JM FINN

No.34 *Spring 2021*

Prospects

The JM Finn Quarterly Periodical

Complex pension rules
The risks of getting it wrong

Low carbon investing
Does it have to cost the earth?

Total return investing
Is it time to consider a new approach?

No.34

Spring 2021

Equity prospects
JM Finn's insights into companies 07, 13, 21, 25.

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Celebrating 75 years of
investing for your future
1946—2021

Welcome

As I write, it certainly feels that spring is upon us. Not only are the evenings getting lighter and the buds are appearing in the garden, but there is light at the end of the lockdown tunnel.

The roadmap to easing the current restrictions is slow paced but a welcome relief to us all and with the relative success of the vaccine roll-out, it means that we can begin to think about a new dawn.

That said, markets have remained range bound in the UK with continued uncertainty surrounding a possible global recovery. This leaves a challenging environment when it comes to investing, with the spectres of inflation and subsequent rising interest rates on the horizon.

But in the interests of remaining positive, I would like to share that JM Finn has recently passed a significant milestone, with funds under management and administration exceeding the £10 billion mark for the first time. This is an exciting landmark for us, made more so by the fact that the UK market significantly underperformed global equity markets in 2020.

This also coincides with the firm's 75th anniversary, which we are celebrating this year and to mark the occasion, we are delighted that a former colleague, Charles Beck, has written a comprehensive history of the firm, charting our origins back to our namesake, John M Finn's acquisition of stockbroking firm Kenneth Carr & Co. We have, with kind permission of Charles, shared the synopsis of the book on page 8, which gives a sense of the rich history on which today's firm is based.

As we look ahead, I hope you, our clients will continue to share your financial concerns with us, so that we can help. Continuing the development of our wealth planning capabilities is a priority for us as more and more clients turn to our experts for advice across a range of subjects. These can be broadly put into two categories: wealth transfer and retirement planning. At the time of writing, how the Treasury plan to restore the country's finances is unknown but we expect there to be a range of measures put in place that could have consequences for our clients. I would therefore encourage anyone looking to assess their financial position to contact their investment managers about our wealth planning services.

With investment income significantly down on historical levels due to the pandemic, there is a good opportunity to review how you might draw returns from portfolios. On page 18 we present an argument for adopting a total return approach to your investments, which, by reducing the focus on income, could provide greater flexibility. This might also give rise to conversations about those stocks that carry a capital gains tax liability and, if the tea leaves are correct, this might be the opportune moment to address those, as seemingly this tax rate is only going in one direction.

I trust I haven't put a commentator's curse on the arrival of spring and that we can continue to look ahead with hope as, despite all the headwinds, out of chaos comes opportunity. I believe we have a strong foundation that will help JM Finn thrive for another 75 years whilst allowing us to continue providing a top quality service for future generations of investors.

Hugo

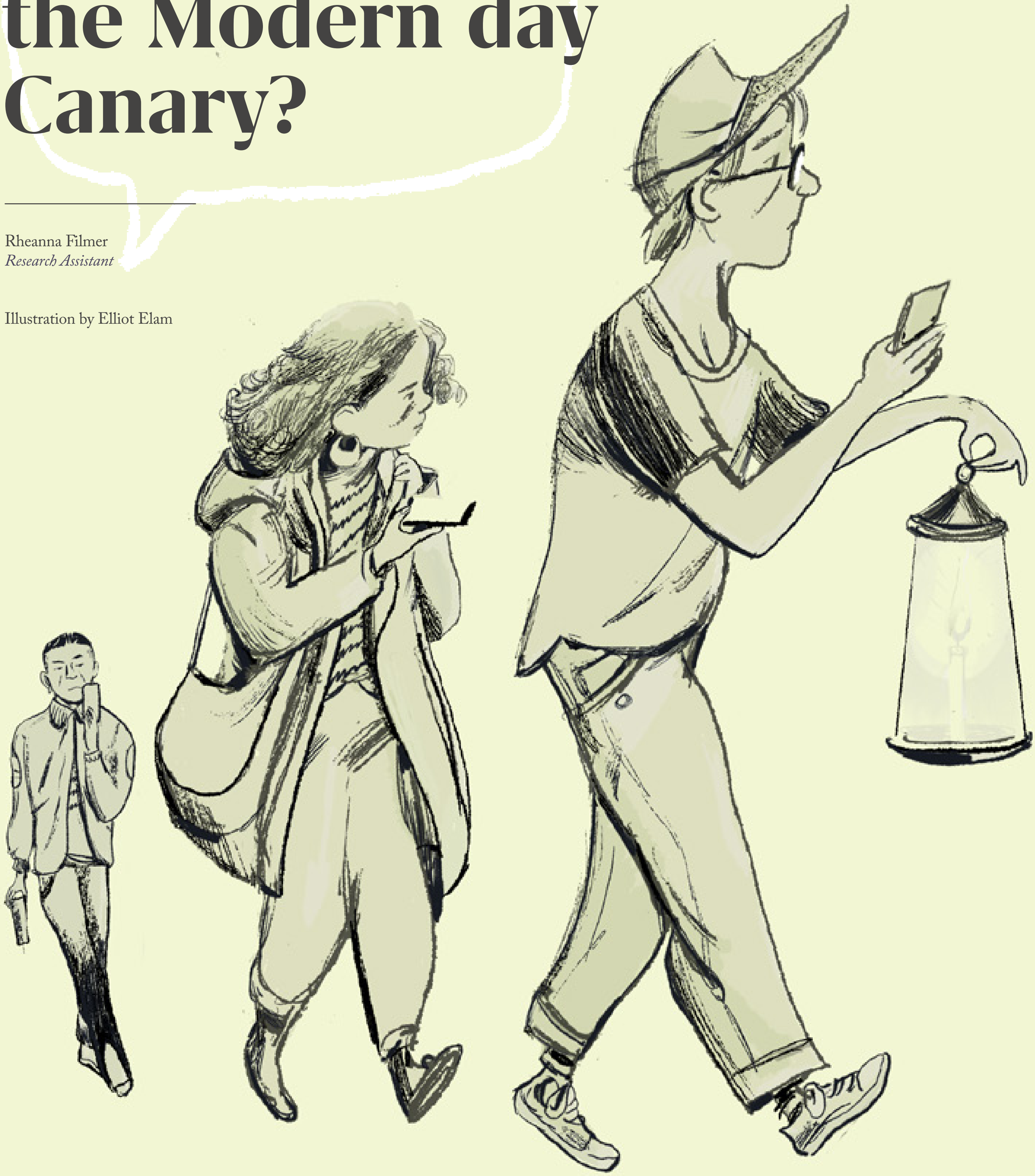
Hugo Bedford
CEO

Editorial

Day traders: the Modern day Canary?

Rheanna Filmer
Research Assistant

Illustration by Elliot Elam



Since the Reddit/GameStop saga of January 2021, much has been written about those who make investment decisions for themselves with no advice, typically via an execution only stockbroking platform. These investors are often referred to as private investors or day traders:

"They are vengeful against the establishment"

"They are a sign we are in a bubble"

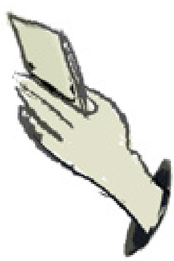
"They are just bored teenagers with nothing to do"

...all of the above?

Much of the initial shock has dissipated now, but it did highlight a trend: there has been a large increase in private investors utilising day trading platforms, particularly the app Robinhood. Robinhood is an American app that not only allows you to buy and sell shares or fractions of a share but also offers zero commission charges and promotional discounts on share purchases. As is the claim of most disruptive technologies, the Robinhood app aims to "democratize" investing, an activity rife with social and financial barriers. This would be a laudable aim, had this not been done before.

Day trading first surged in 1999 and again in 2007 through companies like E-trade that still operate today. Those years are significant; in both occasions, the increase in day traders coincided with the top of the market before the dot com bubble in 2000 and the global financial crisis in 2008.

I do not wish to speculate on whether or not we are at the top of the market now, but there are some similarities. Between 1999-2000 and 2007-2008, US unemployment was low and wage growth was strong giving the public more cash to spend. Though 2020 has seen a spike in unemployment due to the COVID-19 pandemic, there is the similar situation of excess cash in people's bank accounts thanks to government disbursement payments that pushed the US personal saving rate to a record high of 32% in April 2020.



But just because people have excess cash, does not mean they are willing to lose it. Typically, direct investments into one or a handful of equities are not attractive to the majority of people due to the high risk associated with their lack of diversification. Why put your savings towards a single investment that could theoretically wipe it out in a day? A small minority consider the risk of that happening to be low to non-existent and you see other people making easy money!

There are a number of reasons why this attitude pervades private investors currently: high levels of market optimism, the gamification of investing and social media.

In the last year, the global economy ground to a halt, the GDP of major economies contracted and most of us have not been able to leave our homes in months. Yet, the S&P 500 hit record highs. The momentum of the market seems unstoppable even by a global pandemic! It's hard to shame anyone for wanting a piece of the pie. This market optimism or market exuberance is due to a disconnect between share prices and the company fundamentals that underpin it. So when it begins to seem like nothing could go wrong in the stock market, that prices will only go up, many people - typically averse to such investments due to the risk - pile in via day trading apps.

And the day trading apps have made it especially easy to do so. Within minutes (i.e. the time to download the app, set up an account and transfer money) you are able to buy a share or a fraction of a share in some of the largest companies in the world and track their performance.

Prospects

This market exuberance is also exacerbated by trading platforms like Robinhood and E-trade gamifying the process with bright colours and confetti, creating an atmosphere so similar to a casino that regular gamblers and sports betters reportedly found refuge on Robinhood when sports matches were cancelled in 2020.

Day traders of today also have social media, which further amplifies the 'fear of missing out' on easy money. Forget market makers…meet the market "influencers", a small number of users around whom the new legions of day traders congregate for advice, investment ideas and memes. Many of these "influencers" gathered large followings through the simple message of "Stocks Only Go Up" and displaying their personal large portfolio gains as evidence.

> Day traders are not the originators of this larger-than-is-warranted market optimism but are rather a late stage symptom.

Due to this concentration of thought leaders and discussion boards, it is not surprising then that there is such a high level of crowding and momentum trading involved in day trading, which because many of the stocks that attract their interest are smaller and therefore more volatile, helps underline the inherent risks in this kind of investing. Prior to the active collaboration that fuelled GameStop's rally, most of the users were trading the same stocks anyway, continually building on the momentum generated from these crowded trades.

Jeremy C. Stein, a macroeconomist, said this of the "crowded-trade" effect in 2009: "[crowded-trade] can result in prices being pushed further away from fundamentals".

