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Prospects

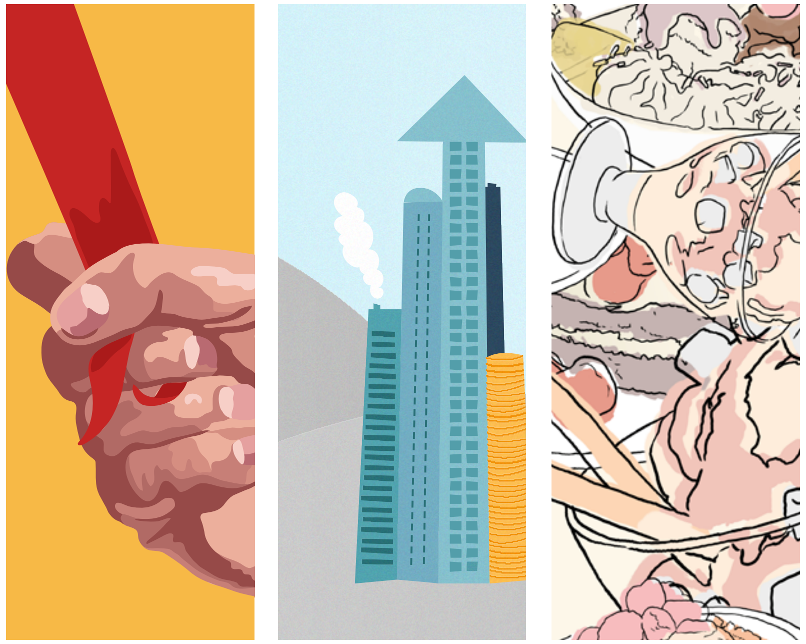
The JM Finn Quarterly Periodical

Labour reinvented
Will Labour's policies win votes?

War and peace
Is one indistinguishable from the other?

Sweet, pudding or dessert?
The purpose of pudding explored

No.22
Spring 2018



Equity prospects
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Adam Mallett/Graphic Alliance

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Welcome

Up until a month ago, equity investors could only see positives and had been relatively calm for three years. Suddenly the tide seems to have turned and markets got ahead of themselves thanks to very high levels of optimism. In my view the underlying prospects have not changed and the recent volatility is the inevitable effect of fear and greed.

We have seen excessive returns from stock markets over the last few years comfortably above long term returns over a twenty year period, which have averaged nearer 6%-7%. A period of excess returns is bound to revert to normality as we approach a higher interest rate environment.

In the last forty years we have seen the US technology sector balloon three times, but the underlying technological progress has continued. In the late 70s the likes of IBM excelled at the start of computerisation and then we had the internet boom of the 1990s, followed by the so-called "fourth industrial revolution" today which encompasses artificial intelligence, robotic technology and so many aspects of industry, healthcare and social media.

Markets today offer comparable characteristics to previous periods of enormous technological change. Few would doubt that Amazon is leading a retail revolution. It is here to stay but it is a question of what the valuation should be and that comes down to fear, greed and expectation of returns. This question gets harder when we consider that right across markets today we can see hundreds of smaller Amazons whose businesses are growing strongly and disrupting the long-established models.

The fourth industrial revolution is here to stay and will continue to change our lives. Markets look for winners and losers and over-react both on the upside and the downside. The recent history of Bitcoin was probably a warning sign and whether Bitcoin turns out to have real value or just be like the "tulip mania" of three hundred years ago, or the Poseidon debacle of the 1970s, only time will tell. Some investors, or speculators, are prepared to play these markets without any regulation.

This brings me on to the subject that is dominating our industry in 2018. We wrote to all our clients about the changes taking place in light of MiFID II (Markets in Financial Investment Directive II) last year. For the majority of our clients (75%) within a discretionary service, there will be little change. However, advisory clients will see considerably more change thanks to our increased obligation to send suitability reports for each and every piece of advice.

Over recent years we have seen clients move away from advisory services thanks, in part to the increased paperwork they have received but also the time it often can take to seek approval for a trade. I would like to take this opportunity to encourage all advisory clients to talk to their investment managers about the advantages a discretionary service can offer.

Finally, I would also encourage our clients to discuss investing with younger generations of their own families. Much has been made about the plight of millennials but for those able to save, starting early makes a big difference. A smaller investor today has few places to turn to receive sensible help; we set up Coleman Street Investments for exactly this reason - to help investors with smaller portfolios invest in a portfolio service at a reasonable cost. Your investment manager would be delighted to discuss this with you or your dependents.

James Edgedale

James Edgedale
Chairman

Editorial

Going into Labour

By John Royden
Head of Research

Illustration by Adi Kuznicki

My one and only foray into politics was short-lived. Fifteen years ago I offered to help a local Tory MP at the then forthcoming election. He told me that the Tories would probably do better if I canvassed on behalf of the Labour Party instead! And that was the end of my political career.

Well, time has moved on and, whilst I have not joined the Labour Party, I am certainly keen to understand its policies and where they are heading. In particular whether the Labour Party is painfully re-birthing itself into something rather different from what we are used to.

From an investor's point of view, a Jeremy Corbyn Government does not look great. John McDonnell, the Shadow Chancellor, said "Building an economy for the many also means bringing ownership and control of the utilities and key services into the hands of people who use and work in them".

Nationalising our utilities is one thing, the price is another and it is the latter aspect that worries me. I have read about nationalisation at balance sheet values which are c50% below market values. The difference in value suggests that private ownership has created value. This is in contrast to the post privatisation position in the 1980s where the value ascribed by the market was at a discount to the balance sheet value; suggesting that investment decisions during public ownership had destroyed value. I have also heard talk of different categories of investors getting paid different prices: hedge funds get paid less than pension pots, for example.

Investors' primary concerns are that the proposed increase in public debt would cause interest rates to rise and that gilts and other bonds would fall in value. I am also concerned that higher interest rates, when combined with tax hikes, especially in corporation tax, would cause the value of companies and their share prices to fall. If investors were denied attractive returns in the UK, and indeed were fearful of their investments being expropriated at less than market values, they would probably want to invest outside the UK, a scenario that would likely cause the pound to fall.

"Nationalising our utilities is one thing, the price is another and it is the latter aspect that worries me.

So that begs the question, could Labour get elected and would they pursue these policies? It strikes me that the bulk of Labour MPs are not inclined to support the extremes of the Corbyn / McDonnell agenda. Labour would only vote this way if moderate MPs were replaced with Momentum sympathisers. Momentum is the hard-left organisation lead by Jon Lansman, or "Lansperson" as he is known amongst moderate Labour MPs who now collectively refer to themselves as sensible Labour.

Momentum is getting more control. There are stories of Momentum "thugs" dominating local Labour meetings and literally bullying moderate Labourers out of the party. Momentum have a clear objective to take over the party, as often spelt out by Jon Lansman himself.

Len McCluskey
59,067 votes (45.4%)
Gerard Coyne
53,544 votes (41.5%)
Unite election results, April 2017

Critical to that success is Lansman's linking up with the Unite Union, led by Len McCluskey. But McCluskey's position is less than certain; he won the April Unite election, but only just; with 59,067 votes (45.4%) compared with Gerard Coyne's 53,544 (41.5%) on a turnout of just over 12%. Amid allegations of vote rigging and irregularities, the vote is being investigated for allegations of electoral fraud. If you see McCluskey announce a new vote ahead of the official verdict, it will just be McCluskey trying to pre-empt an adverse and embarrassing ruling against him.

The turnout indicates just how lethargic moderate Labourers are. Many are believed to have not voted for fear of recriminations and/or because they thought that the result was a foregone conclusion. McCluskey's response to Coyne's challenge was to sack him from the union for apparently bringing the union into disrepute. Having the audacity to stand against McCluskey was probably the real reason. We hear that other anti-McCluskey activists are being purged as well which gives you an idea of how coercive and unpleasant life in the union must be right now.

There is a chance that the low turnout and the reluctance to vote against McCluskey might get trumped in an election re-run. If Unite members actually thought that there was a recrimination-free and realistic chance of voting out their Marxist-leaning incumbent leader, they might well go for it.

After Jon Lansman's recent election to Labour's ruling National Executive Committee, it was surprising that its first act was to replace Ann Black, on the left of the Labour Party, with the equally left-leaning Momentum director, Christine Shawcroft as Chair of the disciplinary committee. Apparently the real reason was that Ann Black was too independent-minded and would not promise unconditional obedience to the Momentum line.

Momentum are now moving to change the rules about the re-selection of MPs. As things stand, a local Labour party needs 50% to force an incumbent Labour MP to go through a re-selection process. Momentum want to change that to 30% so that the ranks of new Momentum-aligned Labourers can more easily influence the outcome. Momentum's dominance over Labour's ruling National Executive Committee helps advance their cause.

Momentum are also making progress at the local level as we have seen with their take-over of Haringey Council. Watch for more councils falling to the hard left.

> *"The turnout indicates just how lethargic moderate Labourers are.*

This really doesn't bode well for moderate Labour MPs who are facing possible de-selections. But if that happens, they won't go quietly and the more of them there are, the more likely they will be to stand as independents at the next election. That effectively splits the Labour Party and that means its chances of forming a government become less likely. There has been talk of the Shadow Shadow Cabinet planning to lead 170 or so sensible Labour MPs up to the Speaker and declaring UDI, or a Unilateral Declaration of Independence, by informing the Speaker that they are now the official opposition. That limits the amount of de-selecting that Momentum can pursue for the time being.

In my opinion, what this country needs is a strong political leader. Personally I don't mind if this comes from the ranks of the disaffected moderate Labourers or the Tories. But something needs to change. Perhaps I should revisit my own political aspirations?

I would also welcome ideas on how the moderate Labour MPs should organise themselves. And also how Labour's silent majority might rescue themselves from a political landscape of purges and expulsions that to me has parallels with a bygone era.

Understanding Finance

BETA

James Godrich
Research Assistant

As with all financial jargon, I like to come at a new term with three questions; what does it mean, what purpose does it serve and what are the main issues?

The simplest definition of beta is that it is a measure of risk. Whilst I won't derive the mathematics from first principles, it is worth saying that it is calculated by taking the correlation of an asset to an underlying collection of assets (like perhaps an index) and multiplying this by that same asset's volatility, relative to that of the index.

