

JM Finn & Co

PROSPECTS

The JM Finn & Co Investment Newsletter

Seventeen

Winter 2016



The City's Challenges

More than just politics

Looking for Microwaves

The key to financial analysis

A Changing Art Market

Is old school collecting back?

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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EQUITY PROSPECTS

JM Finn & Co's insights into companies **07, 19, 25, 33**

IMPORTANT NOTICE

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WELCOME

It is tempting always to use the last edition of the year of *Prospects* to reflect on all that has taken place in the markets. Such has been the huge shift in the political landscape this year, both here and across the pond, it hardly seems relevant to review the year, without a clear view from most commentators.

I believe this political upheaval is a direct effect of monetary policy, specifically Quantitative Easing, which has led, inadvertently, to the wealthier getting wealthier with little effect on others; and rather than vote to the Left, voters are complaining more about the Establishment. With further votes in Europe over the next 18 months, we must be realistic that these may also surprise. That said, stock markets have been extremely resilient in the face of this new political landscape and it will be interesting to see if this remains the case throughout 2017 – although, we must remember that current politics are not the only threat to stability, as Anthony Hilton, one of our guest contributors, explains in his exploration of the threats to the City's current status as the number one global financial centre in his editorial.

It is also interesting to see how bond markets react to Mr Trump winning the Presidency. It is my belief that inflation could start to take off, resulting in rising interest rates, which is discussed by Brian Tora who comments on the end of the 30-year bull market for bonds in his *economic focus*.

The oil price increase since January is bound to have an effect on raw material prices and therefore also affect inflation in due course; a further rise in the price of oil will bring it nearer to the long term average which should help drive inflation back to normal levels of around 2%. This would be healthy

both economically and politically and I think we would all feel slightly more comfortable with slight wage increases and expectations of paying a little bit more each year for basic goods, as opposed to runaway inflation, or deflation.

In addition to our regular features, this edition of *Prospects* sees us formally launch our new Wealth Planning service for existing clients. When we carried out a client survey last year, the huge number of clients who responded told us of a need for at least one area of wealth planning, with pension advice being the highest priority. For this edition, our team of experts suggest a number of ways to ensure your financial affairs are in good order as we enter the last quarter of this tax year.

The changing political spectrum is certainly posing some challenges to the established way of thinking and we are acutely aware of the need to take into account this new landscape and we will continue to keep a close eye on events and remain active in looking for investment opportunities, as and when they arise.

James Edgedale
Chairman

IT'S ALL ABOUT THE MICROWAVES

In 1986, Margaret Thatcher released the shackles of over-regulation, enabling London to regain its title as the number one financial centre of the globe. The 30th anniversary of Big Bang, as it became known, got Research Analyst, Theo Wyld thinking about the original Big Bang and whether there are any concepts that have been borrowed by the markets, other than its catchy, alliterative name.

Theo Wyld, Research Analyst

Let's start with a simple question. Why is the night sky dark? A question that I had never contemplated until it was put to me in a physics lesson. The first answer that pops to mind for most is; because the Sun is around the other side of the Earth. Whilst this does explain the lack of sunlight from our favourite heat source, it is not the whole picture.

In order to explain this fully, you will have to allow me one assumption; the Big Bang (in its original sense), or something principally the same, occurred. This is essential for two reasons; the first is that all matter in our universe originated from a single point. The second is that the universe has been expanding ever since, and continues to do so.

These are widely accepted hypotheses, but the second in particular is hard to get your head around. I hope by the end of this (long, drawn out) explanation I will have convinced you of its veracity.

Armed with our assumption consider you are standing on any part of the Earth's surface you choose and point in a particular direction. Would you agree that if you were to travel in that direction for long enough into outer space that at some point you will hit a star? Yes, I hear you answer. Good.

This is where the first corollary of the Big Bang comes in. Given all matter began at one point, then all light originating from each and every star has begun to reach every other; crucially including Earth. Therefore, the light from all these stars in every direction from the Earth's surface has begun and continues to reach us. This says the night sky should be completely light. This is clearly not the case.