This disconnect between prices and fundamentals predates this new wave of day traders, but their presence compounds the effects.

So should we be fearful of the private investor phenomena and what are the consequences for the wider market?

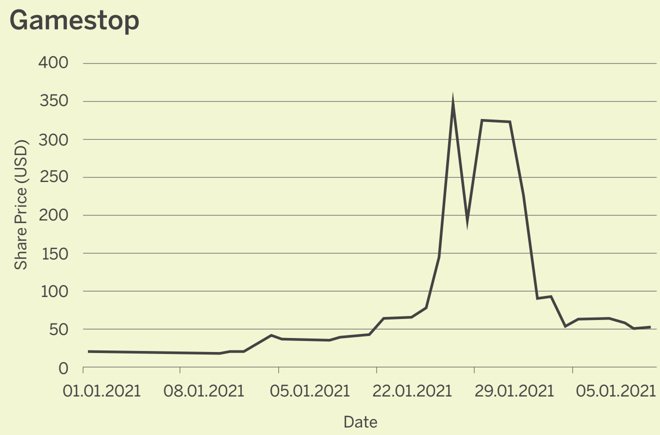


Figure 1. Source: Facetset. Gamestop share price in early 2021, despite the company reporting 20-30% annual decline in the free cash flow from 2016 to 2020.

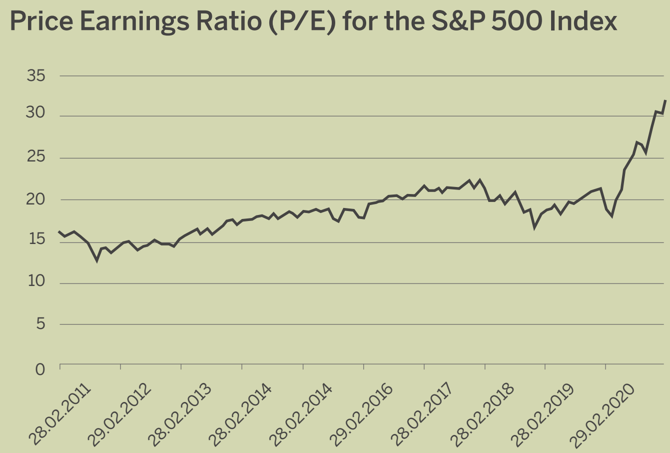


Figure 2. Source. FactSet (as at 31st December 2020). S&P 500 Price Earnings ratio showing an upwards trend from 2011 onwards with a dramatic acceleration in 2020.

Whilst empirical evidence supports the view that stocks tend to move up over the long term, day traders have applied this logic to weeks rather than years, to their detriment. As such, the volatility produced from their stampede of trading should largely be ignored by long term investors. However, the underlying cause of their presence, that is the disconnect between valuations and earnings should be cause for concern.

The presence of day traders then should re-focus our minds on the fundamental analysis used to identify high quality companies worth owning. They may also prove a useful 'canary in the coal mine' of stocks we should perhaps stay away from.

Please read the important notice on page 1.

Understanding Finance

INFLATION

James Ayling, CFA
Research Analyst

Conceptually we have a reasonable understanding of inflation. As an economic term, inflation represents the general price rise of goods and services over a predetermined time. A better way to view inflation, may be to consider how it gradually erodes the purchasing power of money held or, how it reduces the nominal amount of debt owed. In practice, our ability to evaluate inflationary effects seems less evident. Recently, I have observed how consumer goods companies have kept the price of everyday items such as toothpaste consistent. Instead, content size has shrunk. This shrinkflation, as termed by the Office for National Statistics, skewed my reference point. Take for instance my toothpaste tube. Its content shrunk from 150ml to just 75ml. I didn't notice the early shrinkage to 125ml or even 100ml. My point of inflationary realisation occurred late; only after I recognised the increased repurchase frequency of such items!

At an economy level, individual item level inflationary distortions tend to be lost. Instead, more emphasis is placed upon inflation expectations i.e. the average level of inflation that may occur over the next five or ten years. In that regard, we tend to overweight past experiences into future expectations. Yet, I believe COVID-19 presents distinct inflationary shocks that could render the recent past less repeatable. 2020 lockdowns artificially constrained consumer spending, creating an unequal negative demand-side shock, resulting in the UK's 2020 disinflationary experience.

As lockdowns ease, demand may normalise quickly. However, I suspect negative supply-side shocks, will take longer to materialise. Couple this with extraordinary government spending and record low interest rates investors may want to think carefully about rising inflationary risks ahead.

ASOS

James Ayling, CFA
Research Analyst

PRICE
£56.00

52 WEEK HIGH-LOW
£58.44—£9.75

NET YIELD
0.00%

HIST/PROS PER
44.3—41.10

EQUITY MARKET CAP (M)
£5,748

Today, ASOS is best recognised as a leading online fashion retailer. It is seeking to become the leading digital destination for, primarily, young adult consumers to; discover the latest clothing trends, purchase effortlessly on mobile devices and, as every online clothing shopper wishes, return items hassle free if they don't fit.

However, ASOS didn't begin with online clothing in mind. Instead, back during its formative years ASOS, or rather, 'As Seen On Screen', adopted a more generalised vision to sell items online that had featured on TV. Nevertheless, a timely early pivot towards more focused online clothing retailing, whilst evidently challenging, has provided more enduring successes. Although the appeal of offline TV has diminished, this has been more than offset by a rising social media influencer scene that has driven a new wave of digital marketing through virality, providing a strong tailwind that has supported ASOS' expansion.

Yet, profitability has long remained an investor concern. During the COVID-19 pandemic, ASOS' return rates reduced which helped improve 2020 profitability. Ahead, as lockdowns ease, I suspect return rates will re-normalise higher but do wonder if the accelerated online channel shift delivers more enduring profitability.

Please read the important notice on page 1.

Guest Editorial

The story of a unique firm

Although it has roots stretching back to the days of Wellington and Napoleon, the firm was founded 75 years ago, by the son of a Russian émigré. In a recently published book, former partner Charles Beck tells the story of a unique firm, which is summarised here.

Celebrating 75 years of
investing for your future
1946—2021

The Finns flee Russia

Sometime between 1880 and 1891, John Mendl Finn's grandfather Moses and his wife and five young children fled persecution in the Polish city of Bialystok, then a part of Imperial Russia, and took a boat to Newcastle. Moses eked out an existence as a travelling draper and died in relative poverty, but his eldest son Meyer was destined for greater things.

An unknown patron must have noticed Meyer's exceptional abilities – he was a polymath and could speak seven languages fluently – because he received a university education, something almost unheard of in those days for a person in his modest position.

Graduating from an offshoot of Durham University, Meyer had a brief stint as a teacher in Derbyshire before moving down to Southend to teach mathematics and physics in the newly founded Southend High School for Boys. In the 1920s he got his pupils to build one of the first radio receivers in the country using a roomful of test tubes filled with sulphuric acid as makeshift batteries. He was briefly appointed to the position of acting headmaster, and was even quoted as the inspiration for his success by a Fellow of the Royal Society. Meyer was clearly a very capable and much loved figure.

John Mendl Finn the commodity broker

John Mendl Finn was born on 5th September 1901, and he was the third of Meyer's approximately ten children. Along with his younger brother Philip, who was also destined to be a partner in J.M. Finn & Co., he was educated at his father's school. When he left school at the age of seventeen, a family friend gave John Mendl a job in his firm of commodity brokers on the Baltic Exchange in the City.

John Mendl quickly proved his value. By the age of twenty three he had outgrown the firm he had started with, and had become one of the three principals in the firm of Drummond Power & Co. Here he met a man of similar age who was to become his lifelong friend and business partner – Leslie Houlding.

In 1927 John Mendl set up his own company – the first J.M. Finn & Co, and it is clear that by then he was a major player in the world of commodities; his CV shows he was the London agent of no less a firm than J.S. Bache & Co of New York. Julius Bache, who counted the Rockefellers among his clients, was one of the most famous brokers on Wall Street, and the driving force behind the firm of J.S. Bache & Co. Bache & Co became Pru-Bache in the 1990s before it was acquired in the current millennium by Jefferies Group. Family legend tells how John Mendl was dismissed by Bache and sued them for unfair dismissal – an unheard of step in those days. Awarded, in or possibly out of Court, the sum of US$ 10,000, John Mendl staked it all on a single position in the futures market. He got it right and became rich overnight.

John Mendl joined the American firm of Sanday & Co. Inc., bringing the loyal Leslie Houlding with him, and for many years John Mendl was the firm's managing director. The firm had offices in New York, Paris, London and Liverpool, and the way in which The Times reported on their periodic reviews of the grain market indicates that it was both an influential and a much respected firm.

The road to Kenneth Carr & Co.

Kenneth Carr & Co was to be John Mendl's entry point into the Stock Market after the Second World War, and it had a hitherto un-researched and unique history.

Its long history can properly begin with the transition of stockbroking from something done in coffee houses to an activity conducted by 'members only' in their own bespoke premises in the early 1800s, and with one of the most fabled Stock Exchange coups of all time – Nathan Mayer Rothschild's legendary (and much disputed) piece of market manipulation whereby according to some accounts, he cleverly obtained early news of Wellington's victory at Waterloo and made a fortune by first selling the market and making everyone think that England had been defeated, and then by buying back into the market at rock bottom prices.

Whatever the truth of that episode, Rothschild's brother-in-law and stockbroker was one of the most prominent 'financier benefactors' of the nineteenth century, (Sir) Moses Montefiore, who had joined what we now know as the Stock Exchange a year or so after its inception. Moses passed his Stock Exchange business on to his younger brother Horatio, and Horatio's sons Benjamin and Moses continued in the family business, eventually calling themselves Montefiore Brothers. When Moses died, Benjamin went into partnership with Ernest Mocatta, a descendant of the Mocatta family which had founded the London bullion market. In due course Benjamin died and by the late 1890s the firm had become known as Mocatta & Foà.

How they came across him is not known, but towards the end of the century, Mocatta and Foà took on a young German recently arrived from Frankfurt on Main – Maurice Oppenheim. Maurice stayed with them for some ten years and they took a great liking to him, making him an authorised clerk in 1902.

Much as he liked them, Maurice decided that his future lay in jobbing rather than broking, and he set up in partnership with Charles (later Sir Charles) Kerr as a jobber. Maurice's brother Fritz (who later changed his name to Frederick) followed him to England, and was accepted as a trainee by the firm. By 1909 the firm was known as Oppenheim & Greenwood, and Frederick had joined his brother as a partner.