The resulting number shows the historic impact on the asset price from a certain percentage move in the underlying index. So for example a stock with a beta of 1.2, would be expected to show a 12% increase/decrease from a corresponding 10% move in the index. Similarly a stock with a beta of 0.8 would be expected to show an 8% move from the same 10% change in the index.

Whilst this is a useful measure of portfolio risk and risk management, a more interesting use might be as part of an active strategy to generate outperformance based on a macroeconomic view. If I were to subscribe to the much talked about view of synchronised global growth for example, I might consider higher beta regions such as Japan and Europe. Likewise in time of greater uncertainty I may look to overweight lower beta regions such as the UK and US.

The problem with beta though comes from the disclaimer seen at the bottom of all financial investments; 'past performance is not an indicator of future performance'. Whilst correlations may have existed in the past, this can't guarantee the continuation of that relationship which could be impacted by any number of fundamental changes.

CLIPPER LOGISTICS

Sam Statham
Administration Assistant

PRICE
£4.12

52 WEEK HIGH-LOW
£4.94—£3.35

NET YIELD
1.90%

HIST/PROS PER
30.5—25.7

EQUITY MARKET CAP (M)
£410

Clipper Logistics (Clipper) run a predominantly UK based business focused on returns, delivery, packaging and click and collect services. When an item is ordered online from one of a number of retailers, including John Lewis, ASOS and Marks & Spencer, Clipper are the people running the show.

Currently 40% of items that are bought online are returned. Amazon and ASOS are launching a new scheme where you pay for what you don't return on certain items; it could be that this number rises further and Clipper picks this business up.

In June 2017 Clipper announced the acquisition of Repairtech who predominantly deal with high-end electronics. The aim is complete control over the returns management for their retailers. When goods are returned due to damage, Clipper can now repair and return to stores more efficiently.

Along with offering their services, Clipper also own a large warehouse estate which is rented out to companies signed up with them. Interestingly, management say that retail companies will not share space with a competitor if they think it would benefit them, but are happy to rent off Clipper in a warehouse with those same companies occupying the space. Their inability to play nicely is music to Clipper's ears.

Please read the important notice on page 1.

Guest Editorial

A step change in terrorism; what next?

By Ed Butler
Illustration by Soren Aarlev

We are clearly living in unprecedented times and in a new paradigm where "Cold War" has been replaced by "Hot Peace". A paradigm where we have gone from a bi-polar world to one of multiple asymmetric conflicts and threats; where war is now indistinguishable from peace.

In a world where traditional terrorist threats tended to be group based and focused on destruction to property, we are now witnessing "cultish terrorism" and extremists focusing their efforts on mass-casualty events and disruption to societies. Their aim now appears to be centred on undermining our Western democratic values and lifestyles. We are living in a virtual world, where information (good and bad) passes at the speed of photons. We should heed the advice of Dr Henry Kissinger who believes that we are now living in the most tumultuous period since the Ottoman era and we are only on "Scene One of Act One."

These threat actors, be they traditional terrorists, radical extremists, militias, hybrid fighters, narco or cyber criminals, are using all means to harm and defeat us: full spectrum asymmetric attacks. One issue is that we are still dealing with them symmetrically, with forces and institutions configured in traditional hierarchical structures, conventionally equipped and led by some who still think and operate in a classical, Western way. We now need to think, operate, lead and deal with these multifarious threats quite differently.

> **The police and MI5 are arresting one person a day for terrorism related offences; a 35% increase over 2016.**

The current threat posed by Islamist extremism is global, persistent, evolving and ideological. We are now facing a step change, rather than a spike, in terrorist attacks in the UK and Europe. The statistics speak for themselves. The police and MI5 are dealing with over 600 investigations at any one time, involving 3,000 subjects of "specific" interest. A further 20,000 people are "of interest" to the security services. 23,000 people who want to do us harm, promote violent extremism on-line, recruit, fundraise and share recipes for homemade bombs. The police and MI5 are arresting one person a day for terrorism related offences; a 35% increase over 2016. The growth of Extreme Right Wing terrorism is exacerbating this problem.

We are seeing a volatility of attack methodologies and threat actors that are stretching our security services and counter terrorism (CT) architecture to the limit. These range from: young to old (15-55) perpetrators; international to local, low tech to highly sophisticated, as in the Manchester Arena attack; networked attacks to lone actors; the exploitation of surface and sub-surface media, in particular the use of encrypted messaging; the increasing involvement of women and children in attack planning and potential attacks; the use of suicide and non-suicide bombers and the increased use of improvised explosive devices (IEDs).

This volatility is combined with increasing velocity. 2017 saw a speed, intensity and frequency of attacks and interdicted plots that we have not seen before in the UK; although Europe has experienced this for the last three to four years. There is a speed to these attacks that is worrying; the London Bridge attack lasted less than eight minutes and Khalid Masood drove his hired vehicle across Westminster Bridge causing devastation in under three minutes. The use of technology increases exponentially; commercially available Acetone Peroxide (TATP) in the homemade explosive, demonstrates increasing sophistication and expertise. There is also an increasing pace in radicalisation, through on-line magazines such as Dabiq and Rumiyah, with one 'convert' being fully radicalised in under a month.

Against this volatility and velocity, we are seeing increasing number of vulnerabilities. We are seeing the deliberate exploitation and undermining of our democratic values and principles with the sole purpose of further destabilising families, communities and societies making them more vulnerable to Daesh's interpretation of Islam. We are witnessing the exploitation of young and vulnerable people, who live on the fringes of society, through the dazzling appeal of the so-called caliphate and the lure of a 'better', albeit increasingly on-line world. Daesh and other extremists know all too well that we will adhere to the Rule of Law and do our utmost to protect civil liberties and other freedoms.

Lastly, there is a vacuum that provides advantage to those who wish us harm. There is a lack of political consensus on the long term solution to radicalisation and it is arguable that we still simply do not know enough about the nature of Islamist extremism. We are witnessing an increasing gap between the significant and mutating group of threat actors and threat methodologies and our collective response ~ be it in our CT strategies, businesses or societies. This is not just a national issue but a global problem. Moreover, there is a lack of public and political debate on some of the sensitive issues ~ be it integration, radicalisation, immigration and the balance between data protection and personal security. There is also a widening resource gap between our collective security, intelligence and defence budgets and the growing number of national and international threat actors.

This is quite a gloomy outlook but there is a step change in the government's response to this rapidly evolving, complex and chaotic threat landscape. The police and Home Office are now actively engaging with the business community and encouraging it to gear up and take on more responsibility for their own protective security. This 'partnership approach' includes greater sharing of information and lessons learned about terrorist incidents and threats; and more advice on protecting crowded places and the training of private security professionals. HMG is allocating resource towards innovative technology companies, including shared research and development. Even with the all-consuming Brexit debate and resultant constraints on parliamentary time, this Spring will see a revised Counter Terrorism Strategy (CONTEST) and reviews of the counter extremism and countering violent extremism policies and programmes. There is a real appetite in the private sector to engage and gear up to these new threats. At the end of the day, this is about looking after our people, duty of care, social responsibility, protecting the bottom line and improving our resilience against terrorist attacks.

> *We need to eat more soup with knives and try and synchronise this asymmetry.*

Notwithstanding this, and in the light of the global, persistent, evolving and ideological nature of the threat I strongly believe there is a requirement for all sectors of society, to think differently, act differently and respond differently to these threats facing us today and for the foreseeable future. It is not going to get better for some time and we can expect more extremism attacks in the UK. We all have a duty, and I would suggest public responsibility, towards our employees, communities, families and the next generation to better understand the context of today's uncertain, unstable and asymmetric world. As T.E. Lawrence described it, while fighting the Ottomans, asymmetric operations is "like eating soup with a knife." We need to eat more soup with knives and try and "synchronise this asymmetry" ~ using all ways and means to defeat those who are intent on harming us and undermining our way of life.

Ed Butler CBE DSO.
Ed has extensive experience spanning some 35 years of counter terrorism, intelligence, security, international relations and risk management ~ much of which was gained during 24 years on front line service with the British Army. He was privileged to command 22 SAS over 9/11 and was Commander of British Forces Afghanistan in 2006, leading the break-in battle into Helmand Province, before retiring as a Brigadier in 2008. Ed is currently Head of Risk Analysis at Pool Re, the government backed terrorism reinsurance scheme as well as a Senior Advisor at S-RM, a Business Intelligence and Risk Consulting company. He is also sits on the Advisory Board of EDF Energy Generation, the operating company for UK's nuclear industry. He was formerly Executive Chairman of Salamanca Risk Management and CEO and founder director of a strategic intelligence consultancy. He has an Honours degree in Politics and International Relations from Exeter University and an MA in Military Technology and Defence Studies from Cranfield University. He is an Assistant to the Goldsmiths' Company and has been a Trustee of the Airey Neave Trust since 2002.

The Airey Neave Trust
The Airey Neave Trust with its principle, Freedom under the Law, supports the study of Counter-Terrorism (CT) with publications and seminars that have contemporary relevance. It was established in memory of the contributions that Airey Neave made to his country; Airey was a barrister, Army officer (the first to escape from Colditz) and British MP, who was assassinated by terrorists in 1979.

The Trust identifies and supports selective publications and seminars on current and potential CT issues that explore areas beyond those covered by existing academia, government organisations or other charities. Recent examples include the books - Walking Away from Terrorism: Accounts of Disengagement from Radical and Extremist Movements – Dr John Horgan; Hunting Season – James Harkin; Al-Britannia, My Country – James Fergusson. Consultations include: St. George's House on Countering Violent Extremism Post Arab Spring and the National Security Fellowship Scheme on Countering IEDs and Detecting Home-made Explosives.

In 2017, the Trust launched the annual Airey Neave Memorial Book Prize, sponsored by Pool Re, awarded to a non-fiction book which has made the most significant, original, relevant, and practically valuable contribution to the understanding of terrorism. The 2017 winner, announced at a reception at RUSI and presented by Lord Evans of Weardale KCB DL (former Director MI5), was the Anatomy of Terror by Ali Soufan.

For any more information on the Airey Neave Trust, or to make a donation, please contact The Administrator at aireyneavetrust@gmail.com or visit www.aireyneavetrust.org.uk.

