JMFinn&Co

PROSPECTS

The JM Finn & Co Investment Newsletter

Eighteen

Spring 2017

Debating Politics

Has the internet changed the game?

Corporate Culture

Getting behind the numbers

Owning a classic

What's driving the classic car market?

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IMPORTANT NOTICE
Please note that the value of securities and their income can fall as well as rise. Past performance should not be seen as an indication of future performance. Any views expressed are those of the author. You should contact the person at JM Finn & Co with whom you usually deal if you wish to discuss the suitability of any securities mentioned. Prices quoted are as at close of business on 17th February 2017.

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COVER ILLUSTRATION
Jon Berkeley/Debut Art
Jon Berkeley is a renowned illustrator who regularly contributes to publications such as The Economist.

WELCOME

Many of our clients will not yet be aware that we are currently fully immersed in what is probably the biggest regulatory change to the way our business operates, under the guise of MiFID II which comes into force in January 2018. More details will follow in an explanatory letter to all clients and a follow-up article in the summer edition of Prospects.

I mention this because one of the areas that the industry is struggling to cope with is the provision and payment of investment research, about much has been written in the press of late. One particular article caught my eye. It quoted a survey conducted by Capital Access Group, in which 85% of the survey participants said physical meetings or telephone contact with company management is critical or important when making investment decisions. Of course, this is not something that anyone at JM Finn & Co would be surprised to read. One of the fundamental aspects of our success is our belief that first-hand information gleaned from meeting a chief executive or a finance director fosters a better level of understanding of the company and assists our investment managers in managing client portfolios. One aspect of the findings did surprise me: 43% of professional investors met fewer than 25 companies in 2016, despite the above-mentioned 85% stating a meeting was important.

Each year, our investment managers are given the opportunity to meet an extensive range of well-established UK PLCs – last year we met with 42 FTSE 0100 companies and the same number again from the FTSE 250 and others. This allows our investment managers to take informed investment decisions, not only getting information about that particular stock, but also providing valuable insight into the industry, sector and wider economic picture. And these numbers are in addition to the fund management companies that we meet about their specific investment funds.

The eight stocks that we review in each edition of Prospects are but a small sample of the stocks that we have seen in the last quarter and although we don’t offer specific advice in these pages, we feel it is important to provide some insight into these events that feature highly in our investment managers’ decision making process.

On a cautionary note about the markets, investors should be aware that the UK stock market as expressed by the FTSE 100 index is flirting with an all-time high at the time of writing, but I think it’s worth remembering we were nearly at these levels in 2006/7 and 1999. The index is made up of the mainly large capitalised, overseas currency-dependent companies, particularly the oil and gas giants. On the other hand, the next 250 companies below the top 100 are very much more domestically focussed and have been less dominant of late, so we may well find more value with these more domestically oriented companies. If and when the pound eventually rallies, the tide could well turn in favour of these more lowly valued, domestic companies, but as ever, the question is if and when.

James Edgedale

James Edgedale
Chairman

POLITICS AND A PINT

James Godrich, Research Assistant

2016 has been a year of political unpredictability. Not only have we seen unexpected victories for Donald Trump in the US and the Brexit campaign on our own shores, but I would also need both hands and at least a couple of toes to count the number of non-traditional political parties in Europe who have grown their share of the electoral vote over the period.

With a number of European elections in 2017 and the chance of a snap election in the UK still lingering, I wondered what might have caused this apparent change in political momentum and whether we can expect it to continue.

The obvious and well-documented reason is that a prolonged period of sluggish economic growth, inflated asset prices and the perceived negative impact of globalisation on the Western working-class has led to the desire for political change. What this does not answer is why the traditional opposition parties haven't been able to capitalise on this. Or, to put it another way, why are we seeing both the UK and the global electorate shift from the centrist politics of New Labour and the current Conservative Party, to Nigel Farage's right-wing politics and Jeremy Corbyn's fashionable new brand of left-wing populism?

In order to answer this question, I turned to my behavioural finance studies and asked myself whether the way in which the global electorate interacts with politics might have contributed to this shift. In the past, information might have come only from the mainstream media, including perhaps a newspaper of choice or television news. Nowadays however, it's possible to find intelligent writing of almost any view from around the world on the Internet at the click of a button. This view is then posted, retweeted, shared and Instagrammed the world over as social media is increasingly used to both form and air one's views.

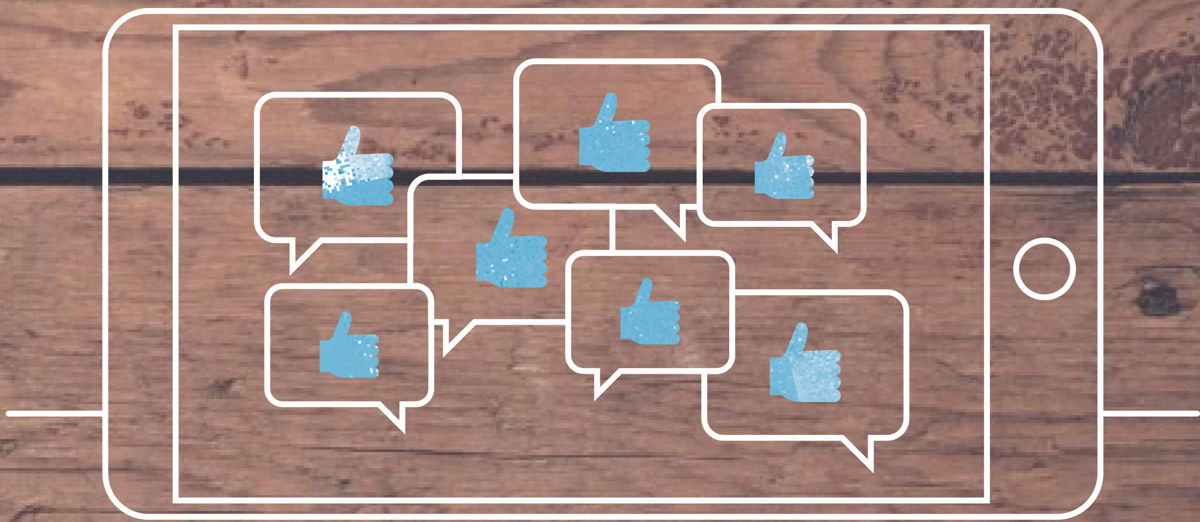
On the face of it this seems like a positive. Until you learn that research has found that we are, in general, twice as likely to seek out information that supports our own point of view as opposed to information that doesn't[1,2]: a phenomenon known by psychologists as confirmatory bias.

In 1979, the dangers of this were tested in an experiment entitled 'Biased Assimilation and Attitude Polarization.' In this experiment subjects who either supported or opposed capital punishment were given the same two purported studies: one study appeared to confirm, and the other to disprove, their existing beliefs. As expected, those who supported capital punishment reported having read a more convincing argument in the pro-death penalty study and the exact opposite was reported by those who opposed capital punishment. The net effect was that the subject's views became both more extreme and more polarised.

So behavioural finance tells us that modern-day interaction with political information is likely to polarise our views, in effect pushing the electorate towards the political extremes.

The effect of more information is likely to impact the electorate further through an increase in their reported confidence. In another famous experiment, Paul Slovic provided experienced bookmakers with five, ten, 20 and 40 different variables such as the number of days since the horse's last race, the weight to be carried and the jockeys' past records. The bookmakers had ranked all of these factors by importance when predicting the outcome of a race. ▶

[1] http://www.management-issues.com/news/5652/why-we-only-listen-to-what-we-want-to-hear/
[2] James Montier; The Little Book of Behavioural Investing; p.96



The experiment made a significant finding: as the amount of information given to the bookmakers increased, their accuracy flat lined but their reported confidence increased significantly. The bookmakers were as accurate with five pieces of information as they were with 40, but their reported confidence increased from 17% to more than 30%[3].

It seems that the likely result of more information is that the electorate will have a greater degree of reported confidence in their, now more polarised, views.

Social media then acts as a reinforcement mechanism where the, now confident and more extreme, electorate air their views. At this point the electorate becomes hostage to arguably the most powerful bias – group polarisation. This occurs when members of a group have their views reinforced by one another and make decisions that are more extreme than their individual inclinations.

Although social media, with its diverse and multiple points of view, seems to be the ideal place to debate opposing views, this does not appear to work in practice. In a recent study, psychologists found that replies on social media between like-minded individuals were not only more likely, but also tended to strengthen group identity. On the other hand, replies between alternate-minded individuals reinforced the divergence of opinions between groups. Social media shows that group polarisation can occur even when a group is not physically together.

So what's the answer? Or does modern-day interaction with politics doom us to a future of extreme politics and social unrest? Well, the good news is I don't think it does. But we do need a change of behaviour.

Like religion and one's salary, politics is one of those topics that should never be discussed, or so the saying goes. But perhaps the wider use of the Internet and social media, which I'm sure we all agree is here to stay, means we may need to reconsider our opinion towards these taboos.