Now for the second corollary. Each light wave has a given wavelength and changes in this wavelength are what differentiate red from blue. If a light ray leaves a star millions of light years away, then by definition it takes millions of years to reach us. In this interval between the ray leaving and arriving, thanks to the infinite expansion of the universe, space and time has expanded to such an extent that the wavelength of the light has been altered. In fact it has lengthened so much that it has gone through visible light, often through infra-red, and into microwaves.

The reason we see light only from the Sun is because it is physically close enough that this phenomenon, known as Red Shift, does not take place to the extent that the rays move through the visible spectrum. If you do not believe me, and I wouldn't blame you, then grab a microwave detector tonight, point it at the sky and it will light up like a Christmas tree. ►

So how is this even vaguely related to financial markets? When I first started working as an analyst, it became clear that knowing what the market knows doesn't get you very far if your goal is to beat it. It seems you have to look several steps removed from what would be considered the norm in order to spot a trend before it appears. In theory, a simple concept but in practise there are a select few that have the ability to do this.

I had the pleasure of working with one of these chosen few for my first 15 months at JM Finn and he taught me the value of looking several steps beyond. In my second week I was handed a hefty report he had written in 2009 the conclusion of which was to start buying the market again. Most definitely not a consensus view at the time but one that proved highly fruitful. His reasoning was predicated on a number of rice field workers in Japan... Clearly!

During the financial crisis a company in Japan that made semi-conductors for electronics sent their now-thumb-twiddling workers out into the rice fields, rather than lay them off entirely. This was unconventional but went largely unnoticed. He had come across the moment these workers were recalled from the fields hidden amongst the inordinate number of articles he read on a daily basis. To him the rest of the steps were obvious; things had turned and now was the chance to reinvest.

You have to look several steps removed from the norm to spot a trend before it appears

He wasn't waiting for employment figures, or a strong earnings season, or a signal from central banks. He wasn't looking for sunlight. He was looking for microwaves.

This was an extreme example of the success that can come with paying attention to that which others overlook, and not one I expect ever to emulate to the same degree. But the lesson can be applied to many aspects of life, particularly in investment analysis.

To question everything, and never take anything at face value won't make you many friends in a social environment but should stand you in good stead in this industry. It's all about the microwaves.

INFLATION

James Godrich, Research Assistant

On the 18th October, following the latest UK inflation figures printed by the Office for National Statistics (ONS), the Financial Times headline read, "Inflation rises sharply to 1% in September".

We all know that in layman's terms the rate of inflation measures the general level of price increases over a given period of time. But the above quoted figure is more precisely known as the Consumer Price Index (CPI).

Unfortunately I have not been afforded the luxury of word-count to explain the long list of different inflation measures, of which I can think of at least nine. What I will try to do is briefly explain the main differences between the most quoted measures; the Retail Price Index (RPI) and the previously mentioned CPI.

The basic methodological approach for both the CPI and the RPI is the same, in that they both track roughly 180,000 individual prices for over 650 goods and services.

One of the differences though is in the constituents where the RPI includes housing costs, such as mortgage interest payments and council tax. Aside from 2008 and the obvious drop in mortgage rates, why do we see RPI constantly print above CPI then?

This is the result of the other, more important difference, which is in the calculation where the RPI measures the arithmetic mean (add up the total prices and divide by the number of goods). Whilst the CPI uses the geometric mean (multiply prices of individual goods and take the nth root), which mathematically will produce an average less than or equal to the arithmetic mean. This calculation differential is also known as the formula effect and accounts for around a 0.9% difference between the RPI and the CPI.

So if your children start asking that, given the recent drop in sterling, their pocket money becomes inflation-linked, remember to include in the small print that you intend on using a geometric mean of prices.

HSBC

John Royden, Head of Research

PRICE

£6.41

52 WEEK HIGH-LOW

£6.46–£4.14

NET YIELD

6.34%

HIST/PROS PER

37.4–13.8

EQUITY MARKET CAP

£125,742m


To pay or not to pay. HSBC is a global bank with 58 million customers across its retail and commercial banking franchises. About 40% of revenues and about 80% of operating profits come from Asia with most of the latter coming out of Hong Kong.

The conundrum with HSBC is the 6.3% dividend yield. Will they hold it? In February of this year, the company increased its dividend from 50¢ to 51¢ per share, which suggests they will, as Directors tend not to increase dividends into expected adversity. The second clue comes from our analysis of the cash flows emanating from the bank.

