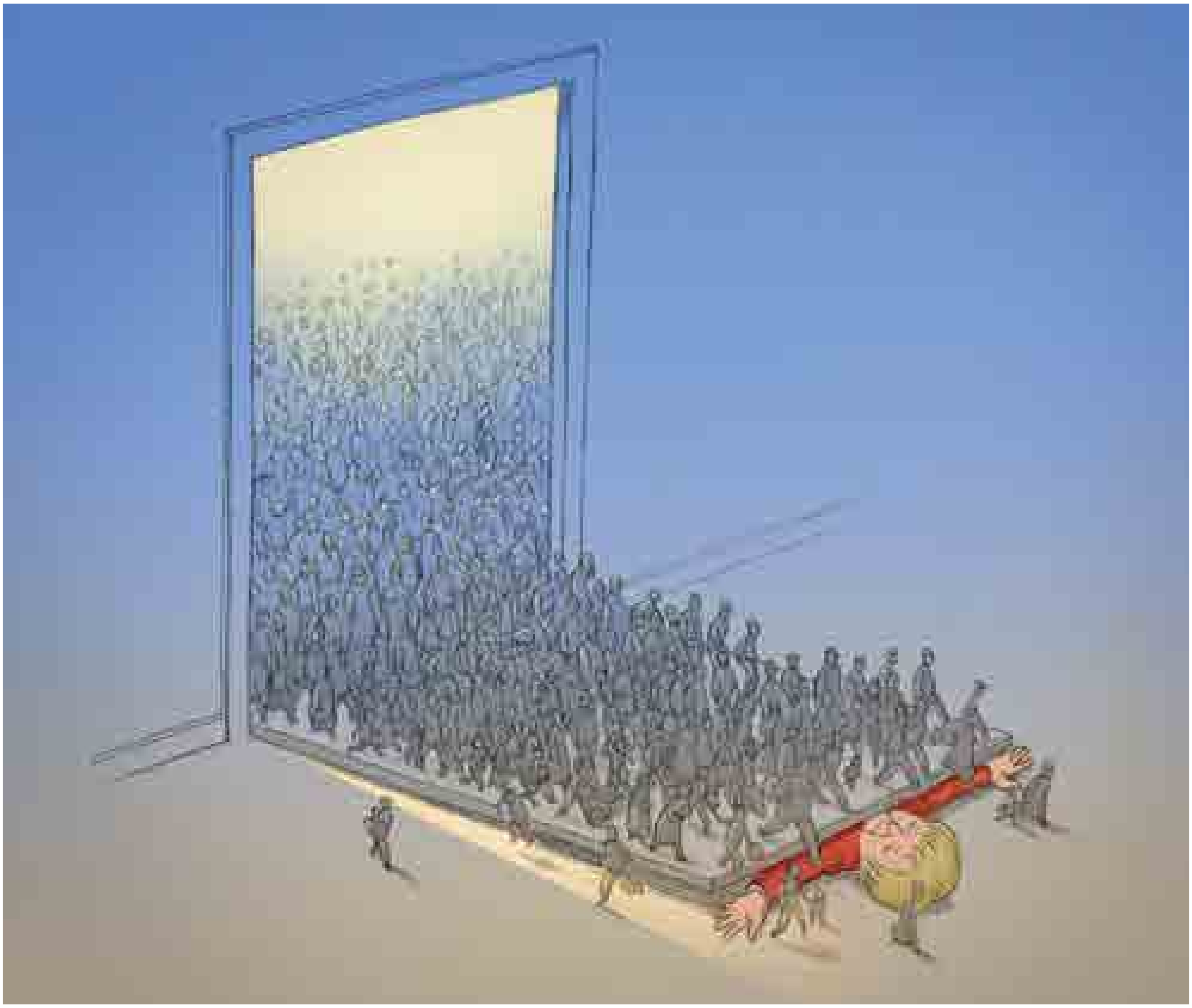
JMFinn&Co

PROSPECTS

The JMFinn & Co Investment Newsletter

Thirteen

Winter 2015



A Radical Upper House

Can the Lords be fixed?

Mother Knows Best

Could immigration crush Merkel?

The Yellen Call

What dearer money could mean

COVER ILLUSTRATION

Jon Berkeley/Debut Art

Jon Berkeley is a renowned illustrator who regularly contributes to publications such as The Economist.

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IMPORTANT NOTICE
Please note that the value of securities and their income can fall as well as rise. Past performance should not be seen as an indication of future performance. Any views expressed are those of Geordie Kidston, Head of Research, John Royden, Head of Fixed Income Research, Frederick Mahon, Research Analyst or Theo Wyld, Research Analyst. You should contact the person at JM Finn & Co with whom you usually deal if you wish to discuss the suitability of any securities mentioned. Prices quoted are as at close of business on 1st December 2015.

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WELCOME

I don't mind confessing that I won't be sad to see the back of 2015. With the market still nearly 10% off its summer highs at the time of writing, volatility has been the main feature of the year. We're now nearly 8% up from the August low following China's devaluation, which sums up the huge swings we've seen in the market during the last 12 months.

Despite being tough, it's been one of these years where experience pays off. Our investment managers haven't panicked – they've stuck to their guns, backed by the high quality research provided by our in-house team, all of whom contribute much of the investment commentary in these quarterly newsletters. We've also been heartened by the expectations of our clients – where the general feeling seems to be that you've seen it all before – and therefore there's no need to panic.

We do of course use these set-backs in the market to make adjustments to a portfolio, as and when necessary, so we are by no means sitting back waiting for the market to recover. In fact there's no opportunity to relax at present, with so much uncertainty hanging over the market. From the potential constitutional crises, both here and in Europe - covered in the editorials by Geordie Kidston and Bruce Anderson respectively, to the seemingly eternal wait for an interest rate rise by the Federal Reserve, which will naturally have implications on any bond exposure, as discussed by our Head of Fixed Income Research, John Royden, much needs to be watched.

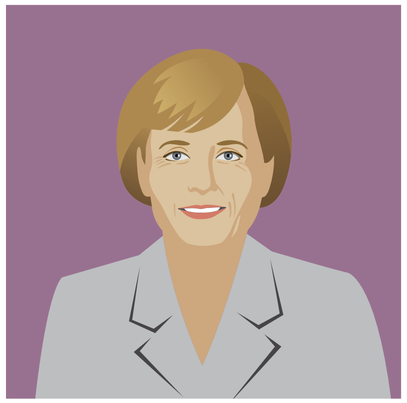
We have introduced a new feature for this edition of Prospects. With so much going on in the world, we felt it was pertinent to provide our Asset Allocation Committee's views of various asset classes. The commentary, on page 28, is simply a snapshot of the output from the last committee meeting which is designed to provide our investment managers with a guidance on individual asset classes, should they require it. I hope you find this of interest, alongside our usual investment commentary, which also features some insight from a seasoned investor in European markets, Richard Pease, who describes how a stock picking approach can uncover hidden gems, despite a sluggish economic environment.

As a member of the Royal Academy, we are looking forward to their exhibition, "Painting the Modern Garden" which starts in January 2016 and features paintings from Monet to Matisse. Ann Dumas, the curator of the exhibition, describes for us on page 22 Monet's passion for gardening and how this resulted in the development of his painting.

We have attempted to keep Prospects an investment focused newsletter with a variety of topics covered, interspersed with articles which we feel will be of interest to our clients. I hope you enjoy this edition and do continue to send us your feedback.

James Edgedale

James Edgedale
Chairman



MOTHER MERKEL

Geordie Kidston, Head of Research

Angela Merkel is widely regarded as the most powerful EU leader and a pragmatic and safe pair of hands. She stood firm with Finance Minister, Wolfgang Schäuble throughout last summer's Greek debt crisis, despite accusations of Nazi-like behaviour from Athens, earning herself considerable kudos in Germany, if not elsewhere. By sticking to what she saw as European values and rules, she was seen as working towards ensuring European cohesion.

Yet her welcoming of 800,000 refugees from the Middle East (and elsewhere) into Germany, however morally pleasing, is causing serious ructions, both domestically and among her European partners. At the core of this is her brushing aside the 1991 Dublin Regulations of the EU which state that asylum ought to be handled in a refugee's first port of call, a policy that has fallen apart because of the freedom of movement guaranteed by the 1985 Schengen Agreement, which has also come under attack both before and after the terrorist massacres in Paris. The conflation of migration and terrorism is likely to be a game changer.

The likely influx of around one million refugees in 2015 has taxed Germany's ability to handle their arrival, not to mention their longer term absorption into German society. Domestically she seems increasingly isolated because of two disastrous sentences: "There is no upper limit" and "We can cope". In particular, the leader of Merkel's Bavarian sister party (the Christian Social Union) has asked aloud who is going to pay for the thousands of new public officials, from policemen to teachers, who will be needed to cope with this surge of migrants, whose values are often very different from those of most Germans (and who may include adherents of ISIS, as we have since learned). "Paris changes everything," said Markus Soder, the Bavarian Finance Minister. ▶

Many Muslim men are adding to the strains on Germany's medical system by refusing treatment from female doctors and nurses. According to the mainstream German press, one in ten women arriving is pregnant and there have been outbreaks of diseases long since eradicated in Europe, a point recently hyped up by Poland's Law and Justice Party before their landslide election victory in October.