"research has found that we are twice as likely to seek out information that supports our own point of view as opposed to information that doesn't"

Central politics is the product of discussion and debate. The House of Commons was, after all, very cleverly built for adversarial politics: with the two main parties sitting opposite each other in order to promote debate amongst their opposing views. I believe that we as the electorate would be best placed to follow this model.

On a personal level I believe we can help ourselves; next time you are at the pub, don't be afraid to challenge and be challenged on your political views – it might just mean the continuation of centrist politics as we know it.

[3] https://www.cia.gov/library/center-for-the-study-of-intelligence/csi-publications/books-and-monographs/psychology-of-intelligence-analysis/art8.html

DIVIDEND PAY-OUT RATIO

James Godrich, Research Assistant

I once overheard a conversation where one shareholder said to another, “When dividends hit my account I get a real buzz – that’s why I own the shares I do.”

Whilst an increase in dividends per share tends to be viewed as a positive by investors, it must be considered in proportion to earnings per share. This is an equation known as the dividend pay-out ratio, or one minus the earnings retention rate.

Theoretically speaking, a nominally high dividend yield and a high earnings retention rate are not mutually exclusive and in fact hold an interesting relationship. That relationship states that the growth rate in dividends is equal to the return on equity multiplied by the earnings retention rate. Or put another way, the future growth in your dividends is dependent upon the fraction of earnings that are reinvested into the business and the return that those earnings produce in their subsequent use.

This same theory can be used to explain the decision by more mature companies to pay larger dividends which represent a greater proportion of earnings. That’s because any retained earnings will be subject to diminishing returns on their reinvestment.
As such, management may see less opportunity of reinvestment at a high return on equity. By the same token, a less mature company may see numerous high return on equity investments and wish to retain earnings in the hope of creating significant growth in future dividends.

All of this is to say that the long term investor may wish to consider more than just the current dividend yield on his investments. He may even be happy to forego incremental increases in the current dividend, but only where opportunities exist for management to put excess cash to use at a high return on equity.

CRH

John Royden, Head of Research

PRICE
£27.53

52 WEEK HIGH-LOW
£30.29–£17.00

NET YIELD
1.92%

HIST/PROS PER
28.1–21.7

EQUITY MARKET CAP
£23,149m

CRH makes and distributes the heavy materials of construction like cement, aggregates, ready mixed concrete, asphalt/bitumen and lime. On the lighter side its products include clay, insulation and glass.

CRH are vertically integrated up to the quarry level and take most products as far down the supply chain as they can. Quarries are typically 40 to 50 year projects which drives long term planning. Close to 50% of the business is in the US with the rest mostly spread over Europe.

If Trump gets his infrastructure plans through Congress then CRH stand to benefit in addition to leverage existing positive momentum in construction. Road repairs are often cited as an easy win for optimising returns as most of the cost goes on improved infrastructure, in contrast to new build projects where brigades of consultants, engineers and lawyers can expropriate much of the value. Lower US corporate tax rates should help earnings growth as well. In addition, there is always the aspiration that fiscal stimulus might find its way onto UK and European political agendas.

The management are generally admired and their target of 1X leverage by end 2020 is seen as being achievable.

Please read the important notice on page 2.

CULTURE CLASH

Ken Olisa

One of the biggest challenges when investing is getting behind a business' numbers and understanding the company itself.

Institutional investors can do this by spending time with management, interviewing customers and suppliers and comparing their analyses with their target's competitors. What often blinds these technicians however, is the organisational culture of their potential investees.

This is an important topic because a business' culture determines how they view their role in society and how they will behave, especially under pressure. Understand a company's culture and you can form a view on their position on a spectrum ranging from tortoise to hare and therefore, where – if at all – they fit in your portfolio.

In fact 'culture' is a relatively new discovery of investors and regulators. The guardian of corporate probity – the Financial Reporting Council (FRC) – has recently published a first report on the topic. Its principal finding was that, "a healthy corporate culture is a valuable asset, a source of competitive advantage and vital to the creation and protection of long-term value." Unsurprising, but no less valuable for being obvious.

My experience in businesses of every size is that there are two fundamentally different cultures, and every organisation I have known fits easily into one or the other.

The first is what I call the Executive or 'Aircraft carrier' culture – these are entities where change is preferably gradual and the future is a safe extrapolation of the past. The other is the culture of the Entrepreneur or 'Fighter pilot'. Fighter pilots have little or no regard for the past (except perhaps as learning experiences) and have an obsession with living life at the extremes of what is possible.

The defining difference between the two is measured by their appetite for risk: aircraft carriers abhor it while fighter pilots thrive on danger.

From an investment perspective (and to mix a metaphor) aircraft carriers will never knock the ball out of the park. But they deserve a place in any balanced portfolio because their predictable performance, however boring, provides a platform from which to launch the riskier elements of your strategy.

As a portfolio guide, the aircraft carrier/fighter pilot comparison is necessary but not sufficient; there is another cultural facet which needs to be assessed before you can decide whether you have faith in the long-term wealth-creating potential of a business. Irrespective of whether a company is a tortoise or a hare, there is a second defining factor – their regard for the customer.

As with the oil and water of executive/entrepreneurial values, the customer's place in a corporate culture is also binary – either they are the business' number one priority, or they aren't. Either the organisation's employees get their thrills from delighting the customers or their satisfaction comes from products or processes or avoiding the regulator. This is not the same thing as deifying the customer – as a good friend of mine is fond of putting it: "The customer is not always right. But they are always the customer."

Putting the customer at the heart of everything is important, not just for its own sake, but because the resulting loyalty cushions the impact of any downward pressures when the market gets tough – as banks and supermarkets have found to their cost in recent times.

Assessing whether the culture of a potential investment is a fighter squadron or a carrier crew is pretty easy and doesn't require an army of analysts. ▶

Let's take the retail sector as an example. Just compare arch disruptor Amazon's seemingly insatiable thirst for innovation – Amazon Prime, Amazon Web Services, Amazon Music, Amazon Echo, etc with any British department store or supermarket whose principal focus is a continuation of the age-old "pile 'em high, sell 'em cheap" strategies, pioneered by Jack Cohen's Tesco chain after WWII.

As for assessing a company's attitude to its customers, this is an easy test for anyone who has ever bought anything! As consumers, we find it very easy to differentiate between those suppliers who value us and those who find us an inconvenience – I owe no loyalty to my electricity supplier whom I have totally failed to persuade to correct the address on my post; it's patently not important to them despite their habit of sending out glossy junk mail to their customers. A classic case of a 'professional' marketing communications department which is obsessed with brochure design but disinterested in the recipient. It's obvious from a thousand miles that they get their kicks from winning design prizes and not from improving customer service.

To conclude, culture is important to the long-term viability of a company and a wise investor considers it, along with the business fundamentals, when making investment decisions.

Ask two easy culture questions before you decide to take the plunge and make an investment:

1. Do they exhibit the habits of the fighter squadron or the aircraft carrier crew?

2. Are they customer-centric?

A sensible portfolio, in my opinion, balances the proportions of tortoises and hares according to appetite and avoids like the plague businesses that don't revere their customers!

Ken Olisa OBE is a businessman and philanthropist. He is Founder and Chairman of boutique technology merchant bank, Restoration Partners and is a Director of Thomson Reuters. He also chairs national welfare to work charity, Shaw Trust as well as serving as a director or advisor to several private company boards. He is Deputy Chairman of the Institute of Directors and Her Majesty's Lord-Lieutenant of Greater London.

SHORT DURATION FOR NOW

John Royden, Head of Research

In the Autumn issue of Prospects this piece concluded with the words "we are at or near the top of the bull market in bonds". Ex post that was pretty spot on: the UK gilt market peaked on 12th August which was near enough when I penned the article.

Consensus opinion has now come around to support the view that the bond bull is now a bond bear. Although I think that the Bank of England is disinclined to raise rates in the face of Brexit's uncertainty, I think that the longer term trend is for inflation to slowly pressure UK rates higher. The next base rate rise will be up, not down; in my opinion. So that begs the question: how do you position fixed income exposure?

Tax is the first consideration. Buying bonds above their redemption value, or "above par," is no good for taxpayers. If you buy a bond for £120, then the fall in value to the £100 redemption value is not a tax-deductible loss, whereas the income is a taxable event. Generally speaking, most taxpayers are better off holding bond exposure via funds where the capital loss on the bond portfolio manifests itself in a tax-deductible capital loss on the unit or share in the fund.

If you take the HSBC 6.5% 2023 trading at £122.60 then the gross redemption yield (GRY) to a 40% tax payer is 2.62%. Held within a fund and using the capital loss takes the GRY to 3.83%. If the fund has a 0.5% annual charge then the GRY drops to 3.36%.

Although the UK ten year gilt rate has gone from 0.52% on 12th August to 1.46% today (11th January 2017), many corporate bonds are still trading above par. The ORB universe of retail corporate bonds that we look at only has about 5%, or one in twenty, of its bonds trading below par. In this context, 'retail' means that you can buy the bonds in lumps of £100 to £1,000 nominal, in contrast to the institutional market where the minimum trade size is nearly always £100,000 nominal. The gilt market only has three issues out of 43 trading below par.