All went well until the outbreak of World War One, but as the war progressed, so did the strength of feeling against those of German birth, even if, like the Oppenheims, they were now British citizens. There was a well-orchestrated campaign, endorsed from the very top of the Stock Exchange, to rid itself of these 'undesirable' persons, and by 1917 the Oppenheims – and all others of their like – had been unceremoniously kicked out.

After a period of unemployment, Frederick Oppenheim re-entered the City. In 1924, he came across a man twenty one years his junior called Kenneth Carr. Following a stint in the Army in World War One, Carr had a brief and unsuccessful career as sales director and part owner of a soap manufacturing company, before turning to stockbroking. For the next ten years the two worked at a succession of firms, with the one seemingly following the other to his new 'home', just as Leslie Houlding followed John Mendl Finn, who was slightly younger than Kenneth Carr, from firm to firm at around the same time. Despite their age difference, Oppenheim and Carr must have 'hit it off', because in 1934 they set up their own two man broking firm just north of the Bank of England, under the name of Kenneth Carr & Co.

At first all went well, but then disaster struck. Carr, an only child, took an interest in motor racing, and having passed the necessary proficiency tests, he registered himself for his first race – at Brooklands, on the Whitsun Bank Holiday meeting on 1st June 1936. The race was in the afternoon and Kenneth went for a precautionary practice run in the morning. He lost control of the car – borrowed from his friend Harry Rose, who was the son of the founder of Great Universal Stores – and killed himself. The track owners decided to keep the news quiet so as not to spoil the holiday atmosphere of the day, and bookmakers were still accepting bets on him for several hours after his death, unaware of what had occurred. When the death was finally made public it was reported in daily newspapers up and down the country. Harry Rose was so upset by it all that he never raced again.

The elderly Frederick must have been in despair, but he kept the firm going and brought in new partners. He also kept the name unchanged, and Carr's name was retained for some years after John Mendl Finn purchased the company in 1945, as it was at first renamed Kenneth Carr, Finn & Co.

Killed Practising For First Race

BY OUR MOTORING CORRESPONDENT

BROOKLANDS, Monday.

JUST before he was due to drive in his first motor race, Kenneth Carr, a young London stockbroker, was killed here to-day.

He took the car, a very fast Italian Alfa-Romeo, owned by his friend, Mr. Harry Rose, for a final practice lap.

Carr was killed instantly.

Kenneth Carr

(Picture on Back Page.)

SNIPERS KILL JEW

PALESTINE ATTACK ON BRITISH PATROL

Left: The Daily Herald reports the death of Kenneth Carr, including in their report his only known photograph

World War Two

While others played their part in the war at home and abroad, this chapter concentrates on the wartime careers of three people; John Mendl Finn, his friend and colleague Leslie Houlding, and John Mendl's protégé after the war, the young Peter Freeman.

The Ministry of Food was well prepared when war was declared, and the Ministry assumed control of the London and Liverpool (i.e all the U.K.) offices of Sanday & Co Inc, and of other firms like it. According to his son Peter, John Mendl Finn headed a minute sized firm within the Ministry of Food during the war, and Peter Freeman fleshed this out by telling the author that John Mendl Finn was responsible for all the purchases of grain the U.K. made during the war.

The official records contain a number of documents relating to or written by his friend Leslie Houlding. Leslie was seconded directly into the Ministry of Food, initially as a relatively humble trade assistant in its Cereals Division, and latterly was the director of the Points Rationing & Welfare Foods Division, a very senior position indeed. It could be said that John Mendl and Leslie's work in the war was complementary insofar as the one was obtaining food while the other was arranging its fair distribution.

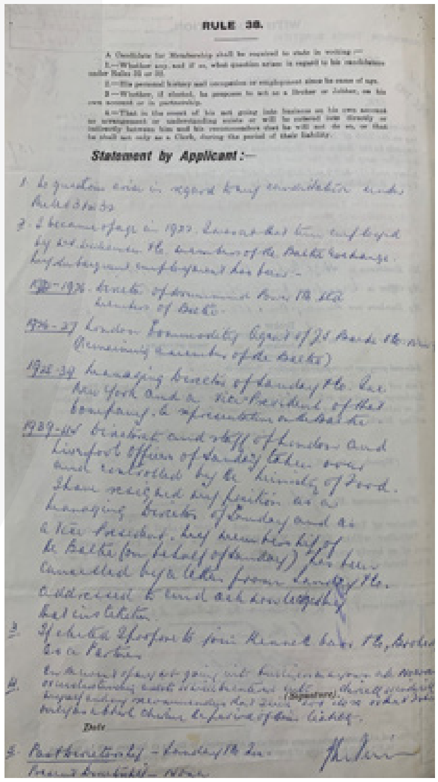
Peter Freeman's war was of an entirely grittier kind. He enlisted in the Royal Signals at the age of eighteen, and his first assignment after officer training was to command a group of motorcycling experts who trained motor cycle dispatch riders. When one of the experts followed Peter down the A1 at high speed, his bike slid under a lorry on the trunk road and he died, Peter had his first (but not last) experience of writing a letter to a loved-one informing them that their nearest and dearest would never come home.

Seeking action, Peter transferred to a Tank Division, and although it did not get him into the action, through this he met for the first time and completely by chance his future mentor John Mendl Finn. Still impatient for action, Peter volunteered for the Army Commandos, and after being interviewed by the legendary Lord Lovatt, he was accepted and trained in Special Forces techniques at the (in)famous Achnacarry training camp before being sent out to an island off the coast of Dalmatia (now Croatia).

Peter's final action came during June 1944, when the commandos and communist partisans tried to seize the well-fortified enemy strongholds on the island of Brac. Peter started the action with perilous surveillance missions on two of the other occupied islands, and then helped to lead an abortive rescue mission when his commanding officer 'Mad Jack' Churchill was captured. In his final action, Peter was hit by machine gun fire and left to die by the German soldiers once they had relieved him of his machine gun and his wristwatch. Thanks to the bravery of a local woman who found him just-alive many hours later, Peter escaped death.

John Mendl Finn turns to stockbroking

When the war ended, John Mendl decided there would be no future in grain trading as foodstuffs would be heavily price-controlled, and he decided to acquire a firm of stockbrokers. The firm he bought was Kenneth Carr & Co. John became a member of the Stock Exchange on 31 Dec 1945. The firm changed its name to Kenneth Carr, Finn & Co. on 1st Jan 1946, and then to J.M. Finn & Co. in 1948.



RULE 38.

Statement by Applicant :—

(Signature)

Date

Left: John Mendl Finn's CV in his application to be a member of the Stock Exchange, Photo courtesy of Guildhall Library / London Metropolitan Archives

Members of the old firm were joined by John Mendl, his loyal colleague Leslie Houlding, and a stockbroker acquaintance of Finn's named Denny Meyer. The support staff in the firm were bolstered by some of John's Back Office staff from his commodity trading days, including Reg Fowler and Ken King.

John Mendl's Finn's next three decades

In 1948, a twenty-six year old Peter Freeman joined the firm, and set about building a cutting edge Research Department; a counterpoint to John Mendl Finn's more intuitive style of trading. Having gained while 'on the job' a top degree at London University, Peter was frequently invited back to lecture on investment analysis and he was one of the earliest members of the Society of Investment Analysts, the forerunner of CFA UK. His presentation to the Jenkins Committee on Company Law alongside the Society's chairman in 1962 was considered crucial to the standing of the Society, and when CFA UK celebrated its sixtieth anniversary in 2015, as one of its ten-or-so most influential members, Peter was given a profile in the anniversary issue of the Society's magazine 'Professional Investor'.

In the 1950s Peter was joined by others who were to make their mark on the firm, such as Geoffrey Yeatts, Kevin O'Hanlon and Richard Faull. In the ensuing years, they were joined by others including long serving Partner Graham Poole, the firm's third Senior Partner, Cedric Feather, John Michael Finn (the founder's nephew), and David Brittain.

Left: The firm at cricket (1948)

The Chapter also tells the story of John Mendl's daughter Pamela, who in 1953, at the age of twenty-seven, had a tragic riding accident which left her paralysed for life. Undaunted by her painful disability, she went on to become an early Paralympian and, later on and famously, to have become the first presenter to appear in a wheelchair on television.

This Chapter also tell of other famous personalities to have been associated with the firm. One is Norman Hill, who was one of the firm's dealers for seventeen years, and who was the father of motor racing champion Graham Hill and the grandfather of motor racing champion Damon Hill. Another is Diana Laird Craig, who shattered a 'glass ceiling' in 1973 by becoming the first woman to be allowed on to the floor of the London Stock Exchange.

The next quarter century as a Partnership

With 'Big Bang', the world of stockbroking changed forever on 27th October 1986, and in many ways this was an inevitable change, however much some Partners may have regretted it. The size of U.K. securities firms was no longer capped by legislation, and advances in technology helped make securities trading an even more international business. The French looked on with interest while London went through these changes, and in the early 1980s the Perouse Commission was formed to look at ways to reform the antiquated Paris Bourse. Peter Freeman was co-opted, and was the only Anglo Saxon to be co-opted, to assist the Commission in its deliberations. For his services to the French financial services industry, Peter was appointed a chevalier in the French Ordre Nationale du Merite in 1977, and he was appointed a chevalier of the Legion d'Honneur in 1986. Rare honours indeed for a foreigner to be given.

Regulation had to evolve to keep pace, and from 1988, when Peter Freeman retired, our third senior partner, Cedric Feather, had the task of leading the firm through the greater part of this period of intense change.

Cedric Feather was succeeded as senior Partner in 1999 by James Edgedale, and a period of expansion began. Branches were opened in Bristol, Leeds, Bury St Edmunds and Cardiff, and both the headcount and funds under management grew steadily. Meanwhile, Steven Sussman, who had joined in 1997, and who later became the firm's Chief Executive Officer, helped bring the administration into the modern world.

The firm incorporates

Recognising that almost all of the other stockbroking partnerships had by now disappeared, and that it would be increasingly difficult to attract promising newcomers into a firm where they had unlimited liability, and where if they did well they would be expected to contribute significant sums to the firm's capital, the firm made the decision to incorporate in 2006. In light of its growth, the firm decided in the same year to move its premises from Salisbury House in London Wall to 4 Coleman Street.

The Ackermann / Delen era

The prestigious Belgian group of Ackermann / Delen acquired a majority stake in 2011, and the book concludes with a brief account of the changes the firm underwent between then and Easter 2019, with an account of its most recent successes in industry awards, and of the unprecedentedly high scores it has received in its client satisfaction surveys.