Working out what happens to a bank's operational cash flows is one thing. HSBC's operating cash flows look encouraging after their November third quarter results. Working out what happens to its balance sheet is another. A widget manufacturer's balance sheet of mostly factory machinery is pretty much going to look the same year after year. Contrast that with a bank's balance sheet where, for example, the simple decision to remove the interest rate hedges on their loan book can move the dial by multiple percents. On balance I think that HSBC will pull through.

John Royden is a beneficial owner of HSBC.

Please read the important notice on page 2.


An aerial photograph of the London skyline at dusk or dawn, featuring prominent skyscrapers like the Shard and the Gherkin. Overlaid on the sky are several large, semi-transparent stars in shades of yellow and orange, reminiscent of the European Union flag. The overall color palette is a mix of purples, blues, and oranges.

Guest editorial

THE THREAT TO THE CITY

Anthony Hilton, Financial Editor of the Evening Standard

For the three years before the EU referendum the London economy was growing faster than Singapore and Hong Kong. Anthony Hilton ponders whether London can maintain this growth in light of the changing world in which we live.



Singapore and Hong Kong are the Asian cities that for decades have been cited as the near perfect examples of modern successful economies – places with a dynamism and work ethic that we tired old people in the West could never hope to emulate.

Similarly the typical reader might not have realised that today the world's biggest taxi company, Uber, does not own any taxis. The world's biggest retailer, Ali Baba (not Amazon) does not own any shops. The world's biggest media company, Facebook, does not generate any content. The world's biggest hotel company, Airbnb, does not own any hotels. These are technology companies which have seen the business world differently and transformed it. They are the reason management consultants McKinsey suggest that over a quarter of the business models currently used by firms will be obsolete within five years.

Put these two thoughts together, and a third and even more surprising thing becomes apparent: it is not financial services which is driving the London economy. Rather the jobs growth is coming from the digitally driven explosion of activity known colloquially as fin tech – which is a blanket term for the harnessing of technology to traditionally financial activities. Heavily concentrated around Old Street

and neighbouring Shoreditch in East London fin tech has in the years since the London Olympics seen the creation of more new jobs in those post codes than in the whole of Birmingham, Manchester and Leeds put together. It has put on what the financial sector has lost.

Meanwhile, a few paces south in the financial sector, insurance and fund management are both moving forward but neither is enjoying a boom. The fund management industry faces massive compliance and regulatory disruption as it adjusts to what is known as MiFID II. This is an initiative designed to make markets safer and more attractive to investors, but which in so doing demands fundamental changes in the asset managers' business model.

Meanwhile insurance is struggling against years of downward pressure on premiums, a massive increase in regulation, and the huge difficulty of making a worthwhile return on its investible funds. Elsewhere advisory work is flat and even an improvement in stock market volumes has not brought forward many new listings or a resurgence of bids and deals. Finally bankers still struggle to find a business model which works for them in a world of near zero interest rates and a mountain of new regulation. ►

Yet in spite of all this, if people are asked what they think is the City's greatest challenge their minds automatically turn to Brexit, and the degree of disruption and dislocation which might follow when a deal is eventually struck between Britain and its EU partners. Will it be business as usual? Will firms have to relocate their headquarters to demonstrate that they remain firmly inside the European Union? Can London continue to be Europe's financial centre if it stands outside the block? All these questions demand answers. The uncertainty of the wait is eating away at confidence.

But perhaps we are obsessing with the wrong thing here. Even though the issue of EU access is profoundly important perhaps it is not the real challenge because the risks of adjustment will come within Donald Rumsfeld's classification of known unknowns. What is far more worrying are the uncertainties which come from unknown unknowns. What should give sleepless nights to the executives running City firms is the fear that up in Old Street there is a bright young computer whizz who is about to do to their business what Uber has done to taxi firms.

What will determine the City's fate are two things. The first is whether it can successfully embrace technology even when that will fundamentally change the nature of the business; many big banks fail to do this because for 90 per cent of the employees fundamental change is a threat which they resist, while for the business as a whole it means sacrificing what they know works for them to gamble on a quite different and inherently uncertain future.