In terms of strategy, I like the idea of being short dated rather than long dated. Technically I would say short duration over long duration – duration is a kind of average life of a bond in contrast to the life to maturity. As bonds pay interest, the payment of interest over the life of the bond reduces the average life of the bond in cash flow terms.

Long duration bonds are most inversely sensitive to changes in interest rates. So if interest rates see gradual inclines over the next few years, you avoid capital losses with short duration bonds. There is a balance between getting close to no yield at the short end of the gilt market and short duration, and this should be based on your personal preference.

Another strategy preference is to look for Floating Rate Notes, or FRNs. These are bonds which re-set their interest rate annually based on a benchmark rate. LIBOR, the interest rate that banks charge each other in London, is often used as a benchmark which means that if interest rates go up then the interest rate that gets paid on the bonds goes up.

If your tax position pushes you to bond funds rather than direct holdings, then looking for funds with net short duration is not a bad starting place.

Black Gold Renaissance?

Brian Tora, Chartered Fellow, CISI
Consultant to JM Finn & Co

With so much focus on the economic ramifications of populist political events – Brexit, the election of Donald Trump, not to mention more elections in Europe in the pipeline – other drivers of economies have tended to be overlooked.

One of the more crucial elements in forecasting economic growth in the past has been the price of oil. Interestingly, cheap oil is not generally viewed as beneficial. For a start, one reason for a falling oil price is usually a drop in demand – itself an indicator of slowing growth. But a high oil price takes its toll on economic progress. Oil is crucial in so many areas of business activity. Expensive oil pushes up transportation costs, leading to higher prices for many goods and services, not to mention dearer heating bills for many. Manufacturing of many items would be impacted by a rise in the oil price and inflation would come under pressure. This in turn can lead to tighter monetary policies – all of which is likely to act as a brake on growth.

The last half-century has certainly seen some wild swings. Having enjoyed several years of relative stability at around $20 in 1973 ahead of the Yom Kippur war, the price spiked in the immediate aftermath, reaching more than $50 in short order. The result was a recession, intensified by the secondary banking crisis and the three-day week. Inevitably, inflation took off into the 1970s, peaking at over 20%. And the price of oil continued to rise, with production affected by the Iran/Iraq war. By the late 1970s it exceeded $100 a barrel.

Between the mid 1980s and mid 1990s it settled into a range of $20 to $40, with a brief spike to over $70 in the middle. Global pressures saw it sink to around $10 by the end of the last millennium, only to soar to more than $140 before the global financial crisis of 2008 brought the price back to $30. A more settled range of $80 to $110 was established once the global economy got back on its feet, but slipping demand, coupled with over-production brought the price back to $30 by the start of last year.

Presently the oil price has crept back to over $50. The questions are: where will it go from here? And what level would be appropriate to help sustain economic growth? 2016 saw some stability return to the oil market. Rising demand and a drop in production from the US as a lower price rendered shale oil uneconomic, offset higher output from OPEC countries. Saudi Arabia had been in the vanguard of maintaining production levels as it sought to damage both Iran, which was returning to world markets, and marginal shale oil producers.

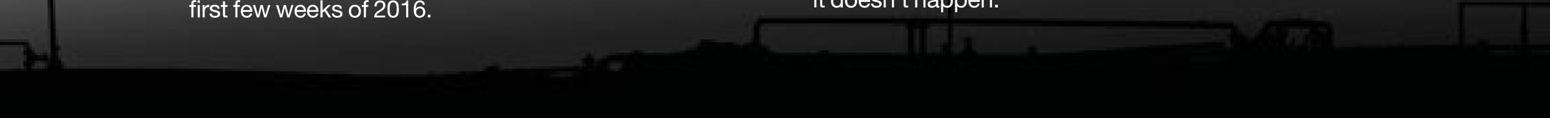
But, in September last year, agreement was reached amongst OPEC countries to cut production for the first time since 2008 to help support the price. Meanwhile, production was continuing to fall amongst non-OPEC producers and growth in demand continued. Oil reserves also fell, but remain above the ten-year average at an estimated 3 billion barrels. This improving outlook has been reflected in a recovery in the price of oil shares, which had continued their slide into the first few weeks of 2016.

Oil companies have, of course, had to become leaner and fitter as the effect of cheaper oil bit into their revenue streams. And it follows that exploration has been cut back and capital projects deferred until more favourable conditions arise. Much will depend on demand remaining robust, though the change of heart in Saudi Arabia will undoubtedly help the price. The situation in the US also looks interesting, with President Trump believed to look favourably on the oil industry and attempt to lighten the regulatory burden it bears – not that such a move will be universally popular.

"there is hope that a more normal scenario is unfolding after several years of turmoil"

Of equal significance are the facts that the oil price and profitability of the major producers appears close to a cyclical low, while return on capital expenditure, which fell steadily following the 2008 financial shock, is expected by some industry watchers to return to more normal levels even if it does not reach previous highs. All this gives one hope that a more normal scenario is unfolding after several years of turmoil. Certainly, oil price shares appear to be discounting a maintained price in the $50-$60 range.

For the global economy, a period of stability, – with the oil price neither too high nor too low – is to be welcomed. Chinese demand undoubtedly fell, but now appears to have stabilised too. With production now more under control, downward spikes in the price look less likely. Oil price inflation could also be kept in check by more marginal producers coming on stream. Shale oil rigs in the US have only been mothballed, after all. What we can't forecast, of course, is another geo-political event, which sends the price spiralling. Fingers crossed that it doesn't happen.



COMPANIES WE'VE MET DURING THE PAST QUARTER

John Royden, Head of Research
Theo Wyld, Research Analyst

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

BASIC MATERIALS
Victrex

CONSUMER GOODS
A.G. Barr, Britvic, Fuller Smith & Turner, Imperial Brands, Marks & Spencer

CONSUMER SERVICES
Dixons Carphone, DMGT, Enterprise Inns, Entertainment One, Greene King, RELX, Whitbread, WPP

FINANCIALS
Barclays, Big Yellow Group, Euromoney, Paragon, Provident Financial, Rothschild

HEALTHCARE
Smith & Nephew

INDUSTRIALS
CRH, DS Smith, Electrocomponents, Gooch & Housego, Intertek Group, RPC Group, Smiths Group, Wincanton, WS Atkins

OIL & GAS
BP, Hunting

TECH & TELECOMS
Vodafone

UTILITIES
Severn Trent

BRITVIC

PRICE: £6.33
52 WEEK HIGH-LOW: £7.38–£5.21
NET YIELD: 3.89%
HIST/PROS PER: 14.4–13.2
EQUITY MARKET CAP: £1,661m

CONSUMER GOODS
Steve Nightingale (IR Director)

Britvic is one of the leading soft drinks companies headquartered in the UK, where they generate almost two-thirds of their revenues. Their international operations consist predominantly of three markets; Ireland, France, and most recently Brazil. The balance comes from the US and India, through franchising and licensing agreements.

Their portfolio of brands includes many household names such as Robinsons, J2O, and Tango. Alongside these own-formulated offerings, Britvic have exclusive agreements to manufacture and sell a number of PepsiCo's most famous drinks such as 7UP, Mountain Dew, and of course Pepsi itself.

A much talked about headwind for the likes of Britvic is the implementation of the Sugar Tax in the UK. This is due to come into place in April 2018 and penalises manufacturers of soft drinks which contain more than 5g of sugar per 100ml. Britvic, along with its peers, has been working hard to shrink the proportion of its portfolio exposed to this tax. At December 2016, c.68% by volume produced contained 'low or no sugar'.

Unfortunately, the majority of the remaining c.32% by volume is made up of the high-sugar PepsiCo offerings. PepsiCo are highly unlikely to reformulate their drinks just for the UK market, and also unlikely to absorb any of the tax costs charged to Britvic.

This leaves Britvic with two options; first, absorb the tax themselves; or second, attempt to pass the costs forward to the supermarkets. The former is detrimental to margins and the latter may prove tough given the price pressure the UK supermarkets are under.

It will be interesting to see where the tax lands, but although the UK is a key market, it is not the be-all and end-all. Their latest expansion into Brazil seemed out of place at the time but is appearing more astute and exciting over time.

PROVIDENT FINANCIAL

PRICE: £27.88
52 WEEK HIGH-LOW: £34.02–£21.25
NET YIELD: 4.39%
HIST/PROS PER: 15.9–16.2
EQUITY MARKET CAP: £4,134m

FINANCIALS

Peter Crook (CEO) and Andrew Fisher (FD)

Provident Financial provide loans to the less credit worthy segment of our society. The pay-day loans industry has attracted some negative press over the past few years as journalists and others latched on to the high multiple 100% APRs that were being quoted on pay-day loans.

