

Welcome to FinnFunds Quarterly

Welcome to the first edition of our new quarterly update on what is going on with our JM Finn Investment Funds. Last year we doubled the number of funds to four, adding UK Smaller Companies and an Africa fund to our well established UK Portfolio and Global Opportunities offerings. We now have around £100 million invested between these four and the performance we are achieving for our established funds stands up well to scrutiny. True, the time frame for Smaller Companies is short, while the Africa Fund has yet to establish a track record, but our team will be working hard to try to match our achievements elsewhere.

In the pages that follow, fund managers Anthony Eaton, Mark Powell and Gill Leates will be sharing with you their experience of how market conditions have been affecting their funds and influenced the approach they are taking to investing. It falls to me to paint a broader picture – one that could well cover areas outside those on which our team are presently focussed. But our intention is to provide an overview of the investment scene to help you with your investment choices.

It happens that there is a great deal to take on board at present from an investment perspective. Within recent weeks we have had to contend with a natural disaster of major proportions in Japan, growing unrest in the Arab world and what amounts to a civil war in one of the important oil producing countries. Sovereign debt crises have once again unsettled markets, while we have had a Budget that did little more other than to underscore the reign of austerity present in our domestic economy. The picture painted is hardly one of unalloyed joy.

Yet markets have, by and large, maintained their equilibrium. While not exactly racing away, the sell-off that accompanied the unrest in North Africa and the Middle East has largely passed into history, despite the upward pressure on the oil price. Investors are nervous, but not downright despondent. Perhaps there is a little of the Rothschild spirit present. The time to buy is when the cannons are thundering, to sell when violins are playing, to only slightly misquote that scion of the House of Rothschild, Baron Nathan Meyer Rothschild.

Or maybe there are other reasons to believe shares will reward those with patience. Just recently we have seen indications that inflation has returned as a threat around the world. While less prevalent in some countries than others (Japan, with its strong currency, continues to suffer from the threat of deflation), the fact that it is some very basic commodities that are leading the cost of living higher may have implications for us all.

Recently we were warned that food production around the world needs to rise by 70% by the middle of the century to cope with the demands of a global population expected to top 9 billion. It is not just providing basic foodstuffs, either. As the developing nations, home to the so-called emerging markets, become wealthier and more aspirational, so their diets become richer, requiring an even greater proportion of the global agricultural cake. It seems that the one area in which change seems certain is that of farming and provision of foodstuffs.

Indeed, competition for resources seems set to ensure that the era of cheap anything may well have passed. Doubtless this will lead to ingenuity in how we harvest and ultimately use our increasingly scarce commodities, but this looks set to be a fast moving area – one which will throw up threats and opportunities in equal measure. It seems certain to test the metal of investors both professional and private.

With the world a global trading village, we can take some comfort from the fact that what affects one nation will almost certainly have consequences for others, so some measure of economic co-operation should remain a feature for the future. This encourages me to believe that inflation is unlikely to turn into the spectre it has been in the past, but portfolio strategy will need to take account of a world where pricing power has returned, economic power is shifting rapidly and in which the deepest pockets will influence outcomes.

Brian Tora
Editor

CF JM Finn UK Portfolio Fund

The headline figure for the FTSE All-Share Index's return in March of -0.8% suggests a flat, if slightly weak, month. This hides the volatility to which we have all been subjected, with the more widely quoted FTSE 100 Index falling by over 7% from the 6,000 level to just below 5,600 on 16th March, only to recover to 6,000 at the end of the month. We are thus content to report that the Fund was little changed over during March, falling 0.03% in total return terms. Concerns over North Africa, the Middle East and the enveloping disaster at the Japanese Fukushima nuclear plant overshadow the improving economic outlook, with many companies announcing a 10% increase in their dividend payments.

We have been mentioning for a while that we believe the greatest risk to our performance was a significant macro event, so it is pleasing that the fund performed as it did. While not amongst the leaders in the IMA UK Equity Income sector, given our recent outperformance and the volatility we have experienced, we are quietly pleased that we finished 29th out of 102 funds in the sector.

In terms of outlook, we continue to believe that recent volatility has created a base from which markets can move forward, and that the focus should remain on international earnings. The recent profit warnings from Dixons, Mothercare and Home Retail demonstrate how tough the UK retail environment has become, with further pressure due from the government's austerity measures and higher inflation.

Mark Powell
Fund Manager

Performance to the last Quarter End*

Discrete 12 month periods

31.03.10 – 31.03.11	18.29%
31.03.09 – 31.03.10	44.58%
31.03.08 – 31.03.09	-35.31%
31.03.07 – 31.03.08	-4.59%
31.03.06 – 31.03.07	14.56%

CF JM Finn UK Smaller Companies Fund

The global economy continues to advance. However, it remains a two speed recovery, with rapid growth continuing in the developing markets and slower growth in the developed ones. As a result the monetary responses have remained different, with rising rates and credit tightening in the developing markets, whilst loose monetary policy remains in place in the US and UK where the recovery continues to look fragile. However, underlying manufacturing and employment data has started to improve.

Rising commodity prices due to increased demand are leading to some increase in inflation. Elsewhere, the tragic disaster in Japan is expected ultimately to lead to greater demand for all the materials required for rebuilding.

In general, stock markets have been quite sanguine against the background of both wars and natural disasters. What is clear is the rise of the middle classes in the developing markets is a strong underlying trend outside the normal business cycle. It is this trend of continued industrialisation and an expanding pipeline right through to the consumer that will drive overall growth over the long term.

Companies with exposure to growth in the developing markets – and what is left of it in the developed markets – remain the basis for all the investments in the portfolio. Thus we continue to be overweight in mining, oils, technology and industrials. The majority of company results over the last few weeks from these areas have continued to exceed expectations, with managements generally confident for the future.