A xenophobic grassroots movement called Patriots against the Islamisation of the West, or Pegida, has emerged in Dresden, spreading from its eastern roots into western areas of Germany, while the Eurosceptic and anti-immigration Alternative für Deutschland has crossed the ten per cent threshold in recent polls. Most notably, despite hate speech on racial grounds being firmly outlawed, social media networks, such as Facebook, are struggling under the heightened volumes of vociferous criticism that they carry. Initiatives by the German intelligence services to monitor the spread of such groups seem ill-prepared. For Merkel, there seems to be a growing political backlash that thinks she may not be the Christian Democratic Union (CDU) 'Chancellor candidate' at the next general election in 2017. Talk of a fourth Merkel administration, common just several months ago, now seems improbable, by which time she will have long crossed the ten years in office that many commentators see as normative in Western democracies.

> "Winter may slow the flows as the seas roughen, giving Merkel greater scope to bed in a domestic set of solutions"

Merkel's instinctive reaction to the crisis was in accord with the generosity Europe once showed to fugitives from the former Eastern bloc, of which she was a former citizen. Yet from Britain's Theresa May to a France fearful after major terrorist attacks at the beginning and end of 2015, there is widespread reluctance to follow Merkel's lead. Even accommodative Sweden is showing strains as it struggles to cope with up to 190,000 refugees this year. A rift has also opened up between East and Central EU members who have no history of empire, decolonisation, or immigration, and those western European countries which have. They are also playing pass the refugee parcel with each other, as well as building border fences, for although the EU has the Frontex border agency, it does not police national borders.

There is a bullying aspect to this rift, as underlined when Dutch Finance Minister, Jeroen Dijsselbloem threatened to reduce Czech or Hungarian EU funding unless they took quotas of refugees. The inherent problem seems to be that Merkel's government has lost control of the situation. Following the euphoria of their initial benevolence, German voters are increasingly faced with the challenges of assimilation. Even the Central Council of Jews has met with Merkel to express concerns over anti-Semitism growing with an increased number of Muslims in Europe. In France, large numbers of Jews have already left for Israel and many more intend to do so.

Merkel's conciliatory overtures to the Turkish President, Recep Tayyip Erdogan, over aiding Turkey's entry into the EU in return for halting the refugee tide, have also created increased opposition to Merkel at home, not least because her own CDU party is opposed to Turkish membership. Turkey itself was increasingly chaotic ahead of Erdogan's snap re-run of general elections, as he used domestic ethnic tensions to increase support for his ruling Law and Justice Party (AKP). Turkish accession to the EU is seen as too great a price for sorting out a flow of refugees that Erdogan may have exacerbated in the first place.

Winter may slow the flows as the seas roughen, giving Merkel greater scope to bed in a domestic set of solutions, as well as declaring the Western Balkans as safe for repatriated refugees. Germany could well have shown considerable foresight in reviving its ageing and infertile population with a vibrant influx. The Syrian middle class that has fled is notably well educated, but the influx is not just of Syrians. Yet this crisis looks to have become a turning point for Merkel, probably ending her domestic political career, although a big job such as the next UN Secretary General may beckon.

Schäuble made a veiled late-life bid for her job when he compared Merkel with a skier who blithely triggers an avalanche. Another man to watch, assuming the Grand Coalition endures, is SPD Foreign Minister, Frank-Walter Steinmeier, the most popular politician in Germany. Meanwhile, the chaos of the Middle East and North Africa may get a lot worse, with more refugees set in motion, with the possibility that one civilisation (ours) has to deal with the collapse of another.

CASHING UP

John Royden, Head of Fixed Income Research

Cash is king. That's what you get taught on finance courses. But what is frequently less clear is how the beans get counted and what people actually mean when they talk about cashflow.

Accountants provide us with something that they call Cashflow from Operations, which is pretty much what the widget machines produce in terms of net cash, after paying interest and tax. This is set out in the Consolidated Statement of Cashflows.

But this misses out how much was spent on capital expenditure, or capex (new widget machines and money spent maintaining existing ones). That detail can be found in the accountant's Cashflow from Investing.

So as financial analysts, we subtract capex from Cashflow from Operations to give us what we call, Free Cashflow ("FCF").

Debt investors (banks and bond holders) or creditors are actually interested in how much cash there is to pay their interest and capital repayments on the debt. So creditors make an adjustment to FCF by adding back net interest after tax. This is called FCFF, or Free Cashflow to the Firm, and is often used to determine the riskiness and then the price or interest rate applicable to the debt.

Lastly, equity investors want to know what cash is going to be available for reinvestment and then for their dividends and, finally share repurchases. So shareholders take FCF, deduct preference share dividends and also changes in debt to understand their historic cashflows. Using the same basis they predict their cashflows out into the future as well. This is called FCFE, or Free Cashflow to Equity, and it is this that forms the starting point for many company valuations.

My advice is, when you are reading financial reports penned by analysts, just be certain to be sure exactly which cashflows are being talked about.

BERKELEY GROUP

Geordie Kidston, Head of Research

PRICE
£32.80

52 WEEK HIGH-LOW
£35.70 - £22.64

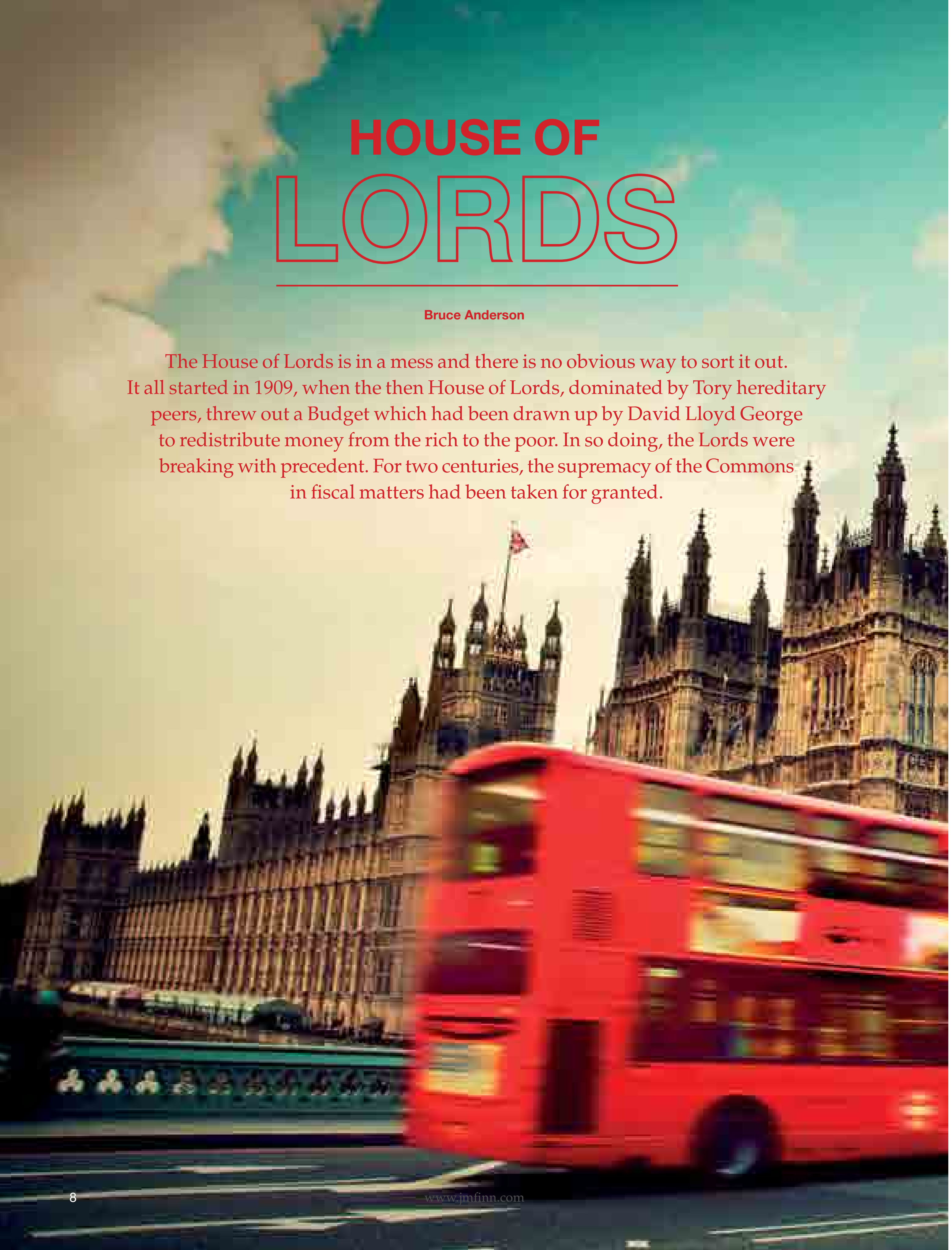
NET YIELD
4.6%

HIST /PROS PER
10.5 - 13.1

EQUITY MARKET CAP
£4,482m

Berkeley Group is a major FTSE 100 quoted, prime property developer within the London region. It has a highly regarded management team and has pioneered several major luxury projects in areas conspicuous for their degree of urban regeneration. London's development pipeline of new housing stock looks to be over-built and in surplus and foreign capital flows from China, which we consider to be a prime driver of London's housing market, could well be affected negatively by the Yuan's devaluation. I expect to see similar secular pressure on the Gulf States and Russian investment patterns as lower oil prices bite.
In addition, the Chancellor's reorganisation of stamp duty earlier this year has reduced London's housing turnover markedly, particularly at the top end of the market. Similar urban slowdowns are emerging in Australia, New Zealand, Hong Kong, Canada and the core markets in California as capital flight to prime residential property slows in pace, which combine to put pressure on this major property development company.