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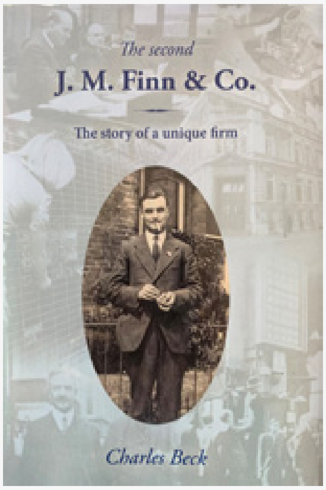


If you are interested in obtaining a copy of the book, please contact marketing@jmfinn.com

JM Finn News

Does your Lasting Power of Attorney reflect your wishes?

We included an article in 2019 about a change from the Office of the Public Guardian (OPG) who have revised their guidance in relation to managing investments on a discretionary basis for clients with a Power of Attorney in place. This article garnered a lot of client interest so we felt it was prudent to offer a further reminder.

The latest guidance requires a specific instruction is set out in the deed, which allows:

- An existing discretionary management scheme to continue; and
- The transfer of investments into a discretionary management scheme

If your current Lasting Power of Attorney (LPA) deed has no such instruction in place, we, as the discretionary manager, would be unable to continue managing the investments on a discretionary basis in the event the donor loses mental capacity. To change the situation, it is necessary to obtain an updated LPA, which can be done by applying to the OPG.

The OPG has suggested that the following wording be included in the Special Instructions section of the deed:

"My attorney(s) may transfer my investments into a discretionary management scheme. Or, if I already had investments in a discretionary management scheme before I lost capacity to make financial decisions, I want the scheme to continue. I understand in both cases that managers of the scheme will make investment decisions and my investments will be held in their names or the names of their nominees. "

It would be prudent to seek your own legal advice in relation to making a new power of attorney application and the extent of the wording used and we would urge you to do so to ensure your wishes are reflected as and when the LPA comes into effect.

ASSURA

Rheanna Filmer
Research Assistant

PRICE
£0.75

52 WEEK HIGH-LOW
£0.88—£0.62

NET YIELD
3.74%

HIST/PROS PER
22.6—27.00

EQUITY MARKET CAP (M)
£2,019

Assura is a real estate investment trust (REIT) that specialises in UK primary care medical centre real estate. The majority of their tenants are GPs, which accounts for c.70% of their income. The remaining income is generated 15% from other NHS tenants and 15% from peripheral medical services, like pharmacies. Assura's income is "NHS backed" as GP's rents are reimbursed by the NHS. Due to the specific structural needs of medical centres and a lack of supply of suitable buildings to meet these needs, Assura enjoys leases of 21+ years with very low default risk and sticky tenants that would struggle to leave their established customer base (i.e. their patients).

In April 2020, they raised £185m in equity to take advantage of attractive acquisition opportunities. Some of this capital was also deployed to their Asset Enhancement strategy to add extensions and more specific medical infrastructure to property already in their portfolio, for example a dedicated dementia centre. Assura's relationship with the NHS provides secure income however this also means the NHS is an active participant in rent reviews and rents have to be deemed efficient for tax payers. Therefore, there is limited scope for rental growth, which is a challenge as they must then rely on acquisitions for significant growth.

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 or spoke with 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

James Ayling, CFA
Research Analyst

Michael Bray, CFA
Research Analyst

COMMUNICATION SERVICES
Vodafone

CONSUMER DISCRETIONARY
Intercontinental Hotels
Persimmon, Compass Group,
Barratt Developments Group,
Ocado

CONSUMER STAPLES
Reckitt Benckiser, Fevertree,
Unilever, Nestle

ENERGY
Shell

FINANCIALS
Burford Capital, HSBC
Prudential, IG Group,
Barclays Bank

HEALTH CARE
Novo Nordisk, Smith & Nephew,
AstraZeneca,
Edwards Lifescience, Coloplast

INDUSTRIALS
Experian, Intertek, Chemring

INFORMATION TECHNOLOGY
ASML, PayPal

REAL ESTATE
London Metric, British Land,
Shaftsbury, Assura, St Modwen

1.

AstraZeneca

Price **£69.45**
52 week high-low **£101.20 – £58.71**
Net Yield **2.89%**
Hist/Pros PER **28.5 – 18.92**
Equity Market Cap (M) **£92,610**

Health Care
Craig Marks, Senior Director, Investor Relations & Tom Waldron, Director of Investor Relations

AstraZeneca's collaboration with Oxford University on the development and manufacture of a COVID-19 vaccine has meant that the company has been in the news a lot recently. Although a good 'ethical badge' for the company to wear, the reality is this will have little impact on the business: Astra has promised to provide it on a not-for-profit basis to developed nations for the duration of the pandemic stage and indefinitely for developing nations. Our conversations therefore focused on more financially meaningful factors, particularly the large-scale acquisition ($39Bn) of rare disease drug company Alexion which was announced in December 2020.

Many investors questioned why the company was making such a large acquisition given the already encouraging prospects for AstraZeneca and their limited presence in immune related rare diseases, Alexion's focus. They feel they should be looking to make acquisitions from a position of strength and, although they currently only have a small presence in immunology, Alexion's expertise should help accelerate their research & development pipeline in this therapeutic area. Astra also believe the rare disease market is highly attractive; the niche focus of drugs means they can demand premium pricing and lower marketing costs, resulting in higher profit margins versus the wider pharmaceutical industry average.

More revenue synergies of the acquisition come from bringing Alexion's established drugs Soloris and Ultomiris to China. Alexion has negligible Chinese sales exposure and Astra believe they can leverage their presence to expand regional sales. In the medium to long-term, Astra are also hopeful they can commercialise a number of Alexion's own pipeline developments, the success of which is however no sure thing.

2.

Barclays Bank

Price **£1.60**
52 week high-low **£1.66 – £0.73**
Net Yield **0.61%**
Hist/Pros PER **18.1 – 10.24**
Equity Market Cap (M) **£28,256**

Financials
James Cranstoun, Director Investor Relations, Aftab Khan, Vice President Investor Relations & Benedetta Alecce, Assistant Vice President, Investor Relations

The meeting started with a quick review of consumer behaviour over the last few months and confirmed what we thought: during COVID-19 retail customers had been paying down expensive credit card and other debt, whilst corporates had continued to grab liquidity from government loan schemes with the cash going on deposit.

Bank revenue is mostly driven by the difference between what they pay their depositors and what they charge to borrowers. This is called their net interest margin or NIM. Seeing customers pay down high interest rate credit card debt, whilst at the same time seeing corporates deposit surplus cash is unhelpful for NIMs. Surplus cash, over and above what Barclays had lent out, stood at £151 billion at the time of our meeting. Barclays said the surplus was either left in cash or invested in government bonds and AAA and AA corporate bonds where, as you probably know, returns are pretty derisory. The two year gilt yield is now -0.09%.

Prior to our meeting we had seen mortgage rates increase; which was not what we had been expecting given the large cash surplus that Barclays and other banks had and which they are mostly trying to place in the UK mortgage market. If there was a large supply of bank cash looking for a home in the UK mortgage market, then you would have expected rates to have stayed lower. The reason for the hike in mortgage rates was attributed to operational constraints at some banks whose personnel were busy trying to process government assisted COVID-19 support loans and finance, so they reacted by simply pricing demand away.

3.

Experian

Price **£22.73**
52 week high-low **£31.92 – £18.24**
Net Yield **1.59%**
Hist/Pros PER **30.4 – 30.92**
Equity Market Cap (M) **£21, 263**

Industrials
Nadia Ridout-Jamieson, Chief Communications Officer

Experian's traditional business is a credit bureau; a data collection, scoring and reporting entity. What is nice about the credit bureau model is the social benefit gleaned from separate data contributions. Experian's customers, lenders, each provide Experian with their own partial data records on borrowers. Its credit bureau then aggregates these fractional records to provide a more complete borrower profile helping lenders make informed decisions. This drives a self-reinforcing and enduring loop with lenders continuing to provide new data in return for more accurate credit records.

A key economic moat for Experian versus smaller peers and new competitive entrants is the growing breadth and depth of data collected and the longstanding customer relationships. In the US, this partly explains how Experian is one of the top three credit bureaus, alongside Equifax and TransUnion, in an oligopolistic market structure. However, Experian has long since expanded beyond its credit bureau foundations and shifts increasingly towards data science. Within its business-to-business segment, Experian also provides decisioning software upon which customers can base credit decisions and in health, Experian helps US hospitals better understand customer insurance coverage and improve hospital payment cycles.

We also reviewed Experian's Tapad acquisition which adds to their existing identity verification and marketing capabilities. Tapad uses a combination of web cookies and device IDs to understand which different internet enabled devices a consumer may own and how those devices are typically used each day. In identity verification, these insights help flag-up unusual behaviours, whilst in advertising, such insights help improve targeting and conversion rates.

Please read the important notice on page 1.

Economic Focus

Will no one rid me of this turbulent market?

Brian Tora, Chartered Fellow, CISI
Consultant

Let's face it. It has been a tough old year in the market. Twelve months ago, the true implications of the pandemic began to sink in. Lockdown 1 was introduced, the NHS was nearly swamped and the economy went into reverse.

Unsurprisingly, a new bear market ensued. More surprisingly, it was short lived and, as I write, the MSCI World Index has just entered new high ground, buoyed by a strong US market. Turbulence seems an appropriate description of what we investors have been going through.

Why the new found enthusiasm? After all, we are far from out of the woods yet, with the vaccine progress still in its early stages, new variants of coronavirus popping up all the time and government borrowing soaring to heights never known in peace time. Yet a recent survey conducted by Bank of America Merrill Lynch of more than 200 fund managers around the world concluded that the overall attitude to markets was very bullish, with uninvested cash levels falling.

Looking at the various pieces of macro research that come across our desks, there are two themes that are being widely picked up – resurgent inflation and pent-up demand. Neither are necessarily bad for equity markets, though inflation has been a cause of concern in the past. However, it is probably safe to say that this time is different, despite the fact that the late Sir John Templeton once said these were the four most dangerous words in the investment world.

> **Despite copious money printing, the cost of living did not rise sharply as many had feared.**

The background to the belief that inflation might rear its ugly head again lies with the considerable quantitative easing being undertaken by central banks around the world. This was a fear when this particular exercise in staving off economic disaster was introduced in the wake of the financial crisis of 2008. As it happens, despite copious money printing, the cost of living did not rise sharply as many had feared. This has almost certainly given encouragement to central bankers to adopt this approach in our current crisis.

This time, though, the stakes are even higher and the sums mooted as required to shore up those economies suffering from the effects of the pandemic are eye-wateringly large. In the US, President Biden has unveiled a near $2 trillion package of aid to counter the economic downturn. Even the Fed believes this could well seep into higher prices, but appear unwilling to take any action that might dilute the efficacy of these measures.