Gill Leates
Fund Manager

CF JM Finn Africa Fund

Africa, as an investment destination, is stuck in a holding pattern. Like Asia in the 80's, it is in its early stages of economic development. Africa's near term prospects are dependent on exports to the global economy. With feeble western economies, the swing factor is Asia. If Asian economies progress, Africa is likely to progress faster – and vice versa. We thus need to look to Asia for guidance.

For the past 6 months Asian markets have been amongst the weakest of global markets, due mostly to concerns over inflationary pressure and interest rates. However, the World Bank has stated that China can grow at 8% annually for the next two decades. The value of China's trade with Africa is rising steeply; from \$5.6bn in 1996 to \$10bn in 2000 to more than \$100bn last year^{S1}. That is a compound annual growth rate of more than 22%. Now, that is what I call gearing.

^{S1} Africa, *Altered States, Ordinary Miracles*, Richard Dowden, pg 486, Portobello Books. ^{S2} Longview Economics. Performance figures for this fund will not be available until 12 months after its launch date of 30 November 2010.

And how might things play out for Africa? A recent work by Longview Economics notes that Japan was the first Asia economy to industrialise. The early stages, 1950s to 1975, saw annual growth rates of 9.7%. This slowed to 4.6% between 1976 and 1989, with further declines as the economy became mature. China, since it opened up in 1979, has seen average annual GDP growth of 9.9%. In 1960 South Korea was as poor as Nigeria on a per capita basis. Now it is a mature industrial economy with a per capita GDP level similar to Western Europe. It saw early industrialisation phase growth rates average 7.9%^{S2}. The implication, from Asia, is that growth projections for Africa will trend upwards.

Anthony Eaton
Fund Manager

CF JM Finn Global Opportunities Fund

Current market gyrations make the Blackpool beach rollercoaster feel like a main road in Holland in what has become a binary market without direction. If the mood is positive, so-called 'risk on' assets are wanted. This is, mostly, where this fund sits. If the mood is negative, they are eschewed.

The risk on/risk off view of the world is logical. However, the speed with which the market mood changes is implausibly fast. Imagine mood swings that quick in the real world – foundations for a new building would be dug in the morning, grassed over in the afternoon and restarted the following day!

Fundamentally we believe that the global industrial complex is having to pay more for all of its inputs because there is insufficient supply at current price levels. Higher prices are required to stimulate greater supply. The current period of extreme angst across the political, voter and business classes probably aggravates supply/demand imbalances that exist as there is insufficient confidence to invest capital (political or cash) in greater outputs. That leaves pricing as the principal variable.

Chuck in a couple of natural disasters and arrange for some nosy western politicians to aggravate local turf wars, notably in regions supplying things that the world really really needs, and you have a recipe for durable chilli-hot pricing power that Heston Blumenthal himself could not improve on.

That, essentially, is the logic behind our view that this asset class (the one with the reinforcing pricing power) is the one to own – and more so, going forwards.

Anthony Eaton
Fund Manager

Performance to the last Quarter End*

Discrete 12 month periods

31.03.10 – 31.03.11	15.62%
31.03.09 – 31.03.10	72.69%
31.03.08 – 31.03.09	-42.89%
31.03.07 – 31.03.08	16.56%
31.03.06 – 31.03.07	15.71%

*SOURCE: Lipper to 31st March 2011 mid to mid, net income reinvested. Retail class. The value of investments and the income derived from them may go down as well as up and you may not receive back all the money which you invest. Past performance should not be seen as an indication of future performance.

About FinnFunds

Commentary on our four Investment Funds has, until now, been published both in monthly factsheets and in a shorter version within the main newsletter we send to our clients. For the future we plan to publish this separate, four page report alongside the factsheets. This reflects the growing importance of this part of our business. However, we realise that not everyone who receives this document will be a client of the firm, or even have a clear understanding of who and what JM Finn & Co is.

Our origins go back to 1945, when the eponymous stockbroking firm was founded by John Finn as a partnership. Following “Big Bang” in 1986, when many firms chose to incorporate as limited companies and allow themselves to be taken over by other financial institutions, JM Finn & Co elected to remain both independent and as a partnership.

In the years that followed, steady expansion took place, with offices being opened around the country, first in Bristol, but followed by Leeds and Bury St Edmunds. In 2006, reflecting the changing nature of the financial services industry in which the firm operated, the decision was taken to incorporate as a private limited company, but outside shareholders were not sought and the firm remains in the ownership of the directors and staff who work in the business.

By then the first of our investment funds had already been established, but both this aspect of our business, as well as our traditional role of looking after the portfolios of private investors, continued to grow. Offices were added in Ipswich and Cardiff and our London headquarters, which includes the administration centre for the firm, moved to new, more spacious offices in the heart of the City of London.

Presently we have discretion over, or advise on, around £5.5 billion of clients’ assets, making us one of the leading privately owned investment management companies in the country.

If you are an existing client of JM Finn & Co, then please get in touch with your usual contact at the firm for further information about our investment funds. Otherwise, please contact Layla Fear on 020 7600 1660 or layla.fear@jmfinn.com

The information contained in this document is not an invitation or inducement to any person to purchase shares in our Funds. Investment should be made on the basis of the Prospectus and Simplified Prospectus, available from Capita Financial Managers, which you should read before investing. You should seek your own professional advice as to the suitability of our Funds before investing. Values may be affected by fluctuations in exchange rates where assets of our Funds are denominated in currencies other than sterling. Unless otherwise stated, the information contained in this document is provided by JM Finn & Co, Capita Financial Managers Ltd and J. M. Finn & Co. Ltd are authorised and regulated by the Financial Services Authority.

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