Please read the important notice on page 2.



HOUSE OF LORDS

Bruce Anderson

The House of Lords is in a mess and there is no obvious way to sort it out. It all started in 1909, when the then House of Lords, dominated by Tory hereditary peers, threw out a Budget which had been drawn up by David Lloyd George to redistribute money from the rich to the poor. In so doing, the Lords were breaking with precedent. For two centuries, the supremacy of the Commons in fiscal matters had been taken for granted.

By today's standards, it is hard to understand the controversy. The top rate of income tax would only rise to 7.5 pence in the pound. But a constitutional crisis ensued, only resolved when Edward VII agreed to create five hundred Liberal peers if the Tories remained obstructive – and the Lords backed down. As a result, its power to obstruct Government legislation was limited to a two year delay, reduced to one year under Attlee.

No-one was happy with the outcome. Those on the left of politics approved of the Lords' reduced powers but were unhappy that a legislative chamber was still controlled by aristocrats. Although most Tories were sentimentally attached to the Lords' composition, they disliked the curtailment of its powers. Some thoughtful ones would have sacrificed the hereditaries to secure a more powerful Chamber. Even so, that mutual dissatisfaction seemed to provide the basis for a tacit compromise, and a House of Lords which functioned well, especially after the introduction of Life Peers in 1958.

These new peers often brought expertise to their Lordships' debates, while the hereditaries ensured that history and the land had a Parliamentary voice. As this is an old country and the land is important, that is desirable. ▶

Because the Lords could not claim a democratic mandate, its role was limited, especially as the Tories had agreed to exercise restraint under the Salisbury/Addison convention, negotiated after 1945. The Lords could revise badly drafted Bills and make the Government think again. But the democratic Chamber remained supreme. Everything seemed fine, until Tony Blair took office. He simply found it aesthetically unacceptable that peers could sit in the legislature by right of birth. He also insisted on change without having thought it through. As a result, the number of sitting hereditary peers was cut back to 92, but how were the rest to be recruited?

There is no obvious solution. It could be that the Government will have to grit its teeth and appoint another hundred Conservative peers in order to ensure that it can carry on its business. No-one wants to do that. But there may be no alternative.

One obvious solution would be an elected Upper House. But that would create two difficulties. Assuming that Lords' elections took place on a different timescale from Commons ones, it would be hard for the Government to command a majority. Equally, an elected House of Parliament could claim a popular mandate. The likely result: gridlock. There would also be the risk that an elected Second Chamber would turn into a second-rate House of Commons. A lot of voters think that we have one of those already.

Tony Blair did not want any of that. His obvious preference was a largely nominated House. That plan was criticised as amounting to a house of cronies and would never have got through the House of Commons. Even so, Tony Blair appointed plenty of cronies. David Cameron has also nominated large numbers of Life Peers to strengthen the Tory ranks. At more than 800 Peers, badly overcrowded, the House is in danger of becoming an ermine slum, while the Prime Minister has a double problem. First, despite his additions, he no longer commands a majority in the Lords. Second, many Labour and Liberal Peers are determined to sabotage the Government's business.

Lord Strathclyde, a recent Leader of their Lordships, has now been tasked with finding a new arrangement. In view of the truculence on the Opposition

At more than 800 Peers, badly overcrowded, the House is in danger of becoming an ermine slum.

benches, that will not be easy. There have been proposals to reduce the size of the Lords, by eliminating those who rarely attend and enforcing retirement at eighty. But the overcrowding is not caused by those who rarely turn up. As for the veterans, the House ought to be a Chamber for ancestral wisdom. There is no obvious solution. It could be that the Government will have to grit its teeth and appoint another hundred Conservative peers in order to ensure that it can carry on its business. No-one wants to do that. But there may be no alternative. There are two lessons in all this. When it comes to the Constitution, look before you legislate and if it ain't broke, don't fix it. But it is now broke, with no fix in sight.

Bruce Anderson is a British political columnist and author, currently working as a freelancer. Formerly a political editor at The Spectator and contributor to the Daily Mail, he wrote for The Independent newspaper from 2003 to September 2010, and Conservative Home until 2012. Bruce is Scottish-born but London-based and has never tried to deny that he is close to the Tory party.

WHERE DOES IT ALL END?

John Royden, Head of Fixed Income Research

Getting the bond market right pretty much starts with where interest rates are going. That in turn is very much driven by macro views and opinions.

When I sit down to write this column I usually do so with a bright and unique insight in my mind. I aim for a conclusion that will craft sense and direction from the noise and chaff that clouds our thoughts and vision. On this occasion I feel pulled in different directions; I make some progress on the sense front but less so on the directional view.

In the US we have economic growth that stalled at an annual rate of 2.9% in Q3 2014 and which has drifted off to the current 2.7% level. Every time that Janet Yellen even thinks about raising the Fed Funds rate from the current 0.25% the economy seems to shudder to the point where a rate rise is no longer necessary. You could be forgiven for concluding that she controls the US economy with telepathy rather than monetary policy. But at the same time the citizens of the US are enjoying some strong real wage growth of 2% and strong employment. That is the positive; and that is why we see the market discounting a 75% chance of a December hike.

China's growth is slowing. The worry here is that they go for currency depreciation and export deflation which sets off a deflationary spiral which necessitates more Quantitative Easing (QE) or other stimulus from the West. If Chinese and other emerging currencies fall, it puts pressure on those non-US debtors who owe money in an ever-increasing-in-value US dollar. The fear is that the ensuing defaults put pressure on the Western banking and investment markets, who stop lending and we tip into recession. Slower growth could prejudice China's ability to finance their own domestic debts as well.

The positive here is that Chinese growth has not stopped (I think) and that we get an orderly transition to an economy more driven by consumers consuming and less by investors building.

In Europe, the QE that started in March 2015 is pretty much doing what it said on the tin. Equity markets are higher than when it was announced and interest rates are lower. And Europeans, like the Americans, are enjoying 2% real wage inflation.

Slower growth could prejudice China's ability to finance their own domestic debts as well.

Here in the UK we also find ourselves being able to enjoy yet greater real wage inflation at the 2.5% level, but rather like the US, finding the rate of growth slowing a touch. The uncertainty of Brexit is probably not helping investment.

Either the Western consumer, buoyed by real wage inflation, shops, eats and drinks us out of our problems and rates go higher; or the Chinese-inspired deflationary spiral takes hold and we face the bottomless pit of a similar prospect.

I fancy the former, and a US rate increase that does more harm than expected, allowing you to buy the dip. So if you wish to be altruistic to head off the Chinese doom-and-gloom merchants, sell your longer dated bonds with a view to spending the proceeds on an even longer duration purchase, such as a new kitchen.

WILL SHE, WON'T SHE ???

Brian Tora, Marketing Consultant

One of the very first jobs I had when I first started in the City more than half a century ago was that of an unauthorised clerk, or Blue Button as we were known on account of the colour of the badge we wore on our lapel.

Frankly, we Blue Buttons were little more than messenger boys for the authorised clerks – or dealers – and Stock Exchange members on the floor of the exchange. We checked prices, kept an eye open for important news and conveyed messages to and from our elders and betters. And we watched out for any interest rate changes announced by the Bank of England each Thursday, running back to our offices with the news.

Today, of course, interest rate announcements are made monthly and modern communications means that the result of any decision is conveyed instantly all around the world. With interest rates at historically low levels – and no changes having been made for several years – this particular task has become about as interesting as watching paint dry. Not so in the United States, though, where investment and business managers alike have been eagerly awaiting the first uptick in rates from the 0.25% low on which they have been stuck since shortly after the financial crisis.

