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No.52 *Autumn 2025*

Prospects

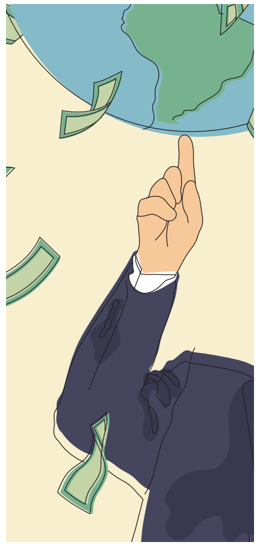
The JM Finn Quarterly Periodical

Rail renationalisation
An outlook

Vulnerable beneficiaries
Trust structures to help

The future of work
The impact of AI

No.52
Autumn 2025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Carrie Lennard
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Welcome

In contrast to Trump's first term in office which was defined by a promise to revive domestic manufacturing and close the wealth gap, his second has so far involved a more concerted effort to appeal to Wall Street.

The US Federal Reserve is facing calls from the government to cut interest rates; will it concede and start another rate cutting cycle? Head of Investment Office Jon Cunliffe discusses this and the outlook for the global investment landscape in Markets in Focus on page 16.

As the US economy looks under pressure, there has been a broadening out of equity returns by region. European equities in particular are a less problematic proposition for some investors, argues Fidelity's Marcel Stötzel in the Collectives Commentary on page 26. Factors including Germany's €500bn allocation for infrastructure spending and €150bn EU loan for military expenditure are set to provide stimulation to the European economy, and offer an attractive backdrop for investment in the region.

Renationalisation of Britain's rail networks and other previously privately owned utilities has been a major component of the Labour government's policy since it came into office. Research Analyst Henry Birt debates in our editorial on page 6 whether the plans will actually solve the nation's perennial bugbears with rail travel – costs and widespread delays: according to polls, public attitudes to renationalisation appear largely to hinge on whether it will bring rail fares down.

Many column inches have been devoted to Artificial Intelligence (AI) and its potential to transform the world of work. Few organisations have been closer to understanding the way AI is shaping the labour market than the Institute for the Future of Work, which has undertaken a three-year study into the future of employment. Associate Director Kester Brewin brings some of the key insights to the guest editorial on page 10, to help answer questions around how AI could change work as we know it.

Seeking feedback from customers via market research is a vital tool for companies to ensure that they continue to meet their needs. As JM Finn prepares to launch its biennial client survey, CEO Hugo Bedford covers the art of taking feedback on board in his Perspectives blog on page 4 – and some of the pitfalls when firms fail to do so.

Many clients want to pass on wealth to family members – finding the best way to do so can be stressful, and when a beneficiary is vulnerable this can bring added complexity. Fortunately, various trust structures exist in English law that are designed to protect assets gifted to vulnerable recipients; Vanina Wittenburg and Matthew Yates from multidisciplinary law firm Hunters Law cover the main types on page 28.

Selling a business can likewise often be an emotional decision, but from a practical standpoint it is vital to exit as tax-efficiently as possible to try to maximise wealth that is derived from the sale: on page 20, Wealth Planner Luke Audritt covers some considerations to be aware of for business owners who may be thinking of moving on.

Last but most importantly, former Chairman of JM Finn James Edgedale sadly passed away this year: Investment Director Matthew McEneaney pays tribute on page 9 to a much-respected friend and colleague.

Carrie Lennard
Editor

PERSPECTIVES

Hugo Bedford
CEO, JM Finn

The art of receiving feedback

JM Finn CEO Hugo Bedford considers the importance of embedding client opinions into business decision-making.

I hope you have had an enjoyable and relaxing summer. If, like me, you've been charged with creating the itinerary for your family holiday this year, you'll know that it is often no mean feat to make sure everyone from adults to teenagers have a good experience. As tempting as it might have been to test out a shiny new AI trip planning tool, I settled for a more tried and tested way: asking for ideas and opinions before making a plan.

> Obtaining regular feedback from our clients is paramount to JM Finn.

> This year, our Wealth Planners won the prestigious Private Asset Management (PAM) Total Wealth Planning award.

Taking feedback on board is just as necessary for companies: around 80% of new innovations fail. A common reason for this is a failure to carry out adequate market research before a new launch to understand consumer thoughts and needs. It sounds simple, but it is important to check that products and services are meeting genuine consumer demand before launching. One of the most famous examples is the reformulation of Coca Cola in the 1980s: without carrying out sufficient consumer research, the company pressed ahead with a change to the recipe and then hastily reverted to the old ingredients following a consumer backlash. Google's augmented reality Google Glass eyeglasses met a similar fate. Designed to 'enhance wearers' realities' by incorporating computer access into their glasses, it also included the ability to discretely record surroundings. Going on sale to great fanfare in 2014, the product was quietly shelved the following year. What went wrong? Post-launch, the feedback from would-be customers was clear: the US$1,500 price point was considered too high and the recording function was perceived as a breach of privacy. In both cases, more robust consumer research prior to launch could arguably have helped to prevent costly developments that ultimately weren't well received by the public. Google is currently in the process of creating an updated version of its smart glasses and it will be interesting to see how the new prototype fares.

Of course, customer opinion should not just be sought on a one-off basis, but ideally rather as an ongoing process. Obtaining regular feedback from our clients is paramount to JM Finn: we've carried out a biennial client survey for many years to understand attitudes to the firm, our investment managers and the services we provide. We listen carefully to the results and incorporate client thoughts into our strategy wherever possible. Our Wealth Planning team was created in 2016 in response to clients telling us, via the survey, that they wanted us to provide a financial planning proposition to complement our investment management services. Since its inception, the team has gone from strength to strength. This year, our Wealth Planners won the prestigious Private Asset Management (PAM) Total Wealth Planning High Net Worth award – but most importantly, they continue to be highly rated by clients who use the service.

The 2025 iteration of our client survey will be sent out to you by email in September, following an initial email from your investment manager. I would encourage you to participate if you can find the time – we really appreciate every response, and look forward to being able to share some insights from the study in a forthcoming edition of Prospects.

Editorial

Going public

Henry Birt
Research Analyst

Train ticket prices and delays are a perennial collective gripe for the nation: Henry Birt considers whether the government's renationalisation programme will prove to be the answer.

An alien lands in London. After the oppressive summer heat becomes too much, he, like much of the rest of the City, decides to decant to the west country. He would be forgiven for thinking that the exorbitant cost of his train ticket would entitle him to a premium service. He would, I imagine, be fairly disappointed to find himself without a seat as the train is missing half its usual carriages. He would also be perturbed by his 45-minute delay due to 'signalling errors', the lack of fast enough Wi-Fi to contact his home planet, or the inability to satiate himself after his travels with a Kit Kat and a cup of tea.

It should be so simple. An uncomplicated technology, the core principles of which have barely changed since the early 19th century. Trains run from one place to another with no traffic to contend with and a completely definable timetable. Is a reliable, affordable and safe railway network too much to ask for in a G7 economy?

This question touches on a wider point which resonates with many. Whether it's water, potholes or the railways, there is a common acceptance amongst the public that services such as these are destined to be subpar.

For water and the railways, the industry structure we have today is the result of privatisation in the 1990s. As any student of economics will remember, the issue with monopolies is they can raise prices and offer a rubbish service with no viable substitutes: consumers are required to keep coughing up the money. Water has no substitute. On the face of it the railroads have substitutes, yet the speed at which a train can travel unimpeded renders driving as an alternative often unrealistic. Also, in a world increasingly concerned with carbon emissions, the train should be the preferred option anyway.

> UK train fares have increased by 45% when adjusted for inflation over the last 30 years.

It only makes sense for one company to operate a particular railway line and so when privatising, Train Operating Companies would propose a business plan to the government as a bid to run a specific part of the UK railway line. This, in theory, introduced competition via the tendering process, however often this incentivised unrealistic tenders to win a bid, which later proved difficult to make profitable. This franchising of the railway system has since been scrapped and as these tenders run to an end, Labour has plans to renationalise the railways.

South Western Railways was the first to go and in May this year came under public ownership. As a regular train passenger in the South West of England, the prospect of a renewed focus on UK rail is a pleasing one.

UK train fares have increased by 45% when adjusting for inflation over the last 30 years. Quite simply, a train ticket on average requires nearly 1.5x the spending power it did back in 1985, before the railways were privatised. Whether there are good reasons for this or not, many passengers don't feel they have seen a commensurate increase in the quality of the service. The public's confidence in UK utilities and infrastructure is declining, with a feeling that parts of Britain aren't working. Large scale, well publicised failures such as the decline and subsequent nationalisation of Thames Water don't help. Passengers' gripes with UK trains also seem justified based on the data collected by the Office of Rail and Road (ORR), which shows that cancellations have risen steadily since the end of the pandemic, whilst punctuality has declined. This isn't lost on passengers and the solution that the public favour is often nationalisation. A 2024 YouGov poll shows the number of respondents who think railways should be 'run in the public sector' increased from 60% in 2017 to 76% by 2024. The only other currently private industry for which there is more support for nationalisation is, unsurprisingly, water, where 82% favour public ownership.