Bond Focus

Bonds and Brexit

By John Royden
Head of Research

By and large, this publication has shied away from following the intricacies of the Brexit debate. My own reason has been a belief that after volatile negotiations, the optimum solution is a pragmatic one that allows the continued free flow of trade in a way that optimises all of Europe's wealth and prosperity.

The only caveat to that would be Europe's possible need to punish the UK "pour encourager les autres" from wanting to leave. The worry of the Italians leaving the euro has receded as both Germany and France have made it clear to the Italians that in no way would they be allowed to leave the euro, devalue the lire by 30% and expect to stay in the customs union.

So, this leads me to ponder what post-Brexit UK might feel like. My first observation is that car plants, oil refineries, factories and farmland do not travel well; our fixed asset base is not going to leave on account of Brexit. We might see less or more investment going forward, but what has been built already is not going to up-sticks and cross the North Sea.

Tax revenues from these economic assets will stay broadly similar, all other things being equal. And as our gilts are supported by tax revenues being allocated to pay interest and capital redemptions, I don't worry too much about the loss of our industrial and agricultural heartlands.

The City is different. By comparison to industrial assets, moving the domicile of a bank or insurance company and its balance sheet is easy. It is a bit of a simplification to say that all you have to do is transfer money in a London bank account to a Parisian or Frankfurt bank but it does illustrate the relative ease of transfer. Financial services provide 12% of our tax revenues, and London, in many ways supported by financial services, pays 33% of tax. Seeing the City migrate to Euroland would lower our tax take and threaten the UK's gilt market. The risk is real.

Luckily I feel the risk is dissipating. Firstly I put forward my own theory that, historically speaking, you have to be an island in order to be a financial centre.

Secondly we hear that the mayors of Frankfurt and Amsterdam have reeled in horror at the thought of tens of thousands of City workers turning up on their door step, driving up property prices and compromising the capacity of their infrastructure. A few months ago we thought that banks would relocate to Europe to gain access to European clients. But now we see large European corporates opening treasury operations in London in order to access London's liquidity, efficient capital markets and the financial infrastructure (pipes and plumbing of finance) that actually allows it all to happen.

> **Financial services provide 12% of our tax revenues, and London, in many ways supported by financial services, pays 33% of tax.**

The Americans have said that they want euro-clearing to stay in London so that their banks can have mutual off-set of long and short euro and dollar (for example) positions within the same legal and regulatory umbrella. Without off-set, capital requirements would go through the roof and returns to banks would decline.

We also need to think about the UK's language, law and longitude. Broadly speaking, every business speaks English which helps with English legal contracts. Most Europeans trust the impartiality and predictability of English courts more than they do of many European countries.

Paris is the only real threat to our City's financial services but a weak one at that, with so much stacked against it. I don't believe owners of gilts should worry about the sudden emigration of the City and the dissipation of the UK's tax revenues needed to support them.

General Interest

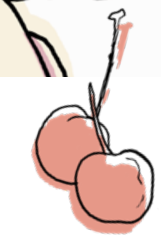
Talking dessert… with Luke Matthews

Illustration by Jordan Atkinson

Before we begin there's an important issue to be resolved. By what name should we refer to this, the last course of a meal?

The publisher of Talking Food Magazine refuses to countenance any word other than 'pudding'. He has a point: it's a good strong down-to-earth word with nothing but positive associations. However, it also has a specific meaning that doesn't sit well with some of the lighter and more whimsical confections it's required to designate, so I'm afraid he's overruled. 'Afters' remains in common use – at least in the UK – but is frankly (how to put this politely?) to some a little too demotic. 'Sweet' suffers from the same problem as pudding, in that it doesn't accommodate lemon or gooseberry, to pick two obvious examples of last-course staples (and to the latter of which we shall return). So, in the absence of a persuasive alternative and despite the suggestions of pretension or affectation – or in plain English ponciness – some feel it carries, we'll be sticking with dessert.

The word itself is derived from the French 'desservir', to clear the table, referring to the edibles served after the table had been cleared of other dishes. Its first known use in English was in 1600, in the "Naturall and artificial Directions for Health" of William Vaughan: the fact that it had been eschewed by such robust earlier writers as Chaucer and Spenser might indicate that Vaughan was himself showing off a little by using it. Until the twentieth century it was used strictly in this sense, only acquiring its current meaning as the last course of a meal when 'service à la Russe' – the meal presented in distinct courses – replaced the variety of dishes presented simultaneously under 'service à la Francaise' as the general rule in Western society.



Old school classics never go out of style

For many, dessert retains its sense of a luxurious, even slightly sinful, self-indulgence after the serious business of eating. There's little doubt that this is a cultural phenomenon: Herodotus, the Father of Sunday Supplement Journalism, noted with amazement that among the Persians the savoury dish was merely a prelude to an array of sweet and stickies, which probably also explains why most diners wave an airy hand at the dessert menu when dining à la Grecque. Schooled in the more austere traditions of Greece and Rome, we Europeans gave much more 'seriousness' to savoury courses, and it is also a matter of historical record that access to the sweetening agents essential to most desserts only became widespread in these regions in the Middle Ages. After which, a tradition arose of fruit whose natural acidity was tempered by sweetness (the first apple pie recipe dates from 1318) and baking, hitherto a method used only to make bread, being applied to a wide variety of honey- then sugar-sweetened pastries. Today a meal without dessert, even if fastidiously and recklessly spurned, is now unthinkable.

But the nagging issue remains. We recognise the act of eating, however pleasurable we make it, with providing fuel for hungry muscles and blood. Apart from celebrating the simple joy of being alive (which is no small thing in itself) what's with dessert? As executive Head Chef Luke Matthews has been wowing discerning diners at Chewton Glen since 2003: whom better to provide answers to a few key questions?

We begin by asking the Big One, the philosophical question: what, for you, is the purpose of the dessert course?

Luke's response is straightforward, and reflects the experience of the vast majority of diners: "Finishing the meal with something sweet balances out the flavours from the previous courses." As to what a good dessert should always demonstrate – well, ask a top chef a stupid question and be grateful for an answer that doesn't actually make a point of your idiocy: "A good balance of texture and flavour and be visually strong". The choice of dessert should reflect the previous course or courses: "If you're having a filling main course it is important to have a lighter option for dessert. Seasonal is important as well: game followed by strawberries just doesn't seem to work. We are always using products that are in season, a lot of them grown in our own kitchen garden. When people dine alfresco in the summer months, we like to offer them a dessert that reflects the weather – light, cooling and fresh for when people are feeling warm. Similarly in the winter months, we aim to offer a great range of warming and filling winter options."

Is there a favourite dessert Luke goes back to time and time again? "Chocolate fondant or a summer pudding, or best of all a classic crumble. Old school classics never go out of style: they also sell the best when we feature them on the menu." Now we're talking pudding: what's the best you've ever eaten? "Chocolate Fondant by Michel Bras at Le Suquet at Laguiole".

Has he noticed fashions in desserts over his career? "They've become more eyecatching, more photo-worthy. People love to take pictures of their food these days, especially dessert, so we focus on making them look as good as they taste. Innovations in flavours, such as salted caramel, and using spices that reflect international influences. But as I say, old school is still the most popular."

As tactfully as possible we break it to him that he's to be hanged in the morning: what dessert does he select for his last meal, and will he be cooking it himself. It seems Luke is planning on taking his last night off. "No, not cooking it myself. Laverstoke Park ice cream. Salted Caramel, simple yet delicious." We'll allow the naked product placement, and hope he'll be suitably rewarded. And finally, is there a dessert he'd really rather never eat again? "Anything with gooseberries. I really don't like them." And on that bombshell – actually, no: we can't let that go. What on earth is wrong with the man?

This article first appeared in Talking Food Magazine, a new publication sponsored by JM Finn which aims to inspire readers to explore some of the more intricate recipes usually found in professional kitchens at home. For more insights and recipes from some of the country's top chefs visit www.talkingfoodmagazine.co.uk.

JM Finn News

Data protection

The size of the digital universe will double every two years according to insidebigdata.com and they are by no means the only source who are predicting exponential growth in data as we approach 2020 and beyond.

Broadly there seems to be a consensus that there will have been a 50-fold increase in size by 2020, reaching in excess of 2.5 exabytes produced every day – which equates to approximately 90 years of High Definition video. And with the dramatic rise of both human- and machine-generated data there seems to be no let-up in the predicted growth rates.

How Much Data is Produced Every day?

2.5
Exabytes are produced every day

Which is equivalent to:
530,000,000 million songs
150,000,000 smartphones
5 million laptops
or
90 years of HD video

Clearly data growth creates challenges such as, amongst others storage, data centre power and of course data security. It should be no surprise then that data protection hit the legislators' range finder as more and more data is shared online and our privacy is increasingly at risk of becoming compromised.

This year sees the most important change in data privacy regulation in 20 years with the onset of GDPR, or the General Data Protection Regulation. After four years of preparation, the new rules were approved by the EU Parliament in April 2016 and become enforceable on the 25th May 2018.

The key changes, are designed to harmonise data privacy laws across Europe (and yes do still apply despite Brexit) can be summarised as follows:

— **Increased territorial scope**
The jurisdiction of the regulation now covers all companies processing personal data of data subjects residing in the Union, regardless of the company's location.

— **Consent**
Conditions for consent have been strengthened and consent must be given in an easily accessible form – no more hiding behind complicated terms and conditions. Importantly, consent must be as easy to withdraw as it is to give.

— **Penalties**
Fines are much more onerous with maximum fines up to 4% of annual global turnover or a maximum of €20 million for data breaches.

— **Breach notification**
It is mandatory to report a data breach to the regulator (the Information Commissioner's Office in the UK) within 72 hours of first becoming aware of the breach.

— **Right to access**
Expanded rights allow data subjects to obtain confirmation from the data controller confirmation as to whether or not personal data concerning them is being processed, where and for what purpose.

— **Enhanced Rights**
This gives individuals more control over the use of their data. This includes enhanced rights to access, right to rectification and rights to be forgotten.

What do we do with your data?

