JM FINN

No.28 *Autumn 2019*

Prospects

The JM Finn Quarterly Periodical

G7 discord
Has geopolitical risk increased?

School fee funding
Considering the risks

Boris the bold
Impact of spending on interest rates

No.28

Autumn 2019

Equity prospects
JM Finn's insights into companies 07, 11, 17, 37

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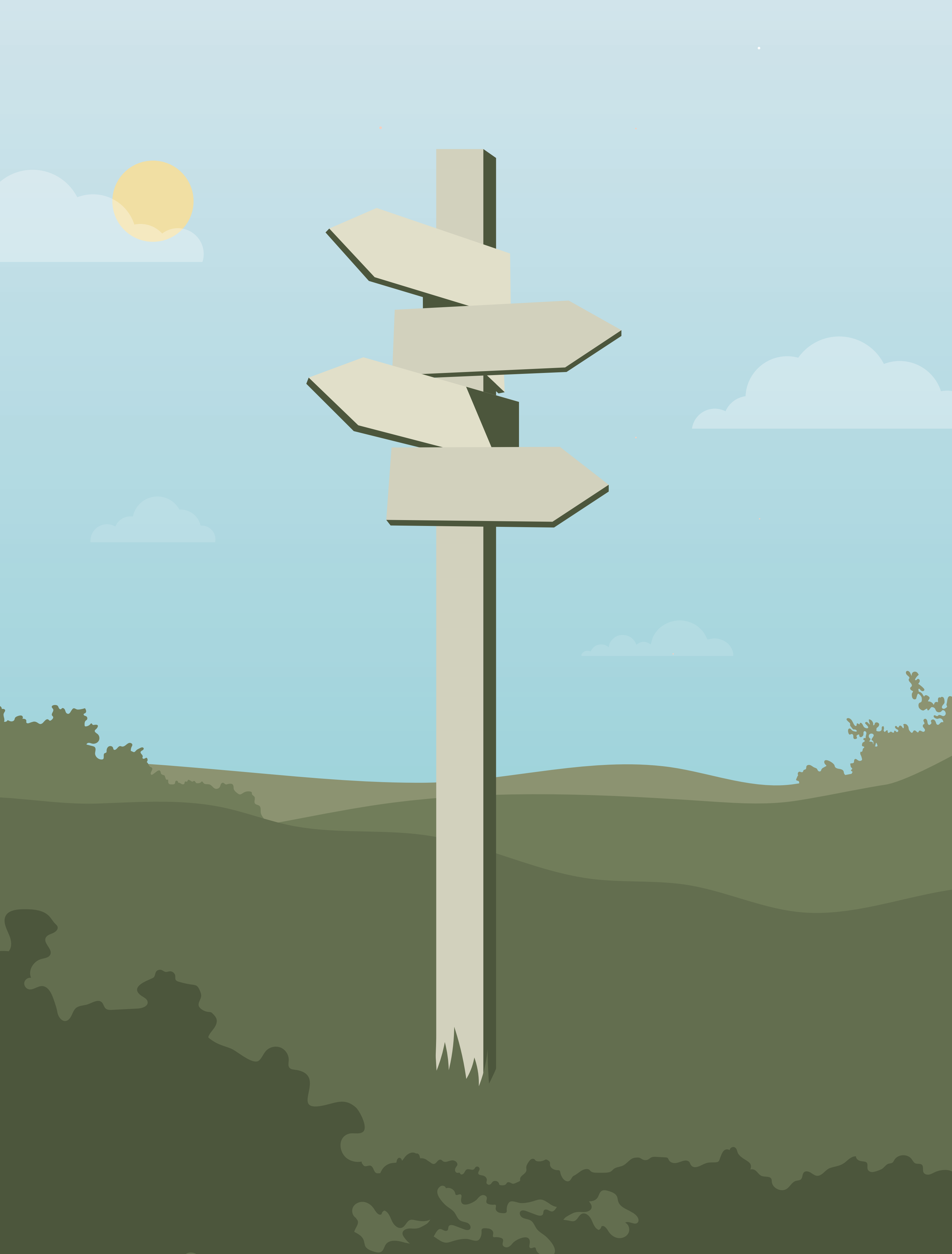


Welcome

You will notice a Hampshire theme running through this edition of our client magazine, which is in celebration of the opening of our latest regional office in Winchester. Opened officially in September, we have five investment managers based there looking after nearly £700m of client assets, adding to our four other regional offices in Bristol, Bury St Edmunds, Leeds and Cardiff.

This latest addition to our branch network demonstrates our commitment to serving our clients to the best of our abilities and growing our reach as we look to help clients on more complicated financial matters such as pension planning, estate planning and inheritance tax mitigation. We are increasingly seeing a need for wealth planning led strategies and enhancing our regional presence will help us get closer to our client's network of trusted advisers. More detail about the new office can be found in the news section.

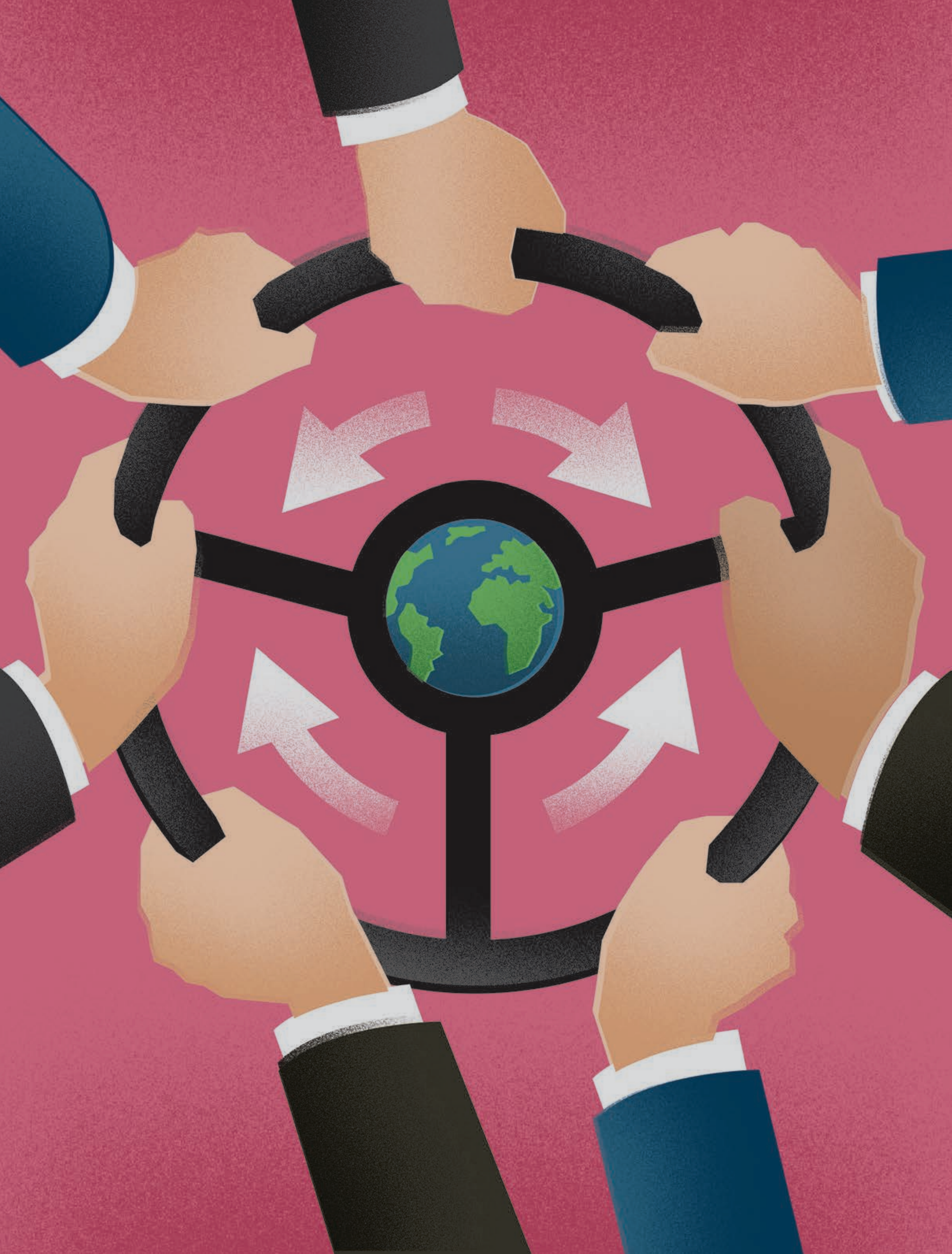
I am also delighted to announce a new sponsorship that we have participated in. The Affordable Art Fair is celebrating their 20th anniversary in October and we are excited to partner with them for their Autumn fair in Battersea, London. With over 100 galleries exhibiting contemporary works we hope to continue our association with the arts and build on the mission to make contemporary arts accessible to everyone. Information about how to get tickets can be found on page 21.

Turning to markets, we've seen a hesitant UK market over the last year showing a modest return but the only reasonable returns have come out of the United States, dominated by half a dozen technology companies. Many readers will be aware of the economic trends which are causing market uncertainty but the main issues have been the US/China trade war, a slowdown in economies on both sides of the Atlantic and resultant effect that can have on emerging markets, a slowdown in China as a result of the trade war and worries about Brexit in this country.

In the UK we obviously have significant political concerns with regard to Brexit, which has led to the valuation of domestically rated companies to be significantly below international companies. One could say that many international companies are more than fully valued at this point and many of these remain core holdings in clients' portfolios, such as Diageo and Unilever. In recent months, we have seen a significant number of takeover bids by American and Far Eastern companies of asset backed British situations, taking advantage of the high levels of their currencies compared to the Pound.

I suspect this will continue whilst British assets remain so cheap and my belief is, once Brexit is out of the way, if the political situation has calmed down and we do not get an extreme, unexpected shock, a flood of money could come back to the UK, particularly investing in domestic assets, whether it be commercial property, residential property or companies orientated towards the United Kingdom.

James Edgedale
Chairman



Editorial

Ruled by G-zero

By John Royden
Head of Research

Illustration by Adam Mallett

A decade ago I used to think the world was in pretty good hands. By and large, the G7 and G20 gatherings seemed to be steering the world in a united direction that was economics-text-book positive. The G7 is Canada, France, Germany, Italy, Japan, United Kingdom and the United States plus an EU representation. Together the G7 represents about 40% of global GDP. The same coordinated leadership used to be true of the G20 which includes China and Russia and which covers 90% of our planet's GDP.

