

Europe in the Spot Light

Welcome to the July edition of our quarterly update on what is going on with our JM Finn & Co Investment Funds. Our four funds continue to grow, despite tougher market conditions than we have seen for a little while. Although not aggressively marketed, the reputation of our managers is reaching a wider audience and we remain committed to expanding this element of our business.

In the pages that follow, 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. My role remains to paint the broader picture of what is happening in markets in general. And it has been a remarkably event-filled quarter on which to report.

Shares overall have drifted lower over the past three months, although the last few days of June saw a better tone return to the UK market. Sentiment has been driven by the continuing sovereign debt crisis in Europe, with hardly a week passing without some news emerging that helped unsettle investors. At the centre of the storm has been Greece – the first member of the Eurozone to fall into the lifeboat crewed by the International Monetary Fund and the European Central Bank – and still the country causing the greatest concern.

The modest recovery that developed in the closing days of the last quarter owes much to the more encouraging news emerging from Greece. True, the population remains at odds with their leaders, with riots in the streets of Athens and widespread concern over the extent of the reforms being demanded by the providers of the finance that will, hopefully, keep the nation afloat. For markets, though, it was the winning of the confidence vote and the passing of the bill to approve the austerity measures in the Greek parliament that have given encouragement.

Greece is not, of course, the only Eurozone country presently in intensive care. Both Ireland and Portugal have received bailouts to refinance government debt when money markets failed to oblige. Ireland has now been in recession for some little while. Greece, which saw its gross domestic product shrink by a massive 5% on an annualised basis in the first quarter of this year, seems set to join it.

Indeed, we are seeing a multi-speed Europe developing, with the northern nations of Sweden, Germany, Finland and Austria leading the economic growth stakes, recording expansion of up to 6.5%. Propping up the bottom of the tables are the three bailout countries, all with shrinking economies. The rest lie somewhere in between, with countries like Spain and Italy giving cause for concern, in view of the sluggish nature of the growth they are achieving.

Italy and Spain are important nations – ranking third and fourth respectively in size amongst those countries that have adopted the Euro. It is the fear that they might somehow be drawn into the morass created by the debt problems of those three smaller nations that has been the cause of so much uncertainty. Greece, Portugal and Ireland together account for only about 4% of European GDP, but the consequences for the single European currency should a default occur are generally viewed to be severe in the extreme. So far the countries of the Euro appear to be maintaining a united face, hence the improvement in sentiment.

Back at home we are also seeing widespread reaction to the austerity measures the coalition government feels obliged to introduce. That a sea change is going on is not at issue. The real question is whether politicians will be able to deliver unpopular measures in the face of considerable opposition from electorates that feel they have been short-changed. It promises to be a challenging time for the leaders of European nations.

But in the developing world the outlook seems altogether brighter. While inflation is an issue in China – and even more so in India – growth continues in many of these countries at rates the over-indebted west can only dream about. The transfer of economic power to the so-called emerging nations is, if anything, accelerating. Of significant importance is that a whole new middle class is being created in Asia and South America that will eventually overshadow that of the developed world. For investors, these are indeed interesting times.

Brian Tora
Editor

CF JM Finn UK Portfolio Fund

The UK Portfolio Fund has slipped back recently as renewed concerns over global growth and resurgent fears surrounding Greece and peripheral Europe have again taken centre stage. Markets as a whole have gone 'risk-off', with defensive sectors leading the way. Without doubt the deliberations of the Greek Parliament will be driving sentiment over coming weeks.

My stance has remained unchanged over the past year, investing in global growth through UK listed businesses, avoiding those too reliant on the UK consumer as a whole, while generating a market income yield. This policy has produced strong returns, but we have given up some of these gains in recent weeks. However, the spate of profit warnings from the UK High Street – with HMV, Comet (part of Kesa) and Thorntons announcing store closures, Tesco announcing disappointing UK non-food sales and even Marks & Spencer launching their summer sales two weeks earlier than usual – highlights why we are avoiding the UK discretionary spending sector. I also believe we will see an increase in both the frequency and extent of strikes as public sector workers resist changes to their work and pension arrangements.