The public are certainly pro-nationalisation, but will it make the railways better? Advocates of the privatised system will point to British Rail's torrid reputation as an example of public ownership's problems. British Rail was not a UK success story but some estimates show that the punctuality of trains in 1994 was actually better than it is today. This reflects the issues faced by today's railway system rather than casting any glory on British Rail. Yet, British Rail existed through a period of managed railway decline. One of the key reasons for privatising the railways in the first place was to remove the maintenance and replacement capex costs from the taxpayer and manage the decline of railways as the car was in the ascendancy.

Things have changed, and with climate change now better understood, the decarbonisation benefits of trains are increasingly attractive. With an industry no longer thought to be in terminal decline, and passenger numbers set to rise in the future, this should be a supportive backdrop to improve the service.

The government rightly wants to improve the service but reasonably, would rather do this without shelling out billions from the treasury coffers. A mixture of analyses from incumbent Tory and Labour governments estimate that nationalising the trains might save the taxpayer £2.2bn a year. As analysts of companies, we are often presented with fairly nebulous and un-auditable cost saving targets by new, reforming CEOs, and so we naturally take these figures with scepticism.

> The 76% of the public in favour of nationalisation falls to just 6% if fares continue to rise.

Yet even taking these as read, the government has not promised these savings will be used to reduce fares. This might somewhat thwart the public's appetite for nationalisation. Another YouGov poll shows that the most hoped for improvement following nationalisation is lower fares, with 46% hoping for lower fares versus only 21% who expect them to get worse. That original 76% in favour of nationalisation falls to just 6% if fares continue to rise.

So, what can be done?

Nationalisation is already underway. Incremental changes have failed to save the railways so far and just adding sticking plasters feels like throwing good money after bad. The minutiae of the reforms necessary have been better documented elsewhere, but the view of Dieter Helm of Oxford University provides a good starting point. He argues that "the economic costs of the current railways are to be measured not just in terms of annual losses and subsidies, but in lower productivity and lower competitiveness". With control of the railways being centralised under the public umbrella, the government can view rail from a national perspective. Narrowly focusing on cost savings, without considering rail's position in our economy as a whole, seems to me a mistake. Equally, funding hugely complex infrastructure projects before fixing what we've got also seems unwise.

Rail could and should be a key tenet of the UK's plans to decarbonise the economy. With rail viewed as a contributor to a greener and more productive economy, investment into making the network more resilient would likely be much easier to justify. A failing railway system is expensive to run, but also costs the UK significantly in lost productivity. Tinkering around the edges with incremental changes won't solve the problem, but the first step needs to be a change in mindset. I for one look forward to the day when I arrive on time, phone charged and satiated by a Kit Kat and a cup of tea.

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Please read the important notice on page 1.

James Edgedale

Investment Director Matthew McEneaney pays tribute to James Edgedale, former Senior Partner and Chairman of JM Finn, who sadly passed away this year.

We lost a dear friend and former colleague, James Edgedale, in May and we have been reflecting on the unique impact he had on our lives and to the ongoing success of JM Finn. Joining fresh from university in 1984, the firm had its fair share of characters in those days and his arrival did nothing to dilute that. He had found his spiritual home and over the following 37 years the business would benefit from his boundless energy and commitment. During that period our assets under management grew tenfold both organically and through the acquisition of like-minded teams and individuals, opening four new offices in the process. Three decades leading the business as a Partner, Senior Partner and Chairman didn't detract from his true talent or contribution as a stockbroker with a passion and instinctive feel for markets. His book of business was significant and he was unselfish in seeding many others, all imbued with his guiding principles and our culture of integrity, fairness and putting the client first.

At work, with his family and at play James was fully committed, he was generous and great company to his many friends on the golf course, racing or over dinner at his clubs. He has left a meaningful legacy at JM Finn and in all aspects of his life has created warm and lasting memories. He is remembered here with respect for his achievements, thanks for the joy he brought and deep affection for the man he was.

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Guest editorial

Are the robots coming?

Kester Brewin
Associate Director at the Institute for the Future of Work

Whether we like it or not, AI is here. Kester Brewin covers one of the key questions of the moment: will its impact on the world of work be as extensive as the media would have us believe?

It is hard to move for stories about the AI revolution. Every major government is keen to promote technology as key to improving the delivery of public services, of driving efficiency and productivity, and the major data companies often seem to be leading the chorus. Taking up the tune are media reports about 'robots coming for your jobs', all amplified by a barrage of advertisements for AI Agents to immediately start doing the heavy lifting in firms. But what is really happening in the world of work, and how are labour markets shifting?

Making the future work

For the past three years, the Institute for the Future of Work (IFOW) has undertaken the Pissarides Review into the Future of Work and Wellbeing, led by Nobel Prize-winning labour market economist, Professor Sir Christopher Pissarides. Workstreams led by researchers with deep expertise have explored the complex picture of the impacts of AI and automation adoption at system, firm and individual levels. This culminated in a Final Report that set out not just a 'state of the nation' picture on tech adoption, but a set of research-led principles that emerged from this work that suggest how to get the future 'right.'

System-level challenges

Work at the system level sought to give the first proper picture of technological transformation across the country. This aggregated data across venture capital flows, levels of research & development investment, numbers of patents, levels of skills – as well as measures of educational attainment and the availability of high-speed internet – to help firms and policymakers understand what the drivers of tech adoption were. This showed that there was fantastic innovation being done – but that it wasn't spilling over to areas outside of the 'golden triangle' of Oxford, Cambridge and the South East nearly as well as it should. There are areas that are highly 'innovation ready' but aren't yet benefiting from new technologies.

Though UK-focused, these principles matter more widely. The government's recently-published Industrial Strategy rightfully indicates that distributing investment across a country is vital if we are to see the benefits of these extraordinary new technologies shared. Increasing access to good-quality jobs in a region doesn't just lead to economic benefits; our research at IFOW shows that it supports health outcomes, resilience and community cohesion – all of which are not only good in themselves, but also lower demand for public services in other ways.

Firm-level opportunities

Alongside the great push by governments and tech companies to promote AI technologies, there have also been huge numbers of articles warning of major changes to the labour market due to the impact of AI.

In truth, it is currently difficult to parse the impact that AI is having on job numbers. There are significant other factors in play, such as the continued corrective retrenchment from the large increases in tech hiring during Covid, slowdowns in public sector headcounts across many economies, and the destabilising impact of tariffs. In the UK, we are also seeing the impacts of the government's fiscal changes, and a slowdown in venture capital funding too.

David Autor, professor of economics at The Massachusetts Institute of Technology, recently commented that "Outside some specific occupations [such as] programmers, I think it's premature to ascribe recent labour market woes to AI," and sees changes to government contracts with big consulting firms, cuts by 'DoGE', and tariffs as likely having a greater impact.

While it is clear that this new 'general purpose technology' will have a significant impact across a wide range of sectors, the danger is that firms believe the hype and respond to a perception environment – making large-scale decisions on AI deployment without careful consideration of the risks and actual benefits. Economists such as Daron Acemoglu and Erik Brynjolffson have warned against this hurried adoption of AI to replace work rather than enhance it, and shown that doing so often fails to bring expected productivity gains, while having very significant wider socio-economic impacts. Others, such as Carl Frey, have made it clear that while "there's little evidence that AI has already begun taking jobs en masse […] today's leading service hubs risk underestimating the disruption of AI — especially as Silicon Valley races to automate white-collar work".

What then should firms do to make sure that they get tech adoption 'right'? As part of our Pissarides Review, 1000 UK firms were surveyed about their approaches to AI and automation adoption, and twelve in-depth case-studies were carried out across a wide range of sectors (from surgical robots to GenAI transcription to welding co-bots). The consistent findings were that where firms have 'high engagement HR philosophies', the adoption of AI and automation technologies led to more good quality jobs, with better skills and better outcomes.

This is a significant finding. If we engage workers in how these AI systems are designed, developed and deployed, then their adoption promotes environments where productivity will increase. Moreover, if this adoption of new technologies is also leading to more access to good work, the wider benefits of healthy people, and resilient communities, we should see a double effect of relieving stress on public services.

> "At the centre of all of this labour market turbulence is working people, and those who are in education and thinking about their future of work.