You know Provident Financial are doing a good job when our Lords Spiritual keep themselves busy debating other topics. That indeed has been the case since the subject gently faded from view following Justin Welby, Archbishop of Canterbury's 2013 House of Lords discourse on the subject. After all, the alternatives of loan sharks and baseball bats is always a less Christian solution to credit management amongst the poorer of our nation.

So leaving the moral issues aside, Provident Financial runs Moneybarn (car finance), Vanquis Bank (credit cards), Consumer Credit (agents running micro-loans via door-to-door collections), Satsuma (pay-day loans) and the no-longer active, glo (pay-day loans with a guarantor). Vanquis has been the stand-out success of late.

Crook said their Consumer Credit had been modernised with apps which had reduced the back office costs and improved repeat business. If Brexit worries tipped the UK into recession, Crook suggested that Vanquis and Moneybarn would be most impacted as many of the Consumer Credit's cashflows are driven from recession-proof benefits payments. As such, Provident Financial had been tighter with Vanquis credit than before. He noted that Vanquis had a high customer turnover which then drove a high marketing budget. Crook also suggested that their growing expertise in data analytics was helping credit decisions.

Provident Financial had been a star performer until 2016 when the shares stalled and we will watch to see how new initiatives like Satsuma and Moneybarn take hold.

WS ATKINS

PRICE: £14.51
52 WEEK HIGH-LOW: £17.5–£11.91
NET YIELD: 2.76%
HIST/PROS PER: 17.2–12.3
EQUITY MARKET CAP: £1,460m

INDUSTRIALS

Kate Moy (IR Director)

WS Atkins (Atkins) is the UK's largest engineering consultancy and the world's largest global design firm. The payroll is c.18,000 names long, spread across 300 offices and 29 countries. The lack of real estate in a region is not prohibitive with Atkins reportedly having undertaken projects in over 150 countries.

In 2011 Prof Dr Uwe Krueger took over the role of CEO and brought with him a new strategy. Part of this was to never engage in contracting, and he promptly initiated the sale of their various related businesses. But perhaps more importantly, he set a target of an operating margin of 8% in each of their four divisions, not just for the Group as a whole.

These divisions are as follows; the UK & Europe, the US, the Middle East, and 'Other' which incorporates the Asia Pacific and Energy. His strategy has been to target operational efficiency through a variety of initiatives at all levels of the business, including even introducing the need for junior engineers to account for each hour of unproductive time. The benefit of these procedures is evident with a 1% improvement in productivity having a 10% improvement to the bottom line.

The second area of focus has been on portfolio optimisation, which is largely complete. For example, they sold off a highway services business which in essence was blue-collar work and could not command more than a 3% margin.

Lastly, in terms of driving the top line, the question Uwe asked himself is 'where can we grow faster?' They identified Nuclear as a portion of the business to expand, siphoning engineers from their own Oil & Gas division as the market turned.

In conclusion, Atkins has a world class pool of engineering talent and a disciplined executive guiding the way.

Please read the important notice on page 2.

INDIA'S GROWTH MIRACLE

The potential for investors

India is one of the most talked about investment regions right now, offering exciting prospects for investors with a medium term time horizon. Spike Hughes, CEO of Cohesion Investments, a specialist fund distributor, discusses the opportunity to tap into the growth story.

A vast country, of some 1.3 billion people, India is now firmly on the radar as the fastest growing major economy in the World – forecast widely to become the third largest. I have two clear messages for any investor in India.

The first is that, in my opinion, India deserves investment as a single country fund allocation in our portfolios, albeit it a high risk portion – not simply exposure within a broader Global Emerging Markets or Asia allocation; these in most cases will afford exposure only to India's largest companies, which often have already experienced their fastest growth. Once convinced on this first point, the second is how best to access the Indian growth story and its equity market; although there are a variety of funds available to UK investors, I believe investing with a manager based in India, affords an advantage – a view I have formed after spending considerable time with India's largest investor.

To really understand how India's economy and stock market can grow, adding billions of dollars of value and wealth creation – we must consider the critical drivers that can deliver this. Whenever there is long-term sustainable economic growth in the World, two cornerstone pillars always exist; the country must have good demographics and its productivity must be improving.

On demographics, India has the World's second largest population which is getting younger and wealthier (a quarter of all mankind born since January 2000 are Indian), with strong middle class growth. India is also coming from a low productivity base, currently 22 times less productive than China, and 50 times less than America, however improving infrastructure and technology alone will help to underpin change. India's demographics and improving productivity could deliver multi-trillion dollar growth in India's economy and stock market.

There are of course many other contributing factors, let's focus here on just two. The first is Narendra Modi, India's dynamic Prime Minister. Modi has already effected considerable change and reforms and persuaded many of the World's most senior leaders and corporates to partner and invest in the country's economic growth miracle – it is the very fact that he is cleansing the system, fixing supply side bottlenecks and implementing policies to deliver long-term structural growth, rather than short-term populist policies, that is attracting the world's interest. Indeed, his recent unprecedented reform (Demonetisation) was a very bold move to reduce corruption and the black economy, not to mention the potential for increased tax collection and bringing approximately US$220 billion into the banking system very quickly.

Despite its huge population and high savings rate (currently c. US$600 billion per annum saved), a mere 2.5% of India's savings presently goes into equities – this is a lot higher in most other countries. It would take very little for a small change in the savings pattern (accelerated by Demonetisation) to transform the Indian equity market and the shift from physical savings to financial savings has already started.

So why do I think it is important to invest with a manager based in India, particularly when there is so much information available in the world today? Partly, because despite India having over 5,000 listed companies, only around 100 are well covered by the brokers. In other words, most of the market has little or no research coverage. Why does this matter?

Clearly an investor would commit only to companies which they are aware of, and where those companies are thought to have growth potential. Fifteen years ago there were barely any IT or Pharma stocks listed in India, yet today there are huge companies in these sectors. In a country experiencing such long-term sustainable economic growth and multi-trillion dollar wealth creation potential for the stock market, many new sectors and themes are now emerging.

Spike Hughes is Founder and Chief Executive Officer of Cohesion Investments

Having started his career at Scottish Widows, Spike has since been a pioneer for a number of businesses setting up their investment propositions. One of the founders of the Skandia Investment Group, Spike innovated the Best Ideas funds, at the time considered the biggest fund launch the industry had witnessed, as well as fund ranges including the Skandia Asset Allocator range and the first REITS fund in the UK market. Prior to this Spike was founding Managing Director of Hargreaves Lansdown. Spike used these experiences as Strategic Adviser to Crispin Odey, contributing to the launch of Odey Wealth and also as Strategic Adviser to the CEO of AXA in launching the Architas multi-manager business.

Many companies in India face the potential of transformational growth and in my opinion is much easier to spot these opportunities if you are on the ground. Today India has many companies with multi-trillion dollar market caps, which ten to fifteen years ago were much smaller and virtually unknown.

The real opportunity for investors is not only to tap into this highly sustainable and stand-out growth story, but to invest into the fastest growing parts of the economy – into companies with the potential to generate multi-bagger returns in the years ahead.

Cohesion Investments is the distributor for Reliance Nippon Life Asset Management (RNLAM), which is a leading asset manager in India with its mutual fund arm managing average assets under management of over US$47 billion for over 6 million investors. They have been managing funds for more than 20 years.

CHARITY ROUND TABLE

Our charity clients are an important and growing area of our business and, with over £500 million of assets under management and advice on behalf of charities, we are privileged to work with a broad variety of charities thanks, in part, to our client-driven approach.

In our experience, charity trustees welcome a proactive approach to a relationship with their chosen investment manager, which of course sees them look for a robust investment approach, top quality service, and clear and concise reporting. But given that many trustees are not from an investment background and charities themselves often don't want to get weighed down with administrative issues, we place a focus on providing trustee support over and above the usual investment communication.

In November, the Charities Team hosted a round table with a group of trustees from fifteen different charities to discuss the challenges faced by charities in this low interest rate, politically uncertain environment. Following a presentation on the global economy, much of the subsequent discussion was, given the timing of the event, focussed on the election of Donald Trump and the decision to leave the EU.

Whilst the general mood was relatively upbeat, there were justified concerns over the implications of Brexit and Trump, although the general consensus was that it was too early to make any firm forecasts. Not surprisingly, given that income is often a charity's primary investment objective, the group also discussed income opportunities available across different asset classes and all agreed that the continued search for income remained a challenge.

All participants agreed that it was a very productive and interactive session and hopefully the charities involved learnt something from one another whilst enjoying the hospitality of JM Finn & Co's in-house dining. Further events are planned for later in the year, so do please get in touch if you are a trustee and it is something that might interest you.

Other areas where we look to help charities:

Administration

We work closely with trustees, treasurers and administrators to ensure the smooth-running of all administrative and financial aspects of the charity. Our flexible approach enables us to send instant transaction and cash flow statements in a useful medium to assist with a charity's internal administration. In addition, all trustees are able to view the portfolio valuation online including all account documentation; this provides a detailed and transparent overview of the portfolio 24/7.