Back home, inflation figures disclosed a modest, but unexpected rise, though remaining well below the Bank of England's target of 2%. Economists point to rising unemployment and lower incomes as likely to put a cap on any inflationary increase but, in some measure, this is where the second theme starts to make itself felt. With the ability to spend money during the various lockdowns that have taken place severely restricted, is it any wonder that savings ratios have risen during the pandemic.

The bullish argument for a rapid economic recovery rests very much on these savings translating into spending as this pent-up demand is unleashed once lockdowns have been consigned to history. Indeed, the Bank of England's chief economist, Andy Haldane, remarked that the UK economy "is poised like a coiled spring". Certainly, there is plenty of evidence that consumer habits revert to the previous normal after a shock to the system. Still, this has been a lengthy and dramatic change to our usual spending patterns, with all the possible disruption to consumer habits that might result.

So, it could be that the new normal will look very different to that which applied in the past. Some of the likely changes are already well signalled. Lockdowns have hastened the move towards internet shopping and, while shops may be able to entice some consumers back, it is probable that many will continue to buy more goods on-line than in the past. This has implications both for the future of our high streets and for governments' taxation policies.

As for inflation, I have yet to find anyone who believes any uplift in the cost of living will be anything other than temporary. High unemployment and lower incomes for many should put a cap on demand. That is not to say that an economic rebound could be headed off by a more cautious approach to spending, but perhaps the coiled spring will unwind more slowly than some expect. Whatever the outcome, a slower and steadier return to our economic norm may be just what the market needs to bring an end to recent turbulence. And don't forget that, if inflation persists for longer than expected, it does have the effect of devaluing debt – of which there is a lot around right now.

General Interest

Is now the time for income investors to adopt a total return approach?

Sam Barty-King
Investment Director, JM Finn

Whilst Governments and Central Banks around the world have acted quickly to mitigate some of the consequences of the COVID-19 crisis, we are all too well aware that those investors looking for income are feeling the effects.

For those investors who are fortunate enough to have invested assets, the income flow from those assets often provides the financial backbone of their wealth. Whilst there are a number of different investment strategies an individual might adopt to meet one's objectives, traditionally, those with an income approach to investment, would only withdraw the income (equity dividends, fixed interest coupons, income received from unit trusts and cash interest) that is physically produced by the portfolio. This has many advantages including ease of identification, reliability of income and long-term protection from inflation.

Asset	Yield as at 31st December 1999	Yield Today
FTSE 100 Index	2.10%	3.10%
S&P 500 Index	1.20%	1.30%
10 Year UK Gilt	5.40%	0.19%
10 Year US Treasury	6.70%	0.94%
Bank of England Bank Rate	5.5%	0.1%
Federal Reserve Funds Rate	5.45%	0.25%

Data Source: Bloomberg (as at 31st December 2020). Past performance is not a reliable indicator of future results.

Someone adopting this approach will likely have had a large proportion of their assets invested in UK equities over the last 20 years, a theme that remains as prevalent as ever today. The UK has been an increasingly attractive place to invest for income investors, from a yield perspective, as yields elsewhere have compressed.

However, the UK has been a particularly challenging place to invest especially when compared to other overseas developed markets. During 2020 the UK equity market considerably underperformed global equities by nearly 25% in sterling terms, which, whilst not a new phenomenon has been a prevalent theme on and off, apart from short spells of outperformance, for the last 20 years. This is also somewhat true over the longer term.

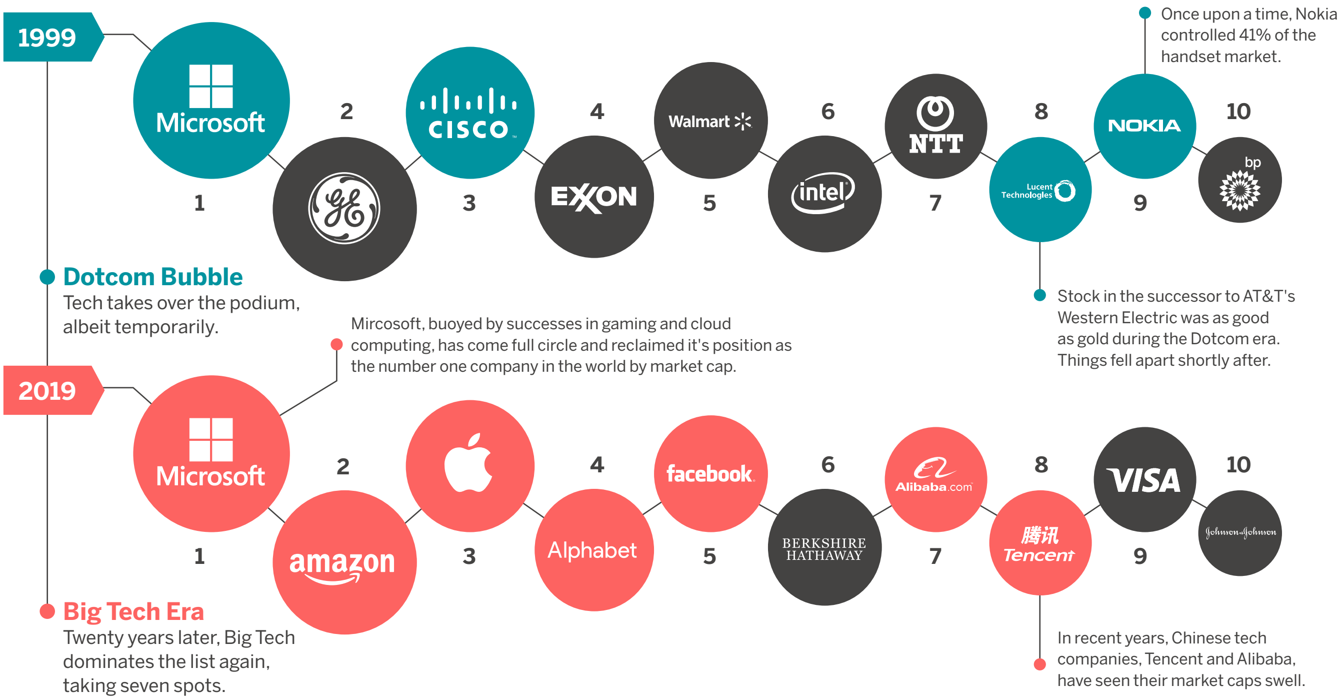
Much of this underperformance can be explained by the sector composition of the UK market; a heavy reliance on financials, telecoms, big pharma and 'old' energy, none of which have performed well in the low interest rate, low growth environment we have been living in for much of the last two decades. Unfortunately, for income investors, they also happen to be the companies that have historically been some of the biggest payers of dividends.

However, the reaction to the pandemic has seen the revenues of many businesses dry up and with no earnings and profits, dividends have had to be cut. This has been prevalent in areas of the world with an engrained dividend culture and the UK is at the forefront of this. When revenues recover, one would hope that these dividends will be reinstated, but there are plenty of companies that have been over distributing over the years and the events of 2020 may well shape their capital allocation decisions going forward, with payout ratios falling significantly.

This raises a number of questions; how are these investors going to make up this potential income shortfall? Will they have to just accept a lower income? Adjust their budgets permanently? Should they forgo income and invest more overseas? Or should one consider a change in investment strategy, by adopting a total return approach?

Under this approach, the form in which investment return is received does not matter as both income and capital can be used to meet spending requirements. The yield of a portfolio becomes the function of the asset allocation and the investments selected rather than vice versa. There are many advantages in adopting this approach. Investments can be selected on a best of breed basis, which ensures there is no bias within the portfolio. When yields are low, total return investors can still remain well diversified across a broad range of asset classes and sectors, not just invested in those assets paying the required income.

Perhaps most importantly though, investment choices are maximised and this enables investors to focus on investments that are expected to give the best performance overall. We now live in a complex, faster moving economy where globalisation, technological change, increasing regulation and shifts in consumer demand are all exacerbated by the speed at which information is disseminated. Many of these trends have been accelerated by the recent pandemic. One only has to look at the change in the composition of the top 10 companies in the MSCI World Index over the past 20 years; in today's top 10, Microsoft is the only survivor from 1999 (which included BP!).



Data source: www.visualcapitalist.com

The top 10 is now dominated by 'new economy' companies, only a handful of which pay out any dividend income. Companies that prioritise dividends look destined to stagnate. Global stock markets have been wise to this too: high dividend payers rank as some of the worst performers year to date. Furthermore, the UK makes up around 5% of the index, so it seems prudent to widen your investment universe, even if it is at the expense of a bit of income.

Adopting a more global approach can allow some focus on those companies which can grow steadily over time, have strong economic 'moats' and robust cash flow to pay dividends. The increased flexibility allows opportunities to capture investments from all over the world, including in sectors less well represented by UK listed stocks, such as technology and healthcare.

A total return approach also allows investors further flexibility to invest in other asset classes, outside of equities.

Furthermore, a total return approach also allows investors further flexibility to invest in other asset classes, outside of equities, that potentially offer less by way of an income return but with the potential to achieve higher total returns. In the current environment, with bond yields anchored near record lows, this is an attractive proposition for investors.

There are disadvantages of course. The capital gain element is not as easy to separate out the way that income is and you may well be forced to sell investments to fund a withdrawal when markets are low. This would have a negative effect if the sale occurs when markets are low although it can have a positive effect if they are high. This risk can be smoothed out if withdrawals are made monthly for instance, rather than annually. Income will continue to form part of the return, whilst we usually have some cash on deposit that again can reduce the risk of bad market timing.

			Annualised Return (Total Return)		
All data to 30 Sept 2020	Yield	1 Year	3 Years	5 Years	10 Years
MSCI World Index	2.0%	+5.8%	+9.7%	+14.7%	+12.2%
MSCI UK Index	3.9%	-19.7%	-4.4%	+2.9%	+4.1%

Source: MSCI. See disclaimer for further information. Past performance is not a reliable indicator of future results.

Looking at the empirical evidence though, it is conclusive that investing using a total return approach over the last decade will have produced a better overall return. A portfolio with a 3% income target, that had adopted a total return approach and simply withdrawn 3% every year from a mixture of capital and income, but had had the freedom to invest in the best opportunities available to them, would likely have had a larger allocation to the MSCI World Index (for this illustration we are assuming a 100% allocation). This portfolio would have generated a total return of +11.6% per annum over the last 10 years through a mixture of both capital appreciation and income generation. At the same time, a portfolio that had adopted an income only approach, in order to meet this 3% income target, would have been 'forced' to invest the bulk of their assets in the MSCI UK Index in order to meet this requirement (again for this illustration we are assuming a 100% allocation). This would have returned +4.1% over the same period with the majority of that return being made up of income and with little growth in the capital base.