So far this year they have been disappointed – or perhaps that should be comforted as concern does exist as to what the effects of an interest rate rise might have on the economy and markets. And this appears to be the conundrum facing the Federal Reserve Bank Governor, Janet Yellen. Aside from historic concerns over how to go about the business of monetary tightening (following the Great Depression, a second economic dip occurred in the 1930s, blamed on premature rate increases), the state of the global economy has caused the Fed to stay its hand.

Many expected the first increase in interest rates to take place in September – a move that had already been delayed for several months. In the event it appears that the slowdown in China had contributed to the decision not to hike rates. The minutes of the meetings that take place when these decisions are considered are now widely published, so this is not mere speculation. Indeed, the unexpected devaluation of the Chinese currency and confirmation that economic growth had slowed dramatically caught a number of operators by surprise and led to volatile market conditions.

The balance of opinion has swung to a rate increase being more likely before the end of the year, though. Not that this is a given. China's sharp drop in expenditure on developing its manufacturing industry and infrastructure has resulted in a number of commodities falling in price – most notably oil and steel. This in turn has hit many emerging nations, dependent on exporting raw materials for economic prosperity, particularly hard, adding to the downward pressure on global growth.

Cheaper commodity prices are not all bad news, of course. This is one reason for inflation being so subdued, leading to wage growth outpacing core cost of living increases on both sides of the Atlantic. In turn this can help the economy as consumers are likely to have more discretionary spending power at their disposal. But there is a fear that China could export deflation to the rest of the world, with all the unfortunate consequences this could have for economic growth.

Today, of course, interest rate announcements are made monthly and modern communications means that the result of any decision is conveyed instantly all around the world.

So it seems that investors need to be watching the action taken by the Open Markets Committee of the Federal Reserve Bank very closely, while keeping a beady eye on what is going on in the world's second largest economy. Perhaps by now Janet Yellen will have announced a rate increase. If she doesn't, then it will be because the outlook for China and the emerging world remains obscure. All the signs in America suggest employment continues to grow and the economy is doing OK, even if the oil industry and other commodity suppliers are having a tough time.

There are those who consider the time for rate rises has passed and that the Fed has missed its opportunity. While dearer money could cause problems in some areas, a return to more normal monetary conditions is likely to be welcomed overall. And rate rises could have implications for bond markets which are still buoyed by the risk-off approach of many investors. There is a great deal riding on the approach of the Fed.

SEARCHING FOR A GEM

Richard Pease, Fund Manager

Regularly labelled a "star manager", Richard Pease has over three decades of experience in the fund management industry. He currently manages the £1.03 billion CRUX European Special Situations Fund, and has done so since launch in 2009, when it was part of the Henderson Global Investors fund range, following their acquisition of New Star Asset Management.

He previously worked for Windsor Asset Management and Jupiter Asset Management before helping to found New Star. He joined CRUX Asset Management in June 2015. Here, Richard discusses how his approach to fund management can identify potential winners, whatever the wider economic situation.

Despite a weak euro, quantitative easing by the European Central Bank and low oil prices, European Union GDP growth has continued to be anaemic, rising only 0.3% sequentially in the third quarter of 2015. Further concerns over a Greek sovereign debt crisis dominated headlines over the summer and have recently been compounded by fears of a slowdown in China. As a result, European stock markets have given up some of the QE-driven gains of the first quarter and continue meaningfully to lag their US counterparts since the nadir of the Great Financial Crisis.

The CRUX European Special Situations Fund was launched in October 2009 and the investment philosophy has been consistent since then with an emphasis on four factors. First we look for high quality, cash-generative businesses typically with significant barriers to entry and strong competitive positions. Secondly we seek to partner with proven, competent management teams with aligned incentives and a sensible approach to capital allocation. Thirdly we favour well capitalised businesses with conservative balance sheets and lastly, we demand attractive valuations with a focus on levered and unlevered free cash flow yields.

While we are not 'top-down', thematic investors we have identified a number of areas in the European market which we believe offer an attractive risk-reward balance in the current economic climate.

While we are not 'top-down', thematic investors we have identified a number of areas in the European market which we believe offer an attractive risk-reward in the current economic climate.

One of these areas is acquisitive distribution businesses, of which two – DCC and Brenntag – are among our top 10 positions. The UK-listed energy distribution business, DCC, has consolidated the UK market over the last ten years, making investors roughly five times their money in the process, despite maintaining fairly conservative levels of net debt. We are hopeful management can continue to execute this strategy. Brenntag, on the other hand, is a German chemicals distributor which benefits over time as large chemicals companies outsource the non-core distribution function, providing the potential of meaningful economies of scale. Brenntag's management team also has a strong record of bolt-on acquisitions and recently completed two midsized acquisitions in the US. Brenntag trades on approximately 17 times next year's earnings.

Another area we are invested in is businesses which benefit from a continuing trend for more stringent health and safety standards in a range of industries. This drives sales growth for the testing, inspection and certification (TIC) companies, such as SGS and Bureau Veritas, both core positions in the fund. The TIC space is also highly fragmented and there is an opportunity for the strong to get stronger by pursuing accretive bolt-on acquisitions of smaller peers. The recent disruption in the energy space following the oil price drop could make oil & gas testing an interesting area for the larger, more diversified players to invest into temporary weakness.

We have also found interesting opportunities in global champions benefiting from secular tailwinds whose stock prices are depressed for idiosyncratic reasons. One example is Zodiac Aerospace, a French company which is the market leader in aircraft seats and interiors. Zodiac is geared to the rise in global air travel and the increasing use of tailored interiors and seating, but has recently been a victim of its own success as it has struggled to meet demand for its seats. This has prompted several profit warnings from the company as it endeavoured to clear the backlog and it has fallen out of favour with investors. We believe that the market has unduly punished the business for temporarily poor execution as it is trading at around 17 times next year's earnings.

Another company enjoying favourable business trends is Swiss-listed Sika, the largest construction specialty chemicals player. This is a gem of a business which enjoys very meaningful barriers to entry supported by an extensive intellectual property portfolio and is growing revenues in the high single digits, driven by rising global construction, increasing penetration of its products and market share gains. Sika is currently subject to a disputed hostile takeover by French construction giant Saint-Gobain, but we believe the valuation (around 15 times next year's cash earnings) already prices in a worst case corporate governance outcome.

In conclusion, while the investment case for Europe might seem challenging, given the economic malaise in the EU, a bottom-up investment process can highlight many attractive businesses which are not reliant on a significant improvement in the macro picture or continuing loose monetary policy to drive shareholder returns.

CRUX ASSET MANAGEMENT

www.cruxam.com

A SPOTLIGHT ON THREE OF THE KEY COMPANIES WE'VE MET DURING THE PAST QUARTER

Fred Mahon, Research Analyst
Theo Wyld, Research Analyst

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

BASIC MATERIALS
Carclo

CONSUMER GOODS
Burberry, AG BARR, Reckitt Benckiser, Cranswick, Britvic, PZ Cussons

CONSUMER SERVICES
Tesco, Saga, ITV, AA, Pearson, Marston's

FINANCIALS
Standard Life, Standard Chartered, Assura, Lloyds Banking Group

INDUSTRIALS
Ricardo, IMI, Avon Rubber, Diploma, Severfield, Smiths Group

TECHNOLOGY
EMIS

UTILITIES
SSE

SSE

PRICE: £14.59
52 WEEK HIGH-LOW: £16.96 - £13.95
NET YIELD: 6.1%
HIST/PROS PER: 12.5 - 12.8
EQUITY MARKET CAP: £14,678m

UTILITIES
Alistair Phillips-Davies, CEO

SSE (Scottish and Southern Energy) is an electricity and gas company that generates, transmits, distributes and supplies electricity across the UK and Ireland. You will surely have seen their orang-utan advert recently or perhaps even the BBC series Power to the People that goes behind the scenes at SSE?

During our recent meeting with SSE's CEO, Alistair Phillips-Davies, we discussed what has been a sound first six months of the financial year for the company and the all important dividend. SSE's Wholesale division is the most cyclical part of the company and comprises of energy generation, gas production and gas storage assets. Thanks to a wet and windy last few months, SSE's renewable energy capacity was particularly productive over the period.
The Networks division is heavily regulated in its activities of distributing and transmitting electricity and gas. This division delivered a steady return as expected. The Retail division continues to lose customers to smaller providers that are currently able to offer lower prices thanks to the shorter duration of their energy price hedges, but the rate of decline is slowing. The shares currently trade at a discount to the wider utilities sector and with a yield over 6% it is fair to say that the market is yet to be convinced that SSE will be able to keep their promise of increasing the dividend annually at least by inflation; on current guidance, earnings cover for the payout will be around 1.2x this year. I rate SSE's management team highly and note that they have maintained a relatively strong balance sheet at the same time as continuing to invest for growth.

John Royden is a beneficial owner of SSE.