At JM Finn we hold client contact, personal and financial details on our systems such that we can provide you with the service that you have requested and to comply with our regulatory obligations. This data has been provided by the client and the only instances where we might share this data are with companies that send out our client reports, for example periodic statements and contract notes, and Prospects magazine. We might also share data with credit reference agencies where this is the condition of us providing the services to you and, in the case of our wealth planning service, approved product suppliers, such as pension scheme providers. In all cases, it is of course our responsibility to ensure that the third party is fulfilling their GDPR obligations and treating your data to the high standards of privacy that we expect of ourselves. In some instances these third parties might exist overseas, but we will still take the appropriate measures to ensure that your data is processed in accordance with the regulations.

We also hold personal details for non-clients and it is this data where we have to gain explicit consent. This is so we can contact them for marketing purposes where we might want to send them a copy of Prospects or invite them to an event such as a wealth planning seminar. Once consent is received we will maintain the data within the constraints of the regulations and look to refresh the consent on a regular basis.

Digital data, such as IP addresses, are recorded from all visitors to our websites. We collect this data passively to help us distinguish one visitor from another and we use this data to identify browsing actions and patterns in order to enhance the websites. The data is shared with analytics providers and search engines to help us optimise the website via the use of cookies, which retain the information from one minute to two years, depending on the cookie deployed.

Finally, it's worth mentioning that all voice and data communications into the firm are recorded, whether sent by telephone or email. We don't share this data with anyone unless required to for regulatory or legal reasons.

The regulations require organisations to write updated procedures and instil new processes around data privacy and retention and have implications across all aspects of a business from marketing to HR. At JM Finn we have taken legal advice as to the impact on our business and we would encourage all business owners to do the same – as the amount of data we hold intensifies, so the issue of data privacy becomes more acute.

Useful guidance can be found at **www.ico.org.uk**.

THE COOPER COMPANIES

Theo Wyld
Research Analyst

PRICE
$232.47

52 WEEK HIGH-LOW
$256.39—$191.64

NET YIELD
0.05%

HIST/PROS PER
28.3—20.1

EQUITY MARKET CAP (M)
$11,396

Cooper Companies (Cooper) is an S&P 500 US-based business. It is made up of two divisions; CooperVision (c.75% of revenue) and CooperSurgical (c.25%). CooperVision is higher margin and therefore represents an even higher portion of overall profits.

CooperVision specialises in selling contact lenses. These come in three main modalities; single-use, two-weekly, and monthly lenses. Cooper prides itself on its wide range of speciality lenses; from so-called toric lenses (forthose with astigmatism), to multifocal ones (to correct long-sightedness).

By far the fastest growing area in the contact lens market is single-use lenses. These have been taking market share over the last number of years and roughly represent half of the market today. This has been a significant tailwind for Cooper as dailies are between 400% and 800% more profitable than longer-duration lenses.

Four further market tailwinds include population growth, a higher proportion of the population becoming myopic (short-sighted), those with long-sightedness living longer, and children entering contact lenses earlier.

CooperSurgical concentrates on women's fertility, particularly IVF. They sell products and services to experts in the field who then in turn treat patients. A significant market driver for this division is that women are tending to delay having children until later on in life, which increases demand for fertility treatment.

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

Theo Wyld
Research Analyst

Sam Statham
Administration Assistant

BASIC MATERIALS
CRODA INTERNATIONAL

CONSUMER GOODS
TESLA, ASSOCIATED BRITISH FOODS, IMPERIAL BRANDS, BRITVIC, CRANSWICK RECKITT BENCKISER GROUP

CONSUMER SERVICES
AO WORLD, RELX

FINANCIALS
HSBC HOLDINGS, BIG YELLOW GROUP, BARCLAYS, AVIVA

HEALTH CARE
GLAXOSMITHKLINE, GENUS, SHIRE, DECHRA PHARMACEUTICALS

INDUSTRIALS
ASSA ABLOY , CLIPPER LOGISTICS, SMURFIT KAPPA GROUP

TECHNOLOGY
The SAGE GROUP

TELECOMMUNICATIONS
BT GROUP

UTILITIES
SEVERN TRENT, SSE, PENNON GROUP

1.

Cranswick

Price **£30.50**
52 week high-low **£33.61 – £23.00**
Net Yield **1.53%**
Hist/Pros PER **22.90 – 21.00**
Equity Market Cap **£1,539m**

CONSUMER GOODS
Adam Crouch, CEO

Cranswick was born out of a few farmers clubbing together to produce high quality pig feed. They recognised that the quality of what went into their pigs had a marked effect on their end produce; one of the first 'farm to fork' offerings.

Today, Cranswick is one of the largest food producers in the UK. Although pigs still make up around 90% of their revenues, they have moved into poultry of late and are excited about the growth opportunities within this second protein market.

Cranswick produce roughly 55% of their own pigs, choosing to buy-in the remainder for various reasons, including diversification, but also as a function of their rapid rise in reputation over the years. For the poultry business they are roughly 80% self-sufficient, also owning a feed business.

One of the beauties of their business model is the ability to sell what they call 'the fifth quarter'. After the animal is slaughtered, and what we might consider the more conventional cuts of meat are extracted, instead of disposing of the remainder (which is both expensive and wasteful), those parts are shipped off and sold to the Far East. This is highly efficient and one of the reasons Cranswick boasts strong margins relative to the industry.

Another contributing factor is their attitude towards embracing new technologies in their facilities. A recent example is a laser cutting machine which first takes a 3D image of a lump of meat and then works out the most efficient way to slice it in order to minimise wastage.

Management have invested heavily in both machinery and new facilities over the last few years which should stand them in good stead to grow over the medium term.

2.

Dechra Pharmaceuticals

Price **£22.50**
52 week high-low **£24.58 – £15.30**
Net Yield **0.95%**
Hist/Pros PER **80.40 – 30.80**
Equity Market Cap **£2,323m**

HEALTHCARE
Richard Cotton, CFO

Dechra Pharmaceuticals (Dechra) is an international veterinary pharmaceuticals business. They specialise in the development, manufacture and sales of a portfolio of branded and generic drugs, exclusively for vets around the globe.

Their largest business division is Companion Animal Products (CAP) making up circa 53% of the group revenue. This essentially is made up of drugs for dogs and cats treating a variety of ailments from skin problems to endocrinology. CAP makes up over 90% of North American revenue, and roughly half of European – although this may have changed following a large acquisition, more on that later.

The next largest is Food Producing Animal Products (FAP). This segment targets reducing the incidence and spread of disease in livestock. Predominantly through antibiotics, but via a recent acquisition of a company called Genera, Dechra are dipping their toe into poultry vaccines. One of the main structural drivers for this division is simply that the world is consuming more and more meat. The balance of the group is made up of an Equine and a Diets business.

Dechra has shown over the years its strong ability to grow not only organically but by acquisition. The latest example of this being the announcement in January that Dechra has acquired two European businesses, AST Farma and Le Vet. These two are considered one business in essence as they work closely together in Europe, with AST taking the Netherlands and Le Vet the surrounding countries. Dechra has worked with both for a number of years, being one of Le Vet's chosen distributors in Europe already.

The acquired pipeline is said to more than double that of the whole group. When this is considered alongside the opportunity for significant revenue synergies, the importance of the acquisition becomes evident.

3.

Tesla

Price **$335.49**
52 week high-low **$389.61 – $242.02**
Net Yield **0.00%**
Hist/Pros PER **N/A**
Equity Market Cap **$56,653m**

CONSUMER GOODS
Martin Viecha, Head Of Investor Relations

There are an extremely large number of moving parts that make up Tesla, the king pin of electric vehicles, but the focus when meeting with them centred on the main growth driver, the newly announced Model 3. A car touted as being the reasonably priced electric car for the mass market.

Despite only delivering just over 1,500 Model 3's in 2017, we are informed that by the second quarter 2018 we can expect production lines to be churning out 5,000 cars a week, with that number increasing over time. Is this too ambitious given their poor track record in meeting production deadlines?

Let's humour them for a second though; by looking at how simple the Model 3 is to actually build, the numbers become feasible. Without an internal combustion engine and the trouble that goes along with it, you just need to assemble three main parts; a battery pack, a chassis and the main shell. The acquisition of the German robotics company Grohmann Engineering aids this further by recoding their entire production line.

Tesla are in the privileged position of having logged more drive hours than any other manufacturer of electric vehicles. This is one of the most difficult things to accomplish and vital in appeasing health and safety regulators. Despite this, Tesla admit they still aren't certain what will happen at the end of a battery or vehicle's life span until they run it to exhaustion.

One potential stumbling block comes in the form of the batteries. Tesla use lithium ion batteries, which many argue are not the future of battery technology. Cumulative consumption of lithium could total around 50 million tonnes by 2050 at our current rate. Reserves are currently estimated at just 14 million meaning something will have to change soon.

Please read the important notice on page 1.

Economic Focus

The Cost of Living Counts

By Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Alice Lariviere

As we moved into February, markets were rattled by a mini crash that started on Wall Street. In two days the Dow Jones Industrial Average slumped by more than 4%, leading to a sell-off around the world. While shares calmed swiftly, it unnerved many investors who were concerned at the trigger for this sudden correction. Behind the slump in sentiment was some payroll data from the US that suggested wage inflation was rising. The concern that gripped markets was that this might lead to a faster increase in interest rates than had been expected.

Let's put this into context. Interest rates have been at rock bottom for the best part of a decade, following concerted action by central banks to avoid a sustained recession following the financial crisis of 2018. The monetary easing that was initiated was expected by many to stimulate inflation, but this failed to materialise. The developed world settled into a prolonged period of cheap money with apparently little harmful consequences, if you ignore the fact that corporate and personal debt rose significantly.

But all good things come to an end and gradually central banks have been tightening the reins. This is not before some started to encourage inflation as a way of stimulating economic growth. In Europe this appears to be succeeding, but in Japan, where encouraging higher inflation became part of Prime Minister Abe's economic policy, growth has slumped to a two year low of an annualised 0.5%.

In the US the Fed has already started to raise interest rates and inflation crept up at the beginning of the year to 2.1% from the 1.9% at which 2017 ended. Indications that wage inflation was on the up encouraged belief that overall inflation was destined to go higher. Ten year government bond yields were already rising, reaching nearly 3% by the middle of February – nearly double those of the UK and some four times the equivalent return in Germany.