Individual capabilities

We know that technological transformation is happening rapidly and we can map the system-level picture of these changes. While the direct impacts of AI are currently difficult to read in terms of changes to labour markets, we do have a good understanding of how firms should be responding by promoting human-centred tech-adoption practices. All technology has a social dimension, so it is vital that HR functions are integrated into discussions about AI deployment, rather than decisions about this sitting just with Chief Technology Officers.

But at the centre of all of this labour market turbulence is working people, and those who are in education and thinking about their future of work. The Pissarides Review analysed tens of millions of job ads from 2016-2022, looking to understand how skills demands are changing. What this found was that demand for tech skills is increasing – but that the flux of these skills is also high. It also found that the demand for human-centric skills such as communication, problem-solving and creative thinking remained constant. Finally, it was clear that the basket of skills being requested for roles has grown.

This points to a nuanced picture. Rather than education shifting focus to competency in specific tech skills – 'AI literacy' for example – what matters most for success in a technologising labour market is fostering a culture of capability. This means encouraging young people – and those already in work who will be experiencing work transitions – to develop a positive and capable approach to integrating new technologies and systems into their working practices and lives.

Such an approach requires a shift in emphasis from schools and those responsible for training and development. A Capabilities Approach understands that putting two people through the same training course won't deliver the same outcomes, because people who come to the training with different resources are able to extract varying levels of value from it.

Advancing innovation and social good

Although the current impact on jobs is still unclear, as AI impacts the world of work and reshapes labour markets, it is vital that we understand the changes in play as both social and technical. The future of wholesale replacement of human labour by AI systems is not backed up by current research, nor offers a vision of a healthy society in which all can flourish. The mantra of 'growth' is heard from leaders across economies; what these new technologies are best placed to do is enhance our human capabilities – allowing innovation and social good to advance together.

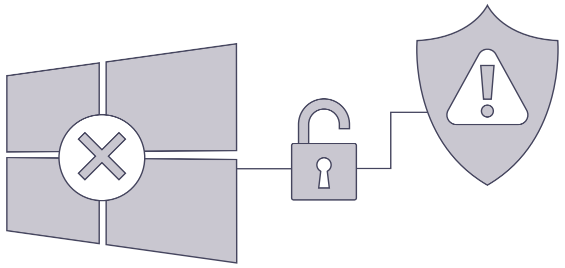
About the author and the Institute for the Future of Work (IFOW)

The Institute for the Future of Work is an independent research and development institute exploring how new technologies are transforming work and society. Co-founded by former employment barrister Anna Thomas MBE, Nobel prize-winning economist Professor Sir Christopher Pissarides and technologist Naomi Climer CBE, IFOW works at the intersections of governance, civil society and industry to build a fairer future of better work. Kester Brewin is Associate Director at the IFOW and author of God-like, a 500-Year History of Artificial Intelligence.

https://ifow.org

JM Finn News

Time to act: prepare for the end of Windows 10



JM Finn's Head of IT and resident cybersecurity expert Jon Cosson explains best practice to stay safe online and plan for the end of Windows 10.

On the 14 October 2025, Microsoft will officially retire Windows 10. For many of us, this operating system has quietly powered our computers for almost a decade. You may not even have noticed it working in the background, but it's been keeping your PC stable and relatively secure all this time.

So, what does the end of Windows 10 mean for you, and why should you act now?

What's changing?

When Microsoft ends support, Windows 10 won't suddenly stop working. You'll still be able to turn on your computer, access the internet, write emails, or use online banking. However, you will no longer receive security updates, meaning your PC will become increasingly vulnerable to viruses, scams, and cyber criminals.

The risks of doing nothing

By running unsupported software like Windows 10 you may quickly become a target for scammers and hackers. Without regular updates from Microsoft, any new weaknesses in the software will remain unfixed, leaving the door wide open for cyber criminals.

> For many of us, this operating system has quietly powered our computers for almost a decade.

Without regular software updates, your computer will have an increased possibility of exposure to ransomware – a type of malware that can lock your data files and demand a payment to unlock them. Other risks include online banking fraud or identity theft, which can happen when someone gains access to your email or computer; and phishing emails, which look convincing but are designed to trick you into clicking harmful links or revealing private information.

What should you do?

Check your device: if your computer is more than six years old, it might not be capable of running Windows 11, the newer operating system. You can visit the Microsoft website or ask a trusted local IT provider to check your device's compatibility.

Consider upgrading: if your current PC can run Windows 11, you may only need a software upgrade. If not, it might be time to consider replacing it. This can feel like a big step, but today's modern devices are faster, more secure, and easier to use than ever before.

Back up important files: before making any changes, it's a good habit to save your important documents and photos onto an external drive or a trusted cloud service.

Staying safe online – our cyber tips

At JM Finn, we regularly advise our clients on effective ways to stay secure online. Here are a few simple tips:

Use strong passwords: many people still use simple passwords (such as a child's name or sports team) or reuse the same one across multiple accounts, which makes it much easier for cyber criminals to crack. Instead, try the 'three random words' method. For example: `TeacupRiverGarden`, which can be easy to remember yet hard to guess. Also include a random number at the beginning (not the end) and include special characters such as: "!" "£", or "$".

Turn on multi-factor authentication: this adds a second layer of protection to your accounts, such as a code sent to your mobile phone when logging in. It's one of the most powerful ways to keep your email and online banking secure.

Use a password manager: these useful tools store all your passwords safely in one place and even help create strong passwords for you. You only need to remember one (strong) master password.

Be wary of emails and phone calls: if something sounds urgent, threatening, or too good to be true, it usually is. Never click on unexpected links or attachments and never share personal information unless you're sure who you're speaking to.

Scams to watch out for: The National Cyber Security Centre has reported a rise in email scams that claim to be from banks, delivery companies, or even friends. Others

> If something sounds urgent, threatening, or too good to be true, it usually is.

might say your account has been hacked and urge you to act now. These are designed to trick and panic you. Don't click or respond immediately, take a moment and check with someone you trust.

A final thought

As a JM Finn client, you've entrusted us to try to help protect your financial future, but today, that also means helping you stay safe online. While change can sometimes feel overwhelming, especially with technology, small positive steps can go a long way.

Upgrading your computer, reviewing your passwords, and being cautious with emails are simple actions that have a big impact. You don't need to be a computer expert, just aware and prepared.

We're always here to support you, and if you have concerns about online safety or the retirement of Windows 10, we encourage you to speak to your JM Finn Investment Manager, who can consult with our IT team.

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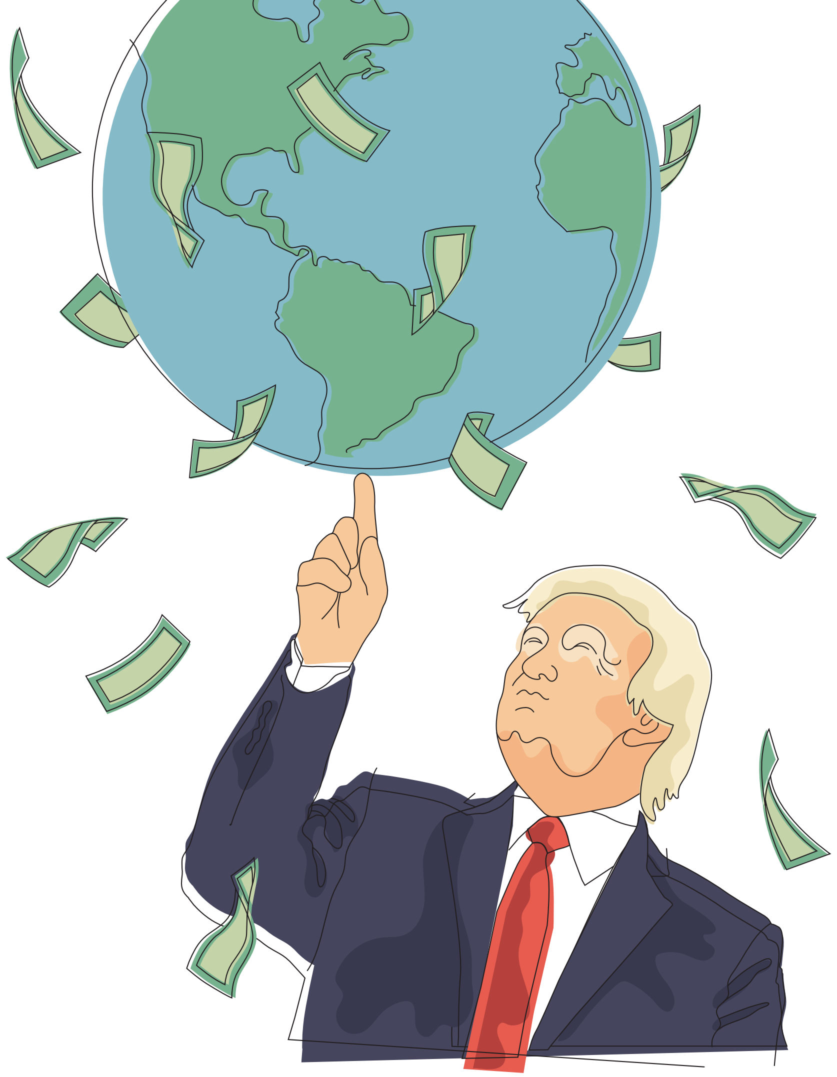
For more comprehensive information on cyber security, including best practice to create a strong password, download our Cyber Crime Awareness guide from the JM Finn website.