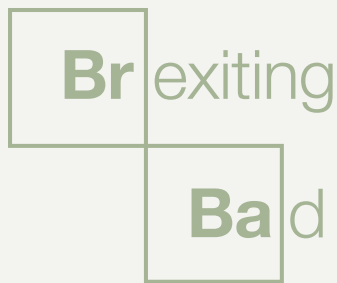
The second challenge is regulation. It is no surprise that one reason financial sector shares soared in America following Donald Trump's election victory was the hope that he would lighten the burden on banks. But the bigger issue is how regulation generally underpins the status quo and mitigates against innovation.

This is particularly the case with data driven initiatives and it should be a warning sign to the West that the big financial institutions in China are developing customer products which could not be developed, let alone sold here, because they would fall foul of privacy and data protection laws.

So there is at least a danger that the cutting edge of innovation will move to Asia where they worry much less about some things, and once it has fallen behind London would find it hard to catch up.

And that surely is the real challenge to London's financial services industry. Brexit is a risk but Brexit is just for Christmas. The digital revolution is for life.

Author, broadcaster, journalist and lecturer, Anthony Hilton joined Fleet Street in 1968 as a trainee on The Guardian. He was City Editor of The Times (1981 to 1983), City Editor of The Evening Standard (1984 to 1989) and in 1989 became Managing Director of The Evening Standard. He held that post for six years before returning to the City Office as Editor in 1996.



Amidst all the uncertainty surrounding Brexit, one can be certain it is going to affect GBP bonds one way or another, with a bad Brexit possibly driving a sterling crisis, higher interest rates and a collapse in gilts and domestic bonds.

Leaving the EU but then giving up sovereignty, immigration control and being compelled to part-fund the EU in order to trade with it could amount to little practical change and a great deal of fuss and hard work. But that is what our Remain-orientated MPs might covertly insist upon as a condition for granting Mrs May statutory permission to invoke Article 50; if that is what the Judiciary force upon our nation.

But if the Government's appeal to the Supreme Court succeeds and an unfettered Mrs May plays hard ball then we might end up with the EU just imposing tariffs in a mutually destructive standoff.

How Europe deals with the UK in this case will be driven by the degree to which EU leaders perceive that the UK's exit might encourage others. If the EU thinks others might be encouraged by an easy exit for the UK, then Europe may well cut off its nose to spite its face and impose trade barriers with the UK pour décourager les autres.

Assuming the EU don't want to punish the UK, then replicating an existing format is seen as an easy solution. From the softest and least likely to irritate the EU first, they are discussed as follows:

1. We could leave the EU and join the European Economic Area (EEA), like Norway. The EEA enshrines the free movement of persons, goods, services and capital within the Single Market.

The free movement of persons fails on the immigration front; which was one of the drivers of Brexit. Having to adopt large parts of EU legislation rather fails the sovereignty aspiration of Brexit; as does participating in EEA Grants which fails the "stopping payments to Brussels" wish.

2. Another alternative is that the UK joins the European Free Trade Association (EFTA) which is how the Swiss operate. That fails the sovereignty test because the UK would have to sign up to the EFTA Court which is part of the European Court of Justice (ECJ). But it would allow the UK to make its own bilateral trade agreements. Another problem is that it appears that Norway would block the UK re-joining.
3. The Turks deal with Europe with a 1995 Customs Union that covers industrial goods and common tariffs, but excludes agriculture and services. Copying this agreement would not do much for London exporting financial services and might irritate those who want the UK to make its own trade agreements.
4. Some point to Canada and the CETA (Comprehensive Economic and Trade Agreement) which gets rid of 98% of EU / Canadian tariffs along with contentious visa-free travel for EU nationals.
5. The fifth option is the World Trade Organisation (WTO). WTO provides framework agreements and a resolution process. To my knowledge there are no significant tariff structures in place which would inhibit the UK from trading with any major nation in a post Brexit world.

I am biased towards a conclusion that has Mrs May being given authority to invoke Article 50 and then the UK securing a soft Brexit looking like options 1 and 2 above; which should save us from any domestic bond market routs.

John Royden, Head of Research



ON THE OTHER HAND...

There is an old joke regarding economists that goes along the lines that if every economist in the world was laid end to end, they still would not reach a conclusion. I once introduced Stephanie Flanders, who was the BBC's economics editor at the time, at a conference with this line. She was far from amused.