The difference in returns are easily visible. In both cases they would receive the 3% income they required but the portfolio adopting the total return approach would have been able to grow its capital base by c.7% per annum more than the one that had simply adopted the more traditional income only strategy. Evidently, this is a very simplistic way of highlighting the different return profiles of each strategy over the last 10 years, and of course, there are other asset classes available, but it does demonstrate the difference to some extent.

Companies that prioritise dividends look destined to stagnate.

For investors that are currently invested for income and therefore might have a high allocation to UK equities, they may well question whether now is the right time to start shifting exposure overseas. On some valuation metrics, shares in Britain's leading companies are currently the cheapest they have been since records began. Much seems to depend though on a strong global recovery, but one could argue though that that is more of an asset allocation call rather than an investment strategy decision.

A total return approach has many of the positive attributes an income only approach can offer, as well as greater flexibility. Although the income stream might be a bit more volatile on an annual basis (more volatile the higher the withdrawal rate), the opportunity set of what one can invest in increases significantly, hopefully enhancing returns, whilst reducing volatility as portfolios become more diverse, rather than just income producing. They both have their distinct advantages / disadvantages but believe the merits of each approach should be considered by investors.

The views expressed in this article are those of the author. You should contact the person at JM Finn with whom you usually deal if you wish to discuss the suitability of any securities and investment strategies mentioned.

CYBERARK SOFTWARE

John Royden
Head of Research

PRICE
$146.83

52 WEEK HIGH-LOW
$169.70—$69.51

NET YIELD
0.00%

HIST/PROS PER
NA—217.85

EQUITY MARKET CAP (M)
$5,686

CyberArk shares are traded in America, although the company can trace its origins to the Israeli defence forces. Its software ensures that only appropriate users are granted access to critical assets and systems such as administration accounts, databases and servers, which are often referred to as "the keys to the IT kingdom". CyberArk is the leader in this Privileged Access Management (PAM) market.

CyberArk records the actions any user makes for real time monitoring and an analysis of privileged sessions to ensure the privileged user is behaving in a normal way. They have built an impressive customer base that includes more than 50% of the Fortune 500 list of US companies and greater than 35% of the Global 2000 list. Their customers include just about every major bank in the world. Banks are one of the sectors most likely to suffer from a cyberattack and so the installed base is testament to CyberArk's leadership in this area.

Sales grew at a 20% CAGR from FY17 to FY20E. However, management recently announced a business change from a license to a subscription model. The jury is still out on how shareholder value creating this change will be.

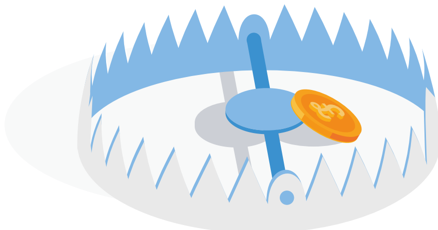
Please read the important notice on page 1.

Wealth planning in focus

The tax trap whose bite is worse than its bark

Atticus Kidd
Wealth Planning Assistant

Illustration by Adam Mallett



Pension rules are increasingly complex, with the cost of getting it wrong often punishing. Atticus Kidd explains the rules around the annual allowance and highlights the risks of inaction.

When discussing pension contributions one of the primary considerations is the annual allowance. The annual allowance is the most you and your employer can save into your pension within a tax year before you are required to pay tax on those contributions. Depending on your taxable income, the excess pension savings can be charged to tax in whole or in part at 45%, 40% or 20%.

In the 2020/21 tax year the annual allowance stands at £40,000. However, there are limits to the tax-relievable contributions that can be paid. For personal contributions, you are permitted to make contributions of up to the greater of £3,600 or 100% of your annual earnings each tax year, capped at the annual allowance, in order to receive tax relief on them. However, your annual allowance may be reduced if you have either flexibly accessed your pension pot previously, or you have a high income.

> **This is a complex issue and one that could be detrimental to your long term financial planning**

To focus on the latter point, as of the 6th of April 2016, a tapered annual allowance was introduced for higher earners, for which an individual's annual allowance was reduced by £1 for every £2 of adjusted income over £150,000 provided your threshold income did not also exceed £110,000. Adjusted income broadly being all taxable income plus employer pension contributions and threshold income broadly being all taxable income, less personal pension contributions.

A tax trap that is ensnaring individuals due to its complexity

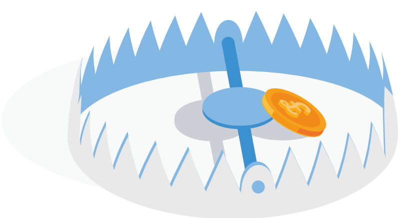
However, as of the 2020/21 tax year, the rules changed in which for every £2 of adjusted income over £240,000, an individual's annual allowance is reduced by £1. The threshold income also received an increase going from £110,000 to £200,000. A generous £90,000 increase on the previous amount which has served as good news to many who were previously restricted by this taper but will still serve as a bane to some. Unfortunately, for higher earners still impacted by the taper, the minimum tapered annual allowance was reduced from £10,000 to £4,000. This means that anyone with an adjusted income of £312,000 or above is now restricted to an annual allowance of only £4,000.

The calculation of annual allowance for higher earners can be the source of some confusion as there are numerous elements at play and, as a minimum, an individual would be required to know their income amounts chargeable to income tax and pension savings (including employer contributions) for the relevant tax year. This can be particularly troublesome for those with variable income arising from multiple sources. The consequences of not being aware of these amounts could be a tax charge known as the annual allowance charge. In order to calculate the charge applicable the total gross amount that has been contributed to pensions in excess of your annual allowance is added to your income for the year and then income tax is applied. For earners in excess of the £240,000 threshold this would likely be 45%. This charge will be payable by the individual even in the case where the annual allowance has been exceeded through employer contributions. Subject to certain conditions it is possible to have the charge paid from your pension however, this is still not a situation many people would wish to find themselves in.

If you believe that you may be subject to the tapered annual allowance and as a consequence be subject to an annual allowance charge it is important to check with your accountant who will be able to work out your annual allowance and help you adjust your contributions accordingly. We have seen numerous high income individuals incur a large annual allowance tax charge as they were under the assumption they could pay in £40,000 and were restricted by this tapering. It is a tax trap that is ensnaring individuals due to its complexity, and often it is clients who do not employ the services of an accountant who fall foul of the rules.

It might be possible to carry forward any unused allowances from the previous three tax years. Ultimately, this is a complex issue and one that could be detrimental to your long term financial planning were you to incur a large unanticipated tax charge however, this can easily be amended by proper and regular surveillance and seeking help from appropriately qualified individuals.

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.



JM Finn *News*

The inconvenience of mitigating fraud

It is a sad truth that, even whilst the world is struggling to cope with a pandemic, there are those who try to capitalise on the misfortunes of others.

With an estimated 80% of UK businesses subject to cyber attacks according to a report by the Department for Digital, Culture, Media and Sport, fraud is something we cannot afford to ignore. Many clients will have experienced some of our processes designed to reduce the risks put to us by the fraudsters and protect your assets.

Part of our fraud prevention requires a confirmation that a request we receive from a client is a bona fide instruction. We therefore have protocols in place that require us to call back a client on the number that is recorded in our systems to reconfirm the instruction to try and avoid any of the following instances:

— Scam or fictitious instructions, whereby we are requested by email to liquidate all or part of a portfolio and transfer the cash out of the firm

— Unusual or random requests. If our investment managers consider an instruction is out of character we may require secondary confirmation

We have halted a number of fraud attempts with this call-back protocol but we realise this can often be an inconvenience, however we believe this is a reasonable response considering the huge increase in fraud.

For more information about how to keep you and your family safe online, please download our guide at: www.jmfinn.com/cyber-crime-awareness.

PETS AT HOME

James Ayling, CFA
Research Analyst

PRICE
£3.94

52 WEEK HIGH-LOW
£4.75—£1.75

NET YIELD
1.87%

HIST/PROS PER
29.2—31.05

EQUITY MARKET CAP (M)
£2,003

Terry Smith, founder and CEO of Fundsmith wrote in 2010 about the rationale for investing in Del Monte, which most people associated as a canned fruit producer. In fact, the majority of its profitability came from pet food. When I read Pets at Home's recent trading update – a remark from Terry's investment rationale resonated: "research shows that consumers will cut down their expenditure on feeding their children before they will cut down on feeding their pets."

Throughout the pandemic, anecdotal evidence of consumers rushing out to purchase new pets saw veterinary practices coin the phrase 'the pandemic puppy boom'. But let's remember a dog is for life, not just for lockdown implying higher income expenditure on pets over the next decade. Resilience in pet food demand during the COVID-19 downturn, alongside a growing pet population drove strong retail sales growth for Pets at Home recently. Moreover, their grooming and veterinary services push makes physical stores more of a one-stop-shop destination driving more frequent visitation. Despite a pet population tailwind for the business, a risk ahead could come from Sterling weakness, given a reliance on imports.

Please read the important notice on page 1.

Stock in Focus

Spirax-Sarco

Michael Bray, CFA
Research Analyst

Spirax-Sarco's roots date back to London in 1888, during the second industrial revolution, where it was an importer of steam traps (a valve that filters out condensate).

Steam had a profound impact on the industrial revolution, powering trains, boats and factories. Since then, steam use case applications have expanded and it now plays a fundamental part in almost every industrial process, from blanching food to space heating in hospitals. Steam remains a highly efficient medium for energy transfer. Spirax has been at the forefront of the industry for the last 130 years and remains the global market leader in the manufacture and maintenance of 'steam loops' – the process through which steam is created, distributed and recycled.

The modern day Spirax-Sarco doesn't just operate in the steam market. It is a multi-national engineering company comprised of three market-leading niche businesses: Steam Specialities (61% of revenue), Electrical Thermal Solutions (15%) and Watson-Marlow (24%). Regionally, revenue splits between Europe, Middle East & Africa (42%), Americas (32%) and Asia Pacific (24%).

Electrical Thermal Solution is a very similar business to Steam Specialities, except electricity is used as the means for transferring energy, particularly in applications that require higher temperature and a more controllable temperature range. Meanwhile, Watson-Marlow is a specialist in peristaltic pumps, a type of pump that uses rollers to move fluids precisely without contamination and requires little maintenance.

An example of all of Spirax's businesses in action can be seen in food manufacturing:

Steam is used for blanching, cooking, baking, packaging, cleaning and sterilising.