In focus



Markets in Focus

Jon Cunliffe
Head of Investment Office

In his second term, President Donald Trump has shifted his economic strategy, moving away from the populist, working class focus that defined his earlier campaigns and embracing Wall Street and the financial sector. This pivot marks a significant change in both policy and rhetoric, with wide-ranging implications for the US economy and financial markets.

Trump's initial appeal was rooted in addressing the economic dislocation caused by globalisation, particularly after China joined the World Trade Organisation in 2001. Over the years, US GDP composition has changed: corporate profits have increased by 7% as a share of national income, while labour income has declined by 5%. This shift fuelled Trump's earlier promises to revive domestic manufacturing, renegotiate trade deals, and tackle the 'K-shaped' economy—characterised by growing inequality between the wealthy and working class.

However, the realities of governance in his second term—especially post-Liberation Day volatility and concerns over the Treasury market—have led Trump to court Wall Street more directly. His administration has adopted deregulatory policies, including relaxed oversight by the Securities and Exchange Commission and has passed legislation making the Tax Cuts and Jobs Act permanent via the One Big Beautiful Bill Act. The Act will deliver tax cuts of US$4.5trn over ten years, with spending cuts of around US$1.2bn centred around Medicaid, food aid, welfare and clean energy. This type of deficit spending is usually bullish for equities, which have hit record highs under the banner of "unleashing American innovation".

> "Underperformance of the US economy versus the rest of the world over the balance of 2025 is likely, as the effects of tariffs feed through.

A key upcoming change is the expected departure of Federal Reserve Chair Jerome Powell in May 2026 (but the White House is keen to announce his replacement as early as possible). With federal debt interest burdens rising and the debt-to-GDP ratio projected to reach 140% in the 2030s, Trump has criticised the Fed's reluctance to cut rates, with the implication that fiscal pressures may increasingly influence monetary policy. While on the one hand this is a clear assault on the independence of the US central bank, on the other hand, there seems to be a desire on the part of the Trump administration to challenge legacy academic theories and institutional groupthink at the Fed that hindered its decision-making in recent years.

Meanwhile, the Treasury is issuing more short-term bills—now 21% of outstanding debt—rather than long-dated bonds. This boosts market liquidity and supports risk assets. In this environment, lower Fed Funds rates would benefit both the Treasury and financial markets more broadly.

Despite these tensions, markets have adapted. There's growing acceptance of inflation closer to 3%, even as the Fed maintains its 2% target. However, the bond market vigilantes are always circling, and if sticky inflation prompts them to drive up long-term yields in a disorderly fashion, the Fed may intervene using its balance sheet, a move which could ultimately evolve toward yield curve control.

The front-loading of activity ahead of the implementation of tariffs and Trump's (admittedly haphazard) de-escalation of the trade war have seen economic activity data holding up generally better than anticipated. However, it is only a matter of time before trade policy begins to weigh on US hiring and investment. As a result, we expect weak US economic data in the second half of 2025, with mounting pressure on the Fed to reinitiate the rate-cutting cycle it began in 2024. Looking ahead to the 2026 US Midterm elections, we expect fiscal, monetary, and regulatory policies to be increasingly aligned to support financial markets, especially equities. The US Dollar, however, is likely to continue its downward trajectory as the effects of the budget and current account deficits combine with the prospects for reduced Fed independence and less appetite on the part of central banks to hold the US currency.

Notwithstanding the recent impressive recovery in US equities after their sharp correction in April, year-to-date equity returns have been much broader by region and sector than in the recent past, and this is something we anticipate will remain the case for the rest of the year. This reflects the likelihood of significant underperformance of the US economy versus the rest of the world over the balance of 2025 as the effects of tariffs feed through into US activity data. In addition, policy reflation outside of the US, notably in Europe, the UK and China, has increased investor appetite for a slightly less US-centric equity allocation. Finally, the prospects for further US Dollar weakness will erode the US equity returns for non-US investors, reversing the trend of the last decade.

Please read the important notice on page 1.

Company Meetings

A spotlight on three of the 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.

Sir John Royden, *Head of Research*
Jack Summers, *Assistant Research Analyst*

CONSUMER DISCRETIONARY
Booking Holdings
Burlington
Technogym
TJX

CONSUMER STAPLES
Coca Cola
Diageo
L'Oreal
Mondelez
Procter & Gamble

ENERGY
TotalEnergies

HEALTH CARE
GSK
Thermo Fisher

INDUSTRIALS
Diploma
IMI
Intertek
Spirax
WW Grainger

INFORMATION TECHNOLOGY
Halma

MATERIALS
Rio Tinto

REAL ESTATE
Segro

1.

Intertek

Equity market cap (M) £7,325

Industrials
Denis Moreau, VP Investor Relations

Intertek is a global provider of quality, reputation and safety assurance, and operates in 30 countries.

Our meeting focussed on its Consumer Products testing division, formed in the 1970s as a pioneer of the testing market. The firm claims a #1 market share of the Consumer Products testing market, aligned with a strong reputation.

The division expanded through mergers and acquisitions, with a focus on electricals. Testing is initiated before manufacturing starts as manufacturers need to know that their products are safe and compliant before investing in large-scale manufacture.

Softlines testing (including fashion and footwear) comprises 25% of divisional revenue. Hardlines is also a quarter of revenue and tests things like toys and furniture. If you are going to make a doll, you want to make sure that small children can't chew off a button and choke and that the colouring chemicals in the doll's clothes are not poisonous. Denis said Intertek has a strong market position in hardline testing, with a tilt towards Asia.

Electricals are 50% of the division – including testing of medical devices, lighting, AC units, building heating systems and batteries. Regulations are strict for obvious fire prevention reasons. The division has grown by 7% growth per annum over the last decade and enjoys a strong 30% margin. The firm guide cautiously for 5% annual growth going forward.

Intertek's pricing model is robust. If a Chinese shirt manufacturer wants to sell shirts to a UK retailer, that retailer will direct the manufacturer to Intertek, which has to pay the price quoted.

During Covid, Intertek kept its well-paid seasoned professional testers and lab technicians. The risks to Intertek are that in the event of another global downturn, volumes would weaken and the employee remuneration cost base would drive a sharp fall in profitability.

2.

L'Oreal

Equity market cap (M) €212,162

Consumer staples
Eva Quiroga – Head of Investor Relations

L'Oreal is the world's largest beauty company, with its portfolio of 38 brands holding a combined market share of c.26% thanks to a strong track record of outperforming the growth of the global beauty market. Of late, however, the degree of outperformance has waned, with Eva attributing this to exposure mix relative to the market, with L'Oreal overexposed to the current softer parts of the market which include travel, retail and China.

Buying brands through mergers and acquisitions has been a key part of L'Oreal's success, with 36 out of 38 brands having been acquired, including Garnier and CeraVe. Recently however, we have seen L'Oreal buy stakes in businesses such as Galderma, rather than outright purchases. Eva said this was primarily due to availability and to provide optionality on newly emerging trends, as in the case of Galderma in cosmetic procedures.

The rise of platforms such as TikTok has lowered barriers to entry to the beauty market for 'dupes' (cheaper imitations) and indie brands. Whilst it has become easier to develop and market start-ups into small and medium sized brands using such platforms, Eva highlighted the significant scale advantage L'Oreal holds over such rivals, for example in absolute marketing and research and development budgets. Allocating an extra 0.5% of sales to marketing would provide L'Oreal €217m more budget, but for a business with just €50m in sales this would be only €250,000 of extra budget. Moreover, scaling smaller brands across product categories and geographies is very difficult without significant capital resource, and as a result many smaller brands struggle to break through c.$100m valuations.

3.