The truth is, though, that economics is more art than science. No wonder US President Harry S Truman is reputed to have said "find me a one-armed economist" so that they couldn't qualify their advice by saying "on the other hand".

With all the surprises that have taken place during the year about to end, these comments appear particularly apposite. Britain's decision to leave the European Union encouraged a spate of doom mongering, though there were others who believed such a move would be in our economic best interests in the longer term. Similarly, the unexpected election of Donald Trump as the 45th President of the United States has brought about significantly polarised opinion on what the consequences might be for the global economy.

Those who were concerned that Armageddon might be just around the corner were encouraged in their beliefs by some pretty robust comments by Mr Trump while he was campaigning on the subject of trade deals. Mexico and China in particular came in for considerable flack as he blamed free trade for the loss of jobs, most notably in America's so-called rust belt. It seemed as though protectionism might be in the air, with all the consequences that could have for world trade.

But it already seems as though what he said on the campaign trail and what might actually happen could be poles apart. Obamacare was for the dustbin, according to some Trump diatribes. Now we know it is likely to be retained in part, though how much will survive is far from clear. And it seems as though Hillary Clinton, far from being locked up, is to be fêted as a worthy opponent. Even the wall to keep out illegal Mexican immigrants is looking more like a fence – if indeed it happens at all.

As yet no serious pronouncements have been made on the trade and job front, but it must be clear to the incoming administration that a trade war with China could have severe repercussions. It is hard to imagine Apple being too sanguine over the imposition of trade barriers. Job creation will be an issue that cannot be avoided, though, since the wave that brought Trump to power seems largely to consist of working class men. It seems likely that infrastructure spending will assume greater importance in the new Republican administration, in much the same way as it is here in the UK.

Perhaps for this reason there are those who are forecasting economic growth of a scale that far exceeds that achieved by the Democrats and the resumption of a bull market in US equities. Certainly, shares have behaved in a far more robust fashion than many believed likely ahead of the poll result. Indeed, if there is one danger for US investors it is that markets are close to all time highs and leave little to chance in the ratings they enjoy.

If there is one danger for US investors it is that markets are close to all time highs and leave little to chance in the ratings they enjoy.

Not all markets have been as buoyed as equities by the prospect of a four year term from a President with no previous political experience. US Treasuries have slid, bringing yields back up to over 2%. There are those who consider the lengthy bull market in bonds may have ended. Mr Trump has certainly been critical of the low interest rate policy followed by the Federal Reserve Bank, which may cast some doubt over the tenure of the Fed chairman, Janet Yellen, though this appointment is not in the President's gift.

Of more importance is that, if above trend growth is to be achieved, it may have to be at the expense of inflation, which has remained remarkably subdued since the financial crisis of eight years ago. This would force the Fed's hand and could result in rates rising faster and further than currently forecast. There is also the possibility that government spending will result in more bond issuance. To find buyers for those bonds, rates will need to be more appealing.

So we enter a New Year and a new Presidency with a two handed argument over which direction the American economy is likely to take. Will it become more insular and protectionist, hitting the global economy? Or will Trump go for growth and encourage greater prosperity elsewhere so that American goods can find a ready market abroad? Only time will tell, so we can expect economists to disagree for the foreseeable future.

**Brian Tora, Chartered Fellow, CISI
Consultant**



COMPANIES WE'VE MET DURING THE PAST QUARTER

John Royden, Head of Research

We 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

Croda, Elementis

CONSUMER GOODS

AB Foods, Berkeley Group, BooHoo.com, Burberry, Diageo, JD Sports, Safestore, Unilever

CONSUMER SERVICES

Dixons Carphone, Enterprise Inns, Marstons, Merlin Entertainments, RELX, Saga, Sky, St Ives, Tesco, Whitbread

FINANCIALS

Barclays, Big Yellow Group, British Land Company, Lloyds Banking Group, London Metric, Provident Financial, Prudential, SEGRO, Unite Group

HEALTHCARE

ConvaTec, Dechra Pharmaceuticals, Genus, GlaxoSmithKline, NMC Health

INDUSTRIALS

AA, Berendsen, Bunzl, Carillion, DCC, Equiniti, Experian, Halma, Hill and Smith, Intertek, Ricardo, Rotork, Travis Perkins

