model, which expanded on the Capital Asset Pricing Model (CAPM). Here, they added the size and value factors to the market risk factor. This model is considered one of the foundations in understanding risk in equity markets.

So far, we have just discussed style factors, but this can be extended to macroeconomic metrics like interest rates, inflation, or GDP. We can also use statistical analysis to derive principal component or latent factors.

Factors analysis supports a wide range of critical functions, from portfolio construction, risk management, and performance attribution, whilst being popular for quantitative strategies. However, factors can provide drawbacks, as seen in factor crowding, where popular factors can become overvalued – a recent trend we have been seeing in global markets with momentum.

Momentum has been the hallmark of the recent rally in equity markets, partially supported by the rise of passive investing. Whilst investors have bet on momentum in recent years, it is important to remember that nothing lasts forever, as a mean reversion could spur heightened market volatility if momentum is to fall out of favour.

Glossary of key terms

Dovish – An expansionary monetary policy that supports lower interest rates intending to stimulate economic growth. (Page 13)

Hawkish – A restrictive monetary policy that supports higher interest rates to bring inflation under control. (Page 7)

Headwinds/ tailwinds – Headwinds are factors likely to negatively affect a company, tailwinds on the other hand are likely to have a positive impact. (Page 13)

Initial Public Offering (IPO) – Where a private company is floated on a stock exchange for the first time, offering shares to the public. (Page 14)

Operating leverage – Refers to the degree to which a company can use fixed costs to generate greater profits as sales increase. (Page 15)

Reflationary – A policy that is designed to stimulate a rise in prices, or inflation, within an economy. This is typically done through increasing the money supply. (Page 14)

Return on Capital Employed (ROCE) – Can be calculated in multiple ways. However, the most well-known approach is to take earnings before interest and taxes and divide them by capital employed. ROCE measures how well a company can create profit from the capital it uses. (Page 25)

Stagflation – Is an economic cycle which is characterised by high inflation, high unemployment and slow growth. (Page 14)

Asset allocation and sector focus

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

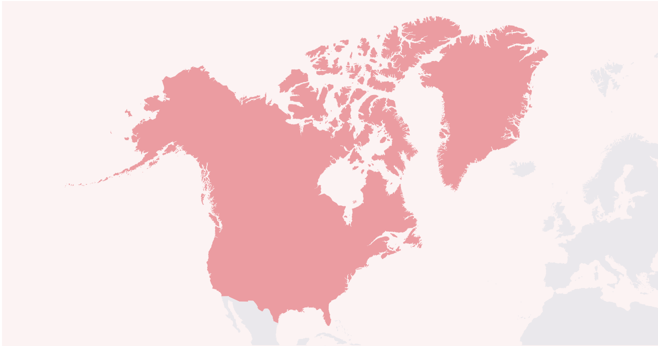
Our asset allocation committee is one example of this, via their monthly output showcasing their views on a global basis; this is then complemented by a sectoral view from the stock selection committee. The combination of these top down and bottom up opinions is an important resource for our investment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

These committees, which form an important element of our Investment Office, consist of research analysts and a number of investment managers. 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 from the Investment Office.

Asset Allocation

Overweight   Neutral   Underweight



North America

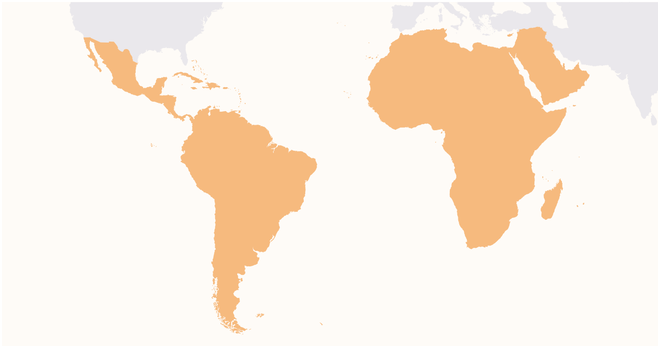
The US economy continues to grow solidly, supported by robust consumption growth. Wages have been growing more rapidly than inflation, the pace of hiring has picked up and household balance sheets are still resilient. Against this background, Trump's trade, immigration and tax agenda may have the effect of pushing up long-term US inflation expectations which could cause an undesirable increase in long-dated treasury yields. Given the high rating of many US equities, this environment could cause a reversal of last year's outperformance.