Procter & Gamble

Equity market cap (M) $367,550

Consumer staples
Naomi Sayles, Director, Investor Relations

Consumer staples products are generally characterised by low switching costs and a broad array of equitable substitutes. Despite this, Procter & Gamble (P&G) has a robust track record of generating contributions to growth through price, mix and volume. Innovation, Naomi said, is the cornerstone of this record, in a world where product performance drives purchasing by the consumer. At the heart of P&G's innovation approach is its '5-vector superiority strategy', which compares P&G products against substitutes in terms of product quality, packaging, brand communication, retail execution and customer and consumer value. Where superiority is achieved in 4 out of 5 vectors, a product has good runway for consistent growth via both price and volume. To execute such a strategy, it was important to first have a strong portfolio of brands in product categories suitable for innovation. This streamlined approach has seen product category exposure halve to just 10 and portfolio brands fall from c.150 to c.66 daily-use, non-food brands since 2014.

Like many staples companies P&G has tried to emulate its developed market position in the arena of emerging markets, which are referred to as 'enterprise' markets at P&G. The degree of success in these forays has been mixed, with P&G recently scaling back operations in both Nigeria and Argentina. Naomi outlined that when evaluating new enterprise markets in the future that it would be on a 'right to win' basis, with more analysis conducted on product/brand suitability, consumer demand trends and macroeconomic factors such as forex volatility. The primary focus and priority for P&G, however, will be to increase consumption per capita in existing markets.

Please read the important notice on page 1.

Wealth planning

Beyond business

Luke Audritt
Wealth Planner

Luke Audritt looks at the practical considerations of exiting a business to try to ensure that disposal is tax efficient, and to make the sale proceeds of your blood sweat and tears work as hard as possible.

For individuals who have devoted a significant amount of time and effort into building up a business, exiting it will likely be a rollercoaster of emotions with each stage of the process bringing its own challenges. Disposals often take several years to complete which provides time to prepare (both mentally and financially) for the change in circumstances. There is often a desire to maximise what is achieved from the sale in terms of capital remuneration, but further to that a tax-efficient exit is paramount. This article explores several actions that can be utilised:

1

Business Assets Disposal Relief (BADR)

Previously known as 'Entrepreneur's Relief'. BADR can be a valuable relief, allowing for a reduced rate of tax (10%) on profits up to £1m (per individual) in place of Capital Gains Tax rates of 18% or 24% (depending on marginal income tax rates). To claim BADR, certain conditions need to be met and adherence with these in the run up to exit can help minimise a prospective tax bill.

2

Pre-sale remuneration

Many company directors receive a salary and/or dividends from their business. In the run up to a sale it may be more efficient to leave profits in the company, if these can instead be extracted at Capital Gains Tax rates (or less if BADR is available).

3

Pension contributions

Making pension contributions can be a tax-efficient way to extract profit in advance of a sale as the contributions can be deducted as business expenses. Furthermore, pension contributions made directly by a company can also potentially be made at a higher level than personal contributions, subject to the contribution meeting certain rules. Finally making significant pension contributions is a good opportunity to build up assets in tax-efficient pension pots.

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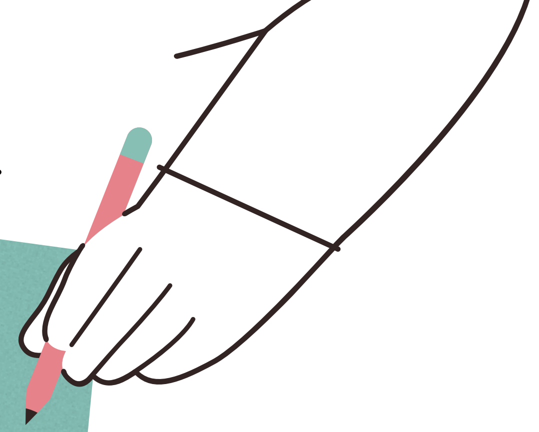


> After selling a business, a reappraisal of investment objectives and risk profile is often required.

Once the sale process commences there is often a need for liquidity, to contribute towards tax, and any potential clawbacks from warranties and indemnities. This will inevitably create some uncertainty and therefore we typically guide individuals to take a prudent approach with their available capital.

When considering how funds are to be deployed, consideration needs to be given to, a) how these are structured in terms of 'tax wrappers', and b) how these are to be invested from a risk/reward perspective. Areas to look at may include:

Personal planning

For your own current and future needs, planning will likely involve looking at a range of different tax wrappers, such as pensions, ISAs, General Investment Accounts and Offshore Bonds.

Assets should be structured in such a way that they make use of tax allowances and efficiencies, with thought given to current and possible future tax implications.

Many people retire after selling a business, which in turn requires a transition from accumulation (building up assets) to decumulation (drawing down on assets). From an investment perspective, inevitably a reappraisal of objectives and risk profile is often also required due to the change in circumstances.

Planning for others

The sale of a business can often be an opportunity to pass on assets to others. This may involve making outright gifts but there will often be scenarios where just handing over cash may be inappropriate or undesired.

For funds to be gifted (or possibly loaned) there are numerous structures that could be considered if retention of control is important. Typically, this involves the use of trusts (and there are many different options here – including those which provide a future income stream or limited access to capital), but Family Investment Companies (FICs) are increasingly being seen as an alternative by some.

For any philanthropic or charitable ambitions, the use of a Donor Advised Fund or Charitable Trust can allow continued capital accrual while also allowing gifting in the future in a tax-efficient manner.

Business Relief assets

Many business sales will involve the disposal of shares in unquoted companies, which may also qualify for Business Relief (BR). This provides some relief from Inheritance Tax (IHT), provided shares have been held for at least 2 years. When these shares are sold, the attaching BR can be lost, increasing exposure to IHT. However, it is possible to retain the BR (without reinstating the 2-year waiting period) if sale proceeds are rolled over into assets that also qualify for this relief within a 3-year period. The caveat is that these investments are likely to be high risk in nature and as such, the potential tax advantages of such an investment will need to be carefully weighed up against the investment prospects.

Review of ancillary areas

Typically, with your financial position being significantly altered as a result of the business sale, this is an opportune time to review legal documents (e.g. Wills, Trust Deeds etc) and any protection and insurance policies you have in place – the latter may be of particular relevance if cover has previously been provided through the company and therefore will have now elapsed, or if significant gifts which qualify as Potentially Exempt Transfers have been made which could result in a prospective IHT liability.

As always, there is no one-size fits all approach, and the optimal course of action will depend on individual circumstances, goals and objectives. Seeking early advice and constructing a holistic financial plan is sensible: our Wealth Planners are experienced in these matters and would be pleased to provide their expertise, if required. Please speak to your Investment Manager for further information.

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

Stock in focus

Booking Holdings

William McCubbin
Research Analyst

In the mid-1990s, the internet was still a curiosity, and few could foresee how it would reshape entire industries. Among the early pioneers was a small start-up in Connecticut called Priceline. Founded in 1996, it introduced a concept that challenged the norms of travel booking: allowing travellers to name their own price.

The idea was simple but unconventional. Travellers would bid for flights and hotel rooms, and suppliers could choose whether to accept the offer. This reverse auction model attracted public interest and media attention, positioning Priceline as an innovator in the emerging digital economy.

Over the next three decades, Priceline underwent a quiet but significant transformation. Today, it operates under the name Booking Holdings and is recognised as one of the largest online travel agencies globally. The company facilitates over 1.1 billion room nights annually and supports a portfolio of well-known brands including Booking.com, Priceline, Agoda, Kayak, and restaurant reservation service OpenTable.

Unlike traditional travel providers, Booking Holdings does not own physical assets such as aircraft, hotel rooms, or restaurants. Instead, it provides digital access to travel services, acting as the infrastructure behind millions of leisure journeys worldwide.

A pivotal moment in the company's evolution came in 2005, when it acquired a relatively unknown Dutch start-up called Booking.com for just over $130 million. Founded in 1996 as Bookings.nl by a university student, the platform had built a strong presence in Europe. Its agent-based model, where customers paid at the hotel rather than upfront, resonated with both travellers and independent hotels.

Rather than integrating Booking.com into its existing systems, Priceline allowed it to operate independently. This decision preserved its entrepreneurial culture and operational agility, ultimately proving transformative. Booking.com grew rapidly, becoming the cornerstone of the group's international expansion.

Today, Booking Holdings operates an asset-light model that enables scalability without the burden of fixed assets. It earns revenue through three primary channels:

The merchant model, which accounts for approximately 60% of revenue, involves bulk purchasing travel inventory at discounted rates and reselling it at a markup. This approach provides pricing control and supports additional income streams such as customer service fees, credit card rebates, and travel insurance.

The agency model contributes around 36% of revenue. In this model, Booking acts as an intermediary, earning commissions by connecting travellers with service providers without handling payments directly. It is valued for its margin efficiency and relatively low operational complexity.

Advertising represents roughly 5% of revenue. Through platforms such as Kayak, the company monetises travel-related search traffic, adding incremental income and enhancing visibility across the travel ecosystem.

Two structural advantages reinforce Booking Holdings' position in the market. Network effects create a cycle where more users attract more suppliers, and vice versa. Scale economies allow the company to spread costs across a high volume of transactions, improving profitability and operational efficiency.