But more recently it has started to feel as if we are run by G -zero. There are ever increasing levels of discord, disagreement and angst. With no cohesive control of direction at the G-summits, it is easy to conclude that the risk of a geo-political crash has increased. Collective ideas and objectives that once united the world's nations and which drove a common purpose and direction have fallen away. Is there anybody or any cohesive ideology still at the G-something steering wheel?

The cracks appeared when Russia invaded Crimea in 2014. That in turn drove a raft of anti-Russian sanctions including bans on exports of oil and gas technology, bans on lending to Russian oil companies and state banks and travel restrictions on the influential Russians. Russia responded with a total ban on food imports from the EU, United States, Norway, Canada and Australia. But that was not enough to stop Russia and Germany building a Baltic pipe line (Nord Stream) for Russian gas into Europe and this then irritating the Americans who started complaining about their NATO contributions. Russian gas that once flowed through the Ukraine into Europe will change its path, reduce fees paid to the Ukraine and perhaps weaken the country yet further. A weaker Ukraine is a temptation for a territorially aspirational Putin.

The well-publicised trade wars between the US and China have clearly split the US and Chinese governments, but again we have spill over. Ever since the Canadians arrested Meng Wanzhou (CFO of Chinese tech firm Huawei) the Chinese have sentenced two Canadians to death for drugs offences and arrested another two businessmen: Korvig and Spavor. The trade war has rolled into metal tariffs between the US and Canada in addition to the trade spat with Mexico (both of which are now settled). Trump has also found himself given to making threats over the cost of medicines to the UK's NHS and tariffs on French wine. With trade sanctions being all the rage, Japan has been dragged in, with the US threatening 25% tariffs on Japanese car imports. The same is true of US vs Europe on the car front; and indeed on the genetically modified foods, Airbus subsidies and large fines and taxes on US companies fronts. Google has just been fined $5 billion by the EU and if you remember, Apple ended up paying €14.3 billion to Ireland in illegally avoided taxes. Trump's complaints just divide the West further. Japan has now actively joined the fray and decided to have a go at Korea with restrictions on exports to the country.

> **Apple ended up paying €14.3 billion to Ireland in illegally avoided taxes**

Territorial disputes abound. India and Pakistan argue over Kashmir and occasionally shoot at each other. The Japanese defend their Senkaku islands from China whilst at the same time they pursue Russia to hand over the Kuril Islands in the North. And Russia continues to have military run-ins with the Ukraine. China continues to build out its presence in the South China Sea. There are lingering pockets of ISIS with aspirations for a new Caliphate as well as ongoing conflict in Syria.

> ***"Is there anybody or any cohesive ideology still at the wheel?***

Iran and North Korea's nuclear ambitions seem to be one of the few areas that unite the rest of the world although the responses are mixed and not well co-ordinated. The US pulled out of the Iran deal and imposed sanctions unilaterally.

It is not just the G-meetings that seem to be failing. The US vs Europe debate now includes NATO and the United Nations, both under threat from reduced US funding. The EU will shrink if we brexit, leaving the Germans to slog it out against Italy and their rule-breaking run-away budget deficits whilst the rise of populism threatens more disruption and dislocation in Spain and Italy.

Alliances and groups are all under pressure and generally the news is negative. The odds of a serious failing have increased, added to which the internal politics of the largest democracy, the US, have changed under Trump. He asserts the judiciary and the FBI are politically motivated and attacks the Fed's limited rate cutting whilst contradicting state institutions. Trust in Congress has eroded under Trump and further polarisation of the public vs. politicians divide is unlikely to be positive.

So whilst these observations drive more risk into our valuation models, I do see light at the end of the tunnel. I think that a resolution of the trade is in the interests of both China and America. China would rather not be stimulating its economy to make up for lost trade and Trump would like an increase in confidence and business to boost his chances at the next Presidential election. That would once again allow the emergence of a co-ordinated, structured and widely supported consensus at G-summits.

Understanding Finance
CASH FLOW OR NET PROFIT?

Michael Bray
Research Analyst

The accounting industry hasn't always had the best reputation for providing financial transparency, but its origins are based on providing consistency to company reporting. Given the millions of businesses that exist, imposing the same universally stringent accounting practice on every company would not however help in this endeavour. Modern day accounting standards therefore allow companies scope to 'express' the underlying economic realities of their business in a given year, and when used properly, can be very useful.

Company A builds a factory in a year for £1 million. It expects this factory will last ten years and produce a consistent economic output each year. Under an accounting practice called depreciation, rather than recognising the entire cost on its profit and loss statement on the year of construction, it evenly recognises a cost of £100k each year for the next ten years. Now this makes perfect sense, as the cost is spread across the economic life of the factory, but depreciation is one of the many accounting practices which is open to manipulation. Rather than stating its factory will be used over a ten year period, Company A could say that it will be used over twenty years. This would mean that only £50k of costs are recognised each year and would result in net profits being artificially boasted. Net profit is therefore an accounting construct of profitability which can be manipulated.

Fortunately we have the cash flow statement, which is a lot harder to game as it only accounts for the cash which has come in and out of the business in a given period, the purest measure of profitability. Although cash flow can be lumpy – think large cash outflow on year of a factory purchase – by analysing it over a period of time we can determine whether a business is making more money or not. So the phrase "cash is King" is pretty apt. Bear this is mind next time you read about soaring net profits, but fails to mention cash flow.

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BANK OF AMERICA

John Royden
Head of Research

PRICE
$27.73

52 WEEK HIGH-LOW
$31.37—$22.66

NET YIELD
2.2%

HIST/PROS PER
9.7—9.8

EQUITY MARKET CAP (M)
$258,119

Bank of America, as the name suggests, is an American bank through and through. Close to 85% of revenues and profits come from America and its 210,000 employees staff its 5,000 branches across the US.

The big question for investors is what is going to happen to US interest rates going forward? NIM or "net interest margin" is the issue. Banks have traditionally relied on a bid / offer spread of loans vs. deposits of c4%. That is to say banks would pay you 4% on your deposits and lend money at 8% for example. As the loan rate declines to closer to zero, Bank of America is unable to charge negative interest rates on deposits because customers are then incentivised to hold cash. Although it must be noted that Swiss bank, UBS is currently trying negative rates on large deposits.

My view is that inflation is going to re-emerge in the US and that this will lead to interest rates going higher after this round of monetary relaxation. Inflation is probably coming because Trump will want a trade war victory before the next election and this will be a stimulus for a very low unemployment economy and put upward pressure on wage and then CPI inflation. Once this interest rate cutting cycle is done, I think that higher rates should drive higher net interest margin at the bank.

Please read the important notice on page 1.

Guest Editorial

The Rebirth of Our Nation

By Dr John Crook, *Consultant Archaeologist*

Illustration by Matt Glasby

Winchester Cathedral is one of the nation's greatest treasures and takes its place alongside outstanding examples of European architectural and historic heritage. Recent exciting discoveries could place Winchester Cathedral at the birth of our nation.

Winchester Cathedral has six mortuary chests, painted wooden caskets which are displayed high on stone screen walls either side of the high altar area. These mortuary chests are the last in a series of similar arrangements for the safekeeping of the remains of many important kings and bishops who were originally buried in the Anglo-Saxon cathedral known as Old Minster, north of the present cathedral.

The mortuary chests are believed to contain the pre-Conquest remains of kings and bishops but it had long been known that the bones were jumbled rather than individual skeletons. Part of this confusion goes back to 1158 when a first group of royal and episcopal remains, reburied for a time after the demolition of Old Minster in 1093–4, were put into lead caskets near the high altar. A contemporary chronicler noted that 'kings were mixed with bishops, and bishops with kings'.

A second group of royal bones, which had been reburied with greater care in the quire of the Norman cathedral, were later put into individual chests, but they seem to have been particular targets for the Roundhead soldiers who ransacked the cathedral in 1642 at the start of the English Civil War, so further mixing of the bones took place. Although the chests bear inscriptions stating who was supposed to be within them, it was clear they bore no relation to the actual contents—and the names of other individuals also said to be in the chests are known only from antiquarian writings.

The earliest recorded names are Cynegils, the first Christian king of Wessex (died c.641), and Bishop Wini, first bishop of Winchester; the latest include King William Rufus, famously killed in the New Forest in 1100. Other famous individuals thought to be in the chests are King Ecgberht and his son Ethelwulf, father of Alfred the Great, and Archbishop Stigand who appears on the Bayeux Tapestry.

The conservation of the mortuary chests, which began in 2012, provided an opportunity for the scientific analysis of the contents for the first time. A major development in 2015 revealed that the bones were from the late Anglo-Saxon and early Norman periods, thanks to radiocarbon (C14) dating on selected fragments by the Radiocarbon Accelerator Unit at the University of Oxford. These findings confirmed that the bones date from the same periods as the names on the chests, which include eight kings, two bishops and one queen, rather than being the result of later activity within the Cathedral.

> *Kings were mixed with bishops, and bishops with kings.*

Since 2015, a team of biological anthropologists at the University of Bristol have continued working on the project to assess the likelihood of whether the human remains in the chests relate to the historical burial records. This process involves recording the contents of the chests and determining the number of individuals represented, along with their sex, age at death and physical characteristics. The researchers reassembled over 1,300 human bones, with each bone carefully measured and recorded, and at least twenty three partial skeletons reconstructed, a remarkable finding in itself since it was originally believed that the mortuary chests contained the remains of no more than fifteen people.

The results of the radiocarbon dating were calibrated by estimating the 'marine reservoir' effect for each sample, since high status individuals ate large quantities of fish from the rivers and the sea which contain older radiocarbon. The age of the individuals was also determined by dental formation and attrition, changes to the bone surfaces and the closure of the cranial (skull) sutures. The skeletons were reassembled on the basis of bone appearance and the estimated size and age of the individuals.

The ability to identify the sex, age and physical characteristics of these individuals has resulted in some exciting discoveries, including the remains of a mature female dispersed within several chests. It is not yet certain, but these bodily remains could be those of Queen Emma, daughter of Richard I, Duke of Normandy, the wife of two successive Kings of England, Ethelred and Cnut, and the mother of King Edward the Confessor and King Hardacnut.