UK

The UK economy slowed in 2024, as the Autumn Budget landed badly. Wages have recently been reaccelerating, whilst activity data has been weak. The Bank of England must choose between the upside risk to inflation versus the downside risk to growth in the next few years. With valuations remaining attractive relative to both Europe and the US, and evidence of broadening corporate earnings delivery, a more activist Bank of England and less robust sterling are likely to support investor appetite to the UK stock market.

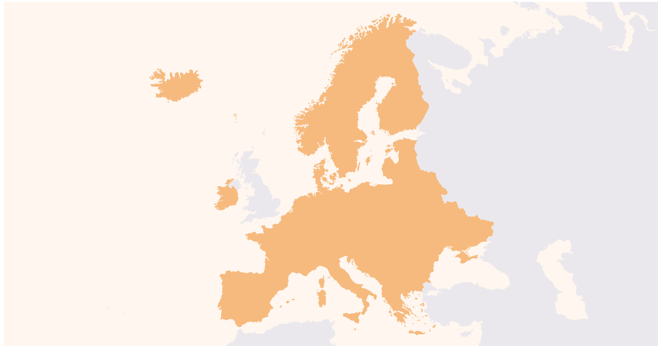
Japan

We expect Japan to sustain a strong cyclical upswing during 2025. This will be driven by a combination of positive real wage growth, the conclusive end to corrosive disinflation, and ongoing reform of the corporate sector. These are clear tailwinds to the growth outlook. We expect the Bank of Japan to increase interest rates moderately over the year, in contrast to the other major central banks.



Emerging Markets

Last year's rally in the US was a headwind for emerging markets. Looking ahead, much of the rally in the dollar which one would expect because of Trump's proposed tariffs has already occurred and any disappointment on the sequencing or delivery of his policy agenda is likely to see a reversal of dollar strength, which will ease financial conditions in emerging markets, providing a boost to the corporate sector.



Europe

The European Central Bank (ECB) has continued monetary policy easing as incoming activity data remains disappointing. The significant downshift in Chinese demand has been a particular challenge for the export sector and domestic vehicle production has faced considerable headwinds from Chinese competition. Whilst the prospect of across-the-board US tariffs on all imports is a material concern for investors, at current valuations there is value in the price and we expect the ECB to deliver further aggressive monetary policy stimulus, so we move to neutral in Europe.

Asia Pacific

Recent monetary policy easing by the People's Bank of China in addition to liquidity support for highly indebted local authorities has generated a strong upswing in economic activity into 2025. However, the ongoing threat of tariffs presents a significant potential headwind to the export and industrial sectors in China. Elsewhere in Asia Pacific however, with regional growth still solid and scope for central banks to ease policy from currently restrictive levels, we are more optimistic on the growth and earnings outlook ex-China.

Please read the important notice on page 1.

Sector Focus

Overweight Neutral Underweight

Communications

Expectations around artificial intelligence have been a tailwind for the sector recently, leading the performance of key sector players to be strong. Whilst AI is likely to benefit the sector, premium valuations now more than reflect this. The telecoms element of this segment looks less stretched in terms of valuation; however, these companies make up a smaller part of the sector. Whilst we continue to like the sector from a structural point of view, we retain an underweight due to valuations.

Consumer Staples

Input cost inflation continues to be a headwind for the sector, with pricing remaining high and volume still weak and we expect the legacy of high inflation to weigh on margins. We also are seeing divergence between brands. This divergence is and will be largely driven by their ability to drive volume growth, as consumers remain budget conscious, limiting the sector's ability to implement further price increases.

Financials - Banks

Financials performed well in 2024, and valuations have increased. Whilst we do think rates will come down more slowly than previously thought, banks make money from the difference between long and short rates, which remains in positive territory. We do not expect a significant steepening of the yield curve from here and, therefore, with valuations where they are, we retain our neutral rating.

Consumer Discretionary

The sector is exposed to macroeconomic data in Europe and China. As the name discretionary suggests, demand for these products is non-essential and is therefore sensitive to consumer budgets. We see valuations in the sector as increasingly attractive and we expect further policy support in China and Europe to support consumption. This sector is also our preferred way to play our short-term positive view on China given the exposure of the sector to this region. We therefore upgrade our view to overweight.

Energy

Brent crude started the year at $75 and ran up in January but has since fallen. We see the outlook as evenly balanced, with the marginal cost of production and OPEC providing a limit to the downside, but Trump's pro-drilling policies providing a cap to the upside. With this lack of directional conviction, we retain a neutral weighting to oil.