OIL & GAS

Guinness Global Energy Fund, Hunting

TECH & TELECOMS

Servelec, Immarsat

UTILITIES

Pennon, Severn Trent, SSE

Company meetings

CARILLION

PRICE: £2.49
52 WEEK HIGH-LOW: £3.20-£1.96
NET YIELD: 7.45%
HIST/PROS PER: 7.3-7.2
EQUITY MARKET CAP: £1,060m

INDUSTRIALS

Richard Howson (CEO), Richard Adam (CFO), John Denning (Director of Corporate Affairs)

Carillion has got a high dividend yield of 7.4%, but the trouble with high yielding equities is that they are often suddenly not: when the dividend gets cut. So we looked to the management team for guidance on the business prospects of Carillion to help us take a view on the dividend. Carillion has two main divisions: Construction (32% of revenues) and Support Services (60%).

Hedge funds have shorted Carillion shares but CEO, Richard Howson says that when some of the hedge funds combine the pension fund deficit with long term debt, they become worried about leverage. With pension fund trustees required to take into account the health of the supporting company, Howson argues that they are misplaced to simply add the two liabilities together.

Carillion has a preference for large scale contracts allowing them to employ top quality managers who are less likely to cause problems, like the ones that Mitie and Balfour Beatty had. Howson suggests that we are currently 20% into the biggest infrastructure boom that he has seen in his lifetime and he's looking for fiscal stimulus aimed at infrastructure and cited a number of projects which could benefit. Howson also indicated that support services' order book looks in good shape. CFO Richard Adam said that margin should be preserved and he appeared to be happy with Carillion's diversified debt providers and the maturity profile.

Running a high yield equity portfolio is always a difficult compromise; I think Carillion's business appears sufficiently strong for it to maintain the dividend although there is always the risk that the incoming CFO, Zafar Khan might use his arrival as the catalyst for a cut.

DIXONS CARPHONE

PRICE: £3.32
52 WEEK HIGH-LOW: £5.07–£2.42
NET YIELD: 2.97%
HIST/PROS PER: 21.1–10.7
EQUITY MARKET CAP: £3,781m

CONSUMER SERVICES

Kate Ferry (IR, PR and Corporate Affairs Director) and Mark Reynolds (IR)

We have probably all bought something from Dixons Carphone at some stage, so you probably feel fairly familiar with the company.

Kate Ferry started talking about the bits that you probably don't know about; like the 34% of ex UK sales that mostly come from their successful Nordic stores. She then moved on to the mobile phone market (33% of sales) stating that structural tailwinds exist for mobile phones, as the need for both more data and larger phone capacity grows exponentially. In addition, the split of higher margin contract vs. prepay has increased to 60% vs 40%.

OFCOM probably likes Dixons Carphone because it gives price sensitive customers an easy comparison. As do the networks (Vodafone, O2, EE, Three) because it enables the networks to run promotions via Dixons Carphone without cannibalising their direct sales.

The non-mobile (white goods, PCs, TVs etc.) market is now less crowded following Comet's bankruptcy in 2012. They face John Lewis who cater to the more affluent segment and Argos, who Kate says are not as competitive on price. If Dixons, rather than similarly priced Amazon, can win over price-sensitive customers who by default go to Argos, they stand to grow market share.

Growth prospects include selling maintenance contracts on white goods such as dishwashers, and a joint venture with Sprint so that they will open and operate up to 500 new Sprint stores across the US.

When questioned about the resilience of the company to a global slowdown and a 10% drop in sales, Kate said that this would take £40 million off their c. £270 million Net Income. With a strong balance sheet this should not be a problem.

JD SPORTS

PRICE: £3.19
52 WEEK HIGH-LOW: £3.40–£1.90
NET YIELD: 0.46%
HIST/PROS PER: 26.1–21.0
EQUITY MARKET CAP: £3,164m

CONSUMER GOODS

Brian Small (CFO)

JD Sports (JD) retails sports fashion and outdoor clothing with sport fashion being 92% of the business. The other 8% is outdoor shops, such as Millets and Blacks.