RECKITT BENCKISER

PRICE: £63.53
52 WEEK HIGH-LOW: £64.50 - £48.95
NET YIELD: 2.0%
HIST/PROS PER: 24.7 - 26.4
EQUITY MARKET CAP: £44,978m

CONSUMER GOODS
Investor Relations team

Reckitt Benckiser (Reckitt) is a global branded goods company specialising in household, health and personal care. The Company's key brands include Durex, Gaviscon, Nurofen, Scholl, Strepsils, Airborne, MegaRed, Move Free, Bang, Clearasil, Dettol, Finish, Harpic, Lysol, Mortein, Veet, Air Wick, Calgon, Vanish, Woolite and French's.

Our meeting with Reckitt's investor relations team focused on the Health division which has been the star performer over 2015 and subject to much discussion regarding the potential for M&A activity. Consumer brands in the healthcare space, such as Nurofen and Gaviscon, are highly sought after assets at present. These brands generate high margins and offer exciting growth opportunities via selling into growing middle classes across Emerging Markets. Another relevant consideration is the fact that pricing on consumer products has the ability to vary with inflation, unlike the patented drugs that are the mainstay of the global pharmaceutical sector. As the name suggests, consumer health products fall between the expertise of the consumer goods sector on the one hand and pharmaceuticals on the other. Reckitt competes with the likes of Johnson & Johnson and the recently formed GSK/Novartis consumer healthcare division in this rapidly developing sector. As the only consumer goods company with a meaningful presence in this space, Reckitt argue that they have an inherent advantage in their ability to place product thanks to their undoubted experience in related consumer areas. My sense is that the pharmaceuticals sector is well aware of this and would love to get their hands on Reckitt's health division. I would not be surprised to see an offer made for the division in future. If such a bid were to be successful, a significant multiple would need to be paid.

AG BARR

PRICE: £5.26
52 WEEK HIGH-LOW: £6.99 - £5.13
NET YIELD: 2.4%
HIST/PROS PER: 20.0 - 18.5
EQUITY MARKET CAP: £614m

CONSUMER GOODS
Roger White, CEO and
Stuart Lorimar, Finance Director

AG Barr has been in the drinks manufacturing business ever since it was founded in 1875 by Robert Barr. The company operates in three main segments; carbonates, still drinks, and water. Most notable of their products is Irn Bru whose bright orange bottles fly off the shelves throughout Scotland, where the group generates 40% of its business. Almost all of the balance comes from the remainder of the UK.

AG Barr has been through an overdue systems and processes upgrade over the last two years; equated by management to having builders in your house. Now through the other side, the company stands to benefit from a variety of cost savings and efficiencies.

60% of the products that AG Barr sell are what is known as 'drink now', i.e. a lemonade from a corner shop on a hot day. As alluded to, sales can be adversely affected by poor weather, as was the case this year. Another side-effect of 'drink now' is that a significant proportion of the retailers are independent and therefore rely on your distribution network for delivery.

There is an ongoing trend away from high sugar drinks as consumers become more health conscious and AG Barr are ahead of the curve. Low-to-mid sugar products now account for 42% of the portfolio and that number should continue to rise. For example, AG Barr recently acquired the rights to distribute Snapple, an extremely popular juice brand in the US, to the UK market and immediately are looking to develop both low and no sugar versions.

With the capital expenditure due to normalise over the next few years post-restructuring, AG Barr have a strong portfolio containing both established and newer high-growth brands.

Please read the important notice on page 2.

CSR NEWS: MAN'S BEST FRIEND

AT JM Finn & Co we have always taken our responsibilities as an employer seriously and, although we believe that charitable giving is a very personal decision, we are also of the belief that a firm of our size and position in our industry should provide a platform for fund-raising activities for our staff to engage with, should they choose to.

Our CSR objective is to raise funds for two chosen charities, each of which we would look to support for a minimum of three years, in order to provide meaningful funds and to make a difference. We try and raise funds via a variety of efforts organised by an internal CSR committee, including quiz nights, cake sales, a hugely popular Christmas raffle and other ad hoc events.

One of our nominated charities is Dogs for Good, which has recently changed its name from Dogs for the Disabled, an innovative charity which has been working to enrich and improve lives and communities since 1986. The charity explores ways dogs can help people to overcome specific challenges and provides assistance dogs to support adults and children in their homes and in the community. The charity works with people with a range of disabilities and also children with autism.

JM Finn & Co has been proud sponsors of Dogs for Good for over four years. Part of our partnership with the charity has included sponsoring two dogs through their training and socialisation, which takes two years to complete. So far we have paired with two Labradors, 'Finn' who has completed his training and has been placed with a family, and 'Finley', who will be placed with someone who can benefit from his help once he has completed his training.

Dogs for Good was featured on BBC's 2015 Children in Need programme with a video showing some of the amazing work they do to help improve lives and communities. The video shows Sam's story detailing how Dogs for Good has helped change his life.

To find out more about the charity and the life-changing work they do, visit their website at **www.dogsforgood.org**.

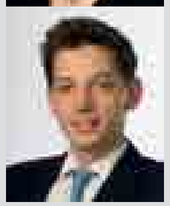
CITYWIRE WEALTH MANAGER'S TOP 100

The results of the annual survey by Citywire to find the industry's top fund pickers, were recently announced and we were delighted that two of our investment managers were featured this year.

Freddy Colquhoun, who is responsible for the absolute return sector, was included in the list as well as Iona Garton, who monitors the US Equity sector.

Congratulations to both for being part of "the leading names in fund selection across the industry."

Citywire is an independent provider of news, information and insight for professional advisers and investors around the world.



THE WORLD'S TOUGHEST ROW

In December, 26 teams will be setting off on a herculean challenge to row 3,000 nautical miles across the Atlantic Ocean. It is no surprise that more people have been into space or climbed Everest than have rowed the Atlantic. It takes a certain kind of person to keep going when faced with blisters, salt rash, sharks and sleep deprivation. That is why this race is one of the toughest races on earth.

Yorkshire Rows, an all-women rowing team, who have recently become the first women to row across the North Sea, are taking part in the Talisker Whisky Atlantic Rowing Race from La Gomera in the Canary Islands to Antigua.

The team's boat, which will bear the JM Finn & Co logo amongst others, is made up of four determined working mothers, all over the age of 40, and their boat – christened 'Rose'. The Yorkshire-based crew each have their own personal reasons for taking on the challenge, but all four are united by common goals; to raise as much money as possible for their chosen charities, and to inspire others to believe that, if four working mums can row an ocean, with determination and hard work, anyone can achieve anything.

Whilst completing the challenge, the team are fundraising for Yorkshire Air Ambulance and Maggie's Cancer Caring Centres. One team member, Frances Davies, comments: "Raising money for the charities is a key driver for undertaking this challenge and will motivate us to continue when I am sure there will be many moments when we will want to give up."

To find out more about the Talisker Atlantic Rowing Challenge, or to sponsor the Yorkshire Rows for their incredible efforts, please visit their website at **www.yorkshirerows.com**.

BURBERRY

Geordie Kidston, Head of Research

PRICE
£12.47

52 WEEK HIGH-LOW
£19.28 - £11.89

NET YIELD
2.9%

HIST /PROS PER
15.7 - 16.9

EQUITY MARKET CAP
£5,549m

Negative like-for-like sales of some -4% for the first time since 2009 caused recent disappointment at Burberry. This was despite concerted 4% growth in the nascent brand entry level route of Beauty. The deterioration in Retail trends was caused by a challenging environment over the summer, particularly in China where local consumers have coped with adverse macro-economic data, the domestic stock market correction and the effect of the ongoing renminbi devaluation on traveller expenditure. In addition, Burberry has a larger UK exposure than its Continental counterparts, providing a boost from a strong Sterling currently. In addition, as Burberry's important Japanese exposure was in transition from a historic fragmented franchisee system, Burberry's sales profile remained unsatisfactory. Demographic trends and high online brand recognition favour the medium term prospects at Burberry where the invested capital base has established a leading edge proposition within e-commerce. This is driven by their unique burberry.com distribution asset, particularly as smartphone penetration among millennials in Asia grows. Burberry remains notably independent in a sector whose cost base and demographic positioning remain in transit.

Please read the important notice on page 2.

PZ CUSSONS

Geordie Kidston, Head of Research

PZ Cussons is a long established manufacturer and distributor of Fast Moving Consumer Goods (FMCG) with leading positions, both in the UK and several key Emerging Market territories, with major Western Market brands including the well-known Imperial Leather.

The Group is highly experienced at dealing with conditions in these challenging but high growth territories. It exhibits key strengths in terms of acquiring lowly recognised brands and extending their sales patterns across other territories. Most of the Group's portfolio has a local bias with names unfamiliar to the UK consumer; PZ Cussons have, for instance, successfully and cheaply acquired brands in Australia which they then distribute throughout Asia, developing new franchises rather than paying up for expensive, but more established local products. Despite challenging conditions in their key markets of Nigeria and Indonesia at present, this is a long term growth model with a disciplined pattern of dividend growth.