Looking ahead, the company is investing in what it calls the connected trip. This initiative aims to create a seamless travel experience where flights, accommodation, dining, and activities are booked in one integrated flow. Artificial intelligence plays a central role, with large language models supporting real-time updates and personalised recommendations.

Financially, Booking Holdings has demonstrated resilience. Over the past decade, it has delivered a compound annual growth rate of 11% in sales. Operating margins have averaged 29%, rising to 34% when excluding the pandemic years. The company maintains a conservative balance sheet, with a net debt to EBITDA ratio of 0.13 times, providing both stability and flexibility.

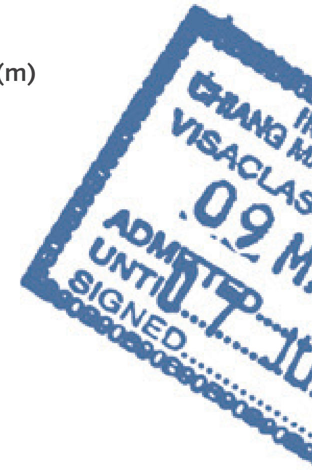
However, risks remain. A global economic downturn could significantly impact consumer spending, particularly in leisure travel, which is Booking Holdings' core focus. Although the company has historically gained market share during adverse conditions due to its appeal to price-sensitive, brand-agnostic travellers, such environments can still compress margins and reduce return on capital employed.

Equity market capitalisation (m)
£181,465

52 week high-low
£ 0.58 - £ 0.37

Net dividend yield
0.7%

Price/earnings ratio
25.18



Competition from large technology firms entering the travel sector also presents a structural challenge. Google, for example, previously launched hotel search functionality and continues to expand its artificial intelligence capabilities, raising the bar for customer acquisition and retention. While these firms currently lack direct relationships with hotels and act primarily as intermediaries, their scale and data assets could enable rapid disruption if they choose to invest meaningfully in travel.

In addition, the pace of technological change, particularly in generative AI and large language models, threatens to reshape the customer journey. Booking Holdings has responded with initiatives such as the AI Trip Planner, which can answer travel-related questions and suggest itineraries, and voice-enabled agents, which aim to create a digital travel agent experience. Nevertheless, the risk remains that competitors with deeper AI integration or superior user interfaces could erode Booking's dominance in search-led discovery and conversion. As direct bookings increase and consumers seek more personalised, frictionless experiences, the company must continue to innovate or risk losing its competitive edge.

Please note that the value of securities and the income from them may go down as well as up and you may not receive back all the money you invest.

Past performance is not a reliable indicator of future results. Any views expressed are those of the author.

Collectives Commentary

European equities: Reasons to be cheerful

Marcel Stötzel
Co-Portfolio Manager, Fidelity European Fund and Fidelity European Trust

Against a backdrop of fiscal stimulus and potential greater European policy coordination, European investors are increasingly looking to domestic markets for opportunities. Marcel Stötzel, Co-portfolio Manager of Fidelity European Trust PLC and Fidelity European Fund, examines why a focus on quality companies in Europe with strong defensive characteristics can help navigate an uncertain market environment and position investors for long-term outperformance.

Recent policy announcements from the US have served as a wake-up call for Europe, sparking a need for greater continental unity and policy coordination. This is most evident in defence spending, but it is also clear that the region needs to improve productivity.

Germany's new parliament has approved plans to reform the country's constitutional debt brake, thus removing constraints on defence spending and paving the way for the creation of a €500bn infrastructure investment fund. This equates to 11.6% of Germany's 2024 Gross Domestic Product (GDP), to be spent in the coming 10 years. The European Council has also approved a proposal to exempt defence spending from the EU's fiscal rules and to set up a EUR150bn EU loan facility to fund military expenditure.

This stimulation of the European economy has been very positively received, particularly as US tariff uncertainty threatens to impact the region's exports of goods. While the impact from tariffs will still be felt, it is encouraging that Europe is putting some self-help measures in place. If these policies are supplemented by the implementation of the recommendations outlined in the Draghi report on cutting red tape and bureaucracy, it could bring a further boost as the region addresses structural inefficiencies that have long hindered competitiveness.

These developments suggest progress toward greater European integration, moving beyond monetary union and freedom of movement toward more comprehensive policy coordination. While this still may be the holy grail, any shift in the right direction from a low starting base could unlock significant economic benefits, particularly if European investors mobilise record-high savings rates currently parked in low-yielding cash and real estate investments.

Markets have already begun to recognise this potential, particularly as investor sentiment tentatively shifts away from US exceptionalism. Concerns about US growth and policy uncertainty have driven unprecedented capital flows towards European markets, which have demonstrated notable resilience in 2025, outperforming global counterparts.

While these policy changes create a supportive environment, it's worth noting that European companies are not proxies for Europe's economy. Around two-thirds of benchmark revenues from European companies originate outside the region, with the rest of the world eager buyers of European goods and services that in many cases are best in class and compete successfully on the global stage. Longer-term equity returns are primarily driven by real dividend and earnings growth, not regional economic growth.

Even after the recent rally, European markets continue to trade at a significant discount to US counterparts. The combination of attractive valuations and improving fundamentals creates favourable risk-adjusted return potential for quality-focused investors.

Identifying the most compelling opportunities in this environment requires focusing on companies with specific quality characteristics. Quality businesses are characterised by several key attributes, including stable or growing end markets without excessive sensitivity to external variables such as the macro environment. They also tend to have clear business models, strong competitive positions and a sensible balance sheet structure with conservative use of debt providing the flexibility to fund sustainable dividend growth.

Finding durable business models and the management teams who share Fidelity's point of view on capital allocation become the two principal determinants of success in the long-term. Companies that consistently grow their dividends represent healthy businesses with stable earnings growth and strong free cash flows, characteristics consistently rewarded by markets over time. This dividend growth focus serves as both an income generator and a quality screen, while maintaining defensive characteristics during market downturns.

Europe presents a compelling opportunity for quality-focused investors willing to take a long-term view. The combination of structural policy improvements, attractive valuations relative to other regions and access to world-class companies with global revenue exposure creates a favourable investment environment. The external pressures facing Europe have catalysed positive changes that could drive GDP growth and lessen the productivity gap with the US over the next 5 to 10 years. While tariffs and recession risks could temporarily disrupt this trajectory, the underlying structural improvements appear sustainable.

Independent view

Protecting vulnerable beneficiaries

How trusts can help

Various trust structures exist within the English legal system to protect beneficiaries who may struggle to manage their financial affairs, and who may be more at risk of financial abuse. Hunters Law explain how these trusts work.

Vanina Wittenburg
Senior Associate, Hunters Law

Matthew Yates
Partner, Hunters Law

Although the focus is often on the potential tax-saving aspects of trusts, an equally important element of transferring assets to a trust is that of asset and beneficiary protection.

The concept of a trust is rooted in English law, dating back to the Crusades. Fearful of grasping neighbours, departing knights transferred land to a trusted friend, because women and children were, of course, deemed incapable of holding it themselves. Then when a trustee failed to hand back the land or otherwise abused his position, rights of redress then arose. And so a rich tradition of trust law has evolved.

As in the 11th century, trusts today can be a useful tool for ensuring that assets are preserved and that they are looked after on behalf of family members who may not be able to do so themselves for various reasons. Where assets are held in trust, the trustees have control over them, and can therefore make certain that the assets (e.g. cash, investments or property) are sensibly managed or invested. For the types of trust discussed here, trustees will have the power to release the income or capital when necessary.

Disabled person's trust

This is a specific type of trust which can be used to protect a vulnerable person who qualifies as a 'disabled person'. A disabled person is defined in the legislation as someone who cannot manage their own affairs because of a mental disorder, or who is in receipt of certain benefits (attendance allowance, certain disability living allowance payments, personal independence payments, amongst others). They might be vulnerable to financial abuse or exploitation from others, or be unable to manage their own finances.

This type of trust can be created so that the disabled person is entitled to income as of right but not capital (known as a life interest), or as a fully discretionary trust allowing the trustees to make decisions about when and how to distribute income and capital, if at all.

> "Trusts can be a useful tool for ensuring that assets are preserved on behalf of family members who may not be able to do so themselves.

A disabled person's trust is a special type of trust for tax purposes. Although the assets are controlled by the trustees for the beneficiary's benefit, for inheritance tax (IHT), capital gains tax and income tax purposes, the trust assets are treated as belonging to the beneficiary. This usually means a lower tax burden, but in order to achieve this, the trust has to be carefully set up, and specific elections must be made on behalf of the disabled person. There is scope to distribute small amounts from the trust to other beneficiaries, but this is limited, so the trust should principally be created just to benefit the disabled person.