Health Care

Health care stocks suffered at the end of 2024 as the appointment of Health Secretary Kennedy in the US increased uncertainty around pharmaceutical regulation. Since the appointment of Kennedy, the sector has continued to struggle but we believe valuations have reflected the risk and we now expect health care to perform better and so move to an overweight to reflect this.

Industrials

Industrial equities performed well in the second half of 2024 on the back of loosening monetary policy and supportive fiscal stimulus in China which was to the benefit of our prior overweight position. Looking ahead in 2025 the valuations of many industrial companies appear quite rich against a backdrop of low global growth and the potential threat of tariff exposure. Given these considerations we see an opportunity to take profit and in doing so move to a neutral position.

Materials

China remains the largest medium-term influence in the materials sector. Whilst we saw fiscal stimulus in China in 2024, large volumes of unsold inventory remain within the Chinese property sector and targeted stimulus in the form of a property stabilisation fund is needed. Longer term, we continue to see the attractiveness of the copper market and a possible bull move in the commodity super cycle would boost the outlook. For the shorter term, the sector is unlikely to outperform without further Chinese stimulus.

Utilities

Utilities in the US saw strong performance in late 2024 post Donald Trump's election victory. In the same period UK power names published their draft business plans for the next power transmission regulatory cycle RIIO-T3, with the proposals appearing both reasonable and fundable. Conditions in the UK water sector remain challenging, however. All things considered, we remain neutral on utilities and continue our preference for power over water.

Information Technology

Performance following Trump's election has been strong, and valuations provide limited margin for error should earnings disappoint. AI will provide a tailwind to the sector, but it also requires significant capital investments before the demand can be serviced. We also note that with fewer US rate cuts now expected this year, interest rate sensitive sectors such as this could struggle. We continue to see the structural drivers of this sector over the longer term but remain underweight on valuation grounds.

Real Estate

2024 was a challenging year, due to persistent inflation and a 15-year high in interest rates. Valuations fell with heightened borrowing costs. The recent rate reduction is helping stimulate activity, whilst modest inflation is providing rental growth and helping investors reduce their 'risk off' position. Even though the market remains fragile, we believe an uptick in the real estate sector is due on the back of easy comparatives and suppressed valuations.

Please read the important notice on page 1.

Meet the manager

Andrew Mann

Investment Director, Bury St Edmunds

Lives A village on the outskirts of Ipswich

Family Married with two daughters aged 13 and 11

Started at JM Finn January 2007

Hobby/pastime Cycling – the stereotypical MAMIL I'm afraid

Favourite holiday Snowboarding with friends and family

Favourite film Daniel Craig's first outing as James Bond. Casino Royale (2006)

If you weren't an Investment Manager I previously worked for an independent wine merchant, so I think I'd still be doing that

Favourite sporting moment England winning the 2019 Cricket World Cup Final

Preferred music Eclectic, but I'm an indie kid at heart

Favourite book Anything by William Boyd

You've been with JM Finn since 2007, how has the firm changed during that time?

In so many ways! The continued investment in new systems has helped not only our investment and administrative departments but has hopefully made the client experience better through improved valuation documentation and an award-winning client portal.

What do you think the rest of 2025 may hold for investors?

An increased level of both policy and stock market volatility seems inevitable with Donald Trump back in the White House. This has already started to play out through his use of trade tariffs and I can't help but feel investors will at times need to ignore quite a lot of short-term noise. I also expect market returns to broaden out following a period where a very small number of sectors and stocks have dominated performance. This should be good for client portfolios, which are often far more diversified than any one index.

Although impossible to predict, my feeling is that we may see a few more interest rates cuts in the UK as the Bank of England looks to stimulate what at the moment seems to be an economy lacking any significant levels of growth.

As an Investment Director based in the Bury St Edmunds office, how does JM Finn work to meet the needs of investors in the local area?

We are very lucky to have a significant number of our clients based locally, and over the years this has often offered the opportunity to forge close relationships with the next generation through organised events or regular meetings. Being based in a small town also allows us to liaise with other professionals to whom we can confidently refer clients should they need additional tax or legal advice.

Technology is also a wonderful thing and clients can use video conferencing to meet with us. It can be a very useful tool if only a brief catch up is required, or if a client wishes to speak to one of our Wealth Planning team based in London.

What are your top goals for the rest of the year?

I am going to try and meet with as many clients as possible. I think it will also be an important year for clients when it comes to navigating some of the changes made to pension and inheritance rules, so hopefully we can continue to work with our Wealth Planning team to identify where clients might need more specialised advice.

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