The Group operates in three distinct geographies. Within Africa, it has a significant presence in the high growth and fast developing Nigerian market, where long term demographic growth and rising per capita household incomes are exhibiting secular expansion. The Group also distributes products into the less developed markets of Ghana and Kenya, where recurrent economic challenges curb a more established presence. In Asia and Australia, they operate in Indonesia, Thailand, Australia, New Zealand and certain Middle Eastern territories.
The European coverage includes the UK, Greece and Poland.

The Group offers exposure to Personal Care, Home Care, Food and Nutrition along with a legacy arm distributing electrical goods, in a partnership with Haier limited to West Africa only. This is a viable long term legacy business that functions satisfactorily but which is managed for its natural growth rate. PZ Cussons is distinctive, operating as it does against multi-national operators in all its territories, for its highly flexible and well invested supply chain network; this is all underpinned by state of the art factory sites. In the UK's North West, the Group has an advanced and fluent manufacturing facility. In Nigeria, for instance, there are three large vertically integrated sites which extend to a dedicated national distribution network. PZ Cussons have extensive experience in cash handling within these challenging markets and curtail their credit exposure through specialised local funding mechanisms. This has wholly negated the type of bad debt experience that major competitors can suffer from.

Due to the depressed oil price affecting a Nigerian economy fraught with political disruption, the shares are trading near a 10 year sector low. Continued weakness in oil and gas markets is likely to cause further Nigerian devaluation of the local Naira against the US Dollar. I think that the market is adequately discounting ongoing depreciation and the stalling of growth that it implies. Whilst earnings downgrades for these challenging conditions have been no worse than the sector average, PZ Cussons' share price is back to 2012 levels, despite underlying earnings being some 15% higher. On valuation grounds, valuing both Europe and Asia in line with peer group averages, leaves the Nigerian exposure valued at a lowly 7.0 times Enterprise Value/EBITDA for 2016. African margins themselves appear to be near trough levels, last seen in the subdued trading period of 2012 when local fuel subsidies were removed, curbing consumer expenditure. To put the Nigerian exposure in context, it accounts for circa 30% of PZ Cussons' overall profit with Nigeria itself delivering some 85% of African returns.

> PZ Cussons is a state of the art specialist operator, nurturing several key brand categories more dexterously across its geographic base than international majors can achieve.

It is worth reviewing the underlying dynamics of Nigeria long term. It has a fast growing population, with an average family size of four children. The consumer demographic is also relatively much younger than for Western markets, with 41% aged 14 or younger. PZ Cussons has the full architecture of brand opportunities to offer this emerging customer as incomes rise over time. Its consumption of FMCG products remains low by Developed Market standards. Nigeria is likely to develop fast as it has 850km of coastline with international standard port facilities in Lagos. Importantly, technology has penetrated the market quickly with the mobile phone market doubling in the last five years and 45 million internet users online – Nigeria's population, at 175 million, is more than double that of the next largest African country, Ethiopia.

PZ Cussons is a state of the art specialist operator, nurturing several key brand categories more dexterously across its geographic base than international majors can achieve. It acquires and develops well and has critical market exposure to key high growth territories, such as Nigeria or Indonesia. It is trading through a difficult market due to local currency pressures but has a resilient long term business model.

PRICE
£3.17

52 WEEK HIGH-LOW
£3.77 - £2.83

NET YIELD
2.5%

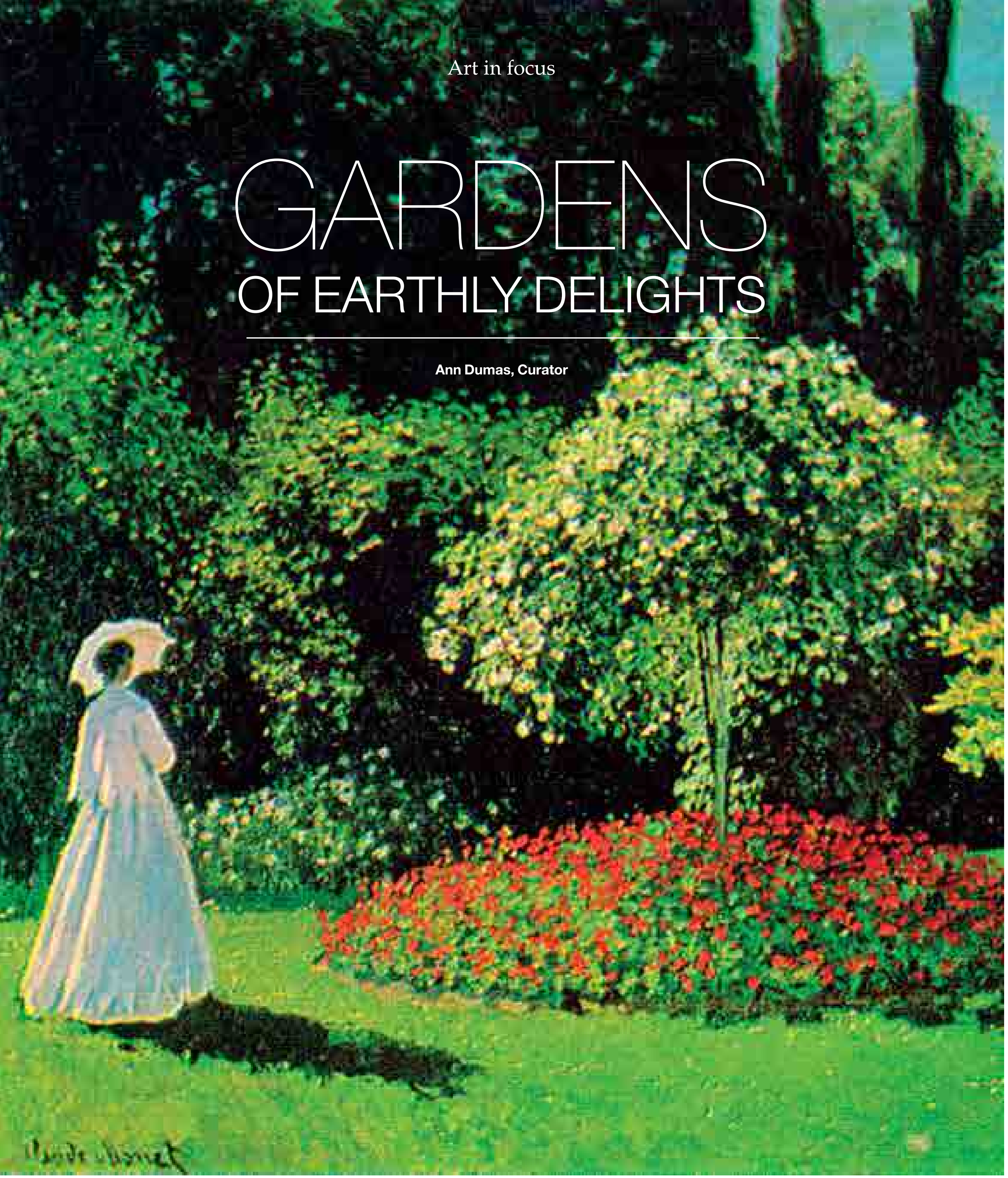
HIST /PROS PER
16.5 - 17.2

EQUITY MARKET CAP
£1,359m

Please read the important notice on page 2.

GARDENS OF EARTHLY DELIGHTS

Ann Dumas, Curator



Monet is the star of the Royal Academy's dazzling 'Painting the Modern Garden', which reveals how gardens sowed the seeds of avant-garde art and reunites a key series of the French master's great late paintings. Curator Ann Dumas explains how Monet's obsession with horticulture resulted in an eternal flowering of his art.

Monet's monumental canvases of his water garden painted in the last decade of his life – the 'Grandes Décorations' (1914-26) – are the ultimate expression of the symbiosis between his garden and his art. They would seem to offer a retreat into a world of tranquil beauty, an aesthetic immersion in the garden that obsessed him for the last 30 or so years of his life. Yet for Monet these works carried another layer of meaning, beyond the garden. They were his very personal response to the mass tragedy of the First World War.

Monet was acutely aware of the war. The peace of his garden was sometimes shattered by the sound of gunfire from the battlefields only 50 kilometres away. His stepson was fighting at the front and his own son Michel was called up in 1915. Many of the inhabitants of Giverny fled to safety but Monet stayed behind: "… if those savages must kill me, it will be in the middle of my canvases, in front of all of my life's work."