Protective trust

Trusts might be appropriate where the intended beneficiary (or their spouse or civil partner) is, or could be, financially irresponsible, perhaps due to addiction or poor financial management skills.

In such a case, there may be good reason to create a protective trust. The beneficiary will be entitled to the income (but not the capital) of the trust as of right, unless certain events set out in the trust take place, e.g., bankruptcy or divorce of the beneficiary, known as forfeiture events. Once such an event takes place, the beneficiary ceases to be entitled to the income, and the trust becomes fully discretionary – i.e., the trustees regain control of the distribution of the trust's assets.

“

A discretionary trust provides a great deal of flexibility, allowing the trustees to pay out income or capital at their discretion.

A protective trust initially has similar benefits to a disabled person’s trust, but once a forfeiture event occurs, income is subject to tax at the higher rates applicable to trusts (though credit for tax paid by the trustees can be claimed by beneficiaries receiving income distributions). IHT charges may arise whenever capital assets are distributed, and on every 10th anniversary of the creation of the trust. If the trust is created by a settlor during their lifetime, there may also be IHT charges on creation, depending on the value of the assets being transferred and the IHT position of the settlor.

Discretionary trust

An option is to create a discretionary trust from the very beginning – this carries the same tax burdens as a protective trust after forfeiture, as set out above.

A discretionary trust is often appropriate in situations where the settlor is just not sure whether the intended beneficiaries are sufficiently able or trustworthy enough to receive income as of right, or wants the trustees to consider specific beneficiaries' circumstances and needs before making any payments.

A discretionary trust provides a great deal of flexibility, allowing the trustees to pay out income or capital at their discretion, usually on the basis of wishes expressed by the settlor as to how they would like the trust fund to be dealt with.

Any of the trusts above can be created during the settlor's lifetime, or on death by the settlor's Will. Discretionary trusts are often included in clients' Wills to allow for maximum flexibility. Such a trust can include just some of the settlor's assets, or their whole estate after payment of IHT and administration expenses.

Including a discretionary trust in a Will is particularly helpful because it provides the trustees with a variety of options – for example, the trust can be wound up within two years of death and all assets distributed, if that is deemed appropriate; or it can be retained beyond the two years if it is felt that additional protection is required over the assets.

When creating a trust, it is always worth bearing in mind that there will be administrative costs to running most types of trust, covering compliance and tax reporting requirements.

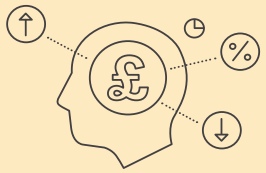
Nonetheless, a trust can be invaluable in giving peace of mind to settlors who want to ensure that beneficiaries and assets are protected but require sufficient flexibility to ensure that their family members will have a financial safety net.

About Hunters Law

Hunters Law LLP is a multi-disciplinary, London-based law firm providing advice to private clients, businesses and charities. It is especially known for its private wealth, property and family law practices.

All views expressed are those of the author and are presented for information purposes only. The information provided in this article is of a general nature and is not a substitute for specific advice about your own circumstances. You are recommended to obtain specific advice from a qualified professional before you take any action or refrain from any action.

Understanding finance



Adjusted vs actual earnings

Sir John Royden
Head of Research

Actual earnings (also commonly known as ‘net income’) are a company's total reported earnings, and are calculated according to standard accounting principles such as the Generally Accepted Accounting Principles (GAAP). The earnings are the total profits of a company after all expenses, taxes, and interest have been deducted from revenue. The calculation and presentation of actual earnings is substantially guided by law.

By contrast, adjusted earnings are an unofficial financial measure that modifies actual earnings by removing the effects of non-recurring or non-cash items to provide a clearer view of a company's core business performance.

Adjusted earnings are used by analysts, investors, and companies themselves to get a more accurate picture of a company's sustainable profitability. The most common deductions are non-recurring (one-time events) and non-cash items. Examples include one-time gains or losses like profit from selling a piece of real estate or the loss from a factory fire, restructuring charges like severance pay or the cost of giving employees company stock options, which is a non-cash expense.

The idea is that by removing these distorting factors, adjusted earnings aims to highlight the ongoing operational health of the business, making it easier for investors to compare a company's performance over different periods and against its competitors.

The trouble comes when companies treat too many recurring charges as non-recurring. For example, restructuring a business incurs costs. If it is done once a decade, then there’s a strong argument for treating them as non-recurring. But if there is annual restructuring, the categorisation is open to challenge.

Glossary of key terms

Easing cycle – This refers to a period during which a central bank reduces interest rates or takes other measures to increase the money supply in order to stimulate economic growth.

Fiscal tightening – This is the opposite of fiscal easing. It involves reducing government spending or increasing taxes to reduce a budget deficit and control inflation.

Net interest margin – This is a measure of the difference between the interest income generated by banks or financial institutions and the amount of interest paid out to their lenders, relative to the amount of their interest-earning assets.

Net debt to EBITDA ratio – This financial metric compares a company's net debt to its earnings before interest, taxes, depreciation, and amortisation (EBITDA). It is used as a proxy for a company's ability to repay its debt.

Market capitalisation – This is the total market value of a company's outstanding shares of stock. It is calculated by multiplying the current share price by the total number of outstanding shares.

Operating margins – This is a measure of a company's profitability. It is calculated by dividing operating profit (earnings before interest and tax) by net sales and is expressed as a percentage.

Overweight/underweight – These terms are used in investment to describe the relative proportion of a particular asset in a portfolio compared to an index or benchmark. ‘Overweight’ means holding a relatively larger proportion, while ‘underweight’ means holding a relatively smaller proportion.

Asset allocation and sector focus

As part of our focus on providing a high quality, personalised investment service, our Investment Office look to support our investment managers in their decision making when it comes to constructing client portfolios.

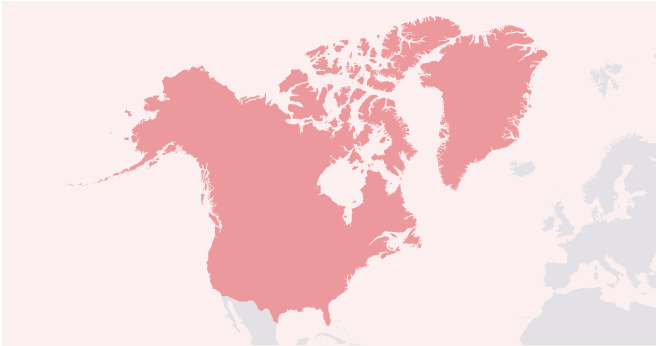
Our asset allocation committee is one example of this, via their monthly output showcasing their views on a global basis; this is then complemented by a sectoral view from the stock selection committee. The combination of these top down and bottom up opinions is an important resource for our investment managers to validate their own investment theses or to generate new investment ideas.

These committees, which form an important element of our Investment Office, consist of research analysts and a number of investment managers. 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 from the Investment Office.

Asset Allocation

Overweight   Neutral   Underweight



North America

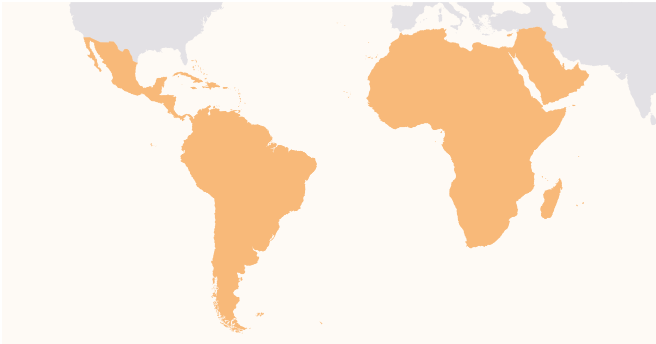
Despite the impact of the tariffs on confidence, economic activity has held up better than expected. However, a drag on growth is expected and there has been a deceleration in hiring. Markets are looking ahead to the prospects of a less independent Federal Reserve under pressure to deliver rate cuts with inflation above its target. This reflationary policy combination should boost equities, but could prove a source of financial market instability and US dollar weakness. Due to these factors and the high premium of US equity market valuation, we retain an underweight rating.

UK

UK economic growth has been solid so far this year, reflecting the global trend of front-loading activity ahead of the implementation of tariffs. However, economic momentum should wane as the tariff effect unwinds, the labour market continues to ease, and households and businesses anticipate fiscal tightening in the Autumn Budget. With inflation easing in the latter stages of 2025 into 2026, we anticipate further Bank of England rate cuts. Whilst valuations are attractive, the risk of more aggressive fiscal consolidation supports a neutral rating.