On the other hand, I believe the global economic recovery remains intact with, for example, German business confidence at record levels and Japan announcing recently that factory output has expanded at the fastest pace in more than 50 years.

Encouragingly, UK unemployment had the largest quarterly fall in the first quarter of 2011 in more than a decade. Global oils are represented by Royal Dutch Shell and BG Group, the two largest holdings, followed by the miners, Rio Tinto and Anglo American, while we have sizeable exposure to companies like Diageo, Unilever, Vodafone and Pearson, all of which have extensive overseas operations.

I remain content with the way the portfolio is positioned, away from the parlous state of the domestic UK domestic economy and with a significant exposure to global growth through London listed companies.

Mark Powell
Manager, CF JM Finn UK Portfolio Fund

Performance to the last Quarter End*

Discrete 12 month periods

30.06.10 – 30.06.11	28.84%
30.06.09 – 30.06.10	17.03%
30.06.08 – 30.06.09	-27.08%
30.06.07 – 30.06.08	-6.13%
30.06.06 – 30.06.07	17.21%

CF JM Finn Africa Fund

Weak commodity and Asian markets continue to plague sentiment towards Africa. As a supplier of raw materials, food and energy to the global economy, it is geared to the wider situation. When the global economy is stable or expanding the African economy should fly. Not only does it receive higher prices for everything it supplies, but that higher income facilitates economic traction.

The World Bank expects western economies to expand 2.2% this year and 2.7% next year, and developing economies 6.3% and 6.2% respectivelyst. The greater rate of growth comes from a part of the world containing around 80% of the global population, with GDP per head at a level where personal budgets get spent on basic staples – exactly what the African continent has to sell. Opportunities facing African investors are enhanced by weaker competition than in more sophisticated economies, adding further gearing to the invested pound in this region.

Early stage industrialisation is building. A striking feature is that China, facing rising labour costs at home, is seeking to outsource low cost industries. The number of Chinese backed economic zones being created in Africa to accommodate Chinese industrial interests is growing. In April Chinese car manufacturer, Brilliance Auto, announced plans for a factory in Benin, while India's Mahindra has confirmed plans for tractor plants in Ethiopia, Kenya, Morocco, South Africa, Tunisia and Zambia.

The fund focuses on sub-Saharan Africa, seeking businesses with operations of scale. We have no investments in northern Africa and invest in South Africa only where there is engagement with the wider sub-Saharan region.

Anthony Eaton
Manager, CF JM Finn Global Opportunities Fund

st World bank

Performance figures for this fund will not be available until 12 months after its launch date of 30/11/2010.

CF JM Finn UK Smaller Companies Fund

Global economic activity continues at two speeds. The developed world's recovery remains slow, supported by continued low interest rates. The sovereign debt crisis in Greece is another problem that currently remains unresolved, but the Chinese offer of financial help brings a potential new source of financing and ideas. Meanwhile, the developing world is maintaining a strong growth rate, with China still expected to grow at 9% this year and only slowing slightly in 2012 and 2013. It is managing its over-leverage in some regions by re-financing in those areas where it is necessary. This adds credibility to the ongoing growth of their economy through infrastructure projects and a steady improvement in living standards.

The continued growth of the emerging markets, whether they are Chinese, Indian, Russian or Brazilian, is taking the global economy into uncharted territory, for which no historical precedent can be found. Metal prices, like gold, silver and

copper, have remained strong, while the latest OPEC meeting has underlined the long term attraction of oil reserves outside the main producers. This has been highlighted further by the threat of a number of countries to release some of their strategic oil reserves.

The portfolio contains investments in new potential large oil provinces around the world, in order to be exposed to this long term trend, and in copper and diamonds, where shortages are also forecast. Elsewhere, holdings in engineering and technology supplying into the industrial chain give exposure to areas where costs are being driven out of the global manufacturing base, in addition to the manufacture of products in new technologies for consumers in the growing middle classes in developing nations.