A day after the armistice, Monet wrote to his close friend, the French Prime Minister Georges Clemenceau, proposing to give two works from his 'Grandes Décorations' to the nation "to honour the victory and peace". Plans were then drawn up to house 12 large panels in a specially constructed pavilion in Paris that was to become the Musée Rodin. In 1921, however, the scheme was abandoned for financial reasons, and it was not until May 1927, a few months after Monet's death, that the great water lily cycle opened to the public in two large oval rooms in the Musée de l'Orangerie, Paris, where they can be seen today. Three of the most beautiful panels from the original scheme, the so-called Agapanthus Triptych, including Water Lilies (1916-26), did not, however, appear in the Orangerie display and were eventually sold separately to three American museums – the Cleveland Museum of Art, the Saint Louis Art Museum and the Nelson-Atkins Museum of Art, Kansas City. Exceptionally, these institutions have allowed these great works to be reunited at the Royal Academy as the grand finale of 'Painting the Modern Garden'

Painting and gardening were the twin passions that shaped Monet's life. In one of his earliest paintings, Spring Flowers (1864), over ten species of sumptuously painted flowers, fresh from the garden, reveal not only a brilliant painter at the start of his career but also a precocious botanist. Lady in the Garden (1867), a view of his aunt's garden at Sainte-Adresse on the Normandy coast, had strong personal associations for Monet because it was here that he learned about gardening in his youth. Its corbeille, or raised bed planted in a single, vivid colour, is typical of the formal planting that was popular in French gardens in the mid-19th century.

> 'Aside from painting and gardening I'm good for nothing.' Claude Monet, 1904

At this time, gardening was emerging as the widespread popular pastime that it remains today. Plant nurseries, catalogues, floral displays in department stores, fairs and exhibitions provided the burgeoning bourgeoisie with the opportunity to create their own private Eden in an increasingly industrial age. Scientific crossbreeding or hybridisation, as well as plant-gathering expeditions to exotic places, greatly enlarged the range of plants available to the modern garden. New bigger and brighter species, of dahlias and chrysanthemums for example, provided artist-gardeners with new 'palettes' for their gardens – and their paintings.

Renoir captured his friend Monet painting the dazzling display of dahlias in his first garden in the house he rented at Argenteuil near Paris. This included both the giant Dahlia Imperialis that had been introduced into Europe in 1863, as well as the brilliant red Dahlia Juarezi, imported from Mexico. As a pioneer member of the avant-garde Impressionist group, Monet found the garden an ideal setting to explore the informal modern-life subjects and new notions of composition and colour that were central to the Impressionist agenda. ▶



In his next garden, further from Paris at Vétheuil on the River Seine, Monet grew a forest of sunflowers in a terraced garden adorned with the blue and white pots that travelled with him from one garden to the next (The Artist's Garden at Vétheuil, 1881).

In 1883, Monet had the chance to pursue his passion for gardening to the full when, with his companion Alice Hoschedé, her six children and his two sons from his first marriage, he rented Le Pressoir, a long pink house with green shutters and extensive grounds, in the village of Giverny about 50 miles from Paris. Although Monet made his garden with the express intention of providing motifs to paint, for the first 15 years that he lived there, with few exceptions, he did not paint the garden but put all his energies into creating it, doing the digging, weeding and planting himself while the children did the watering. In 1890, he bought the property and, as he grew famous and wealthy, he spent a fortune on plants, employing more and more gardeners.

Monet designed his garden with the eye of a painter. Parallel beds were densely planted in blocks of colour, like paint boxes. Several visitors to the garden, among them the critic Arsène Alexandre, noted the carefully orchestrated sequence of brilliant colours like "a flower palette before him to look at all year round, always present, but always changing." Although the scheme followed an overall geometric structure, within the sections Monet planted loose drifts of colour that almost certainly reflect the ideas of the English garden designers William Robinson and Gertrude Jekyll, who both promoted a new informal approach to gardening that found its truest expression in the English cottage garden. Robinson's influential book The Wild Garden had first been published in 1870 and Monet read Jekyll's articles in Country Life.

> 'These water landscapes have become an obsession'
> Claude Monet, 1908

A sea of the purple Iris germanica, one of Monet's favourite flowers, fills The Artist's Garden at Giverny (1900, from the Musée d'Orsay, Paris). Like other flowers Monet loved – tree peonies and chrysanthemums, for example – the iris originated in Japan. Monet embraced the vogue for japonisme, as did many of his contemporaries, and was an enthusiastic collector of Japanese prints. The arched shape of the bridge that he designed for his new water garden (The Pond with Water Lilies, Harmony in Green, 1899) certainly owed something to prints by Hiroshige (Wisteria at Kameido Tenjin Shrine, 1856).

In 1893, Monet acquired an extra plot of land and applied for planning permission to divert water from the small river Ru to create a water garden. Overcoming the objections of local farmers, who feared his aquatic plants would poison the water and kill their cattle, Monet planted irises along the water's edge, covered the Japanese bridge in wisteria and filled the pond with the new hybrid pink and red water lilies, cultivated by the specialist grower Joseph Bory Latour-Marliac. The pond was extended in 1901, greatly enlarging its original size.

For the last 20 years of his life, the water garden was Monet's obsession and his exclusive subject. At first he concentrated on the Japanese bridge spanning the dense carpet of lilies below, but then his gaze shifted to the surface of the water alone, excluding the banks and surrounding vegetation. He would rise at four to observe the play of dawn light on the water and then, as the day progressed, capture the subtlest shifts of light on water, lilies and reflections of clouds. From 1902 to 1908 he developed a series of paintings of the pond, working on several canvases at once to establish relationships between them, a process that caused him much anguish. Finally, the series was exhibited at the Durand-Ruel gallery in Paris in 1909 under the title 'Paysages d'eau' (Water Landscapes) to great acclaim. Critics were struck by the radical nature of these compositions that seemed to float free of conventional notions of perspective – in the words of the critic Roger Marx: "No more earth, no more sky, no limits now".

In the great panoramas of his final decade boundaries disappear completely in an enveloping continuum of light, air and water. Although nature was always his starting point, Monet now no longer painted directly from the motif but worked in his studio, relying on memory and his profound visual knowledge of his garden. Trails and dabs of paint, and dragged and scumbled surfaces imbue these canvases with a lyrical expressiveness that looks forward to the great abstract artists of the 20th century and remind us how misguided it is to pigeonhole Monet as exclusively an artist of the 19th century. Freed from the need to depict individual plants, his art in his final years acquired an immense painterly freedom and is, in a way, about art itself. Yet, at the same time, Monet's passion for gardening was undiminished to the end. We learn from a journalist visiting him in the last year of his life that he had just received water lily bulbs from Japan and was waiting for a delivery of expensive seeds that would produce brilliantly coloured flowers. After all, as Monet claimed: 'My garden is my most beautiful work of art.'

Painting the Modern Garden: Monet to Matisse is open from 30th Jan–20th April 2016 and is co-organised by the Royal Academy of Arts and the Cleveland Museum of Art. This is an abridged version of an article that was first published in the Winter 2015 issue of RA Magazine.

JM Finn & Co has been a Premier Corporate member of the Royal Academy since 2012.

HOWDEN JOINERY

Geordie Kidston, Head of Research

PRICE
£5.27

52 WEEK HIGH-LOW
£5.32 - £3.82

NET YIELD
1.8%

HIST /PROS PER
22.5 - 20.3

EQUITY MARKET CAP
£3,390m

Howden is a well run cyclical company benefiting from a strong UK building market. Earnings have been growing well in excess of 10% for a number of successive quarters. 2014 was the best year for Howden's business in a decade and on the back of this management has promised to return a significant portion of capital via special dividends. Howden operates a decentralised business model that has proven consistently cash generative and helped to differentiate it. Management plan to open 20-30 new depots annually, thereby further consolidating Howden as the UK market leader. The company is increasing capital expenditure to introduce 13 new kitchen lines, including a granite offering. It is also adding design staff given the strong take-up experienced here. The Group has promised to deliver a £70m share buy-back scheme split over 2015-16 which should be supportive. With the shares currently trading off their peak multiples, we would look for trading confirmation of UK market conditions, after the slow patch seen at Travis Perkins this autumn. Howden could be attractive as operational momentum continues to improve, but particularly if there is any weakness caused by a concerted hiatus in UK consumer spending.

Please read the important notice on page 2.

CHANGING THE WAY YOU EXCHANGE CURRENCY

David Thomas, Head of Private Clients & Partner
Global Reach Partners

Foreign exchange is an area that affects a great number of us in one way or another. Smaller transactions such as holiday spending money and monthly overseas payments, including family or mortgage commitments, sit at the lower end of the spectrum. However, larger transactions may also impact our lives in the form of purchasing a property abroad, emigrating or even moving considerable volumes of savings from one fund to another.

Prior to the last 15 years, this sector was incredibly opaque and retail banks were the only route to transacting one currency for another. Fast-forward to the present day and whilst banks still hold the majority of the market share, there is now an alternative option for a private client in the form of a specialist foreign exchange broker.

For many, the convenience of using their existing relationship with their bank is all too appealing. 'Stick with what you know' is a regular mantra and the perceived added security, along with a long-standing relationship with 'my bank manager' can mean that assumptions on competitive pricing and top quality service are often unfounded.