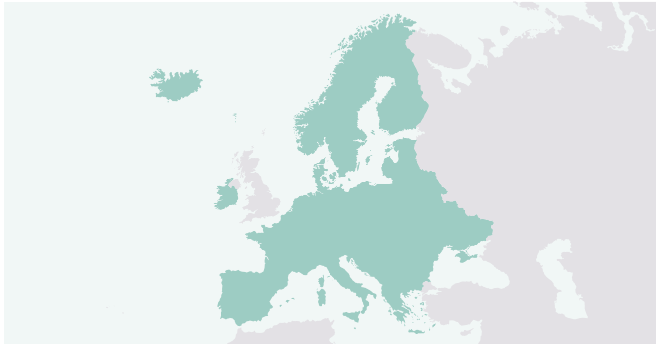
Japan

This year is likely to see solid economic growth, though earlier optimism is somewhat tempered by US tariff policy which will weigh on external demand. We anticipate positive real wage growth, the definitive end to corrosive disinflation, and ongoing corporate sector reforms. These factors provide clear tailwinds to the growth outlook. Unlike other major central banks, we expect the Bank of Japan to moderately raise interest rates over the year. With the prospects for further shareholder friendly reform and solid corporate earnings delivery, we have an overweight rating.



Emerging Markets

The prospect of a weaker dollar is a helpful market backdrop. However, Mexico will remain adversely affected by the drag from trade and slowdown in cross border activity with the US and while there are bright spots – notably Argentina – the trade narrative makes the broader outlook somewhat uncertain, and reflecting this we have a neutral rating.



Europe

The growth outlook appears brighter, amid considerable defence and industrial spending, with low inflation having cleared the path for a substantial easing cycle from the European Central Bank. It is, however, too early to say whether we are entering an environment of 'European exceptionalism', but policy is tilting in a strongly reflationary direction, which should be an offsetting positive to the negative impact of US trade policy and competition from Chinese electric vehicles. With scope for more fiscal and financial integration and relatively attractive valuations we have an overweight rating.

Asia Pacific

Front loading of activity, further policy easing by the People's Bank of China, and measures to support consumption have delivered stronger than expected economic growth. However, a trade deal with the US has so far proved elusive, so there remains a tariff threat to China's export and industrial sectors. Elsewhere in the Asia Pacific region, with solid regional growth and the potential for further central bank easing, we remain optimistic about the regional growth and earnings outlook and have an overweight rating.

Please read the important notice on page 1.

Sector Focus

Overweight · Neutral · Underweight

Communications

The communications sector is concentrated around names that are exposed to the AI theme and thus valuations look stretched. Whilst we continue to like the sector structurally, we believe that lots of optimism is currently baked into share prices and therefore we retain our underweight recommendation. The sector has some less expensive parts such as telecoms, however none are large enough to offset the weightings in a handful of very large companies.

Consumer Discretionary

The sector benefits from strong labour markets and sustained demand in areas such as online retail. However, global growth concerns and trade tensions are beginning to weigh on investor sentiment. Consumer confidence is mixed. Despite this, long-term structural trends remain supportive. We maintain an overweight position, focusing on areas with resilient demand and attractive valuations, while remaining selective given the sector's sensitivity to economic cycles.

Consumer Staples

The sector is under pressure from persistent inflation and high interest rates. While pricing has held firm in some regions, consumers are increasingly shifting towards value options. As inflation eases, volume growth is becoming more important than pricing. Regulatory and trade-related uncertainty continues to cloud the outlook. Rising promotional activity and narrowing margins suggest a more competitive environment, requiring companies to adapt quickly to preserve profitability.

Energy

Oil had a volatile quarter. In June Brent rose from $60 per barrel to $81 due to the US bombing Iran. When the world realised that the Strait of Hormuz would not close, the price fell to its current $66. While forward oil prices used to trade at a large discount to the spot market, both prices are now closer – a sign that the supply and demand is returning to normal. With the renewable agenda fading under Trump's "Drill baby drill" mantra, we remain neutral as we see increasing demand well met by supply.

Financials - Banks

The sector's quarterly performance was middling. In the UK, financials outperformed, driven by strong momentum in earnings due to growth and provisions being lower than anticipated at the end of 2024. It's now a case of back to basics and trying to work out what happens to interest rates. Banks tend to do better when interest rates are rising because their net interest margins tend to widen. We think rates are drifting down and hence adopt a neutral stance on the sector.

Health Care

Health care has performed poorly due to headwinds generated by the US administration. The combination of tariffs, the potential for drug pricing regulation in the US and the pressure on vaccines has led health care share prices to underperform and valuations look undemanding when viewed with a long time horizon. We are sceptical around the likelihood of US drug pricing regulation, but believe tariffs can be managed. We are optimistic about the long-term structural drivers of the sector and remain overweight.

Industrials

The earnings delivery of industrials through the recent reporting period was a little mixed, with the market rewarding companies that delivered against expectations positively and punishing those who missed expectations heavy handedly. This has resulted in some rich valuations for companies delivering robust growth, against a tepid industrial production growth backdrop. All points considered, we retain our neutral position.

Information Technology

Tech once again dominates equity market performance due to persistent optimism around AI. Recent earnings have shown continued rapid growth for AI-exposed companies, with cloud service providers growing faster than already lofty expectations. With all this optimism though, valuations look demanding. The structural long-term drivers are impressive, albeit this is often fully reflected in share prices now. While we continue to want exposure to the sector, we retain an underweight exposure given where valuations sit.

Materials

Whilst we echo our view about the importance of Chinese demand, the last quarter saw a focus on the effect of Trump tariffs. At the end of May, copper in the USA was trading at 4.7c per lb. It peaked at 5.8c per lb on the back of Trump's proposal to slap tariffs on copper bars coming into America. After Trump reversed out of that tariff, the price collapsed back to 4.5c. Like other cyclical sectors, we look to the medium-term macro outlook and conclude that a neutral stance is probably the correct positioning.

Real Estate

Global real estate markets are showing signs of recovery, supported by improved financial conditions and increased investor interest. Office leasing activity is picking up, while retail remains stable despite cautious consumer behaviour. Industrial demand has softened as businesses seek more flexible arrangements. Residential investment continues to grow. Although risks tied to interest rates and policy remain, sentiment is improving, and capital flows are gradually returning.

Utilities

As we had expected given the regulatory backdrop, power utilities have outperformed water utilities in 2025 thus far. We continue to have preference for power over water and appreciate the defensive qualities of utilities through a period of increased global uncertainty, but balance this against a lack of further positive catalysts for the sector. We retain our neutral position.

Please read the important notice on page 1.

Meet the manager

William Hagen

Senior Investment Manager, York

Lives North Yorkshire

Family Married with two boys

Started at JM Finn 2003

Hobby/pastime Golf, cricket, watching my boys play sport

Favourite holiday St Anton

Favourite film A Good Year

If you weren't an Investment Manager Lead guitarist in a mega rock band

Favourite sporting moment Great Britain Hockey winning the Olympic gold in Seoul

Favourite band Rolling Stones

Favourite book Storm of Steel by Ernst Junger

As a Senior Investment Manager in the York office, how do you meet the needs of clients in the north?

I make it a priority to be as accessible as possible for my clients, whether that means arranging meetings in person or being readily available by phone or video call. I believe that providing a high level of service begins with truly listening to my clients—understanding their goals, concerns, and individual circumstances. From there, I aim to give clear, straightforward advice tailored to their needs, ensuring that they feel supported and informed at every stage of their financial journey. My approach is built on responsiveness, attention to detail, and a commitment to building long-lasting relationships based on trust and open communication.

What are the main challenges facing clients regarding their wealth?

Increased taxation, higher costs of living, and financial expectations from the next generation are key challenges to managing their wealth.

You've been with JM Finn since 2003, how have you seen the firm change since you first started?

Since 2003, JM Finn has undergone significant changes. Initially functioning primarily as a stockbroker with many manual processes, the firm has transitioned into a full wealth management firm to address evolving client needs and industry trends. The research department has grown from a small team into a comprehensive investment office, increasing the scope and detail of analysis. Advancements in technology have largely automated operations, reducing reliance on manual paperwork and improving efficiency. JM Finn's discretionary investment propositions — the Investment Management Service and Wealth Management Service—provide clients with options to access the market. These are further supported by the addition of our excellent wealth planning service.

In a competitive market, what do you see as JM Finn's key strengths?

I believe JM Finn distinguishes itself through a high-quality service, comprehensive wealth planning, reliable and consistent advice, accessibility, and its good professional people.

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Need advice on inheritance tax?

The JM Finn Wealth Planning team can help advise on potential liability. We also run a separate specialist Inheritance Tax Portfolio Service which aims to mitigate against inheritance tax. To find out more please speak to your Investment Manager.

Capital at risk

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