Gill Leates
Manager CF JM Finn UK Smaller Companies fund

Performance figures for this fund will not be available until 12 months after its launch date of 15/07/2010.

CF JM Finn Global Opportunities Fund

Markets have had a prolonged period of de-rating commodities and Asia, on the back of concerns over excess debt in the West and a slowdown in Asia as rates rise to address inflationary pressures.

There has been less interest in businesses that build new capacity. It is this lack of investment in greater capacity that is going to reinforce pricing power for basic inputs into the global economy. Uncertainty continues deferring the propensity to spend by consumers and producers, leaving incumbent producers in a good position. Although all participants are cautious, there are so many more participants being added to the global economic pool. India and Brazil now export more to non G7 countries than to the West. The US now imports more from non G7 nations than from the West.

This process is magnified by the fact that we have a global economy where one half, by value, is flatlining and the other expanding. But the expanding half contains around 80% of the world population, who spend their rising incomes on basic

outputs from a static supply base. Food alone accounts for 30% of consumer budgets in China and 45% in India, compared to 8% in the USA^{S1}. Our exposures are heaviest to commodities and utilities that are universally needed and global consumer brands that the industrialising 5 billion are finding themselves able to afford.

Anthony Eaton
Manager, CF JM Finn Global Opportunities Fund

Performance to the last Quarter End*
Discrete 12 month periods

30.06.10 – 30.06.11	+24.89%
30.06.09 – 30.06.10	+31.30%
30.06.08 – 30.06.09	-32.66%
29.06.07 – 30.06.08	+5.92%
30.06.06 – 29.06.07	+41.21%
29.06.05 – 30.06.06	+29.44%
30.06.04 – 29.06.05	+14.26%

^{S1} Financial Times 31st May 2011 "A High Price to Pay"

*SOURCE: Lipper to 30th June 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 JM Finn & Co

Investors and intermediaries interested in our four Investment Funds may like to know that, in addition to this quarterly publication, monthly fact sheets on all of them are available either electronically or in paper form. As the audience for our growing stable of funds increases, 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, such as banks, 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 at the end of the 1990s, but followed by Leeds and Bury St Edmunds. Offices were added in Ipswich and, most recently, Cardiff, while our London headquarters, which includes the administration centre for the firm, moved to new, more spacious offices, but remained in the heart of the City of London.

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 remained in the ownership of the directors and staff who work in the business. However, recognising that the ability to continue to grow both the business and the service levels for our clients, a decision was recently taken to enter into a strategic partnership with a company that we consider enjoys the same ethos as us.

Ackermans & van Haaren (AvH) is a diversified Belgian investment group which, through its private banking subsidiary Delen Investments, plans to take a majority stake in JM Finn & Co, but leaving the directors and staff with a substantial minority. Delen itself has operated in a similar field to us since 1936. As the only investment manager in the UK within the AvH group, and sharing similar principles to our new partner, we are convinced that this will provide us with the support that will become increasingly necessary to our business, while allowing us to operate in the manner that we know is in the best interests of our clients.

For our investment funds business this can only be positive news. Our first fund was established several years ago, but this aspect of our business, as well as our traditional role of looking after the portfolios of private investors, continues to grow in a robust manner. Presently we have funds under management or administration of more than £6 billion, making us one of the most important investment management companies serving private investors, charities and personal pension funds in the country.

With an independent approach, we are able to adhere to our core values of providing a flexible and objective approach, tailored to the needs of individual clients. We do not provide financial planning advice – simply investment management for investment funds and for the portfolios of individual clients. This will not change under these new arrangements.

Brian Tora
Editor

If you are an existing client of JM Finn & Co, then please get in touch with your usual contact in the firm if you require further information on our investment funds. Intermediaries without an existing contact seeking more information on any of the aspects of our business should get in touch with Layla Fear on telephone number 020 7600 1660, or email her at 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. JM Finn & Co is a trading name of J. M. Finn & Co. Ltd which is registered in England with number 05772581.

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