As it happens, inflation in the UK has also proved more robust than expected, with January's Consumer Price Index remaining unchanged at +3%. Most governments consider a little bit of inflation to be a good thing, with 2% a year the target given by the Treasury to the Bank of England. To be a full percentage point above this target will demand some action and the concern is how this might impact upon consumers. Many have taken on debt at very low levels of interest, so higher rates could impact heavily on their spending ability.

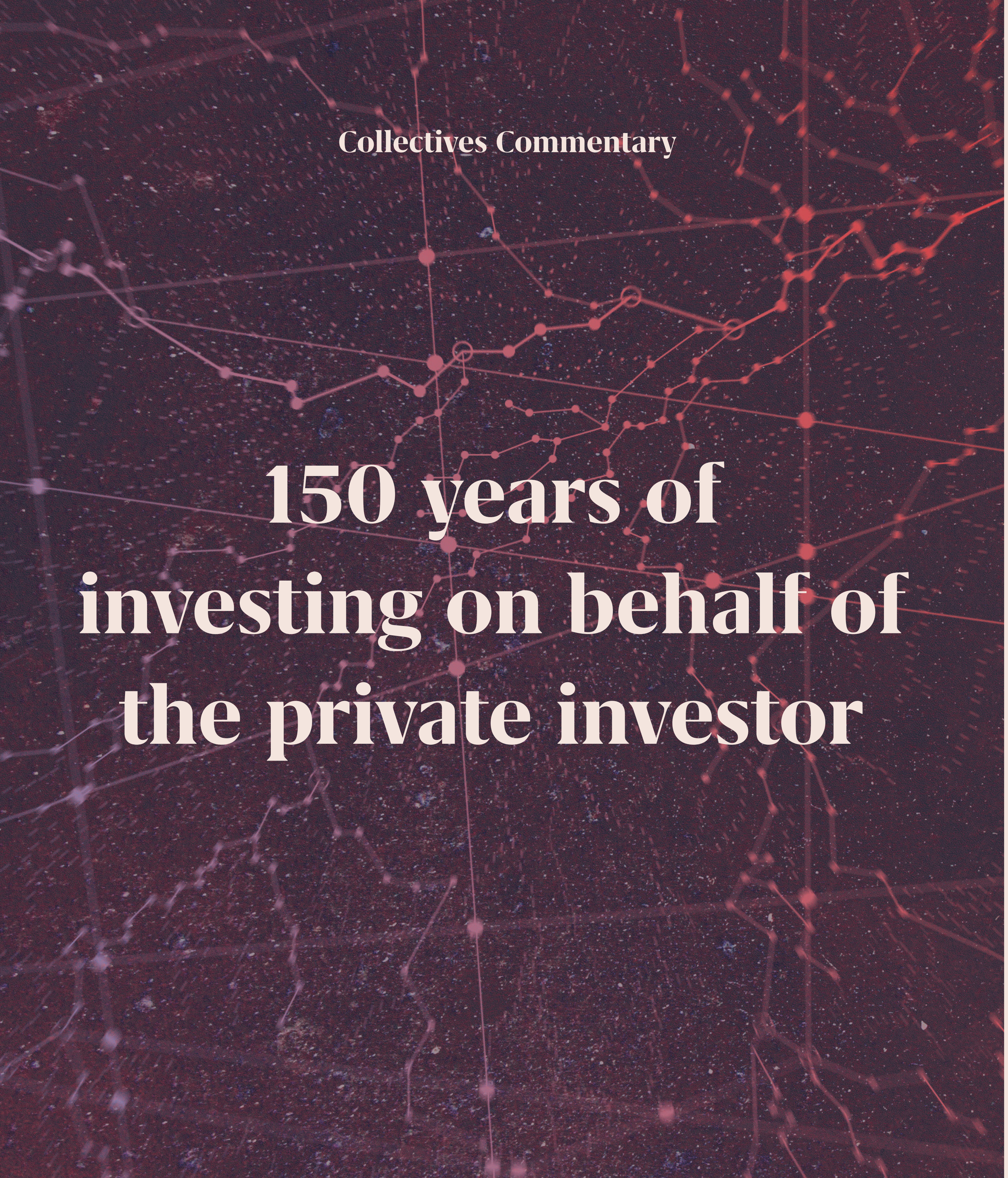
Inflation can, though, deliver some benefits. For a start it effectively devalues debt. It can also enhance the value of certain assets, though if allowed to run wild will wreck whole economies. There are many examples of this and Germany's caution over encouraging inflation to rise has its roots in the post First World War Weimar Republic, during which time the cost of living rose dramatically and created the backdrop to Adolf Hitler's rise to power.

> ***"Most governments consider a little bit of inflation to be a good thing***

Here in the UK we have experienced our own period of high inflation, even if the outcome was less dramatic than that which engulfed Germany. In the early 1970s a combination of a sharp rise in the oil price and profligate economic management by the Labour government that replaced that of Edward Heath in 1974 resulted in the cost of living rising to more than 20% and the country needing to be bailed out by the International Monetary Fund. Indeed, inflation remained in double figures for much of the next two decades.

An important issue is what rising inflation might do to equity valuations. Presently, with cash yielding little and bonds still returning modest rates of interest, the dividends generated by companies look attractive. If bond yields rise, as they inevitably will if inflation picks up, then investors will have a true alternative for their money, even if it is one which over time will see the capital value eroded. But in the short term we could see valuation levels fall, particularly if economic prospects are downgraded as a consequence of higher interest rates.

In the longer term, though, inflation can be a friend to equities. Presently we have what is known as a yield gap between equities and government bonds, which means equities yield more than bonds to reflect the added risk. For a long period a reverse yield gap was the norm, with bonds yielding more than equities. This was because the interest they paid was fixed, whereas companies could and often did increase their dividends to shareholders, while the capital value of bonds would not keep up with inflation, while the opportunity for capital appreciation existed with equities. A return to a reverse yield gap would indicate higher inflation is here to stay.



Collectives Commentary

150 years of investing on behalf of the private investor

By Simon Cordery
Director, Investment Trust Sales | UK Intermediary

Foreign & Colonial Investment Trust is celebrating 150 years as the steward of individual investors' capital. This first investment trust preceded the establishment of the collective funds industry that we know today.

Launched on 19 March 1868, the original managers set out to offer small investors the chance to share in the opportunities to put their capital to work across the world. Today, 150 years later, the current managers are doing very much the same. From those modest Victorian origins, Foreign & Colonial Investment Trust (F&C for short) now has more than £3.9 billion of assets, the vast majority of which belongs to private investors, just as it did back in 1868.

A history of backing innovation

In its early days, F&C invested in foreign government and company bonds, financing new infrastructures such as railways, in far flung places like the Rocky Mountains of North America, Argentina, Egypt and even Russia. If you looked at the original list of portfolio holdings today, it would be easy to describe it as an emerging markets bond fund.

As the world of global finance evolved, so did F&C's portfolio, gradually morphing into the highly diversified global equity portfolio that you see in the current report and accounts. The deliberate policy to move with the times has perhaps been the key reason that the trust still exists today. By continuing to evolve with markets and economies, F&C has innovated through time, it serves the investor of today and ensures its relevance for future investors.

> *A journey of investments from the Amazon River of 1868 to that of Amazon.com of the 21st century and beyond.*

Reducing risk with global diversification

In the early days, the managers allocated funds to the new technologies of the day which furthered the growth of the global economy, such as railways. The original portfolio shows a holding in Brazilian bonds, while today some of the largest holdings are in the new technologies of our era, such as Amazon.com and Microsoft, global companies that touch all of our lives and have enabled the economy to continue to grow: a journey of investments from the Amazon River of 1868 to that of Amazon.com of the 21st century and beyond. Of course, as capital values can fall as well as rise, you will still find stalwarts such as BP, Unilever and HSBC in the portfolio, as we are not going to put all our investors' eggs in the same basket.

Looking forward to serving the next generation of investors

It is difficult to over-emphasise how positive the economic backdrop appears at present. The global economy has very good impetus, there is a synchronised upturn and, importantly, there are no booms (which tend to precede busts), and financial imbalances are modest.

While there are always risks, there are no obvious pre-cursors which would signal an imminent bear market. Nonetheless, it is not a big stretch to expect a rise in volatility (and some periodic drawdowns) from the current historically low levels. 2018, while supported by accelerating earnings growth, will likely see some increased volatility and rising market dispersion as we move through the year. The exceptional return from global equities in 2017 was accompanied by an unusual sense of calm in markets.

It is highly likely that the cycle in the US will extend to the longest in history – into 2019 - and that inflation levels will find a floor and rise modestly. The Fed is set to continue to tighten gradually – barring any shocks – and continue to shrink their balance sheet. Earnings are broadening out and, with growth opportunities similarly widening on a global level, the US dollar may well weaken further.

In 2018, we foresee an environment where the performance of the tech giants accelerates further in response to strong and improving fundamentals. Nonetheless, the fundamental backdrop argues for a better performance from other areas, like banks, who should benefit from rising rates, better growth, and improving profitability.

The fund managers are continuing to run the winners and do not believe that it is time to start de-risking yet. However, 2018 should see further progress in the cycle and this time next year we may be contemplating (or witnessing) some of the warning signs, which will pre-empt a change in stance.

Like our Victorian founders, we strongly believe that investment opportunities can be found around the world. As economies expand at different rates and at different times, new investment opportunities crop up as innovations emerge, and we will continue to look for investment opportunities for the next generation of F&C's investors.

Simon Cordery

Director, Investment Trust Sales at BMO Global Asset Management, part of the BMO Financial Group (Bank of Montreal), which acquired F&C Investment Management in 2014. BMO Global Asset Management are the fund manager for F&C Investment Trust.

Please read the important notice on page 1.

Stock in focus

Whitbread

By James Godrich
Research Assistant

"There is the well discussed argument that recent UK inflation, alongside stagnant wages will squeeze the consumer, thereby reducing discretionary purchases such as their 'grande-soy-macchiato with a vanilla shot.

PRICE
£39.50

52 WEEK HIGH-LOW
£43.33—£35.00

NET YIELD
2.51%

HIST/PROS PER
15.3—15.4

EQUITY MARKET CAP (M)
£7,329

Recent analysis by Activist Insight Online found a 13% year-on-year rise in the number of companies targeted by activist investors globally. The 2018 number also represented an 8% increase from the previous peak in 2016.