Queen Emma

Emma (d. 1052) was one of the most significant and best recorded of Anglo-Saxon queens. She is the only one for whom we have contemporary portraits and who commissioned a history to record matters from her own perspective. This work, the Encomium Emma Reginae, praises her beauty and wisdom, and compares her with notable women in Latin classical works as well as providing a decidedly objective overview of court politics during her lifetime.

Emma was the daughter of Duke Richard I of Normandy and came to England to be the second wife of King Æthelred the Unready in 1002. Æthelred died in 1017 and in the following year she married the young Danish King Cnut who had taken over control of England from the West Saxon dynasty of her first husband. After Cnut's death in 1035 she based herself in Winchester and campaigned for the succession of her sons Harthacnut (1040-2) and Edward the Confessor (1042-66), fathered respectively by Cnut and Æthelred.

The bishop of Winchester was one of her supporters and Emma was generous in gifts of land, treasure and relics to the two major religious houses in Winchester, the Old and New Minsters. Her major holding in the High Street of Winchester, the manor of Godbegot (currently ASK pizza) was left to the cathedral (the Old Minster). She was remembered there as a major patron, but like many powerful women she also attracted negative gossip about adultery with a bishop of Winchester and involvement in the murder of another of her sons. Such charges are unlikely to be true, but Emma did have a difficult path to steer between different factions at the royal court, and her son Edward felt she had not done enough to promote his claims to rule on the death of Cnut.

The continuing research is deepening our understanding of the early Anglo-Saxon kings and queens of England, and visitors can find out more about the project as part of Winchester Cathedral's landmark National Lottery Funded exhibition Kings and Scribes: The Birth of a Nation.

Kings and Scribes: The Birth of a Nation marks the culmination of an eight year project to unlock the Cathedral's stories and treasures. Included within the four new galleries is the Winchester Bible as well as the story of the Cathedral itself, linking modern restoration works and contemporary craftspeople with their medieval predecessors. The permanent exhibition is open daily.

To learn more visit www.winchester-cathedral.org.uk

Emma's marriages were momentous in another way as they brought her Norman relatives into a closer involvement with Anglo-Saxon affairs. One unlooked for consequence was that her great-nephew William invaded and conquered England in 1066. Emma herself died in 1052 and was buried with Cnut, Harthacnut and other relatives in a burial area in Old Minster that she had probably played a major part in designing. The Norman rulers were keen to empathise their links with the earlier royal houses and this helps explain why the remains of Emma and many of the West Saxon and Anglo-Danish rulers were moved from Old Minster and into the new cathedral where they are still to be found.

Professor Barbara Yorke, Emeritus Professor of Early Medieval History, University of Winchester.

DIPLOMA

Michael Bray
Research Analyst

PRICE
£16.47

52 WEEK HIGH-LOW
£16.74—£11.44

NET YIELD
1.6%

HIST/PROS PER
32.0—25.9

EQUITY MARKET CAP (M)
£1,846

Diploma PLC is a holding company comprised of a number of international operating businesses. These specialise in the supply of consumable products and services into three distinct sectors and divisions for the Group: Life Sciences, Seals and Controls.

Products sold into Life Sciences include equipment used in blood testing. Seals and gaskets used in specialised industrial equipment are examples of products sold by the Seals division. Whilst Controls includes the likes of specialised wiring supplied to the aerospace industry. Some of these products and services might sound mundane and/or unrelated, but Diploma's track record of growing profits suggests it must be doing something right.

By focusing on supplying products and services essential to the daily running of its customers' operations, Diploma has been able to generate stable and growing revenues. The autonomy it allows its operating businesses to offer solutions that closely meet the requirements of their customers. And when combined with its responsive customer service customers typically stay sticky allowing Diploma to charge them a premium.

For all its positives, Diploma is not immune from industrial production trends. If the global macroeconomic environment continues to deteriorate, Diploma's profit growth will be negatively affected.
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.

John Royden
Head of Research

Michael Bray
Research Analyst

Maude Holloway
Trainee Research Analyst

BASIC MATERIALS
BASF, Johnson Matthey
RioTinto , Victrex

INDUSTRIALS
Alpha Financial Markets
Halma

CONSUMER GOODS
Watkin Jones

OIL AND GAS
Royal Dutch Shell

CONSUMER SERVICES
Intercontinental Hotels Group
Young & Co's Brewery

UTILITIES
National Grid
Pennon Group
United Utilities Group

FINANCIALS
Bank of America
Derwent London

1.

Derwent London

Price **£31.26**
52 week high-low **£33.52 – £27.45**
Net Yield **2.2%**
Hist/Pros PER **15.8 – 30.2**
Equity Market Cap **£3,479m**

Financials
Paul Williams, CEO and Damian Wisniewski, FD

Derwent is a specialist property regenerator and investor in London offices, with a particular focus on the West End and areas bordering the City of London. It is well known for its design-led philosophy and houses tenants from a broad range of business sectors. It's investment portfolio currently totals c.5.7 million sq. ft. and is worth c.£5.4 billion.

Since the Brexit referendum in June 2016 London office property prices and rental growth have stagnated. This has led to sentiment turning against the sector and has caused Derwent's share price to perform poorly.

Derwent however remain positive on the London office market. They say that since the referendum over three hundred thousand jobs have been created in the capital and that they have not had a single Brexit related tenancy change. Their vacancy rate has continued to fall, and is now just 1.6%, and demand for their pre-lets has been robust; Derwent's Kings Cross Brunel building was 98% pre-let before its recent completion. They also say that an increasing amount of businesses are moving back into central London from the outskirts. Property related costs as a percentage of businesses' overhead costs has reduced substantially over the past few decades and businesses are increasingly trying to attract and retain skilled workers who prefer a central London location. Diageo was given as such an example with its planned HQ move from Uxbridge to Soho.

Management feel that the slowdown in London office rental growth is out of kilter with the rest of Europe which has continued to grow strongly since the referendum, presenting an attractive investment opportunity. They do however concede that not much will change until a clear Brexit outcome is determined.

2.

Rio Tinto

Price **£42.37**
52 week high-low **£49.77 – £32.74**
Net Yield **6.4%**
Hist/Pros PER **6.5 – 8.0**
Equity Market Cap **£71,372m**

Metals & Mining
John Smelt, Head of IR

We met with Rio Tinto (Rio) following their half yearly results, which were financially strong, driven by the highest EBITDA margins in several years but suffered some operational disappointments.

Our main focus was the Mongolian copper mine Oyu Tolgoi (OT), a vast mine in the Gobi desert close to the Chinese border. It is being developed from an open cast to a block caving mine, which involves tunnelling beneath the ore body to form a cave and then letting the roof collapse. Recently Rio announced requirements for additional capital expenditure (CAPEX) of $1.6bn on top of an original $5.3bn, and a delay of at least a further two years. The issue at OT is that the rock is softer than expected and is likely to collapse too quickly on the horizontal shaft. Rio stressed there is no problem with the resource but that they do need the correct engineering solution.

The question of where this additional CAPEX will come from is not straightforward. OT is 66% owned by Canadian company Turquoise Hill (itself 51% owned by Rio). The remaining 34% is owned by the Mongolian Government who are eager to increase their share and prevent any further delays to receiving their dividend. John stated that it is up to Turquoise Hill to plan for how this money will be raised, which raises questions around how long the process will take to correct.

The agreement with the Mongolian government continues to be a source of debate but the complexity of the mining process is in Rio's favour. Time will tell if Rio is able to pull this development off.

3.

Royal Dutch Shell

Price **£22.56**
52 week high-low **£27.26 – £22.27**
Net Yield **6.7%**
Hist/Pros PER **11.2 – 11.5**
Equity Market Cap **£180,829m**

Oil and Gas
Ben Van Beurden, CEO and Jessica Uhl, CFO

What colour do you associate with Shell? "Yellow" I hope is the answer. Well that's what I would have said until this meeting and the colour that now springs to mind is closer to green than yellow.

On an annual basis, maintenance capex for Upstream (exploration and production of oil and gas) will be $11 billion from a total Upstream capex budget of $12 billion. So there is $1 billion of growth capex for Upstream.

Downstream's maintenance capex (distribution) is $9 billion but they plan on spending an extra $6 billion on growth capex. Shell say the justification is a ROCE, or return on capital employed, of 12% as against the current ROCE of 10%. The uplift comes from efficiencies ranging from using AI, robots, autonomous subsea drilling units and digitalising the company. Ben also mentioned moving oil rig operators around to benchmark performance, as well as using forecourt sales data to enhance their retail offering to the 52 million customers registered on their loyalty scheme. That is what is driving Jessica's guidance for $50 billion of annual pre-capex free-cash flow, rising up to $60 billion over the next year or so.

Ben also said that $2.5 billion of growth capex is going towards renewable energy investment as Shell tries to dilute rather than reduce its carbon production. Shell calls its renewables "Emerging Power Themes." Shell is not on its own. Large European oil companies collectively plan to plough $130 billion into renewables between now and 2030. We may soon be asked to choose between oil companies that are trying to morph into a hydrocarbon-free world or those that are unapologetic and focussed on their business of drilling for oil.

Please read the important notice on page 1.


PSHIRE
& GARDEN
TIVAL
JM FIN
Investment | Wea
FINN
ent | Wea
HAMPSHIR
& GA
TIVAL

General Interest

Santa Montefiore

A prolific writer of beautifully descriptive novels, Santa Montefiore has sold over six million copies of her books thanks to her love of story-telling. She shared some insights into her creative inspirations at a gala evening at the Hampshire Country & Garden Festival on the banks of the River Test.

When a writing career commences with a bidding war amongst publishers it should come as little surprise that one's chosen path flourishes. Santa Montefiore first published a novel in 2001 and has just finished her 20th novel, which is due to be published in 2020. Writing a novel a year for the best part of 20 years takes discipline and rigour; traits that Santa has in spades.

Each year she hands the book in in July, so she has a schedule that she must stick to. With complicated plots she finds that putting the pen down for a week or two loses the thread, so her preferred method of writing is to plough on through, although she doesn't plan a set number of words per day, as some writers do, preferring to set a target number of chapters a week.

In her early days, she used to write alongside her husband, author and historian, Simon Sebag Montefiore but their preferred ideals for inspirational bliss were vastly contrasting. Initially they wrote around the dining table of their first flat. Whilst Santa likes scented candles and big movie sound tracks, her husband, somewhat messier in nature, prefers to blast out David Bowie tunes at full volume. That was until the neighbours complained resulting in him wearing headphones and singing like a strangled cat. This atmospheric contrast survived for five books and they now work in perfect harmony in separate offices.