Electrical process heating elements are used in high-temperature commercial food equipment.

Peristaltic pumps are used to meter ingredients, deliver food to process lines and handle process waste.

The common set of characteristics across the three businesses are the repeat nature of their revenue models, the mission critical nature of their products, and the reliance that customers place on Spirax's technical expertise.

What unites all three of Spirax's businesses and is the group's source of competitive advantage is its direct sales force. It enables the group to meet the three key criteria of its customers: 1) availability of product; 2) technical understanding and advice and; 3) product quality.

Its sales force are typically engineers by trade, with many having PhD qualifications, who have subsequently been trained to become sales representatives. Out of its c.8,000 employees, c.1,600 are sales engineers, c.10x more than their closest competitor. The sales force is specialised by division and, in some cases, end-market sectors as well.

PRICE
£107.10

52 WEEK HIGH-LOW
£121.05—£74.70

NET YIELD
1.03%

HIST/PROS PER
47.3—45.69

EQUITY MARKET CAP (M)
£7,990

What unites all three of Spirax's businesses and is the group's source of competitive advantage is its direct sales force.

This is important for two key reasons: 1) having engineers 'walk-the-plant', build relationships with customers and understand their productivity, control and energy efficiency problems, gives Spirax the opportunity to 'self-generate' revenue and 2) a direct sales approach gives Spirax considerable pricing power as customers can be willing to pay for high-quality products/technical advice, given the efficiency savings they provide, with payback periods typically 12-24 months.

Spirax has been at the forefront of the industry for the last 130 years.

A good example of this is when Nestle asked Spirax to audit its steam system at its Mexico coffee plant. Spirax found that condensate was being lost, so it installed a system to capture the condensate and return it to the boiler (saving energy, water and water treatment chemicals). Overall, they stated the project cost Nestle £76,000 but generated annual savings of £67,000 and, significantly lowered energy consumption and CO2 emission.

Spirax generates 72% of its revenue through direct sales channels whereas 28% of revenue comes indirectly from margin-dilutive distributors, typically in geographical markets where the group is still building a presence.

In regards to availability of product, Spirax has a comprehensive geographical footprint in terms of manufacturing (14 countries, 30 sites) and operating units which hold stock (66 countries). In the Steam business, it is able to offer same-day delivery to most of the world, which is crucial to many industries where production continuity is of utmost importance. This combined with Spirax's broad product offering of over 30,000 units enables it to be a one-stop shop for customer needs, simplifying their procurement process.

Although the ability of Spirax's direct sales force to 'self-generate' revenue does insulate the group from the wider macroeconomic cycle, global industrial production is an important driver of growth. It therefore follows that there is a degree of cylicality to Spirax's businesses that leaves it susceptible to economic downturns. Whether the current valuation of shares (c.46x December 2020 expected earnings), which could be deemed expensive, reflects this reality is however debatable.

Please read the important notice on page 1.

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Collectives Commentary

Does investing in the low-carbon revolution have to cost the earth?

Graeme Baker & Deirdre Cooper
Co-Portfolio Managers, Ninety One Global Environment

Illustration by Adam Mallett

With Tesla's stock price increasing more than seven-fold in 2020 and stellar gains for some solar-energy equities, many investors are asking whether shares in companies linked to the green revolution have lost touch with reality.

We manage an equity strategy that invests in companies we expect to benefit from efforts to tackle climate change, so we understand the concern.

We don't hold Tesla in our portfolio. But we do own shares in other companies whose products and services help to avoid greenhouse gas emissions from transport, as well as from electricity generation, factories, offices, homes and other sources.

Like most investors, we hate paying too much for a stock. Fortunately, we think there are plenty of companies making the global economy more sustainable whose shares represent good value. But it's increasingly important to invest selectively.

Capturing decarbonisation-fuelled growth

Conceptually, the case for investing in businesses whose products address the world's carbon problem is straightforward. 'Decarbonising' the economy requires far-reaching changes to the way the world produces and consumes. That's going to present enormous opportunities for some companies, and existential challenges for others.

For equity investors, the idea is that the winners from decarbonisation may be able to grow faster than other companies, so their shares have the potential to outperform. The faster the low-carbon transition occurs, the more we'd expect these stocks to outpace the market.

Last year saw a big acceleration of decarbonisation, despite (and in some ways because of) the pandemic. Among the major developments, China, Japan and South Korea committed to 'net-zero'; the European Union put clean-tech at the heart of its COVID-recovery plan; and the UK adopted one of the world's most ambitious carbon goals. Joe Biden's US election win capped a remarkable year in global climate policy, bringing to the White House a president with a strong environmental agenda. Not surprisingly, this boosted the shares of companies seen as well-placed to benefit from the low-carbon transition.

Varied valuations

Given governments' determination to reduce emissions – coupled with consumer preferences for sustainable products, and the fact that green technologies are becoming better and cheaper – we think the rationale for investing in decarbonisation is stronger than ever. But are the shares of 'carbon-avoiding' companies now overpriced?

A common way to value a share is to compare its price to the profits a company makes. This is typically expressed as the price-earnings ratio. Last year, share prices rose by more than aggregate company profits, and so the price-earnings ratio of broad equity benchmarks like the MSCI All Countries World Index (ACWI) increased – i.e., shares generally became more expensive.

> **We think the rationale for investing in decarbonisation is stronger than ever**

The companies we focus on (again, which don't include Tesla, but all of which help avoid carbon emissions) were no different. Their average valuation also increased, but only in line with the MSCI ACWI's valuation gain, although their share-prices went up by more than the index. In fact, the gap between the two valuations, which is usually fairly slim anyway, narrowed slightly.

Keen mathematicians will appreciate that, for the difference between the two price-earnings ratios to remain stable, the above-market price increases of the decarbonisation stocks must have been accompanied by correspondingly higher profits.

What does this tell us? First, it shows that investors are no more excited about some stocks with the potential to benefit from decarbonisation than they are about shares generally. We think this is because the market is yet to grasp the economic transformation required to get anywhere near 'net-zero'. A few green-tech companies and sectors dominate the headlines, but the low-carbon revolution taking place throughout supply chains and across industries is still largely being overlooked.

Second, we think it confirms that a selective approach to investing in decarbonisation is more important than ever. Some low-carbon areas look expensive to us, including some hydrogen and residential-solar businesses. But parts of the electric-vehicle supply chain, for example, are still being priced in line with the traditional auto sector, rather than tomorrow's clean-tech transport system (and nowhere close to Tesla's approximately 170x earnings valuation).

Of course, whether Tesla, the MSCI ACWI or any other stock represents good value depends on how successful you think the respective companies will be in the future. Like beauty, value is in the eye of the beholder. But we might all agree that there are multiple ways for investors to align a portfolio with the low-carbon growth trend. And they needn't come with a hefty price tag.

Please read the important notice on page 1.

Independent view

Wealth transfer: use exemptions while you can

James Radcliffe, a partner at Womble Bond Dickinson, looks at a regularly overlooked exemption that could enhance the value of your legacy for your beneficiaries.

James Radcliffe, Partner
Womble Bond Dickinson (UK) LLP

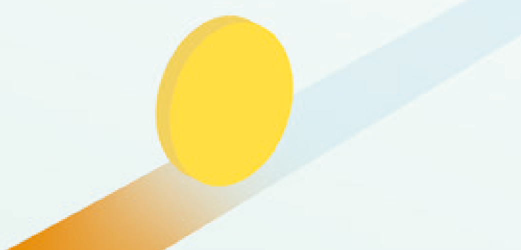
Illustration by Jordan Atkinson

One of the simplest ways of reducing an exposure to Inheritance Tax (IHT) is to make lifetime gifts. However, generally speaking, if a donor then fails to survive 7 years the gifted assets remain in the deceased's estate for IHT purposes.

One way in which clients can avoid this 7 year survivorship requirement is to make gifts out of surplus income. This is an extremely important IHT exemption that is frequently overlooked.

Gifts out of surplus income are exempt from IHT if they fall within the 'normal expenditure out of income' (NEOI) statutory exemption. Firstly, a calculation should be done to quantify the level of surplus income that exists. This can be achieved by comparing annual net income from all sources (e.g. employment income, dividend income, rental income) against typical living costs and annual expenditure. This is an important exercise as HMRC will want to see detailed schedules of all income and expenditure as and when a claim has to be made.

The next step is to put in place a regular pattern of gifting using some or all the surplus income identified. It is important that gifts are not seen as 'one-off' as they need to become incorporated into the donor's 'normal expenditure'. Typically, we see clients setting out an intention in writing to make annual (or more regular if preferred) gifts to one or more individuals of £x or x% of their surplus income. There must be an intention at the outset to enter into a series of gifts but the pattern of gifting does not have to go on indefinitely and, if the donor's circumstances change (for example, because there is a drop in their income) then it is acceptable for the pattern of gifting to cease. Lastly, it is also important to be able to show that the donor's standard of living has not changed as a result of making regular gifts out of surplus income. HMRC will deny NEOI claims where the donor had to resort to capital to meet their normal living expenses.



> Trusts play a hugely important part in sensible estate planning as they offer improved asset protection as compared to outright gifts.

Some clients may want to consider making use of the NEOI exemption in conjunction with regular contributions to a Trust. Trusts play a hugely important part in sensible estate planning as they offer improved asset protection as compared to outright gifts. Since 2006, one of the big limitations on Trusts has been the existence of a 20% 'entry charge' to IHT on any value transferred into trust exceeding the donor's nil rate band allowance (currently £325,000) in any 7 year period. If Trusts are funded from surplus income then there is scope to fund the structure with significant value without triggering the IHT entry charge which can otherwise become payable.

One of the great benefits of the NEOI exemption is that it is not subject to upper or lower limits on value. We have seen successful claims ranging from very small sums through to gifts worth several million pounds each year. Each case turns on its own facts with the limiting factor being the amount of surplus income available to the individual donor in question.

To stand the best chance of making a successful NEOI claim it is imperative to make sure records are kept and there is a proper paper trail in place. In most instances, a claim is only submitted to HMRC following death so any information that can be left for executors in the form of records, schedules and letters of intention is helpful. The only occasion when a NEOI needs to be reported during lifetime is where a donor has funded a trust with surplus income at a level that is in excess of their available nil rate band allowance.

For clients with the correct income profile, the NEOI exemption should be incorporated into their overall estate planning strategy. The exemption is generous and may not be around forever. The Office of Tax Simplification issued a report in 2019 suggesting that the government should implement an overhaul of the current IHT system. One of the suggestions was that various lifetime exemptions and reliefs should be abolished (including the NEOI exemption) and replaced with an overall personal gifts allowance which would allow an individual to make IHT exempt gifts up to a fixed amount each year. With that in mind, make use of the NEOI exemption whilst you can!