On 6th December 2017, Whitbread became one of those companies when US-based hedge fund, Sachem Head, took a 3.4% stake (albeit through derivatives) and demanded a break-up of the FTSE 100 giant.

Activist investors, like Sachem Head, differ from active investors like JM Finn, who differ from passive investors like index tracking funds. We at JM Finn will consider management's ability and decision making in creating shareholder value and subsequently choose whether or not to take or maintain an equity stake. However, activist investors will take a large stake with the aim of obtaining a board seat and ultimately forcing change based on their shareholder value creating ideas from within a company.

As part of their investment in December, it was reported that Sachem Head are pushing for Whitbread to spin off one of their two major brands with the sale of the Costa Coffee business. This came alongside calls for Whitbread to employ a wide scale 'sale and leaseback' in order to reduce their proportion of freehold estate within Premier Inn, therefore freeing up cash for shareholders.

Costa makes up around 40% of revenues for Whitbread, whilst Hotels & Restaurants makes up the remaining 60%. Hotels includes the brand, Premier Inn. The smaller segment, Restaurants, includes brands such as Beefeater Grill and Brewers Fayre. Costa, with coffee shops both in the UK and overseas, has a multi–channel strategy, with self-service coffee machines, equity stores, franchise stores and stores operated as joint ventures, as well as a wholesale operation.

Where Whitbread has previously enjoyed an extended period of double-digit growth in its two major brands, recent updates have shown slowing like-for-like sales which are being boosted by, arguably more expensive, capital expenditure (capex) heavy growth as Whitbread increase their footprint across high-streets, petrol stations and overseas locations.

Against this backdrop, we believe that management will need to report one or all of three things to keep the activists at bay – increased underlying growth from the Costa brand, an obvious advantage from their mostly freehold model at Premier Inn and/or greater evidence of the mutual benefits coming from keeping these two brands as part of one corporate entity.

Taking these points in turn, we are firstly concerned that underlying growth is likely to remain challenged at Costa. There is the well discussed argument that recent UK inflation, alongside stagnant wages will squeeze the consumer, thereby reducing discretionary purchases such as their 'grande-soy-macchiato with a vanilla shot'. However it is Costa's position in an already competitive market that could be considered a further cause for concern. Whilst artisanal coffee shops have grown market share through a differentiated proposition, pricing pressure has come from the value end where the likes of Greggs and McDonalds have invested in their coffee offerings.

As part of a sale-and-leaseback, management would free up cash which they could choose to return to shareholders or use as part of their global growth strategy. Although we see operating efficiencies from this capital light model we would be wary of some of the longer term drawbacks which could come in the form of worse future lease terms, an inability to benefit from capital gains on their existing freehold portfolio and a lack of control of assets. However, of particular note would be the increased operating leverage within a cyclical business during a time of macroeconomic concern.

With regards to the mutual benefits of the two brands being run together, we can understand both sides of the argument. Whitbread management might argue that their leisure sector expertise means that they are best equipped to run both brands, whilst the activist investors would say that with little obvious cost or revenue synergies from the businesses, their marriage only serves to add layers of management and the cost and inefficiency that goes alongside.

In a recent edition of Prospects, we argued that valuing Whitbread 'revolves around understanding if and when the company goes cash flow positive and to what extent' (Prospects, Winter 2017). Recent moves from Sachem Head though have caused investors to consider an alternative, 'sum-of-the-parts' valuation. On this basis, we might consider Costa's earnings relative to Starbucks' valuation, Premier Inn's proportion of profit relative to Accor's valuation and the Restaurants' earnings relative to a selection of UK PubCo's ratings.

Following three months that pose more questions than answers, we now have another variable to add to the mix. In my opinion, a sum-of-the-parts valuation implies some upside, whilst a discounted cash flow (DCF) valuation could suggest some cause for concern but with so much uncertainty in the outcome of Sachem Head's recent raid what is the best way to value the existing business?

So with all of this in mind, we must now consider what the most likely outcome for Whitbread is and how to value the company from that point. A Sachem Head style break up could see short-term upside but longer-term operational risk. Whereas the continued running of the business in its current form leaves little cash flow to shareholders at present, but a hope that the business will turn cash flow positive (post capex) in the medium-term, with comparatively less operational risk.

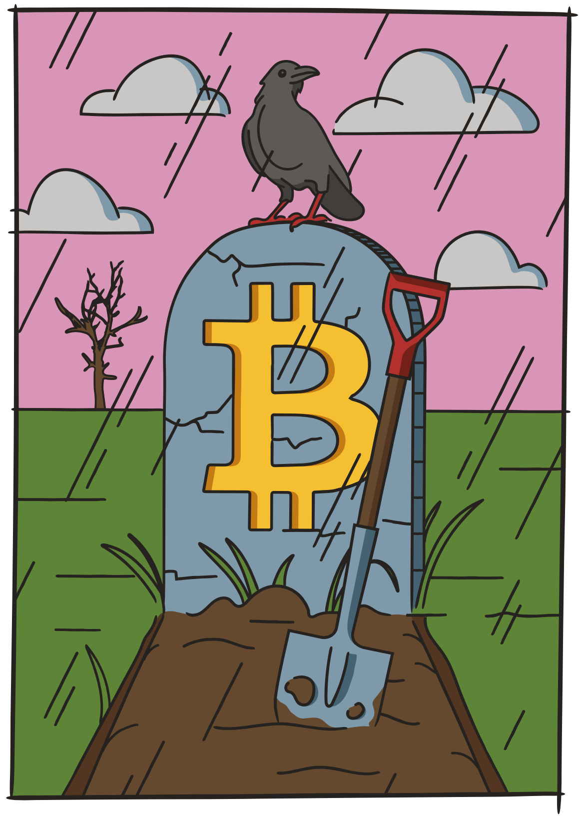
Perhaps the question to shareholders is which would be the lesser of two evils?

Please read the important notice on page 1.

Independent view

Safeguarding your secrets

By Gordon Dadds
Amelia Beringer and Kieran Forsyth



Amelia Beringer and Kieran Forsyth in the private wealth team at Gordon Dadds highlight the importance of detailing your digital assets in your will, to ensure you don't bury your Bitcoin, amongst other assets.

It has probably seemed quite impossible to avoid the seemingly never ending press which has focused on the surge in demand and value of Bitcoin recently. In amongst the articles was an interesting piece about a man in Colorado, USA who died suddenly, leaving a small fortune arising from his investments in Bitcoin. It raises an interesting question; what happens to these investments, and indeed other digital assets, when someone dies, and how can you ensure that any wealth that may have accumulated is protected and passed on to beneficiaries or your next of kin.

Digital Assets fall within an ever expanding group which includes all content, accounts and electronic files stored online or on devices such as your PC or your smartphone. Such assets might include online bank accounts, online trading accounts such as Paypal, digital artwork or photography, Apple iTunes or online music accounts, points reward schemes such as Nectar or Avios, and now, of course, the increasingly publicised cryptocurrencies such as Bitcoin.

A report produced by PWC in 2013[i] calculated that the total value of digital assets owned by the population of the UK then amounted to a staggering £25 billion, a figure which has undoubtedly increased in value since then. A strong illustration of such value may well be the digital asset of Bitcoin which in 2017 increased significantly from a starting price in January of £640 and rising to an end of year figure of £14,354 per Bitcoin. What these figures show is that there can be substantial value held in the form of digital assets but which could be unobtainable by those that you leave behind if you fail to take stock and deal with them in your estate planning accordingly.

Let's look at cryptocurrencies, for instance, and the problems these could cause if you fail to make known the details of your investments in them. The word crypto, stemming from the Latin 'kruptos' meaning hidden or secret, is applied in describing this new wave currency due to its cryptographic nature. This secretive nature on the one hand is what attracts some to use Bitcoin as each transaction is anonymous as to the personal identity of whomever is behind it. These purchases or transactions are therefore more discrete than any other form of payment currently available. Of course what this means is that there is no way of telling who owns the Bitcoin and to what extent the size of their holdings may be, unless the person holding them makes this information explicitly known.

Furthermore, in order to facilitate a Bitcoin transaction there needs to be in existence a public key and a private key. Your private key is what you keep either in an online wallet or a hardware wallet and is what allows Bitcoins to be utilised. It may help to take a moment to picture a bank vault which can only be opened with a singular key which is completely unique and incapable of being copied. The only person that can retrieve what is inside that vault is the one who holds the key and therefore the safekeeping of it is of paramount importance to accessing the value within that vault. If you lose the key, you lose the access and potential value of whatever is inside forever.

This is the reason why we find that Bitcoin investors are cautioned by well-known software wallets, such as the commonly used company called Coinbase, to share their private keys with their advisers or family members by writing them down in a secure location or saving the key with a commercial service tasked with managing these access codes. Nevertheless, there is bound to be many an instance in the future where cryptocurrency assets potentially worth thousands or perhaps even millions of pounds are simply rendered inaccessible since the keys to access them have not been made known to relatives who may, when the time comes, benefit substantially from these investments.

> *"If you lose the key, you lose the access and potential value of whatever is inside forever.*

Therefore it will become increasingly important to detail these private keys and other details of all the accounts, investments and digital assets including numbers, passwords and usernames with a view to keeping them in a secure place where your executor or beneficiaries may find them. For example, a useful place to make note of them would be to detail them in a document (or electronic file) which would accompany your Will or any Lasting Powers of Attorney that you may have in place, together with instructions to your executors about how to access these assets. You may also wish to include specific bequests of digital assets to individual beneficiaries in your Will.

All being well, this will go some way to avoid the modern day equivalent of Grandad passing away with his valuable stock certificates going undiscovered in his old shoe boxes.

Amelia Beringer, Associate in the Private Wealth team at Gordon Dadds LLP, specialising in Wills, Lasting Powers of Attorney, Trusts and Estate Planning.

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[i] PWC. (2013). The Value of a Digital Life.

JM Finn is not able to give individual advice of this nature.