Despite working to different schedules, and sound tracks, this writing duo have collaborated on a series of children's books. Inspired by their son who loved rabbits and wanted some to live under Buckingham Palace, they decided to run with the idea and create a story. Once again their writing styles clashed with Simon wanting to detail gruesome deaths of some rabbits while Santa reined in the language, and the political correctness, to make it work for the audience. Although very much a collaboration in terms of the plot, Santa is the driving force as once it's gone to the editors Simon tends to have lost interest and moves back to his Stalinesque historical books. With four in the series of co-authored books and 20th Century Fox making a movie, there is little doubt that the combination of these two critically acclaimed authors is a successful formula.

“

Nobody does epic romance like Santa Montefiore.

- Jojo Moyes

Returning to her romance novels, any author will tell you the biggest challenge is where to draw inspiration from, for both the plot and the characters.

Santa reads books and watches classic movies for inspiration, citing Gabriel Garcia Marquez’s *Love in the Time of Cholera* as a huge source of creativity, thanks to its wonderfully descriptive language such that “you could smell the orange blossom”. She recently watched *Out of Africa* having not seen it for some time and returned to her desk fully inspired, claiming it felt rather like putting water on a plant and feeding the soul.

When looking for characters, inevitably you draw on your experiences but you never take someone in their entirety. Everyone you meet goes into this huge cauldron and different traits come together to create her characters. She’s adamant that no one would be able to identify themselves as a character, although she broke this rule once over a history of art teacher at Sherborne School for Girls who was overly descriptive of Michelangelo’s David, who featured in the *Butterfly Box* in his entirety.

She also once used an ex-boyfriend who had a rather strange, off-putting habit but felt confident he wasn’t going to sue for defamation of character as he wouldn’t have wanted to admit it was he who had this particular habit. But otherwise, you put all the people you meet into the melting pot and habits and traits emerge as your characters.

If you want to write negatively about someone, Santa told the rapt audience in a conspiratorial tone, its fine, as they will never recognise themselves. She once put some strong resemblances to someone fairly close to her family in a novel and received a note from said relative stating how much they had loved the book, with no hint of self-recognition.

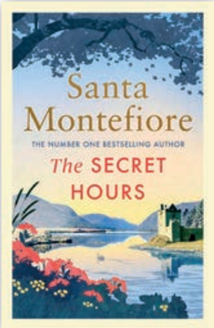
She used to get annoyed when she heard other authors suggest their characters took on a life of their own but she has come to realise they really do. And when all else fails and inspiration is lacking thanks to the dreaded writer’s block, there is one sure-fire cure: shopping!

Her instinctive style was never more evident during the writing of her most recent novel, The Temptation of Gracie which is dedicated to her younger sister, who died in 2017 a quarter of the way through. The book deals with loss and when you lose someone you do see the world in a different light. Santa suggests loss changed her. When writing you draw from your experiences and she writes from the heart so finishing the book was cathartic on one level, but it was hard to push on during such a difficult time emotionally. The positive is that she thinks the book is one of her better ones as it’s written with so much emotional integrity; she’s grateful to her sister for that. Unsurprisingly, her mother can tell exactly the point in the book at which her sister died, such is the emotional force within her story-telling.

“

Gabriel Garcia Marquez’s Love in the Time of Cholera is a huge source of creativity; you could smell the orange blossom.

With a few movie and TV projects in the works, a new publisher in the US, which will undoubtedly provoke some US book tours, and her goal of producing a book a year, it's likely we will be hearing more from Santa Montefiore. But what of her remaining ambitions? Being cast as an extra to play an old crone in the film version of the Deverill Chronicles, bringing her love of descriptive story-telling to life.



Santa Montefiore was in discussion with TV presenter, producer and editor, Khalid Aziz at the Hampshire Country & Garden Festival, sponsored by JM Finn, in aid of the Hampshire Medical Fund. Her most recent novel, The Secret Hours, was published in July 2019 and the next children's book, the Royal Rabbits of London is published in September 2019.

HAMPSHIRE MEDICAL FUND
The charity buying tomorrow's equipment today

The Hampshire Country & Garden Festival is dedicated to promoting the fun of the great outdoors and all it has to offer. It is a celebration of the benefits to our health and wellbeing of gardening for all ages, healthy eating, inspiring speakers, learning new creative skills, enjoying music plus a wonderful array of children's' activities – in the most welcoming environment, the grounds of beautiful Bere Mill on the River Test. The Festival promotes all that is great about Hampshire, from food and drink suppliers to music, workshops and demonstrations, plant experts and nurseries.

As well as a truly memorable, fun and informative experience all the money raised is going to the Hampshire Medical Fund which supports local hospitals and patients in Winchester, Andover and Basingstoke. The festival raised £55,000 for essential equipment needed by consultants in Winchester and Basingstoke hospitals which will transform the experience of breast surgery for hundreds of women in Hampshire.

ESTEE LAUDER

Michael Bray
Research Analyst

PRICE
$207.03

52 WEEK HIGH-LOW
$207.50—$121.47

NET YIELD
0.8%

HIST/PROS PER
38.7—34.7

EQUITY MARKET CAP (M)
$74,687

Cosmetics have been around for centuries but in the modern era of social media, where selfies are uploaded at breakneck speed and beauty influencers garner huge followings, interest in aesthetic wellbeing seems to matter more than ever. It is therefore unsurprising that cosmetics giant Estee Lauder (EL) has experienced stellar growth in its profits over the last few years.

EL has outgrown many of its rivals through its focus on the global prestige beauty market - particularly higher growth skin care and makeup segments - and its strong portfolio of brands that includes its namesake, Clinique and M-A-C.

Not only has EL benefitted from expanding beauty usage and product trade-up in the West, but also from emerging markets which have seen rising per capita consumption. Nowhere is this more apparent than in China which has continued to grow strongly despite recent macroeconomic difficulties and trade war tensions.

An early adopter of digital, EL has a well-developed e-commerce platform and has spread brand awareness through social media campaigns. This has helped to accelerate growth, with e-commerce now representing 15% of total sales. EL's shares are however highly valued so whether future growth can match expectations is another story.

Please read the important notice on page 1.

Economic Focus

QEII?

Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Darren Richards

Despite having worked in this industry for over half a century, I am constantly discovering words and phrases relevant to the business of investing that are new to me.

Some thirteen years ago, having left the bank that had taken over the firm for which I had worked, I broadened my reading to take in research from a wide variety of new (to me) sources. One Swiss investment bank introduced me to an investment classification I had not come across before – Sub-Prime.

In the context in which this research was written, Sub-Prime referred to mortgages in America. Put simply, a sub-prime mortgage meant there was a real risk the borrower would at some stage be unable to meet interest or repayment obligations. At the end of 2006 two US sub-prime lenders went bust. So alarmed was I by this news, I sold a fair chunk of my equity portfolio. As it happened, I was at least six months, and arguably more than double that, early.

In 2007 we had the banking crisis, but it was not until a year later that things started to get really nasty when Lehman Brothers folded and a full blown global financial crisis developed. At the heart of this maelstrom was sub-prime mortgages which had been packaged into what were known as Collateralised Debt Obligations (another new term for me), or CDOs. These had been granted high investment grades by the rating agencies but started to fail with alarming regularity, bringing down many august financial institutions with them.

The Federal Reserve Bank's response to this crisis was to introduce another term I had not heard before – Quantitative Easing, or QE. Essentially this involved printing money, though there were a number of ways in which this could be achieved. It was far from a new concept. At the end of the last millennium, the then Fed Governor, Alan Greenspan, pumped money into the banking system to head off any disruption caused by the arrival of the 21st Century. As it happened, the feared millennium bug failed to materialise, resulting in much of this cash finding its way into technology shares, thus preparing the ground for the subsequent share collapse.

Such was the success of the Fed's approach to reversing the economic downturn and restoring stability in the financial sector that other central banks swiftly adopted similar policies and interest rates around the world collapsed to near zero. Concern existed that inflation would be stimulated as a consequence, but it remained muted in the developed world to the point that some administrations actually took measures to stimulate rises in the cost of living.

A further worry developed as the Fed sought to reverse this policy and shrink its massively inflated balance sheet. Would stock markets move into reverse as money became tighter and interest rates rose? There may have been some hiccups, but it seemed as though the system that had been put in place held up well to changing circumstances. Is it any wonder, then, that central banks are looking again to QE as a means of preventing a global recession brought about by the trade wars that are taking place or are threatened?

At the annual central bank forum at Jackson Hole, Wyoming, the Federal Reserve Bank Governor, Jerome Powell, promised to "act as appropriate" to sustain growth. Already interest rate cuts have taken place and President Trump has been vocal in encouraging the Fed to stimulate the economy. Here in the UK, the Bank of England's Governor, Mark Carney, has promised interest rate cuts if a no-deal Brexit ensues. No doubt other central banks will be weighing their options if a resolution to the trade conflicts cannot be found in fairly short order.

Such a strategy is not without its downside, though. Not only have interest rates been kept low through QE, but sovereign bond yields too are at record low levels. In some cases, like in Germany, these yields are in negative territory. Debt levels around the world are staggeringly high and the buyer of last resort for these bonds is now the central bank. It remains to be seen how much longer this state of affairs can be allowed to continue – or how it might be unwound for that matter.

We are in unchartered waters, the situation at home being further complicated by the Brexit uncertainty. While some form of financial implosion cannot be ruled out, we should take encouragement from the success of the measures taken since 2008 and the greater degree of cooperation that generally exists between governments and central banks. The real risk is that no agreement between the US and China is found and that other trade spats – such as those between Japan and South Korea and potentially between the US and the European Union – escalate. We certainly live in interesting times, as the Chinese might say.


The Affordable Art Fair in partnership with JM Finn

JM Finn News

For the last 20 years, the Affordable Art Fair has been making contemporary art accessible to everyone. Conceived in Battersea, London in 1999 by Will Ramsay, the Fair is now present in ten cities globally and have been visited by 2.5 million people who have taken home over 485,000 pieces of artwork.

Battersea now hosts two fairs a year with the upcoming edition, the 20th anniversary, expected to attract over 18,000 visitors all looking to buy from over 110 galleries.