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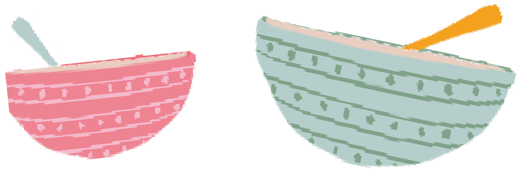
This article is of a general nature and does not constitute specific advice. It is recommended that you seek advice from a qualified professional, which can be tailored, to your personal circumstances.

Bond Focus

Where does it end?

John Royden, CFA
Head of Research

Illustration by Emily Nault



The gross redemption yield ("yield") on UK ten year gilts hit a low of 0.02% on 3rd August 2020. You now get an annual yield of 0.57%, which is not far from what you got paid before the world slid into the COVID-19 panic of spring last year.

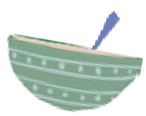
Investors in gilts have seen capital values shrink on the back of these firmer rates, whilst corporate bond investors have had a more balanced experience with spreads contracting. Spreads are the difference in yield between a corporate bond and a similarly dated government bond. The average corporate bond spread on 3rd August 2020 was 1.52%. As at the time of writing, it stands at 1.02%.

The question we ask ourselves is when will rates peak? At the moment I believe we sit in a Goldilocks economic environment which is another way of saying that the economy is neither too hot (in terms of inflation) nor too cold (in terms of recession risk). The world's central banks and governments stand ready to provide all the fiscal and monetary support that is needed to prevent a recession; whilst unemployment should act as a brake on inflation. For example, the US looks set to approve Biden's proposed extra $1.9 trillion stimulus package. Unemployment is probably much higher than official statistics; officially, US unemployment stands at 6.3% whereas Jay Powell, Chairman of the Federal Reserve, thinks the true rate lies closer to 10%, or that's what it would be without US subsidies to preserve jobs. We should see an uptick in inflation as vaccines allow demand to recover into a less than robust supply chain and base effects. Base effects is seeing the price of petrol much higher today, relative to the lows that we saw in late spring of last year.

The consensus view is that we see inflation pick up but that central bankers look through the surge as a temporary phenomenon and hold rates where they are. If the market thinks longer term inflation is more of a risk, then we will see rates go firmer. The alternative scenario is that vaccinations underwhelm due to logistics problems (cold storage requirements), manufacturing problems (remember AstraZeneca a few weeks ago), and the emergence of vaccine resistant strains and underestimating anti-vaxers and that this feeds through to disappointing growth relative to expectations. The full or partial failure of the US's $1.9 trillion stimulus would also disappoint on the growth front, as would individuals saving, rather than spending, their support cheques. People tend to save more if they expect higher taxes in the future to pay off government debt.

> The world is being seen with rose tinted glasses

I am inclined to the view that the world is being seen with rose tinted glasses right now and that whilst the trajectory with rates is on the up, the risks of a mismatch between economic growth is underestimated by the market.



Asset allocation and sector 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	Hard commodity markets have shown resilience helped by support from China. Majors with strongest balance sheets should continue to pay dividends.
Consumer Staples	We like the sector for its defensive attributes and high quality businesses and it has shown its resilience recently. However, valuations do not look that compelling and so retain a neutral stance.
Consumer Services	There are many high quality companies and we favour those with structural and disruptive growth characteristics with an online presence. We like the sector based on these businesses emerging from the current recession stronger, with many new and retained customers.
Financials ex Banks, Life Insurance, Property	This includes a broad range of stocks which are generally geared to investment markets. Valuations not at a level to turn more positive.
Financials Banks	High levels of regulation, falling interest rates globally and recessionary conditions makes us reluctant to turn positive yet. Longer term structural headwinds and a sector ripe for digital disruption for the foreseeable future. We think balance sheets generally are solid enough to endure the current situation.
Financials Property	Whilst acknowledging the structural difficulties on the high street and concerns over liquidity in open ended vehicles, we do see value in some areas. We would rather see more visibility from the impact of easing lockdowns before becoming positive again.
Financials Life Insurance	These companies need to hold more regulatory capital post COVID-19, however, we are more positive in light of possible support from rising bond yields and rotation into financials.
Real Estate	Global real estate may offer better value. Caution on bond proxy status and COVID-19 impact.
Health Care	Growth and defensive attributes and global demographic tailwind. Distinguish between pharma/healthcare/biotech sub sectors. Remains a key theme for medium term, reinforced by current crisis.
Industrials	We see increasing evidence that economic activity is improving and see this broadening out over the coming months.
Energy	Structurally the sector remains under pressure, but short term catalysts lead us to be more constructive.
Information Technology	We are positive but selective and wait for market weakness to add to the quality names.
Communication Services	We are selective and focus on quality compounders and avoid traditional telcos.
Utilities	Sector has seen some safe haven support however is not immune from the slowdown as business customers suffer.

Asset Allocation

+ Overweight / Neutral − Underweight

UK EQUITIES		
UK	/	The UK risks Brexit souring. The pound has been strong which introduces more downside risk than upside. The UK is overweight miners and oil companies that are shunned by some investors on sustainability grounds, although the recent rally has helped. The vaccine roll out has been world beating and should drive the economy ahead. We remain cautious due to vaccination risks and a chance that expectations for strong global growth could disappoint.
INTERNATIONAL EQUITIES		
North America	/	We went to neutral in 2020 as growth companies ceased to be so shareholder value creating in a rising interest rate environment. Future risks include the US stimulus failing to pass into law or being watered down due to rising inflation and firmer rates. The positives are that the Fed continues to promise accommodative monetary policy on the basis that inflation will be a short-term blip.
Europe	/	The risks are that too much unemployment prevents a virtuous cycle taking off, growth is slower than in US because the EUR 750 billion rescue package appears slowly in H2 and that Chinese stimulus may be more consumer orientated and less external. The positive is the hope that Europe's high correlation to China, benefits from external Chinese demand.
Japan	/	If the trade war subsides under Biden, Japan could ride the coat tails of Chinese growth with continued internal stimulus ongoing. Governance reform will help. Fiscal stimulus remains supportive as does having the BoJ in "whatever it takes" mode. We are cautious of much needed corporate reforms delivering on their promises and driving higher returns although more share buy backs will help. That said we are unimpressed by the slowness of vaccinations.
Asia Pacific	+	In spite of reports of local unrest due to lockdowns we remain OW. China is not imploding under a debt burden, instead the leverage is supporting the economy in a co-ordinated way. China was first out of COVID-19 and stands a good chance of continuing to lead the way forward. High metal prices suggest that internal demand is supported by Chinese growth.
Emerging Markets	+	Whilst we are watching the slower than desired vaccine roll out, we are cognisant that the USD is in a long-term counter-cyclical bear market, which will help. China is more than 1/3rd of the emerging market index and trumps concerns that we have over countries like Brazil and Turkey.
BONDS		
Conventional	−	Last quarter we described gilts as being return free risk. The risk has materialised with sharp drops at the long end of the maturity spectrum. The prospect of inflation, driven by the temporary impact of base effects and demand being fed into a sub-optimal supply chain is a concern.
Index Linked	+	OW hedges against inflation taking off. The expansion of money supply could feed through to inflation, especially if strong demand meets a COVID-19 broken supply chain. Base effects will help short term inflation as well. Electronic channels that enable governments to pump money into bank accounts in an instant, make helicopter money an effective tool to fight deflation. Linkers appear to be more like a call option on inflation.
Corporate bonds	−	Given our overweight equity position we would prefer to be underweight corporate bonds. There is a possibility that corporate spreads could reduce further but we think the upside from spread contraction has probably reached its limit.
CASH		
Cash	/	Cash has a poor yield but keep some on the sidelines for a possible pullback.
PROPERTY		
Property	−	Real estate lies somewhere between equity and bond and we prefer equities right now. Choose exposure with care and avoid residential and retail.
ALTERNATIVES		
Alternatives	−	We prefer to make more precise calls in equity, cash and fixed income. We like infrastructure as a diversifier within the sector.

Meet the manager
Isabel Kwok
Investment Manager, Bristol

Lives Bristol

Family Married with two young children

Started at JM Finn Autumn, 2017

Favourite Book The Coral Island by R.M.Ballantyne

Hero Olivia Coleman - she's just fabulous in everything

Passion Baking - definitely a case of enthusiasm over ability though!

As a working mother, how have you juggled the work/life balance over the last 12 months?

My children are four and six, so for me juggling work and life is not a new concept, and in fact there have been some benefits to working from home – spending more time with the family, and not having to contend with the daily commute through rush hour traffic. That said, I do miss the camaraderie and idea sharing which takes place in the office, and being able to meet my clients in person.

Clearly the last year has been challenging for everyone. For working parents like my husband and I, it's been the dual pressures of entertaining / educating young children whilst also working from home. However, there has been a bit of a levelling of the playing field, and perhaps a bit more empathy (and dare I say it admiration) towards working parents as a result. It almost seems laughable now that the headline news on the BBC on 10th March 2017 was Prof. Robert Kelly being interrupted during a live interview by his two young children - I think most working parents probably had one of those moments during lockdown.

Which areas of your portfolios have been the biggest contributing factor to outperformance last year?

Perhaps unsurprisingly technology stocks have had a stellar year. As our movements have been restricted, so we have sought to compensate with technological solutions. Whether that is using tablets to home school the children, shopping online to avoid unnecessary trips to the shops or upgrading the Wi-Fi package that enable the family to work and learn throughout lockdown with multiple devices running in tandem. The pandemic has rapidly accelerated these trends and we can see the results in the share prices of businesses like Amazon, Microsoft and Ocado.

As our sector specialist for Environmental, Social and Governance (ESG) funds, are you seeing a lot more interest in this area?

Absolutely; there was already a notable increase in interest in ESG, and if anything the last twelve months has galvanised considerably more interest in the area. The pandemic feels a bit like a moment of reckoning. The impacts are both vast and daunting, so it doesn't take a huge leap of the imagination to consider the potential consequences of unchecked climate change, for instance. Many investors are now far more aware of the impacts of some of these existential risks, and also the opportunity set that comes with the solutions that might yet mitigate them.

What do you see as the biggest challenges on the horizon for JM Finn?

Rapid technological changes are proving to be a big headwind for many companies as they enable newcomers to leapfrog established businesses. We see this across the economy, from retail to banking, and even car manufacturers – so I think we need to be alive to the changes taking place within our industry and evolve and adapt with them. Ultimately though, our core strength is that we are a people business with long and established client relationships that are built on trust.

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