ELECTROCOMPONENTS

James Godrich
Research Assistant

PRICE
£6.40

52 WEEK HIGH-LOW
£7.12—£4.67

NET YIELD
1.98%

HIST/PROS PER
26.2—23.4

EQUITY MARKET CAP (M)
£2,822

We last wrote about Electrocomponents in the Spring 2017 edition when the shares were trading at £4.95 on what seemed like an expensive 45x historical PE rating. We did however highlight the impressive management team and number of opportunities that they had to continue to execute on their already impressive turnaround.

Today the shares are trading at £6.40 and whilst much of the low-hanging fruit has now been picked, momentum in the business remains impressive with double digit revenue growth in all five of their reporting regions.

Though we hope for continued strong operational progress from the business, a further leg in the share price, we think, relies on two factors. That is continued strength in global growth for what remains a fundamentally cyclical business. But more importantly, a shift to sustained profitability in the never-before-profit-making Asian region.

Whilst the easy decision for CEO Lindsley Ruth when he joined in 2015 would have been to dispose of the Asian business, the management team opted to turn the business around. Three years later, some analysts forecast the region to finally move to profit at the next set of results. The upside is that management drive profitability further towards the group-wide 10% margin, the downside is that structural challenges persist and the return to profitability proves fleeting.

Please read the important notice on page 1.

Wealth planning

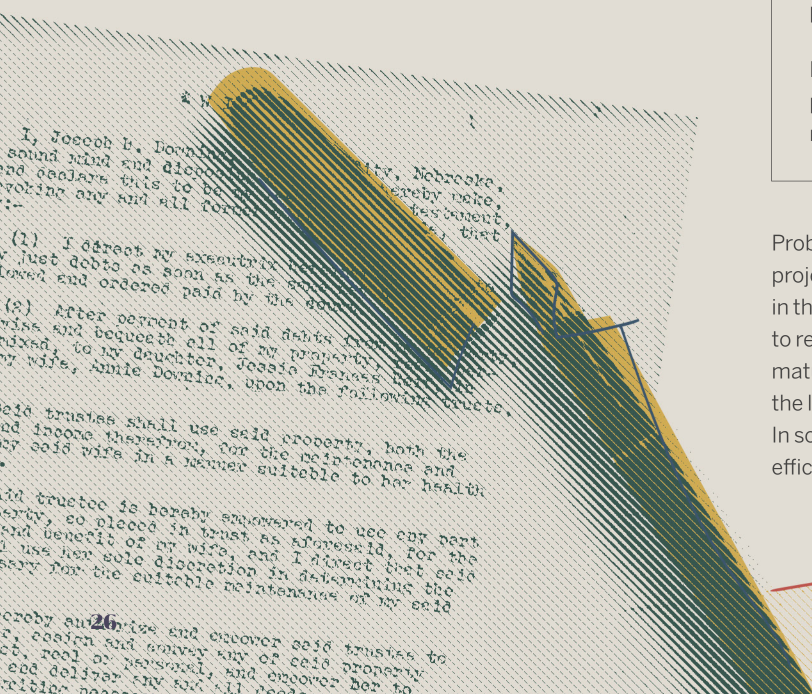
Spring cleaning

By Simon Wong
Wealth Planner

As a wealth planner, Simon Wong spends many hours delving into clients' financial affairs at their behest in a bid to help them structure their wealth more tax efficiently or to put together a financial plan – be that to ensure they have funds available to fulfil their dreams or to pass on to the next generation.

He often comes across dust covered files that have been sent to him containing old legacy insurance policies many of which are either forgotten by clients or simply ignored on the basis that they don't understand them, or their presumed value is insignificant. Some of which are little gems awaiting rediscovery whilst others are no longer fit for purpose.

To spur any holders of such policies into a spring clean, Simon has listed some of the more commonly held ones with a brief explanation and, where relevant, some action points.



Endowments

Endowments are regular savings contracts that include life assurance. They are a longer-term investment often taken out to run alongside a mortgage. At the end of the term (usually the same as the mortgage term), the endowment pays out accumulated returns. If the life-assured dies before the end of the term, the sum assured and any accumulated returns are paid out.

There are both unit-linked and with-profits varieties of endowment policies. An advantage of endowments is that the proceeds from a maturing policy are free of tax in the hands of the policyholder.

With-profits policies collect all the profits made (the surpluses on the funds of the provider company after expenses have been met) and then distribute a substantial amount of that profit in the form of bonuses. These are normally paid annually and, once they have been added, cannot be taken away. They offer a very safe investment, which tend to smooth investment returns.

With-profit policies have often received a poor press thanks to the difference between market returns and policy returns. In addition many legacy policies haven't recovered from the market losses made back in the dotcom crash of 2000/1, so holders may well be sitting on long-term losses.

Holders can switch out but it is important to check individual policies for any guarantees, exit charges or market value reduction charges before any decision is made.

Problems with endowments have arisen where the maturity value projected falls short of the target amount, thus leaving a shortfall in the mortgage repayment. Policyholders have typically switched to repayment mortgages and left the endowments to run on to maturity. Although the proceeds of an endowment are tax free, the life funds invested within the contract are taxed at up to 20%. In some cases, there may be an advantage in seeking a more tax efficient home for this money, such as an ISA or Pension.

Flexible Whole of Life

These policies pay out the benefit whenever the life-assured dies. This means that as long as premiums are paid, a payout will be certain. Because of this, premiums tend to be more expensive than for term assurance.

You can choose a fixed sum assured, or one that is linked to the growth of investment markets. Those that are linked in this way are either "with profits" or "unit-linked".

Unit-linked policies are increasing in popularity and are linked to the investment funds of the life assurance company, the value of which can go down in value as well as up. The choice of funds is limited to that particular provider.

Issues have arisen where the regular premiums and investment funds are not sufficient to support the fixed sum assured at a review date (typically every 5 years). The options open to a policyholder often include i) an increase in the premiums to maintain the fixed sum assured or ii) maintain the premiums but suffer a reduction in the fixed sum assured. In some instances, an alternative contract may provide the cover required and the comfort of guaranteed premiums because of the absence of an investment element.

Trust based contracts

Trusts have been used by the Life Insurance industry for many purposes:

- Put conditions on how and when your assets are distributed after you die.
- Reduce estate and gift taxes.
- Distribute assets to heirs efficiently without the cost, delay and publicity of probate court.
- Better protect your assets from creditors and lawsuits.

These have been typically used in conjunction with whole of life contracts, life cover, investment bonds and estate planning bonds.

Issues arise where the appointed trustees may no longer be around or be suitable. It is very important to regularly review and possibly retire and appoint new trustees.

Other contracts

Over the years there have been a multitude of policies released by the Life and Pensions Industry, some of which are gems but others not as useful as one would have hoped for. All should be reviewed to determine their continued suitability. Other legacy contracts that are around include:

- Investment Bonds
- Estate Planning Bonds
- Maximum Investment Plans
- Pensions with Guaranteed Annuity Rates
- Critical illness policies
- Capped drawdown contracts
- Flexible drawdown contracts
- Retirement Annuity Contracts
- Section 32 Buyout Bond
- Executive Pension Plans

To arrange to meet one of our financial planners to discuss any legacy policies you might hold or another wealth issue, such as pensions or investment structuring, please contact your investment manager who will be happy to arrange a meeting.

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Independent view

Planning for Uncertainty

By Julian Melling
Swiss Life

Julian Melling of Swiss Life suggests an offshore bond, or Life Wrapper, can offer tax benefits to UK residents to mitigate the effects of economic uncertainty.

With Brexit looming and the possibility of a change of UK Government on the horizon, some have begun to consider planning that will further protect their wealth. There are those considering leaving the UK, and how this can be achieved quickly and efficiently whilst perhaps still holding UK assets within their portfolios.

No one can say at this time what may happen, but the possibilities could include Capital Controls, Wealth Taxes, and increased taxes in general.

Some will remember back to the 1970s when you couldn't travel abroad with much cash, but more importantly you couldn't purchase foreign securities. Can you imagine today not being able to hold US stocks in a portfolio, or pay the bills for your villa or gîte? People are mobile and many plan to retire outside the UK and will require access to their wealth wherever they are.

Of course, there is the possibility that things remain much the same, any planning must be flexible and have benefits either way. Ideally the solution will allow wealth to be held outside the UK, be tax efficient, can invest in foreign assets, and be recognised favourably by a new home country if a relocation occurs. It must also be robust in the face of any aggressive UK tax changes.

A possible solution to consider taking advice on is the use of an EU (usually Luxembourg as it is a sovereign state, not a dependency) issued Life Wrapper (sometimes called a life policy or offshore bond) to hold a portfolio. Life Wrappers are an established part of the UK financial planning landscape and well recognised and accepted for tax purposes. They are also well recognised in many other jurisdictions, usually with relatively good tax benefits.

A Life Wrapper is basically a life policy designed to hold portfolios. A person or legal entity (the policyholder) can apply for a policy and invest their assets into it (the premium). The assets then become the property of the life company in exchange for the rights to the value of the assets given to the policyholder. The policyholder has the right to request the value at any time. If appropriate, the actual assets rather than value can be returned upon request.

In the UK, Wrappers such as this are taxed under the Chargeable Events regime – meaning the value of the policy grows without taxation, 5% of the original value can be taken per annum with no tax to pay, and marginal rates of income tax apply to any future taxable events, such as full surrenders or withdrawal over 5%. If you leave the UK the rules that apply are based on your new residence status.

The Life Wrapper allows one to plan for uncertainty

- Currently a UK resident can invest in an EU issued Life Wrapper using their existing portfolio, retaining their existing portfolio manager – the transfer of assets may be a disposal for tax purposes (unless cash)
- Tax rules on policies can usually only be effected on new policies, not existing – meaning that tax changes cannot affect existing policyholders, only policies written after that date
- When setting up a policy the assets become the property of the policy issuer, the policyholder owns the right to the value – allowing investment into a broad range of global assets as these are traded in the name of the insurer
- The reference currency of the wrapper can be GBP, USD, EUR, or CHF, the underlying assets can be in any currency
- Payments out can be made in any currency to an account in the name of the policyholder anywhere
- Assets are held in custody by a third party, usually a highly rated bank, outside the UK
- The policy can be settled into a trust if required for further succession planning, without creating a disposal
- Under Luxembourg Law, if the custodian bank or insurer become insolvent the policyholder has first rights and assets are held on a segregated basis ensuring 100% protection
- The policy is portable to many other jurisdictions, more so than Trusts and Corporate structures, with most countries offering beneficial tax treatment for life wrappers
- Current UK tax rules only discern between local and foreign life wrappers, there is no EU specific category – Brexit will not affect the status of the life wrapper

If Brexit is a fiscal success and there are no substantial tax changes in the UK, the policy can still be of benefit. Its use can add a layer of control when it comes to tax and succession planning; for example, deferring income tax until a policyholder is a basic rate payer, or making a gift (a Potentially Exempt Transfer in most cases) of the policy without creating a disposal. Of course, each case needs to be considered on its merits within a holistic plan.