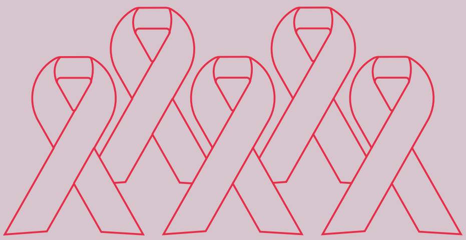
Meeting Rooms

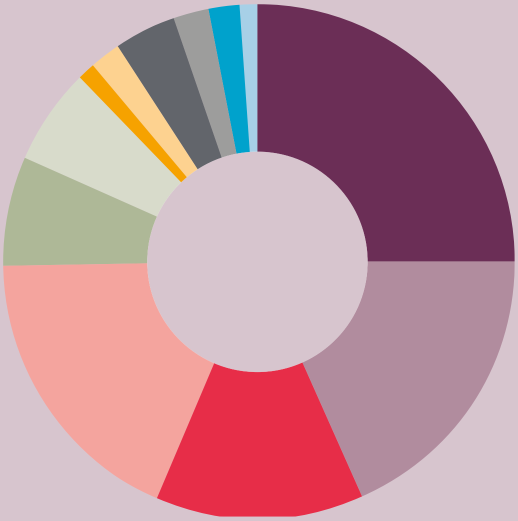
All our charity clients are welcome to use our meeting rooms and catering facilities at our head office at 4 Coleman Street in London, as well as at any one of our regional offices in Bury St Edmunds, Bristol, Leeds and Cardiff.

Fund Raising

We look to engage with our charity clients on multiple levels: not only do we try to help with their fundraising where appropriate, but we also look to support these charities by sponsoring events if we feel they align with our own internal corporate, social and responsibility (CSR) guidelines.

To find out more about our investment management services for charities, please contact your investment manager or the specialist charities team at charities@jmfinn.com





Breakdown of charity client types at JM Finn & Co (December 2016)

KEY

- Education
- Grant making
- Religious
- Livery & not for profit
- Health
- Culture
- Disability
- Community
- Relief of Poverty
- Almshouses
- Military & Aerospace
- Sport

Common Reporting Standard – is your charity affected?

If your charity gets more than 50% of its income from investments, then you may well be affected by the Common Reporting Standard (CRS), and have reporting obligations to HMRC (by 31st May 2017). The regulation is aimed at financial institutions, which includes banks, custodians, depositaries, insurance companies and investment entities. It is the latter that might include some charities. We do not believe the new legislation is overly onerous however, and whilst we are unable to give tax advice, if you would like a more general discussion on the CRS and its implications for charities, then please do get in touch.

Equity prospects

DCC

John Royden, Head of Research

PRICE
£67.80

52 WEEK HIGH-LOW
£72.60–£55.70

NET YIELD
1.49%

HIST/PROS PER
29.8–22.8

EQUITY MARKET CAP
£6,053m

DCC is one of those companies that slipped into the FTSE100 without many people noticing. On the face of it, DCC is a distributor of heating oil, LPG, technology and healthcare products, and waste and employs 10,500 people across 15 countries.

However, when you ask DCC what they do, they say that they are great at buying and managing low margin, high volume businesses with a propensity to destroy value via bloated working capital requirements. They also say that they are great at sales, marketing and distribution and that they share their IT and best practices across the businesses. They don't leverage their unconnected client bases.

Their attention to cashflow detail is impressive as is their ability to grow the top line with strong sales. They compete with high service levels which, in Energy, might involve attending an apartment block's tenants' meeting at 9pm or, in the case of Technology, means having great systems for dealing with returns.

DCC have proved to be good at buying businesses and indeed continue to successfully consolidate their markets, as evidenced by their decade of 17% annual revenue growth, of which more than 10% per annum has been organic.

Please read the important notice on page 2.

BERKELEY GROUP

Theo Wyld, Research Analyst

Berkeley Group (Berkeley) is engaged in residential-led property development focusing on urban regeneration and mixed-use developments.

The Group is steered by the steady hand of Tony Pidgley, CBE.

Pidgley left school aged 15 to form his own business in haulage and plant hire. Just four years later, he sold to Crest Homes and became a Building Director working underneath Jim Farrer. These two entrepreneurs fancied their chances on their own and split off to form Berkeley Homes in 1975. Following 10 years of considerable growth, the company achieved a full listing in 1985 as the Berkeley Group.

The management team have since gained a national reputation as predictors of the UK property market, having called the last three cycles correctly, agilely winding down major operations into downturns.

Berkeley has a strong long term record of delivering superior returns off its highly priced, predominantly London and South Eastern base. Where they have been so successful is in taking on the tougher sites and adding value through their development expertise.

UK housebuilders enjoyed a stellar 2015. A large part of this was down to bank funding levels being unavailable to the sector's smallest competitors. This meant that land purchasing was relatively fluent and cost effective for the larger players – something that stands them in good stead in today's environment.

However, the start of 2016 saw a correction at the top end of the London property market caused by over development and increased Stamp Duty. Low commodity prices drove increased caution from high-end international investors adding to the downward pressure.

That said, management had again been successful in de-risking the portfolio into a downturn. They have barely bought any land since 2014, unwilling to pay what they see as unreasonable rates. They are under no pressure to restart purchasing as they have built up a 10 year land bank. However, should an opportunity present itself for a reasonable price they would not be afraid to take advantage of their enviable balance sheet, sporting a net cash position.

Clearly, the vote for Brexit threw a spanner in the works for the sector. The markets were poised for a Remain victory and listed UK property companies were some of the hardest hit by the surprise result to the contrary. The large players had circa 35% of their market capitalisation wiped out in the ensuing sell-off. Some confidence has since crept back into UK property with the first few months' post-Brexit data showing resilience.

Berkeley was left behind by the other housebuilders in the subsequent rally on concerns around their London-focussed portfolio. However, this decoupling was sharply reversed when the Group posted a strong set of HY-16 results in October 2016. Investors took comfort in the lesser degree of forward sales decline than feared, and the security of the healthy dividend.

There comes a point at which sterling has fallen far enough to compensate the overseas investor for the added risk of buying in London. It is important to note that the top end of London

property had already corrected significantly before Brexit risks were being taken into account – something I believe has been forgotten. If you are a prospective Chinese buyer looking for a way to park your wealth outside the country and away from the Government's capital controls, then London could well be an attractive option.

In January 2017, management announced the opening of a Birmingham division. This is the Group's first expansion out of the South East for over a decade. That said, management do have experience dealing in the city and cite the 'can-do' attitude of the council, and the similar demographics to their core areas, as reasons for the expansion. I believe this to be a smart move to diversify into what appears to be a higher growth market, as well as placating those who believe London property to be on a downward spiral.

There is a risk that should unemployment rise rapidly, the UK property market would suffer significantly. However, this seems unlikely with mortgage rates where they are and the outlook for the base rate where it is. It is hard to imagine a full-scale house price crash without the degree of forced sellers we saw in 2007/2008.

Looking through the shorter-term volatility, the UK property market still faces a supply / demand imbalance which plays into the hands of the housebuilders. Understandably, the Government is pushing hard for increased proportions of affordable housing, however, fundamentally the housebuilders will not take on projects for which they do not receive a decent return on capital.

In conclusion, Berkeley Group pays a generous dividend which is defended by a strong balance sheet and the ability to pull back from buying land in tough times. Their forward order book totals almost two years' revenues backed by deposits nearing 30%. The experience of management will be crucial when navigating any choppy waters ahead.

Please read the important information on page 2.

Berkeley Group

PRICE
£29.38

52 WEEK HIGH-LOW
£34.13–£20.15

NET YIELD
6.60%

HIST/PROS PER
8.1–7.1

EQUITY MARKET CAP
£3,989m

CLASSIC CARS:

An investment opportunity with a twist

Angus MacCurrach from Cotswold Collectors Cars talks about how to make ownership rewarding, pleasurable – and easy.

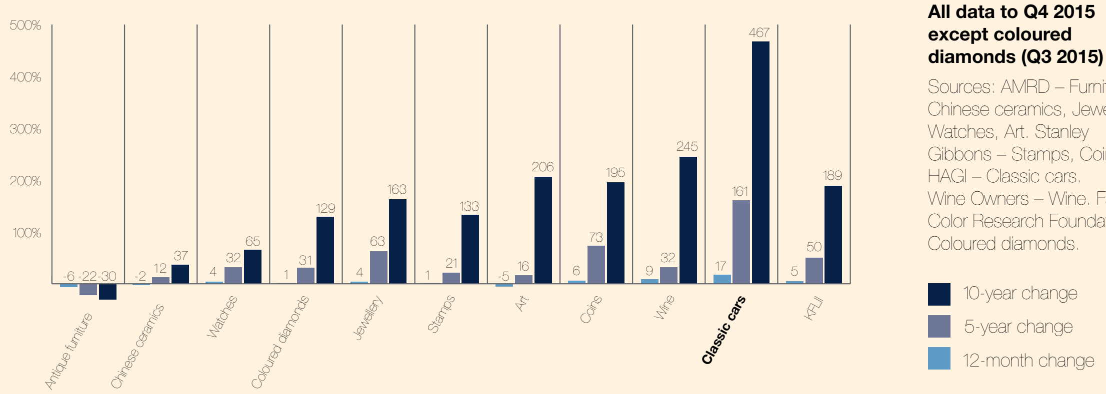
The world of classic cars has changed a great deal over the years. Where once you found keen amateur mechanics scouring the market for a new project to fill the long winter nights, you now find investors looking for interesting opportunities.