'Foreign exchange brokers are able to invigorate this sector of the market'

The simple fact is that retail banks have extremely high overheads and regardless of your status, banks are not charities. In fact, to the contrary, banks have shareholders to appease and so margin and profit are never far away from their products and services offered. If you are a large corporate business transacting high volumes of foreign exchange then the chances are that you will receive an acceptable level of service and more competitive rates of exchange, on account of all the ancillary products and services that you have tied in with the bank. Alas, the reality for a private client is somewhat different.

Foreign exchange brokers are able to invigorate this sector of the market, as it is simply too cumbersome and resource-heavy for institutional banks to deliver the same level of service that brokers can provide – and certainly not for the reduced margins that brokers tend to charge. The net effect of this in all cases, is far better value for the amount of currency that is to be sold or bought. Furthermore, these brokers set themselves apart from banks by offering what clients want, rather than what the institution demands; namely, a single point of contact to speak with directly, who knows the account and understands the unique requirements. This, along with a flexible suite of products to suit individual circumstances and proactivity on any market moves that may impact the specific requirement, all add up to a number of compelling ways that individuals could benefit from using a foreign exchange broker.

Undoubtedly, one of the barriers to private clients moving their business over to these foreign currency specialists is the safeguarding measures in place to protect their monies. Often, 'brokers' are pigeonholed into a rather dubious space, regardless of the sector that they serve and as a result individuals are reticent to take on the 'perceived' risk of dealing outside of the banks.

Having said that, in this day and age, reputable brokers are supervised by the FCA and take their compliance processes and client fund security extremely seriously, with segregated client accounts being the norm. Furthermore, the majority of these brokers tend to have all of their client accounts held with these same big name institutions, with which you are already transacting.

As far as administration is concerned, foreign exchange brokerages tend not to have any account opening fees or charges to transact. Once you have been through the account opening procedure, a client account is allocated at the underlying clearing institution in every major denomination of currency that you wish to trade.

With the account active, there is no obligation to trade unless you are willing to accept the price offered. With this in mind, there is an argument to suggest that having a relationship with a foreign exchange broker will, at the very least, provide a great way of benchmarking that long standing relationship that you have with your bank. Should the price and service that you receive be better than your usual trading method, then you can transact with your specialist foreign exchange provider, and who knows, maybe change the way that you exchange your foreign currency forever.

global reach partners

www.globalreach-partners.com/personal

For more information on how you can manage your foreign exchange requirement, contact Global Reach Partners on 020 8108 3883 or email info@globalreach-partners.com

JM Finn & Co is not able to give FX advice. Clients who wish to explore the possibilities that this article opens up should seek specialist advice.

As part of our focus on providing a high quality, personalised investment service, we look to support our investment managers in their decision making when it comes to constructing client portfolios. Our Asset Allocation Committee is one example of this, via their monthly output.

FIXED INCOME		
UK Government Bonds		While yields remain at all time lows, we prefer conventional government bonds as index linkers have currently discounted too much inflation.
UK Corporate Bonds		Prefer to hold long duration BB bonds via funds, to mitigate risks of individual bond exposure. Suggest avoiding high grade AAA bonds and we remain alert to liquidity risks in the bond markets.
UK Indexed Linked Bonds		Index linked bonds discount too much inflation at present so we currently favour conventional government bonds.

UK EQUITIES		
UK Financials		Relative economic strength in UK/US economies benefits the sector. We specifically favour life insurers due to their secular growth.
Consumer Goods		Wage inflation and momentum in UK economy should benefit the sector.
Oil & Gas		Attractive value and yield in the quality exploration & production and services companies. Given the muted macro outlook, expect the sector to remain under pressure in the near term.
Consumer Services		Some interesting opportunities in media and leisure; we remain positive on consumer spending.
Industrials		Currently favour the higher margin, lower debt names in the sector. It is likely to be a difficult year for top line growth as Chinese demand tempers.

OTHER EQUITIES		
US		The economy is relatively strong versus other areas, however, we are concerned by extended valuations and slowing earnings momentum as QE matures and the headwind of recent USD strength is felt.
Europe		We continue to see some upside in the Eurozone generally; Europe is currently enjoying the tailwinds of QE and depressed borrowing costs and so we favour this region over the US.
Japan		Japan continues its extensive money printing operations and tax hikes in an effort to engender domestic inflation above government targets leaving us with little conviction as to Japan's economic outlook.
Asia/China		Still cautious on the Chinese economy as it undertakes a cyclical deleveraging, post an extensive domestic property boom. As the stock market continues to fall, long term valuations begin to look more attractive, but we are wary of currency devaluation should the USD continue to rally into 2016.
Emerging Markets		Sill cautious towards most EMs as commodity deflation persists in pressurising local economies, given the continuing slowdown in demand from China. We remain wary of EM currencies given the current rally in the USD.

ALTERNATIVES		
Property		Increasingly wary on the extended bull market characteristics of the UK property market. Yields and valuations are punching through historic criteria and we see anecdotal evidence of maturing characteristics in several areas of the mainstream property markets.
Absolute Return		It is notable that many of the larger funds are struggling to make their targeted returns. This is likely to remain a challenge as yields stay depressed.
Infrastructure		NAVs are proving resilient although we question the ability to keep moving asset values up in a rising interest rate cycle.

ASSET ALLOCATION: A SNAPSHOT

The Asset Allocation Committee, which consists of the four members of our research team and a number of investment managers, aims to provide a view on the asset allocation that seems most suitable in current macro conditions. The output of the monthly meetings remains a suggested stance and it is important to note that the views expressed are not those of the firm but rather those of the committee and that the views expressed may not necessarily be those of your individual investment manager.

KEY

Positive   Neutral   Negative

J SAINSBURY

Geordie Kidston, Head of Research

PRICE
£2.53

52 WEEK HIGH-LOW
£2.88 - £2.21

NET YIELD
4.2%

HIST /PROS PER
11.0 - 11.5

EQUITY MARKET CAP
£4,861m

J Sainsbury is a leading UK grocery chain. After a generation of growth in retail space, the UK grocery market is in excess supply and suffering a price war as ultra low cost competitors enter. J Sainsbury has suffered both from a loss of market share and the increasing costs of remaining price competitive. The Group has curbed new space expansion, reduced capital expenditure and the dividend was cut at the May 2015 results. The balance sheet strain of the ensuing indebtedness is pronounced and well understood. Despite cutting dividends and capital expenditure, the Group's commitment to a certain level of pricing position is strongly felt and a rights issue to bolster the balance sheet is possible. Forward forecasts of the dividend show ongoing cuts, such is the current severity of competition. The Group nevertheless has substantial asset backing. The worst of the sector attrition and consolidation appears priced in, with the Qatari stake in J Sainsbury overhanging the market.

Please read the important notice on page 2.

BEN STANTON

BURY ST EDMUNDS

Born King's Lynn, Norfolk

Lives Suffolk

Family Married with four children

Started at JM Finn & Co April Fool's day 1997

Current Position Senior Investment Manager

Hobbies Anything outdoors

Dogs A wild Cocker Spaniel and an unruly Norfolk Terrier

Favourite restaurant London: Coq D'Argent; Suffolk: Pea Porridge, Bury St Edmunds

You moved to our Bury office from HQ in London several years ago. How has this changed your job?
I am very lucky to be able to work close to home without it impacting on my day to day work. Being born and bred in Norfolk, whilst working in London, Suffolk was the perfect 'midpoint' to live and the opportunity to work there as well has been fantastic. Thanks to improved systems and communications with internet, email and video conferencing, along with a proactive team around me, Bury St Edmunds doesn't feel like a satellite office. A main advantage, of course, is that my daily commute is much shorter, allowing me to spend more time both looking after my clients and with the family.

Does being in a regional office mean you mix your work and social life much more?
Yes of course. I often find myself on the touchline at school cheering on a team alongside a fellow parent, or grandparent, who might be a client. Being based locally does allow us to develop relationships further and for those clients less willing to travel to London, being able to pop into our branch office in Bury St Edmunds is very convenient.

In the last issue of Prospects we reported on the satisfaction levels of our clients. What's the most important aspect of your job that makes clients happy?
Because we focus on getting to know our clients we have a full understanding of their investment needs and therefore we do not 'pigeon-hole' them. I think this is one of the main reasons our clients have said they like what we do and it's what I find most rewarding about the job. Each client is different and we treat them accordingly.

As a protégé of our Chairman, James Edgedale, what did you learn from him?
I worked with James for over ten years, in the days when we were sent off to the City Library to research companies on a microfiche. I helped him look after his clients whilst building up my own client base and experience, before branching out on my own. As well as making the job great fun, he taught me to focus on providing the service that the client expects and ensuring that when you say you'll do something, making sure you do it. I also learnt to communicate with my clients – being in touch at every opportunity can really help cement a relationship.

What's the best piece of advice you've ever received?
It was to follow Warren Buffet's mantra about not following the herd: "Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well". The dotcom boom of '99, when I was just starting out as an investment manager, was a perfect example of this.

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