Partnering with such an established brand as the Affordable Art Fair is tremendously exciting for the firm. With a shared vision of making our services accessible to a wider audience, we look forward to working with the Affordable Art Fair to make their 20th anniversary edition, an engaging and interesting experience for all art lovers, whether first time buyers or established collectors of contemporary art.

Lying at the heart of the fair is the desire to make contemporary art accessible to everyone. Whether a visitor knows their Hockneys from their Hirsts, or simply wants to enjoy basking in the glory of beautiful scenes, the Affordable Art Fair's mantra is that everyone can be an art collector, whatever the taste and budget.

It will be an opportunity to see, fall in love with and buy art in a fun and friendly environment. The fair will be engaging for aspiring buyers, seasoned collectors and families alike, with all kinds of free talks, workshops and interactive installations taking place, as well as all of the inspiring art - in all shapes, sizes and mediums for buyers to take home and enjoy for years to come.

The fair runs from the 17th – 20th October and is open daily from 11am – 6pm at Battersea Evolution, Battersea Park, London, SW8.

Come and visit us at the Affordable Art Fair.

Affordable Art Fair

As part of our exclusive partnership with the fair, we have a VIP lounge and have negotiated a two-for-one ticket deal. To take advantage of this, please visit their website at **www.affordableartfair.com** where you can purchase tickets using the code **INVESTINART** and we will be in touch to arrange an appointment in our VIP lounge.

Collectives Commentary

Looking for economic survivors

Simon Young
Portfolio manager at AXA Investment Managers

Illustration by Jordan Atkinson

The current BREXIT impasse, a full-scale trade war between the United States and China, negative sovereign bond yields, and a slowdown in European manufacturing have been dominating news headlines. However, whilst this seemingly challenging economic background has depressed valuations for swathes of the UK equity market, lower valuations can create opportunities for those investors willing to take a longer-term view and invest in companies with high barriers to entry and can grow their dividends ahead of inflation.

The constant drip of economic data points are manna from heaven for the world's economists, often wheeled out to give their latest forecasts and predictions for global growth. Unfortunately, a recession cannot be predicted through a crystal ball. A study by Fathom Consulting examined 30 years of economic forecasts by the International Monetary Fund covering 469 recessions globally. Despite having hundreds of full time economists, the IMF only forecast 25% of recessions in the year in which the recession happened. So, while the current economic forecasts may be less than rosy, we would do well to remember that tough times do not last, but tough companies do.

Given the unpredictability of the economic environment and the difficulty of forecasting recessions our investment processes target companies that we feel can survive and ultimately thrive whatever the circumstances. In a nutshell it means looking for companies with sustainable barriers to entry. Specifically, companies that are lowest cost providers in their industry; companies that have high levels of intellectual property such as patents or brands that prevent others copying their product; businesses with high levels of repeat sales such as subscriptions or contracts which give stability to revenues in a downturn; or companies that have excellent sales networks or distribution systems allowing them to outsell their competitors.

Recessions are a necessary part of the capital cycle and as investors we must accept that they will occur at some point. We shouldn't necessarily fear them as long as the companies which we are invested in don't experience a permanent loss. We believe that by investing in the lowest cost providers, that more difficult trading conditions help to clear out the weaker and often less disciplined competitors.

The UK motor insurance market is an exceedingly commoditised industry. Over a cycle the industry generates an underwriting loss of roughly £10 for each £100 of premium it takes in [1]. Yet a niche player like Sabre Insurance prefers not to underwrite mass market risks where prices are low. It concentrates on keeping its costs to a minimum and insures in those areas where others fear to tread such as younger drivers or drivers with impaired records. It charges an appropriate price that compensates for the incremental risk. As a result, it has been consistently profitable and uses this profitability to pay an attractive dividend.

Intellectual property such as patents or unique content allows companies to protect against competitors copying their products. An example here is Games Workshop with a 30-year history of producing miniature fantasy figures used in table top gaming. It consistently brings out new designs complete with detailed back stories to delight its worldwide player base.

For some sectors, external economic conditions have much less impact on profitability than other factors. The biggest drivers of profitability in the pharmaceutical sector are the rate of new drug discovery and government pricing negotiations. Both AstraZeneca and GlaxoSmithKline have endured a difficult last ten years with sales falling due to patent expiries of major drugs. However, a change in management accompanied by renewed investment in Research & Development and recruitment of talented scientists means that we might be seeing tangible evidence from both companies that the future might be brighter. Recent trial data from several new drugs have shown improved patient outcomes across a range of cancers, chronic kidney disease, heart disease, and HIV. Better understanding of the diseases and use of bio markers also means treatments can be administered in a more targeted, patient specific manner. For governments this means reduced waste and thus more efficient use of health budgets.

We continue to look for companies that can survive whatever the economic environment. Fears of recession provide opportunity in the form of lower valuations. The UK equity market is trading at a 30% discount to its developed market peers and the dividend yield is its biggest premium to UK Gilt yields since the World War II [2]. No doubt there will be casualties from changing consumer habits and an unpredictable socio-economic environment. One just has to look at the retail sector to see the carnage that the internet is inflicting on those retailers with an over exposure to the high street. As active fund managers it is our job to try and avoid those companies most at risk from disintermediation and invest where we see businesses with strong barriers to entry and that could pay a growing dividend.

Simon Young manages the AXA Framlington UK Equity Income Fund and lives in Hampshire.

1. Sabre PLC, January 2019.

2. Morgan Stanley August 2019.

Stock in Focus

Nestlé

Michael Bray
Research Analyst

Illustration by Adi Kuznicki

Nestlé is the world's largest food and beverage manufacturer. It owns over 2,000 brands ranging from local to global icons such as Nespresso and Kit-Kat.

In recent years, Nestlé has increasingly positioned itself as a 'nutrition, health and wellness' company. Its product segments are Beverages (24% of revenue), Nutrition & Health Science (18%), Milk Products & Ice Cream (14%), PetCare (14%), Prepared Dishes & Cooking aids (13%), Confectionary (9%) and Water (8%).

Until five years ago, Nestlé was delivering an organic revenue growth rate of +5-6%. But like the rest of the sector, growth started to slow from 2012 as price increases in emerging markets decelerated, which at one point drove half of the group's revenue growth.

Changing trends in developed markets have also been a factor, with health conscious consumers preferring fresh foods and independent labels to unhealthy packaged foods from established brands.

These pressures, amongst others, culminated in organic revenue growth decelerating to +2.4% in 2017, the lowest in at least two decades.

In 2017 Ulf Mark Schneider became Nestlé's first externally appointed CEO and has since set about initiating a number of wholesale changes to rejuvenate the business. 2018 results (02/19) indicate these changes are beginning to payoff, with organic revenue growth of +3%, its first acceleration since 2011.

Schneider has sought to focus on Nestlé's businesses which have a dominant market share of growing end-markets. By doing so, this has allowed Nestlé to grow at a rate c.1% above the industry average of its categories and generate the bulk of its revenues from products with market leading positions. These markets include coffee, Nestlé's single biggest product category, which has a 25% global market share, and has been growing +4% p.a. Importantly for Nestlé, the majority of its product categories require considerable scale to operate in and have continued growth potential through a combination of geographic expansion and premiumisation opportunities.

Categories which have disappointed for Nestlé have included water and frozen foods. Water (i.e. San Pellegrino) has been a considerable drag on profitability due to cost inflation in PET (plastic) and more so in freight. In frozen foods, after a relaunch in the U.S. in 2015, Nestlé admitted it hadn't kept up with innovation and marketing, this however has been a focus of 2019 and improvements have been seen. Aside from water, most of the product issues which Nestlé have faced are within management's ability to rectify, but do take time to do so.

PRICE
CHF 113.20

52 WEEK HIGH-LOW
CHF 113.20—CHF 77.74

NET YIELD
2.2%

HIST/PROS PER
36.0—25.4

EQUITY MARKET CAP (M)
CHF 334,502

Along with increased focus on core businesses, Schneider has driven organic revenue growth through the swift disposal of underperforming/non-core businesses and the acquisition of faster/complementary ones. Notable divestures include that of the US confectionary business ($2.8B) and Gerber Life Insurance ($1.6B).

Diet-supplement maker Altrium ($2.3B) and Starbuck's retail coffee product business ($7.2B), represent two large scale acquisitions that Schneider has made, both on reasonable valuations and are currently performing well.

Another challenge, not just for Nestlé, but for all food and beverage manufacturers, is whether the scale advantages of the past have diminished. In recent years, there have been a number of new independent brands which have been quick to tap into the emergence of trends such as plant-based protein, gluten-free and organic/natural. They have also been more adept in marketing and selling to millennial consumers through social media and e-commerce models. This has impacted Nestlé in a number of areas, particularly in the US with PetCare, where they were slow in premiumising and offering natural products.

Given the size of its global operations, these competitors have only resulted in minor market share losses for Nestlé. It is however clear, that the dynamics of the industry are shifting and with it the need to be more agile and innovative.

In this regard, Schneider has made substantial inroads since his appointment. He has implemented a cultural change of embracing greater risk tolerance with a "better to fail fast" and learn mentality. This has led to a substantial cut in lead times for innovation, down from an average of 24 months to 6-9 months. The number of innovations are also improving, with new launch statistics in food showing a 20% increase in 2018, with a 40% jump in product launches linked to key trends such as natural/organic, reduced fat/sugar and environmentally friendly packaging. The picture is the same with beverages. This has allowed Nestlé to defend, and in some cases increase, its market share. Within the industry, Nestlé is regarded as the best at innovation.

Nestlé has also been increasing its consumer-facing marketing spend, such as social media. This jumped by 60% in 2017 (latest released figures), and was done without dramatically increasing marketing as a percentage of sales as agency fees were cut. Across all industries, Nestlé is within the top five global marketing spenders.

Although spending levels are not expected to rise above current levels, the cost of growth for Nestlé (and the industry) has increased over the last few years. Nestlé's scale is still nonetheless crucial in its ability to consistently innovate and position its brands at the forefront of consumer minds.

Please read the important notice on page 1.