It's not hard to see the reasons for this. The classic car market has grown a great deal over the last few years and, as in the art, wine, gold and stamp markets, values have gone up as people look for new or alternative places to invest their money. The classic car market has grown faster than others though, partly because it has a rather large ace up its sleeve: cars don't attract Capital Gains Tax, which effectively adds a third to the real value of returns.

Like all markets, individual cars and brands have performed differently, with the prices of some remaining largely stable, whilst others have gone up hugely. This difference is down to the appeal of the marque, the rarity of the model, and the condition and provenance of the individual car. Across the market as a whole very few, if any, classic cars have decreased in value over the past five years. The strongest marque from an investment point of view has been Ferrari, which has seen the value of its early models rocket. But Porsche, Aston Martin, Alfa Romeo, Bentley, Mercedes and many others have done excellently as well.

Knight Frank's Luxury Investment Index (KFLII), detailed below, shows that as of Q1 2016, classic cars had outperformed all other categories of luxury goods over the previous 12 months (growing at +17%), five years (+161%) and ten years (+467%). Mirroring this, the Historic Automobile Group International (HAGI), which monitors the auction market very closely, found that in 2015 alone the collector's car market as a whole grew 17% - and nearly doubled over the previous three years. That rate of growth is almost certainly not going to be sustained in 2016-17, but the market for quality classic cars remains strong.

Performance of the Knight Frank Luxury Investment Index (KFLII) by asset class



All data to Q4 2015 except coloured diamonds (Q3 2015)

Sources: AMRD – Furniture, Chinese ceramics, Jewellery, Watches, Art. Stanley Gibbons – Stamps, Coins. HAGI – Classic cars. Wine Owners – Wine. Fancy Color Research Foundation – Coloured diamonds.

01

02

03

"You don't have to be an expert, or a petrolhead, or even a great driver to invest in this market."

Importantly, we are not just talking about supercars costing millions of pounds here. Good quality cars can start from around the £50,000 mark, or sometimes even less. This in part explains why the market is so buoyant right now.

All this number crunching shows that cars can be a great place to put your money as an alternative investment, and with the absence of capital gains tax as a large cherry on the top, you might want to know where to start. The answer is: get advice. There are a number of options for different budgets and time frames, so to make the most of your investment, sitting down with a professional can save you time and money, and avoid much future frustration.

When looking for a potential adviser, you will want someone who can talk you through not just sourcing and purchasing a car, but also any checks that ought to be done on it. Someone who can advise you on how to avoid vehicles that might not be what they seem, and who can make the whole process enjoyable and interesting, rather than stressful or uncertain. The bottom line is: you don't have to be an expert, or a petrolhead, or even a great driver to invest in this market. You can view it as an investment just like any other, but secure, more tangible and possibly more interesting to talk about with friends.

Secure? Well think about it like this: how many other investments come with a Government-issued certificate of ownership, a registration plate, an engine number and a chassis number, all unique to that vehicle and kept on a central database?

01 2000 Ferrari 550 Maranello: £145,000

02 1960 Bentley S2 Continental 2 door Saloon by HJ Mulliner: £380,000

03 1988 Porsche 911 Carrera 3.2 Targa: £57,500

There is also a preconception that if you buy a classic car, it will require garage space, oily hands and regular maintenance by the owner. This is not necessarily the case. A number of firms offer climate-controlled storage for customers' cars. Most can also handle its transport, servicing, and all the admin around licences, MoTs and insurance. And even if you opted for all of these services, especially through a firm based outside London, it's unlikely to cost you more than about £2500 per year. Most people are very surprised by the low cost of keeping and running a classic car.

In fact, should you wish to treat your car purely as an investment, you need have no more involvement with it than you would with, say, wine in a bonded warehouse. It's even possible to arrange to have a certified model or photograph of your car to display at home. And if, on occasion, you want to have your car parked outside your house, use it for a weekend away, or take it to one of the many motoring or owner events, this can also be arranged.

If you'd like to know more about the possible investment opportunities available, or even take the plunge into the fascinating and rich world of historic cars, contact a specialist dealer in historic, classic and collectible cars.

Angus MacCurrach
Cotswold Collectors Cars

Contact (quoting this article):
T: 07974 694010
E: angus@cotswoldcars.com
www.cotswoldcars.com

JM Finn & Co is not able to give individual advice of this nature. Clients who wish to explore the points that this article refers to should seek advice from a specialist in relation to their own personal circumstances.

ELECTROCOMPONENTS

James Godrich, Research Assistant

PRICE
£4.95

52 WEEK HIGH-LOW
£5.19–£2.27

NET YIELD
2.39%

HIST/PROS PER
45.2–25.1

EQUITY MARKET CAP
£2,166m

Electrocomponents describe themselves as a high service distributor for engineers. This means they stock and distribute more than 500,000 different electronic and industrial products, many of which require a skilled salesforce to service their global customer base.

New management joined the firm on April Fool's Day 2015 and so far they have proven to be anything but. Where previous management had become unengaged and uninspiring, the then new CEO, Lindsley Ruth set about correcting some of the mistakes of the past.

The first important decision to make was whether Electrocomponents was to be an international company domiciled in the UK or a UK company with some international operations; Ruth chose the former and appointed an executive board to suit.

Since then they have begun a wider reform, aggressively taking out costs by removing a layered management system, putting the customer back at the heart of the business by monitoring a Net Promoter Score and mobilising the existing sales force through the introduction of financial incentive schemes.

Initial results have been extremely impressive but what is striking is the number of opportunities that still remain for Electrocomponents to continue to brighten their ever optimistic outlook.

Please read the important notice on page 2.

NEW CLIENT PORTAL LAUNCHED

Building on the personal service that marks JM Finn & Co out amongst many of our peers, we recognise the need to have a top-quality online facility that meets our clients' needs from both a communication and a convenience standpoint.

Having been an early mover in the provision of online portfolio valuations for our clients (available since 2000), we are constantly looking to ensure these services meet our clients' changing needs, whilst reflecting industry best practice and ensuring we do not compromise our clients' privacy and data security.

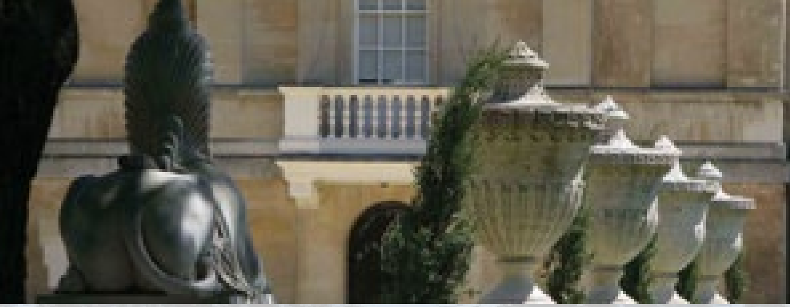
We have recently launched a brand new online client portal which we believe provides a clearer and more usable interface with your accounts. Account and portfolio values can be viewed (as at the previous night's close) and individual stock transactions are fully itemised with the ability to drill down to a chart detailing the stock's price history (delayed 15 minutes).

We believe one of the key functionalities will be the personal library. We launched the library in 2014 and have now enhanced it to make it more user friendly: allowing you to view all your personal account documents in one place, securely. From periodic reports, contract notes and custody statements, all the documentation relating to your account is posted to your personal library where you can view, print or download it.

For existing users the login details remain the same – but if you are not one of the 10,000 account holders that already has a login set up, contact your investment manager who will arrange for the details to be sent to you.

Features

- Available on your desktop computer, laptop or download our app from Google Play or the App Store
- Send and receive secure messages to your investment manager
- View the current value of your portfolio
- Access the transaction history and cash statement
- View a consolidated holdings report, by family group or by individual portfolio
- View, download and print all your account documentation for the last 3 years from your personal library
- Personalise and manage your alerts for when new documents are posted to your personal library
- Access historical price movement charts for FTSE 350 equities
- Keep updated with the latest JM Finn & Co news and market commentary
- Two factor access details to help safeguard your privacy
- One-touch dialling from your smart phone to your investment manager
- Secure log-in from your smart phone or tablet (if available) via biometric identity check



JM FINN & CO ANNOUNCES NEW SPONSORSHIP

The Telegraph Festival is the 'bringing to life' of The Telegraph: a summer celebration of the expert opinion and unrivalled insight offered across music, gardening, food, drink, politics, travel, culture and the arts. The Telegraph's award-winning writers and talent from an array of interesting sectors will be part of a stellar line-up, along with handpicked exhibitors offering the 'best of the best'.