For further information on offshore bonds please visit swisslife-global.com. Alternatively, to discuss any wealth planning issues, please contact your investment manager who can arrange a meeting with one of our wealth planners.

GVC HOLDINGS

Theo Wyld
Research Analyst

PRICE
£9.09

52 WEEK HIGH-LOW
£9.96—£6.58

NET YIELD
3.00%

HIST/PROS PER
N/A—16.0

EQUITY MARKET CAP (M)
£2,760

In February 2016, GVC acquired bwin to become one of the largest multinational sport betting and gaming groups. More recently the Group has come to investors' attention over its potential tie-up with Ladbrokes Coral which would more than double its size.

The deal was originally abandoned as Ladbrokes Coral did not like the exposure GVC had to the unregulated Turkish gambling market. GVC built itself around unregulated markets but over the last few years has made a conscious effort to move away from what are deemed to be high-risk areas into more conventional ones; something institutional investors have been keen to see.

Since then, GVC disposed of its Turkish arm and it seems the deal between the two giants is back on the table. However, this was not the only issue overhanging both businesses, and indeed the sector. Fixed Odds Betting Terminals (FOBTs) have been a hot topic, with the government proposing a cap on how much a punter can stake. Previously it was possible to bet up to £100 every 20 seconds and, although not confirmed, it looks likely this will be reduced to £2. FOBTs are highly lucrative for bookies, and a large source of profit Ladbrokes Coral in particular.

Please read the important notice on page 1.

Asset Allocation 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 sectorial basis.

The Asset Allocation Committee, which consists of three members of our research team and a number of investment managers, aims to provide a view on the asset allocation that seems most suitable in current macro conditions. The output of the monthly meetings remains a suggested stance and it is important to note, that the views expressed are not those of the firm but rather those of the committee and that the views expressed may not necessarily be those of your individual investment manager.

Here we present a snapshot of the current views.

Positive / Neutral / Negative

FIXED INCOME		
UK Government Bonds – conventional gilts	Neutral	Inflation as a threat has re-emerged whilst expectations for rate rises are increasing.
UK Corporate Bonds	Neutral	Investment grade bonds with the shortest maturities are preferred, within the constraints of income requirements.
UK Government Bonds – index linked gilts	Neutral	The re-emergence of inflation is supportive but beware higher coupon issues for tax payers.
EQUITIES		
Materials	Positive	Supply and demand dynamics are improving within a favourable macroeconomic environment.
Consumer Staples	Neutral	We like the sector for its defensive qualities and recent weakness offers some buying opportunities.
Consumer Discretionary	Neutral	The market has been polarised by disruptive technology so stock selection is critical.
Financials – ex Banks, Insurance & Property	Neutral	This is a mixed bag of a sector. Caution to be taken on asset managers which are often a geared play on the underlying assets.
Financials – Banks	Neutral	The sector should benefit from rising interest rates.
Financials – Life Insurance	Positive	Supportive demographics could provide opportunities here.
Real Estate	Neutral	Some discounts in the UK are at historically wide levels. Be wary of effect of rising interest rates on asset values.
Health Care	Positive	Benefits from the tailwind of global demographics and the sector's defensive qualities, however, it is important to distinguish between pharmaceuticals, healthcare and biotechnology.
Industrials	Positive	Some excellent opportunities in the UK at this favourable time in the cycle.
Energy	Neutral	Supply and demand balanced by current geopolitical outlook.
Information technology	Neutral	Prefer funds and international blue chips for exposure to specific tech themes. The long term attractions of the sector are clear.
Telecommunications	Neutral	Sector looks attractive on yield and valuation grounds, whilst capital expenditure and competition remain an issue.
Utilities	Negative	We don't like this sector for its high gearing and exposure to political risks.
ALTERNATIVES		
Absolute Return	Neutral	Exposure might be appropriate given current market conditions. We suggest caution on the "yield hunt" and are wary of lower quality products.
Infrastructure	Neutral	Investors should be cautious when looking for yield and pay close scrutiny to the quality of the investment product and premiums to net asset value.

JM Finn News

JM Finn nominated for award again

We are delighted to announce that, for the third consecutive year, JM Finn has been nominated at the City of London Wealth Management Awards.

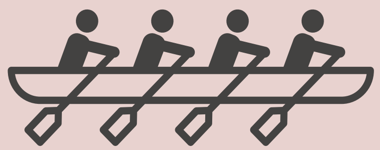
These awards, which are unique in that winners are determined by an online public vote, are designed to recognise and promote quality of service from Wealth Management companies and individuals.

Stephen Pinner, MD of Goodacre UK the company managing the Awards said: "Winning a City of London Wealth Management Award is significant proof of distinction for the best companies and individuals providing services for private investors. The fact that winners are determined by individual votes is a huge endorsement for all winners".

Having won the award for the last two years we hope to make the hat-trick which would be an unprecedented testament to the quality of discretionary services that we offer.

Although these industry awards are a great endorsement of the success of our client proposition, the true testament to what we do is the level of client referrals we receive. 2017 was a strong year for JM Finn in terms of new business and the majority came from referrals from existing clients, which we regard as the ultimate praise.

Record-breaking row



Congratulations to the four young men who have broken the record for the fastest row across the Atlantic Ocean.

JM Finn was delighted to support the team of four in their bid to tackle the annual Talisker Whisky Atlantic Challenge. The Four Oarsmen, a team of four friends, set themselves the target of raising funds for two charities very close to their hearts: MIND, the mental health charity and Spinal Research.

The team, who always planned to compete at the very highest level, made the 3,000 mile crossing in the record time of 29 days and 14 hours, knocking nearly a week off the previous record. However, equally impressive was that they smashed their original fund raising targets to raise over £350,000 for their two chosen charities.

Battling 40 foot waves, sea sickness and chronic fatigue their motivation was to raise as much funds as possible but they soon realised they were going to beat their 40 day target time which encouraged them to push harder, resulting in a new world record – one that they say they are happy to see broken, as not one of them wants to row across an ocean again.

JM Finn to host 3rd investment conference

Following the success of our conference held in November, a third conference is being held on Monday 14th May at the Kia Oval.

Our inaugural conference was held in March 2017 at the Royal Institution where we gathered a variety of internal and external speakers, notably Kwasi Kwateng MP. We followed this with a second conference in November last year, which was themed around technology.

The presentations ranged from a global start up discussing the move to autonomous driving, a biotech company exploring the huge leap in progress that has been made and a tech fund manager exploring future growth opportunities in this space.

The feedback from all attendees was extremely positive so we've committed to hosting an annual conference, with the next one focused around the theme of structural change that is taking place around the world today and how this change could influence the investment decision-making process. We are gathering a range of renowned speakers to explore their area of expertise and share some insights into the opportunities and threats future change may create.

The event is open to all clients and we would welcome any friends and family who might also be interested. If you would like to attend or you know someone who would like an invitation, please let your investment manager know and he or she can provide you with further details.

Meet the manager

Freddy Colquhoun

Senior Investment Manager, London

Lives Hampshire

Family Married, 3 children

Education Edinburgh University

Started at JM Finn 2005

Last holiday Bembridge, Isle of Wight

Favourite Book Birdsong by Sebastian Faulks

Pet hate Tangled earphones / Loud coughing

Hobbies Cricket / Yoga / Meditation

As chair of the stock selection committee, can you explain why more international stocks are being followed?

Although the FTSE 100 includes companies that generate the majority of their earnings from overseas the index has a bias towards certain sectors, namely oil/gas, mining, banks and pharmaceuticals, as the index is constructed on a market cap basis. Together these sectors make up nearly 40% of the index but an investor is very limited in what they can buy – for example you can buy BP or Royal Dutch Shell for oil exposure, or GlaxoSmithKline and AstraZeneca for your pharma exposure. In today's world we feel this approach is dated and sub-optimal. We want to invest in the best companies for clients on a global basis and managers are free to choose if they wish to get exposure via quality third party fund managers or buying individual stocks themselves. We have shifted our approach towards overseas investments over the last few years, especially since the Brexit vote in 2016.

You were named as a one of the Top 40 under 40 investment managers last year; what makes a good investment manager in your view?

Investment managers here have the dual role of being the relationship manager and investment manager for clients. We think this is important to ensure clients receive a bespoke service and for them to know that it is their investment manager who is accountable for each part of the service they receive. A good investment manager therefore needs to excel at multi-tasking and prioritising their day to day requirements. I also think a good manager needs to be a good listener. Listening to clients, listening to company executives and listening to colleagues. We receive vast quantities of information each day from many sources and it is vital to try and absorb it, process it and act on it to ensure we make the right decisions for clients. Finally, it would be remiss of me not to mention having a good team of people around you and I am fortunate to have this.

As a stock picker do you lament the rise of passive, or index tracking, investments?

I do not actually. I think passive investments have a role to play for certain types of strategy due to their simplicity and low cost. I do worry however that the meteoric rise in passive investments over the last nine years may exacerbate market falls in a recessionary environment. That said, this should play into the hands of active managers to outperform in tricky market conditions. I also believe that active fund management has actually benefited too from the rise in passive investments as it has led to a significant reduction in pseudo-tracking funds which I call the 'mediocre middle'. As investors, we have a better range of active funds to choose from.

What makes a good active investment manager?

A good active manager in my view needs to be oblivious to the short term noise of the market. You need to have the courage of one's convictions and take a long term view when picking investments. However, a good manager must also be prepared to admit when they are wrong and act quickly to resolve the mistake – this is easier said than done mind you! One particular situation in my own career where this happened was investing in Yell Group (the owner of Yellow Pages) about 10 years ago. We realised we made a mistake and crystallised a small loss soon after meeting management. The company subsequently went bust.

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