Independent view

School fee funding – what to legally plan for

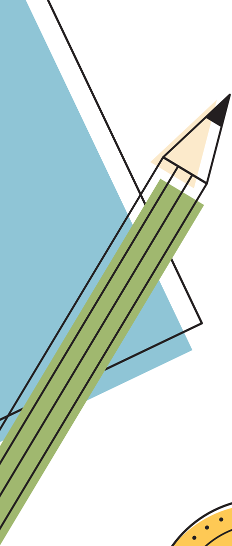
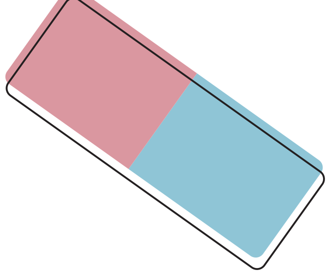
Andrew Neal
Private Client Solicitor, Godwins Solicitors

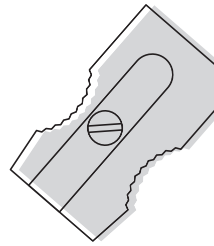
Illustration by Adam Mallett

Cost and affordability are so often the focus of planning regarding school fees, but a greater focus should be placed upon events which could have a detrimental impact. Andrew Neal of Winchester based Godwins Solicitors looks at three events which can easily be planned for, but often get overlooked or ignored.

1.

Tax and life events - Not only does the affordability need to be considered from a financial planning point, but the tax and control implications should be planned for as well. In addition, it is often grandparents who assist with school fees. For example, a grandparent could use the little-known Inheritance Tax exemption – Normal Expenditure out of Income. If structured correctly, such arrangements could mean that a grandparent could pay school fees without any Inheritance Tax consequence. Practical consideration such as: who to gift to; when and how, should all be on an agenda. In terms of whom to gift to, do they gift a sizeable gift if there is a risk of divorce? Would a trust paying school fees directly to the school or paying monies to the children be other possible solutions? If the school fees are paid to the school directly, what would occur if the said school ceases to operate, merges with another or it is simply not the right environment for that child? All these things need to be planned for.

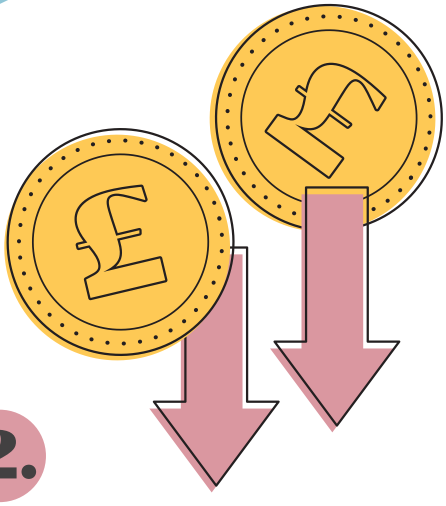





3.

Death - something that nobody likes to discuss, but a plan for the inevitable is key. The situation of leaving no Will means reliance on the law (known as the intestacy provisions). This can lead to unexpected difficulties where a couple is married, and even greater difficulties if co-habiting. For example, the intestacy provisions may well lead to adverse and unwanted Inheritance Tax consequences (i.e. an element of the estate passing to non-exempt beneficiaries – i.e. minor children) and wealth passing to children before they barely finish senior school. Although there are mechanisms within the law to alleviate such issues, they are costly, time consuming and can potentially lead to bereaved children taking other family members to court, to seek court approval for amendments.

The key consideration must therefore be a Will that would deal with such a terrible event and allow for children to receive the appropriate support and continuity that would be so desired. If nothing else, who would look after the children, if both parents die? A carefully crafted Will can easily avoid such consequences arising.



2.

Loss of capacity - something worth planning for. If school fees are to be funded from investments in someone's sole name, what would be done if that person loses capacity? A carefully drafted Lasting Power of Attorney, dealing with property and financial affairs, could so easily assist with such a scenario. A Lasting Power of Attorney may not be the only element to consider, in that it would be worth planning as to how investments are held going forwards or whether there are financial products available to reduce the impact of such a scenario arising.

There is little doubt that control, taxation and costs are key to any planning, but to fail to make any plan could have detrimental consequences for scenarios that can arise, that generally, are likely to have significant impact on any family.

The above must not be taken as advice and is generic. Advice should be tailored to an individual situation and it would be strongly recommended that such advice is sought on any of the above.

Andrew Neal is a Private Client Solicitor and Member (Partner) of Godwins Solicitors LLP. He is a member of the Society of Trust and Estate Practitioners and is a 'notable practitioner' in the current Chambers High Net Worth Guide.

Godwins Solicitors LLP is a leading Winchester-based law firm with a proud heritage dating back to 1823. We provide legal expertise and services to clients in our community, across the country and internationally. For almost two hundred years we have grown alongside our clients to create a highly sought-after service.

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The Potting Shed

The number of new businesses in the UK continues to grow year on year. In this series we ask entrepreneurs to describe the challenges they faced when embarking on their ventures.

No.6 Dress2kill

Jimmy Hibbert
Founder DRESS2KILL

It all started in October 1999. I was working as a recruitment consultant and I desperately needed some new suits. I had always liked having suits made for me and not being the tallest of chaps, finding an off the peg number that didn't drown me, was always a challenge.

So, I took the plunge and booked an interview room to avoid the embarrassment of my colleagues hearing my waist measurements. The tailor came equipped with some cloth books, a tape measure and sold me two suits each costing around £600 as well as tapping me up for a number of friends - there was clearly a market for this type of offering.

One evening that summer the dinner conversation quickly turned towards my idea – and to this day, remains one of the most encouraging and uplifting conversations I've had. My girlfriend's father, Adrian Whitney, who I had always admired for his gift of encouragement and positivity, really supported my aspiration. This was affirmed when he put me in touch with his friend, Shirley Biggs, who he thought might be able to help me. Shirley had recently retired as buying director for John Lewis. So after I arrived home and not really knowing what to expect, I travelled over to Hampstead, armed with my business plan to meet her. The moment her door opened, I can truly say that my life changed.

I was greeted by a vivacious, exuberantly cheeky blonde, big blue eyed lady, Shirley. After several glasses of wine and many laughs, she thought that my business plan had legs, and what is more, I had a business partner! Very sadly Shirley is no longer with us, but her energy, excitement, outrageous personality and humour are still very much at the heart of everything that Dress2Kill do.

> *Do everything you can to keep overheads low.*

A week after meeting Shirley, I handed in my notice. I think most of my team thought I was a bonkers, but I don't blame them – "You're leaving to set up what?!"... You can imagine it. My parents were also slightly nervous for me, but I have to take my hat off to them, they have always been incredibly supportive and continue to be so.

Shirley and I began humbly; we each wrote down the names of just 15 friends and family, who we would approach. Although we never expected the suits to fit them perfectly the first time round, we did give them our guarantee that in the end, we would deliver them a suit that they would be incredibly happy with. Once we had achieved this objective, we asked them to recommend us to their friends and colleagues and it took off from there.

> ***You have to be prepared to invest your time, money and energy, and usually much more than you originally think!***

The first two years were extremely tough. You have to be prepared to invest your time, money and energy, and usually much more than you originally think! Personally, I had to re-mortgage a couple of times and my credit cards were certainly feeling the stretch. Of course the concoction of every entrepreneur and business venture is unique, but for Shirley and I, the best decision we made was to invest similar amounts of personal capital into setting up. I'm glad we did this, because I'm not sure if the drive to succeed would have been as intense, if we had chosen to take the external investment route.

Secondly, do everything you can to keep overheads low. Shirley and I decided to base ourselves in Borough High Street, where the rent was reasonable and we had access to both the City and the West End. We also had access to Borough Market, which is probably the best food market in London, not that that had anything to do with our decision of course!

Brushing up on the essential skill sets unique to the particular business is also important. Shirley and I both enrolled on a course to learn how to measure people for suits. We learned about the cloths, linings, features and how a suit is made. This meant that we were able to confidently oversee individual projects. That said, I don't think anything can prepare you for running your own business like the actual experience of running it can.

Lastly, but certainly not least, make sure that you have good people around you – people who believe in your vision, but who will also be honest with you when they see you going off track. We were fortunate that my brother Andrew (a lawyer) and friend, Luke Jones (also an entrepreneur), were able to support us with their advice, contacts, as well as a small financial investment. Neil Biggs, Shirley's husband, has also been invaluable to us.

Dress2kill

We chose the name Dress2kill because we felt it encapsulated the energy and passion that we had and still do have for the business. We're an upbeat, creative brand who value substance, quality and style over boring and stuffy, any day of the week. Ever since the birth of Dress2kill, we've striven to breathe new life into the suit industry. We are not afraid to push boundaries. We love to innovate, explore and create, whilst not forgetting the rich heritage of the British Suit. But we take the most pleasure in giving our customers an incredible and unforgettable experience, as well as delivering quality suits that make them feel a million dollars.

Dress2kill offer bespoke suits at affordable prices, using 100% British cloths. We offer the ultimate in bespoke suit experiences in Waterloo and Andover, Hampshire. Dress2kill are delighted to offer all readers a complimentary 10% off our bespoke suits – please quote JM Finn 007 for your complimentary discount.

Wealth planning in focus

Life Interest Trusts in Wills for Spouses

Simon Wong,
Chartered Financial Planner, FPFS

Illustration by Emily Nault

Knowing your assets are destined to safeguard your spouse's financial future after your death can be a great comfort. A Life Interest Trust can offer an appropriate solution when planning your estate.

If you are planning for later life, you may be considering what will happen to your spouse or civil partner (partner) and children or other beneficiaries on death. You may be concerned that your partner may need to go into care and that care home fees would deplete the value of the family home, meaning there will be little to nothing for the beneficiaries to inherit.

Equally you may be concerned that after death, your partner may remarry and leave all or part of your estate to their new family. For both these scenarios, the Life Interest Trust is intended to ring-fence your assets, so that regardless of what happens to the survivor's estate, at least your assets will pass to your nominated beneficiaries.

What is a Life Interest Trust?

Life Interest Trusts are created by a Will via a solicitor and so-called because they give a particular beneficiary the legal right to receive the income from, or to use assets comprised in, the Trust. This right normally lasts throughout the beneficiary's lifetime. Subject to the specific terms of the Trust, the right may terminate earlier, for example on the beneficiary's remarriage, or if the trustees exercise any overriding powers under the Will. The Will specifies what will happen to the remaining assets held in the Trust on the Life Tenant's subsequent death. The beneficiary is often referred to as the Life Tenant.

The Life Tenant does not have outright ownership of the Trust assets and the trustees will retain control while the capital is preserved for the ultimate beneficiaries (or 'remainderman'). The Trust assets will not be distributed under the Life Tenant's own Will.