The Festival will be held on the 1st-3rd September at Chiswick House in West London. With its 65 acres of glorious Grade I listed gardens in the heart of London, and an 18th-century house, it is an ideal venue for this quintessential celebration of summer.

Steve Clark, Festival Director, commented, "We're delighted to have JM Finn & Co on board for the launch of The Telegraph Festival later this year. We're creating a must-attend summer event that celebrates our much-loved talent and content, with celebrity and musical appearances that will delight our guests across three days. Add in a farmer's market, cider, beer and bubbles, pop-up restaurants and a myriad cultural, arts and crafts experiences and we're wishing this winter away!"

JM Finn & Co will be the headline sponsor and is working closely with The Telegraph Festival team to curate a programme with special appeal for our clients.

If you are interested in attending the Festival, please pre-register at: jmfinn.com/telegraphfestival or contact your Investment Manager.

NOMINATED AGAIN

We are delighted to report that JM Finn & Co has again been shortlisted for the Best Discretionary Service at the City of London Wealth Management Awards 2017, having been the winners in 2016.

An independent panel of judges has determined a shortlist of companies, which then feature as the nominees in the public voting forum, with the winners announced at a dinner at The Guildhall in March.

Now in its 11th year, The City of London Wealth Management Awards reward and promote regulated investment companies and individuals who the judges believe genuinely deliver quality of service. These prestigious awards are centred on independence and they celebrate the achievements of wealth managers who are shaping the future of the industry.

COLWMA
NOMINEE 2017

KEEPING IT IN THE FAMILY

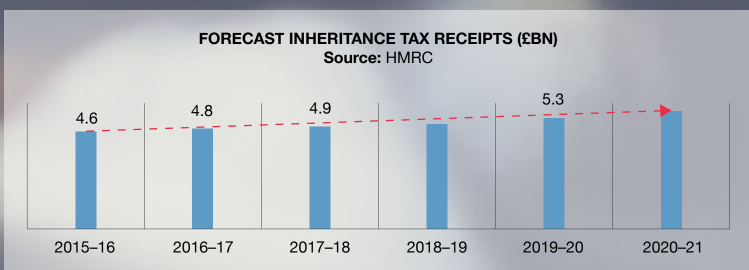
An inheritance tax overview

Anna Murdock, Head of Wealth Planning

With inheritance tax receipts reaching record highs and set to carry on climbing, it is little surprise that death and taxes have long been considered the only certainties in life. But with careful planning there are ways to limit your tax burden and pass on more of your wealth to your family, particularly now that the rules are changing.

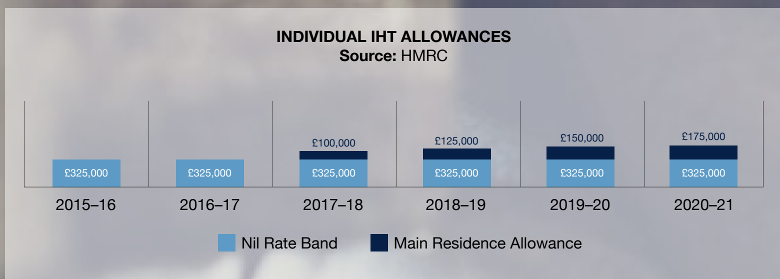
Persistent increases in the value of property, particularly in the south-east of England, coupled with recent record high valuations for equity markets and a frozen IHT allowance, means that the portion of families affected by inheritance tax (IHT) has reached a 35 year high according to the Office for Budget Responsibility. This is a trend which shows no signs of abating. HMRC accounted for £4.7bn of IHT receipts in 2015/16, 22% higher than in 2014/15, with official forecasts anticipating this number will reach £5.6 billion by 2020/21.

However, with some personalised advice, to navigate the complex rules and the implementation of appropriate planning strategies, the impact of IHT can be reduced in order to preserve your legacy for your chosen beneficiaries.



IHT is payable at a flat rate of 40% on estate assets in excess of £325,000 (known as the nil rate band) for a single person. Any estate assets that are transferred to a spouse qualify as exempt transfers. Additionally, any unused portion of the nil rate band can be transferred to the estate of the surviving spouse (effectively increasing the nil rate band to £650,000 for the last surviving spouse).

An important change to the IHT rules, which takes place from 2017/18, is an increase in the nil-rate band to include an additional main residence allowance of £100,000 when the residence is passed on to direct descendants (increasing to £175,000 by 2020/21). The new relief is reduced by £1 for every £2 of value in excess of £2m.



Ways to mitigate inheritance tax

Some IHT mitigation strategies are simple whilst others are more complex. The most effective and appropriate strategies deployed by you, to avoid HMRC becoming one of the largest beneficiaries of your estate, will depend on your individual circumstances. Outlined below are a few smart strategies that should be considered when looking at your overall situation.

Do you have a valid Will and have you considered a Lasting Power of Attorney?
Whilst arguably the most pivotal component to any considered IHT plan, making a valid Will and considering a Lasting Power of Attorney is unfortunately often delayed or overlooked altogether.

Dying intestate (without a valid Will) can unwind the best intentions regarding IHT planning; so a valid, up-to-date and professionally drafted Will should form the foundation of any IHT strategy.

Should you make a gift?
Gifting assets, such as cash, securities or property, during one's lifetime is one of the simplest methods of reducing IHT liabilities.

An estate can pay IHT at a reduced rate of 36% on some assets if you leave 10% or more of the net value of your estate to a registered charity via your Will. Additionally, individuals can give away £3,000 worth of gifts each tax year without them being added to the value of your estate. If you haven't used your annual exemption from last tax year, you can carry it forward and use it this year.

- IHT is payable at a flat rate of 40% on estate assets in excess of £325,000 (known as the nil rate band) for a single person or £650,000 for a couple
- IHT nil rate band to remain frozen at £325,000 until April 2021
- HMRC IHT receipts reached £4.7 billion in 2015/16: 22% higher than in 2014/15
- The number of families affected by IHT is at a 35 year high
- IHT is due six months after the end of the month in which the deceased died. In certain cases it is possible to pay by annual instalments over 10 years

Other exempt gifts include wedding or civil ceremony gifts, normal gifts out of surplus income, payments to help with another person's living costs, and/or gifts to charities or political parties.

Most other gifts made during your lifetime are 'potentially exempt transfer', meaning that they are free of any IHT liability if you survive seven (7) years after making the gift. Gifts made three (3) to seven (7) years before death are taxed on a sliding scale known as taper relief.

Have you considered a Trust?

As the new Duke of Westminster would stand testament, the benefits of trusts are that they can be designed so that the assets held therein do not form part of an individual's estate, thus providing the ability to pass on an enduring legacy free from IHT. Trusts may be used in conjunction with other IHT planning measures, such as gifting of surplus income.

The use of trust structures can yield substantial benefits but need not be reserved solely for the use of nobles. Typical trust structures employed for IHT purposes include:

- Discretionary Trust
- Absolute/Bare Trust
- Discounted Gift Trust
- Loan Trust

The appropriate trust solution depends on individual requirements, such as:

- The need/desire to retain access to income and/or capital from the trust;
- The ability to make large trust contributions (i.e. in excess of the £325,000 nil rate band) without incurring an immediate tax charge; and
- The flexibility to alter the beneficiaries of the trust.

How can Business Property Relief shelter assets from IHT?

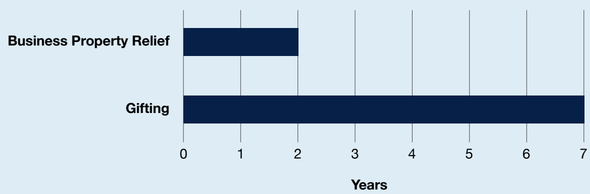
Business Property Relief (BPR) was introduced in the 1970s, initially to help owners of family businesses keep it in the family as the business passed through the generations.

Shares held in BPR qualifying companies can be left to beneficiaries free from IHT, provided they have been held for at least two years at date of death.

Importantly, some of the shares that trade on the Alternative Investment Market (AIM), a sub-market of the London Stock Exchange, as well as the NEX Exchange Growth Market qualify for BPR.

Whilst investing in a BPR qualifying portfolio via either of these two markets carries higher risk characteristics than other IHT strategies, the speed at which IHT exemption is gained can offer benefits over a traditional gifting strategy. Additionally, assets are not locked up and can be accessed any time, so if circumstances change you can withdraw your funds, subject to the liquidity of the underlying investments, albeit without qualifying for BPR.

SPEED OF IHT RELIEF
Source: JM Finn & Co



Refocusing on pensions

Pension reforms have made it more attractive to pass on retirement savings. From 6 April 2015, wealth accumulated within pensions can cascade down the generations – or to anyone else of your choosing.