JD is a great retailer; it chooses the right stores in the right locations and gets the right merchandise on the right shelves. JD has strong relationships with brands such as Adidas and Nike and the brands love JD because JD sells apparel, in addition to the latest trainers. If you buy a new pair of trainers, the chances are that you buy a new branded shirt too; but only in a JD shop with the broad range. The brands reward JD with exclusive distribution rights and product launches, which in turn means JD does not have to discount as much as others – so margins remain high.

Brian Small said that branded items evoke an emotional response which means less price sensitivity when compared to a functional purchase, which translates into impressive 15% average revenue growth over the past decade.

Growth is likely to get powered from JD expanding its format into Europe, Malaysia and Australia and other geographies. They see 5% organic growth driven by UK stores increasing in number, size and from even better merchandising driving higher turnover. They now sell North Face as a fashion item out of JD (rather than just out of Millets and Blacks as functional clothing) and taking North Face from a functional to an emotional fashion item has positive margin connotations.

With strong economies of scale there could be scope to raise the margin by bringing Europe up to the UK's level of operational efficiency. Risks include execution in Europe and Sports Direct rebuilding its relationships with the brands and taking back some of JD's exclusive promotions.

Please read the important notice on page 2.

THE OUTLOOK FOR US EQUITIES IN THE POST-OBAMA WORLD

Richard Wilson, Partner, Polar Capital

Given the events of 8th November 2016 and the shock of Mr. Trump taking the Presidency, we are now reflecting on some of the longer-term implications of what a clean sweep Republican victory over both houses of Congress and the White House could mean for the US economy and financial markets.

In the run up to the election, there was a universal fear of the politically unknown, firebrand, former reality TV star and his more controversial threats to dismantle global trade agreements and deport illegal immigrants. However, Trump's acceptance speech in the immediate aftermath of election night struck a conciliatory tone, and has since caused a re-appraisal of the prospects for bonds, stocks and inflation – at least for the time being until more details of his campaign policy proposals emerge.

Let us start by stressing that the policy priorities of the new administration are mostly a basket of known unknowns (to paraphrase Donald Rumsfeld). We know that anti-free trade rhetoric is part of the agenda, yet we do not know how much resistance this could meet and we know that scrapping Obamacare, de-regulating the financial sector and a general move

towards 'smaller government' are very close to most Republican hearts. But these are all probably easier to champion on the campaign soap box than from a chair in the Oval Office. However, there are two areas of policy where Mr. Trump could deliver on his promise of change without ruffling too many feathers. These are tax reform and infrastructure spending. It is the prospect of change in either or both of these policy areas, which are undoubtedly reflationary, that has led to one of the fastest and sharpest percentage rises in bond yields on record, as markets begin to discount larger deficits, faster growth and higher inflation. It is far too early to call definitively, but we may look back on July 2016 as having marked the all-time low in US Government bond yields.

Trump's tax proposals are easily the most audacious since Reagan's in the early 1980s. The scope ranges from cutting the highest marginal rates of personal income and capital gains tax and eliminating federal inheritance tax altogether, to slashing corporation tax and allowing a "tax holiday" for US companies to repatriate up to an estimated US \$2.5tn in foreign earnings currently sheltering offshore.

From an investor's perspective, a lowering of the statutory rate of corporation tax carries perhaps the greatest potential impact of any of Trump's policy proposals given it directly affects earnings. Corporate profits have faced all manner of headwinds in the last few years: from financial sector spending on regulatory compliance and balance sheet repair, to resource and manufacturing sector weakness as global commodity markets have collapsed, to general headwinds from a strong US Dollar. As we start to see these headwinds diminish, corporate earnings could pick up.

At the same time, the impact of the Federal corporate tax rate falling from 35% to the UK rate of 20% would yield a 23% boost to net income for American companies paying a full tax rate. If Trump gets his way with his proposed 15% tax rate, the boost to net income is worth 31% for companies currently paying the full rate.

Repatriation of foreign earnings is also something that has garnered attention (and bi-partisan support), and it is at the centre of Mr. Trump's other pro-growth policy initiative, which is infrastructure spending. The thought process is that the tax

take from any repatriation of foreign earnings by US corporations will partly fund a US \$550bn Federal infrastructure investment package in airports, schools, hospitals and so on. With the average age of the US's fixed assets at the oldest level since data began in 1925, there is universal agreement that something needs to be done (and having experienced Manhattan roads and traffic last week, I concur!).