A couple may wish to include such a trust in their Wills if the marriage or civil partnership is a second or subsequent one. While income can be paid to the surviving spouse (the Life Tenant) throughout their lifetime, capital can be preserved for the children of the former marriage or civil partnership.

If a couple jointly-own property, it must be owned as tenants in common rather than as joint tenants. This is so the deceased's share passes into the Trust contained in their Will, rather than automatically to the survivor. An existing joint tenancy can be severed and converted into a tenancy in common.

The Trustees

The trustees have the job of safeguarding the Trust assets and must always act in the best interests of the beneficiaries so care should be taken when choosing trustees. The Life Tenant can be a trustee, but should not be the only one. Adult children or other family members can be appointed although, if they also have a personal interest in the Trust, it may be preferable to appoint one or more independent trustees, to reduce potential conflicts of interest. Unless the Will provides otherwise, the trustees will have to act unanimously, so any one of them effectively has a power of veto.

As the trustees are usually given a power of appointment over capital, it will be helpful for them to have an indication of the circumstances in which this power might be exercised. Although not legally binding, the trustees will take into account the deceased's wishes when exercising their powers, unless there are good reasons why they should depart from them.

The power to pay income or capital or to loan capital applies equally to nominated beneficiaries. For example, if the spouse does not need the capital, as they are now in a care home for example, but their child does (as they wish to pay off their mortgage) capital could be paid to them instead.

A Life Interest Trust needs to be properly administered which usually involves the trustees filing annual Tax Returns and issuing tax deduction certificates to the Life Tenant. The trustees should also maintain trust accounts and properly manage the Trust's assets.

Advantages

- A surviving partner's estate can utilise the transferable Nil-Rate Band. For IHT purposes, the Trust assets are treated as an outright gift to the surviving spouse and so is not taxed and does not use any of the IHT allowance for the deceased spouse.
- Due to the nature of this Trust, there are no Anniversary or Exit charges to pay unlike discretionary trusts. The Life Tenant can take advantage of this by making gifts to the ultimate beneficiary during their lifetime in order to mitigate IHT.
- A Life Interest Trust will ensure that the Trust fund eventually goes into the names of the nominated beneficiaries. In the event of the surviving spouse going into care or going bankrupt, the Trust fund is protected from the claims of creditors and Local Authorities as they only have a life interest in the fund and it is not owned by them. It is similarly protected from falling into the pockets of a new spouse by either being gifted to them, by being involved in divorce proceedings or by being left to the new spouse by Will.
- On the death of the Life Tenant, the nominated beneficiaries are equally protected from claims if the Life Interest Trust converts into a discretionary trust. With a discretionary trust, the trust assets are not owned by the beneficiaries so are protected from creditors.
- The Trust may include a power for the trustees to convert some or all of the Trust fund into another type of trust. So if IHT laws change in the future and make it more tax efficient for the fund to be in a different trust, such as a Nil-Rate Band Discretionary Trust, the trustees will be able to make that change.
- Some of the named beneficiaries may already have assets exceeding the Nil-Rate Band. In such a case rather than the capital being given to them, the trustees could instead loan to them or make occasional benefits once the discretionary trust arises. Alternatively others may wish simply to receive their share of the funds, in which case the trustees have the power to advance the capital.

Disadvantages

- Because the assets held in the Trust are treated as if they belong to the Life Tenant of the Trust for IHT, they are taxed at 40% on their deaths. However, the Transferable Nil-Rate Band and Transferable Residence Nil-Rate Band may help lessen the tax burden.
- As the trustees are the legal owners of the Trust assets, a deceased's ISA holdings cannot automatically be transferred to the surviving partner through Additional Permitted Subscriptions. Instead the value of the Additional Permitted Subscription would need to be funded by the surviving spouse's own resources or funded by a loan from the Trust assets.
- If the Trust allows the trustees to advance income and capital, the Trust assets could be used up during the lifetime of the Life Tenant, leaving nothing for the discretionary beneficiaries to benefit from.
- If during the lifetime of the Life Tenant they decide to dismantle the Trust, this is considered making a Potentially Exempt Transfer for IHT purposes, therefore must survive seven years for the assets to no longer be considered as part of their estate.

A Life Interest Trust in a Will for a surviving spouse or civil partner can provide an opportunity to allow the survivor to benefit from all of the assets which the couple presently enjoy between them, while protecting the first to die's assets for his or her ultimate beneficiaries.

Tax implications of Life interest Trusts

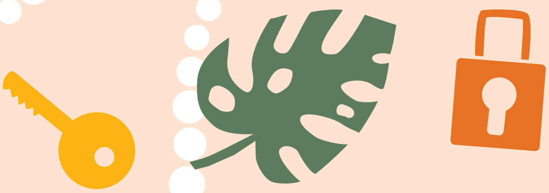
1.

Inheritance Tax (IHT)

The deceased's assets passing to the Life Interest Trust will qualify for the spouse exemption for the purposes of IHT. The Life Tenant is treated as if he or she owned the Trust assets for the purposes of IHT. If trustees distribute capital to the ultimate beneficiaries during the Life Tenant's lifetime, this will be treated for the purposes of IHT in the same way as if the Life Tenant had made a gift.

To the extent, if any, that the IHT-free amount (Nil-Rate Band or NRB) has not been used on the death of the first spouse or civil partner, the survivor's IHT-free amount can be increased by the "Transferable Nil-Rate Band". An additional Residence Nil-Rate Band (RNRB) may also be available and a share of the deceased's residence is left to direct descendants. The allowance is currently at £150,000 (for 2019/20 tax year), rising to £175,000 by 2020/21 tax year. Again, if unused on the first death, this allowance is transferable between partners.

On the Life Tenant's death, subject to any exemptions or reliefs which then apply, IHT will be payable on the combined value of the Trust assets and the Life Tenant's own estate. The trustees will be responsible for paying the proportion of the IHT payable in relation to the Trust assets.



2.

Capital Gains Tax (CGT)

The trust will be liable to CGT currently at 20% (but still at 28% on residential property) in respect of any gains exceeding the trustees' available annual exemption (currently a maximum of half of the individual's annual exemption of £12,000 for 2019/20 tax year, i.e. £6,000). If available in relation to the Life Tenant, entrepreneurs' relief will reduce the rate to 10%. On the Life Tenant's death, the base value of the Trust assets will be uplifted to their then value without any CGT charge. This uplift wipes out any unrealised gains. Should any beneficiary become entitled outright to Trust assets, this will be treated for CGT purposes as a deemed disposal by the trustees.

3.

Income Tax

The trustees are generally subject to Income Tax at the basic rate, presently 20%, but pay at 7.5% in relation to dividends received. The trustees are not eligible for any personal or dividend allowances, nor can they deduct any trust administration expenses when calculating their tax liability. If the Life Tenant who is entitled to receive the income is taxable at the higher or top rates, the Life Tenant will have to account to HMRC for the further tax. A Life Tenant who is a non-taxpayer may reclaim tax previously paid by the trustees.

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

To meet one of our Chartered Financial Planners to discuss tax and estate planning, please contact your investment manager who will be happy to arrange a meeting.

Bond Focus

Boris the Bold

John Royden
Head of Research

Illustration by Adi Kuznicki

Many of us have index-linked or conventional gilts, or UK government bonds, in our portfolios and therefore keep a close eye on what UK interest rates do going forward. To this end, much of my attention is focussed on what happens at the Federal Reserve in America.

In a nutshell, I think that post-trade war inflation will pick up prompting the Fed to go into "interest rate catch up mode", poke in some swift and firm rate hikes to the point that the US, and indeed the rest of the world, flips into recession. This is my best guess as to what happens in 2021/2022.

But back home we now have to consider Boris' spending and tax plans. Our new Chancellor, Sajid Javid is more than aware of what the prime minister expects of him: a break with the austerity of the past decade. During his leadership campaign, Boris pledged to cut taxes and to raise spending on healthcare, education and the police and since then Sajid has called for a cut in income taxes, a reversal in previous rises in stamp duty and a boost to spending. Johnson appears to be both revving up the economy to gain support for his plans with a fall back that more spending could cushion the fallout of a no-deal departure.

Boris' extra 20,000 police men and women would cost £1 billion. The reversal of school funding would set the government back an extra £5 billion and he has pledged £3.6 billion to help towns and communities that had missed out on the asset-driven wealth creation, in addition to £5 billion to fix social care and public services. Boris also fancies an un-costed new rail line across the Pennines to connect Leeds and Manchester. That still leaves the £350 million on the NHS pledge scrawled across his Brexit Bus; but that may be included as part of the aforementioned £3.6 billion. The total bill at this point is c.£15 billion, and that's before the railway.

The £24 billion cost of proposed tax cuts will be driven by raising the 40% threshold from £50,000 to £80,000 and increasing the level at which we start paying national insurance contributions (NI) from the current level of £8,632. The consensus cost for the income tax promise is £9 billion per annum with changes to NI priced at £3 billion of lost tax per £1,000 change in the starting level. Moving the NI starting level to £12,500 would therefore cost close to £11 billion. Removing stamp duty from houses below £500,000 would have cost £3.8 billion last year with future costs dependent upon turnover.

> *During his leadership campaign, Boris pledged to cut taxes and to raise spending on healthcare.*

The constraints that Boris faces are firstly, the unwritten "rule" that government borrowing in each year should be less than 2% of GDP. As we stand, government borrowing is at 1.1% so that gives him scope to (a) spend or (b) invoke tax cuts costing up to £26 billion. Another Tory rule (of prudence) relates to the UK's debt pile and suggests that it should fall as a percentage of GDP each year. This rule allows him £25 billion each year up to 2024; whichever rule they use, there does not seem to be enough to fulfil all their plans.

In the event of a no-deal Brexit, these rules would probably be broken without remorse. Sajid Javid says he will have another £2.1 billion ready to spend to make sure that we all get our medicines and other critical supplies, as well as paying for more border officials.

The impact of this fiscal stimulus should be to help firm up interest rates as the stimulus would likely push inflation higher. Coupled with what I think will happen in the US, I would therefore stick with the view that the short end of the bond market is probably the place to be.

JM Finn *News*

Winchester office now open

Our latest regional office was opened on the 2nd September in Winchester, Hampshire. With five investment managers now in situ looking after £700 million on behalf of their clients, the team is led by investment director, Simon Tufnell.