Under the new rules, if an individual dies before age 75, any pension benefits that are left to beneficiaries may be taken tax-free as an income or lump sum. Your beneficiaries may even opt to keep the funds invested in a pension wrapper. For death after age 75, the pension proceeds will be taxed as earned income of the recipient, which can be carefully proactively managed from a tax perspective.

Using insurance proceeds to fund your IHT liability
Insurance policies, such as whole-of-life contracts, can also be used to fund IHT liabilities. Once the IHT liability has been calculated, a policy can be written to provide for the expense. Policies are generally best structured within a trust where the proceeds are free from IHT.

Whilst this strategy can be quite simple to understand, the cost of the premiums and underwriting requirements may provide some limitations.

The points made in this article are for illustrative purposes only and if you require any assistance with any of the above opportunities in relation to your personal circumstances, contact your investment manager who can make an introduction to our specialist wealth planning team.

It is important to note that JM Finn & Co is not a tax adviser and where tax advice is required, we would look to work with your existing advisers or refer you to a trusted external tax specialist.

Action points

We would encourage you to review your current Will and Lasting/Enduring Power of Attorney to ensure that the arrangements continue to reflect your wishes.

You should contact pension provider(s) to ensure that you have an 'expression of wish' for each of your pension plans which reflects your wishes on death.

Take specialist advice on the best course of action to follow in order to provide your beneficiaries with the legacy you want.

NEW INVESTMENT MANAGER JOINS JM FINN & CO

JM Finn & Co is delighted to welcome Edward Furness-Smith to the firm, who joins us as a senior investment manager in the London office.

Edward, who had been at WH Ireland for seven years prior to joining JM Finn & Co, looked after a range of private clients, trust, pension and charity portfolios alongside his colleague, John Eastgate, who will join JM Finn & Co in December 2017, following the completion of his contractual notice period.

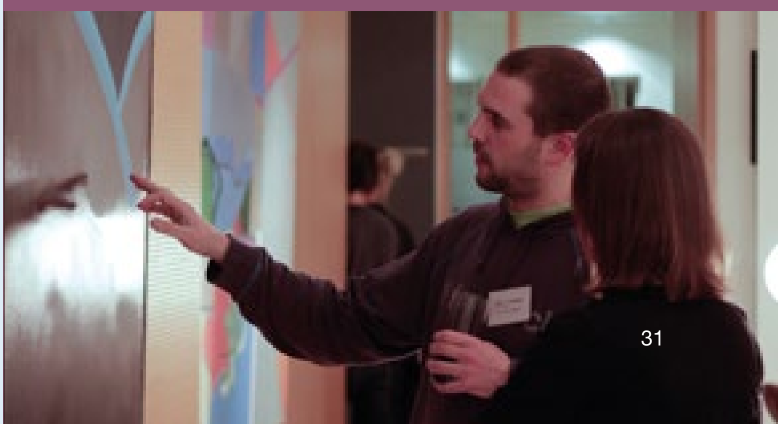
Edward began his career at PwC in 2005 before entering the world of investment management with Brown Shipley. His interests outside of work mostly revolve around watching or partaking in sport; this can range from country sports through to cricket, golf and tennis to the less energetic bridge and backgammon.

ROYAL ACADEMY SCHOOLS COME BACK TO 4 COLEMAN STREET

Now in the sixth year of our partnership with the Royal Academy, we are excited to be again showcasing some of the work of the students of the RA schools.

Curated by Eliza Bonham Carter, Head of the RA Schools, this exhibition will run for the month of May within our offices at 4 Coleman Street, London. All the works will be available for purchase and will be sold commission-free, thus providing financial support direct to the artist to help them during their three year Fine Art postgraduate course. It also provides the students with invaluable experience in exhibiting their work.

This, our fifth such exhibition, will be an opportunity to experience the talent that the schools produce and get an insight in the future of the wider art world.



Asset Allocation in 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.

FIXED INCOME

UK Government Bonds – Conventional gifts	We see the re-emergence of inflation as a topic in the US and think that the same drivers will arise here. We prefer shorter dated index linked for the time being.
UK Corporate Bonds	Investment grade bonds with the shortest maturities are preferred, within the constraints of income requirements.
UK Government Bonds – Index linked gilts	As with conventional gilts, we prefer shorter dated index linked bonds. GBP weakness will only work to boost inflation.

UK EQUITIES

UK Financials	The sector could benefit in the short term from the strength of the UK economy.
Consumer Goods	We like this sector for its defensive qualities and some opportunities are emerging.
Oil & Gas	Given the unfavourable supply/demand dynamics we do not expect any improvement until we see concrete production cuts announced.
Consumer Services	Some interesting opportunities in Media and Leisure exist.
Industrials	Selective opportunities still remain in the sector that should benefit from weaker sterling.

OTHER EQUITIES

US	We are now positive on North America thanks to the reflationary political situation and an improved earnings outlook.
Europe	Upcoming political events and the potential for sterling strength lead us to be cautious here, with the banking sector concerns likely to overshadow the markets. We are cautious also on the Swiss Franc.
Japan	We have little conviction as to Japan's economic outlook and subsequent policy response.
Asia/China	There are signs of the economy stabilising but we remain cautious on a potential US rate rise and its effects.
Emerging Markets	We remain generally positive on emerging markets but some caution required due to recent strength.

ALTERNATIVES

Property	The preference remains property companies rather than open-ended funds, but caution on liquidity.
Absolute Return	Exposure might be appropriate given current market conditions. We suggest caution on the "yield hunt" and are wary of lower quality products.
Infrastructure	As with absolute return, investors should be cautious when looking for yield and pay close scrutiny to the quality of the investment product.

ASSET ALLOCATION: A SNAPSHOT

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.

KEY

Positive Neutral Negative

NMC HEALTHCARE

John Royden, Head of Research

PRICE
£17.74

52 WEEK HIGH-LOW
£18.00–£7.85

NET YIELD
0.28%

HIST/PROS PER
39.2–31.7

EQUITY MARKET CAP
£3,628m

NMC runs hospitals and chemist shops in the United Arab Emirates (UAE) with a 25% market share in a population that has grown from 200,000 in the 1960s to over ten million today. Health insurance is being mandated by legislation.

Their fertility clinics are growing sales at 20% per annum on a $8k per cycle price point. Their long term care beds for Arabia's aging population cost $500k per annum compared to $1 million in USA.

NMC's Distribution division trades in pharmaceutical products and equipment and benefits from UAE laws which require a 51% locally owned business to distribute in the UAE. This gives NMC the negotiating power to contract for exclusive distribution rights for a broad range of medical products, such as Lipitor and Nivea.

NMC has expanded by acquisition as well as organically. Since 2012 the company has added 410 new hospital beds in three UAE based hospitals. This growth feeds through to the financials; 2015 revenues increased by 36.8% and EBITDA increased by 46.7%.

They are now branching out into Saudi Arabia and Europe with the latter appearing to be an extension to their fertility clinics designed to allow couples to dodge the Islamic restrictions on donors.

Please read the important notice on page 2.

ANDREW BANKS

LONDON

Lives Sevenoaks, Kent

Family Married to Sam, daughter Bella (25) and son Charlie (21)

Education Business Studies graduate

Started at JM Finn & Co 2012

Current Position Senior Investment Manager

Interests Skiing, cycling, watching rugby, music

Favourite gadget My iPad

First job Investment manager at Hambros Investment Management

Hero Jonny Wilkinson

As the manager of IHT mitigating portfolios, you are limited to investing in UK equities only; what's your current view on the UK equity market?

Generally I am optimistic; in spite of the ongoing political uncertainty following the Brexit vote many companies are growing strongly and look attractive investments. As with the main market, certain stocks on AIM look very fully valued but the beauty of AIM is that it is under-researched and there are always good opportunities around.

How did you end up managing AIM portfolios?

I began managing retail smaller company funds in the late '80s and then when AIM launched in 1995 I started to concentrate on tax efficient private client portfolios, including for the purposes of reducing IHT.

Your core investable universe is the Alternative Investment Market (AIM) – how has AIM developed over your career and where do you see the pitfalls?

AIM used to have a somewhat poor reputation but over the last few years the regulatory controls have been significantly improved which, when combined with recent innovations such as ISA eligibility and the removal of Stamp Duty, have hugely improved the perception and credibility of the AIM. There will still be problem companies but the key, as always, is to use one's experience to pick the right stocks and limit the downside. Of course, the nature of the market means AIM stocks are high risk investments, which is why my clients look to me to manage such portfolios on their behalf.

What are you looking for in an AIM-listed stock?

Our criteria are pretty straightforward; we look for experienced management teams running established, profitable, cash-generative, financially strong and dividend paying businesses with good prospects for growth.

How do you determine when to sell a stock?

This is always the most difficult discipline but I am a great believer in backing the right businesses and sticking with them for the long-term. I try to sell if/ when a company has exhausted its growth opportunities but in many cases this never happens. Of course, if they are too successful and get promoted to the main market, then we become forced sellers as the stock would no longer qualify for Business Property Relief (BPR) and therefore be liable to IHT.

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