The office is very conveniently located just off the High Street at 4 Walcote Place, a short walk from the station.

We have been considering the need for a central southern hub and whilst many of our clients are still keen to come to see us in London or like to be visited at home there's definitely a shift in working patterns – such that the younger generations tend to be more likely to be working a few days at home and that's when they have indicated they'd like to come and deal with their financial affairs - when they're in London they want to be 100% focussed on their work. But more importantly, as a firm that prides itself on the personal service it offers and still affords, having an office close to clients can result in significant efficiencies allowing us to conduct client visits without spending too much time out of the office. And of course, thanks to technology being based in a regional office does not compromise the opportunities to meet with companies or participate in internal meetings.

We hope in due course that JM Finn will become the wealth manager of choice for investors in Hampshire and neighbouring counties looking for a personal service, just as we have become in Suffolk thanks to our location in Bury St Edmunds.

JM Finn nominated for 'Wealth Management Firm of the Year'

We are delighted to have been nominated for another award. The MoneyAge awards look to celebrate the excellence, innovation, and professionalism in the ever expanding and innovative personal finance space. JM Finn have been shortlisted for the Wealth Management Firm of the Year, with the winners being announced on the 10th October.

The UK consumer finance space is expanding at a fast rate as banks, building societies, savings and investment providers, mortgage companies and personal finance specialists continue to innovate.

MoneyAge is a media firm that addresses these changes and provides the financial services sector with timely news and in-depth analysis to help guide their advice and decisions.

An evening with Alice Roberts – Digging into Britain's Past

As part of her exclusive sell-out tour, Alice shared some insights, anecdotes and behind-the-scenes stories from her personal journey to explore Britain's past, with footage from her programmes and excerpts from her books.

The event, sponsored by JM Finn, was held at the Garden Rooms at Tennants Auctioneers in Leyburn, Yorkshire on the 26th June.

Alice is an academic, writer and broadcaster, interested in the structure of humans, how we function, and our place in the wider environment. Having presented seven series of Digging for Britain, sharing new archaeological discoveries from across the UK on BBC Four, and having explored the history of our towns and cities in Britain's Most Historic Towns on Channel 4 – she will be back with a second series in 2019.

The talk by Alice Roberts will be followed by a similar event featuring Lucy Worsley on the 24th October. If you are interested in attending please contact your investment manager.

WALT DISNEY COMPANY

John Royden
Head of Research

PRICE
$139.55

52 WEEK HIGH-LOW
$147.15—$100.35

NET YIELD
1.3%

HIST/PROS PER
25.3—24.4

EQUITY MARKET CAP (M)
$251,382

Walt Disney Company (Disney) is more than a mouse with big ears and amusement parks. The empire now includes films made by Pixar (Toy Story), Marvel Studios (Avengers), Lucasfilm (Star Wars) and 20th Century Fox. What is lovely about their films is that they touch a broad spectrum of the population. Young and old, male and female, all love Disney's content. There is something for everybody, including shareholders. Since 2009, 18 films have taken $960 million on average, helped by the Star Wars franchise at $1.2 billion per film.

Disney also owns 80% of ESPN (sports), as well as ABC, National Geographic and Hotstar (India). Clients include the likes of Netflix and Hulu (60% owned by Disney) and Amazon.

But things are changing. Disney's direct to consumer strategy hit the headlines in April 2019 when it announced its launch of Disney+ at $7 per month or $70 per annum. Disney+ launches in November and compares favourably with Apple TV's expected $12.50 per month, Netflix at $13 per month and HBO at $15 per month. Disney is pulling back all the content it previously licenced to distributors like Netflix and Amazon and only distributing it out via Disney+. Watch to see if Disney can transfer its box office success to direct streaming to consumers.

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 basis; this is then complemented by a sectoral view from the stock selection committee. The combination of these top down and bottom up opinions is an important resource for our investment managers to validate their own investment theses or to generate new investment ideas.

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

Here we present a snapshot of the current views.

Sector Views

Materials	We turn more cautious following a strong first half of 2019 as macro economic indicators suggest global economy stuttering. Dividend attractions remain however and balance sheets are not stretched.
Consumer Staples	We like the sector for its defensive attributes and high quality businesses. However, we are wary of valuations and the sector's vulnerability to higher inflation on margins.
Consumer Discretionary	Focus on the disrupting companies and high quality brands. Structural growth and rising wages should support the sector. Note Amazon represents 15% of this sector.
Financials ex Banks, Life Insurance, Property	This includes a broad range of stocks which are generally geared to investment markets. Valuations now reflect the cautious lower growth outlook.
Financials Banks	Uncertain domestic outlook, falling interest rates globally and a stuttering economy make us reluctant to add to this sector. We recently downgraded from neutral to underweight.
Financials Property	Some discounts in the UK are at historically wide levels however caution on Brexit uncertainty and structural trends impacting High Street.
Financials Life Insurance	Supportive demographics, particularly internationally, however valuations appear fair value.
Financials Real Estate	Global real estate may offer better value but again caution on bond proxy status.
Health Care	Growth and defensive attributes and global demographic tailwind. Distinguish between pharma/healthcare/biotech sub sectors. Key theme for medium term.
Industrials	Valuations look more reasonable following the correction in 2018 but watch out for value traps eg. low P/E cyclicals.
Energy	Demand/supply dynamics are becoming more favourable as year progresses. Dividends sustainable with oil at current levels and valuations appear attractive.
Information Technology	Traditional tech firms - Apple, Microsoft (make up 24%) with Visa, Intel, Cisco - be selective.
Communication Services	New restructured sector - Alphabet, Facebook, Netflix, Tencent (make up 30%) included with Verizon, AT&T, Disney and Comcast - be selective.
Utilities	Valuations now reflecting political uncertainty in UK. UK interest rates unlikley to move considerably from current level.

Asset Allocation

\+ Overweight / Neutral – Underweight

UK EQUITIES		
UK	+	Heightened political risk means that we expect near term volatility, however we remain overweight and see continued opportunity from both high quality domestic names and overseas earners. Sterling continues to offer attractive prices for UK assets to opportunistic international buyers.
INTERNATIONAL EQUITIES		
North America	+	Remains in a fundamentally sound economic position which includes reasonable growth, low unemployment, real wage inflation and a more dovish Fed. That being said we are wary around escalating trade war rhetoric which could hold further near term risk.
Europe	–	Given longer term structural concerns (such as political risk, high unemployment, north/south divide persist), we remain underweight.
Japan	/	Long-term structural concerns similar to those in Europe continue to inhibit domestic economic growth. The discord between accommodative monetary policy and contradictory fiscal policy, particularly October's consumption tax hike, is likely to dampen any near-term rerating case. We maintain a neutral rating underpinned by our muted conviction for significant Chinese reflationary stimulus (a key export partner) in 2019.
Asia Pacific	/	We are concerned around the risk of escalating trade wars and hold a lower conviction on our expectation for significant Chinese stimulus during 2019. Whilst we continue to see it in the interest of both parties (the US and China) to agree a trade truce, we would ascribe a low likelihood of a near term resolution and so see it prudent to downgrade our recommendation to neutral.
Emerging Markets	/	As for Asia Pacific, we are concerned around the risk of escalating trade wars and hold a lower conviction on our expectation for significant Chinese stimulus during 2019.
BONDS		
Conventional	–	We continue to see longer term upside risk to inflation and interest rates and so remain underweight and short duration.
Corporate	–	Despite a rosier economic outlook, we see current spreads as offering little value with little downside protection.
Index Linked	+	With the threat of inflation globally we like the protection afforded by index linked gilts. However we would be wary on valuations here and would be selective in exposure.
CASH		
Cash	+	Given current market volatility, we are happy with both the cautious positioning and the optionality that a slightly higher cash weighting affords.
PROPERTY		
Property	–	Structural challenges, Brexit concerns and the risk of higher inflation and interest rates means we remain underweight the sector. That being said we would consider some bottom up opportunities where earnings driven business models should act more like an index linked bond.
ALTERNATIVES		
Alternatives	/	Bottom up selection is key in this heterogenous sector. With the threat of higher inflation going into the next downturn, we would highlight Infrastructure and Gold as potentially better diversifiers than Cash or Conventional Fixed Income.

Meet the manager
Simon Tufnell
Investment Director, Winchester

Lives Hurstbourne Priors, Hampshire

Education Radley College and Exeter University

Started at JM Finn 2009

Favourite Film Withnail & I

Dream holiday Somewhere with no 'phone reception and I can forget the day of the week. The Isle of Mull or the South Luangwa, Zambia fit the bill!

Hero Frankel

As the branch head for JM Finn's latest office what do you see as the main benefits to having regional offices and why specifically was Winchester chosen as a location?

As digital communication has improved, where my desk is situated has become less important. Being based outside of London makes it easier to meet more clients face to face, whether in their home or the office. Winchester has a strategic location and it is not difficult to see why it is the ancient capital of England. On the other hand, the train up to London takes less than an hour, so I like to think we have the best of both worlds.

Geographically, Winchester fits well into the distribution of our existing offices in an area where we have many clients. We have a number of staff who live locally and so it is certainly convenient, whilst the city is well serviced by professional intermediaries.

In your experience what are your clients' main financial concerns?

The concerns tend to vary for different ages. Retirees tend to want to explore how to efficiently transfer wealth to the following generations. Generation X have pension concerns and school fee funding to contend with, whilst younger investors may be focussed on the housing ladder. All of these thoughts are best picked up and explored when we have the opportunity to meet with clients and thanks to our wealth planning capabilities we are able to address all aspects of a client's financial concerns.

A common theme amongst those clients who are taxpayers is the fear of a Corbyn-led government, although younger clients tend to be more ambivalent. From an investment perspective my clients' portfolios are fairly well insulated in that they are often global in nature so have tended to benefit from weak sterling. Of course, there is not much we can do about personal taxation rates but I am ever hopeful that these fears will not become reality.

What do you see as JM Finn's key strengths as a wealth management firm?

I believe it is key that, due to having investment managers involved in senior management, we are able to retain our focus on who we work for, namely our clients. Whilst inevitably we have to embrace regulation, taking a long term view and always acting in our client's best interests, in turn stands us in good stead.

I also think it is important that our communication is clear, particularly when markets are volatile. Our approach to bespoke portfolio management ensures that our clients' investments are genuinely suitable for them, which is increasingly rare in an industry which has often yielded to the efficiencies offered by the sausage machine approach.

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