We are a little more sceptical of the immediate stimulative capacity of infrastructure spending given any proposal could take some time to become law, and further time to implement. We also feel certain industrial areas of the market have rapidly priced in these prospects, leaving little cushion if the size of any infrastructure stimulus package disappoints.

Set against these two positives is the large unknown of the President-elect's trade policy. The erection of barriers to the free mobility of capital and labour will act as a drag on global economic growth. We have very little clarity on how aggressive Trump's trade policies will be, but we do think he is a pragmatist, and he knows there are an estimated 11.5 million US jobs in some way linked to export industries (40% of which are services). He will need to tread carefully.

As we reflect on what all of the above means for US companies, we are reminded of the notion that universal healthcare provision, tax cuts, infrastructure spending and a balanced fiscal budget are incompatible bedfellows. There are parallels with Reagan, but this is not the 1980s. Stock markets are at highs not lows – the US market capitalisation is 196% of GDP today versus 40% when Reagan took office. Reagan also had a falling interest rate environment to work with (not a rising one) and a huge demographic tailwind from Baby Boomers coming of age. Nevertheless, we think the prospects for potentially better growth, lower corporate taxes and a further pick up in subdued inflationary expectations outweigh the potential negatives for US equities.

We have remained cautiously optimistic in our outlook for US companies throughout 2016, even earlier in the year when others feared a recession. Our underlying stock selection has reflected our perception that we will realise greater long-term value creation potential further down the valuation curve, where the market is not already discounting high returns and where we feel we can benefit from both a fundamental and valuation margin of safety.

We have also felt that companies with less leveraged balance sheets have been a source of hidden opportunity in recent years. The sharp move higher in debt service costs since the summer has vindicated this stance and we believe a bias towards low leverage will continue to yield rewards. As a generalisation, the above thinking has led to overweights in areas such as cash-generative technology companies, healthcare services stocks (as opposed to pharmaceuticals) and financials, where valuations tend to be below market medians, and where fundamentals of the stocks in the portfolio are better than average.

We believe, on balance, that President Trump will foster a reflationary and potentially pro-growth agenda. However, we also think the key will be to remain focused on fundamentals and highly selective at the stock level.



LIFE CHANGING DEVOTION

Whilst the firm respects that charitable giving is a personal decision, we have always maintained that a company of our size, reputation and standing should pool its resources to help where it can.

With this in mind we have two charities at any one time that are our designated corporate charities: usually a cause local to our head office in London and a national, less well known charity, where any fund raising can make a big difference.

Dogs for Good has been one of our partner charities for over three years which has funded three puppies within their assistance program and allows us to follow the progress of both the dogs and their new owners. The charity appealed to the firm, thanks in part to the range of issues that having a dog can support. Young or old, immobile or active, the training that Dogs for Good imparts can make a huge difference to people's lives; whether as a Community Dog, which increasingly are being used to help sufferers of dementia or as a Family Dog, which can help teach families of children with autism how to handle their pet dogs specifically to ease the pressures of autism but more importantly as an assistance dog, trained to support people with a range of physical disabilities, including dementia and both adults and children with autism.

Dogs for Good has been selected to be one of the Times Newspaper's three charities to benefit from this year's Christmas Appeal and JM Finn & Co is proud to be supportive of this appeal.



Meet Jessie – JM Finn & Co's latest puppy

Already, at just eight weeks old, she is starting to show some of the characteristics that are required in a fully trained dog: confidence, an interest in people and in playing.

The first 16 weeks of Jessie's life are like an open window, where she is inquisitive and can take in vast amounts of new experiences, to learn what is safe and what is not. Until Jessie has had her second vaccination, she will be carried everywhere, to get her used to being touched and meeting different people. This will also help her get used to all the new sounds and smells and to experience different animals, transport and places.

Jessie will explore every corner of her home and anything she can reach will be thoroughly investigated and chewed! Her socialiser, Janet will encourage her to play with a toy instead or redirect her attention onto a different activity. Rewards, like a tasty treat or favourite toy will be used when Jessie is showing the behaviour Janet wants, which strengthens the bond between them and teaches Jessie to focus on Janet, even when there are lots of exciting things happening in her vicinity. Puppies learn in similar ways to us, from the immediate results of their actions and through trial and error. They are social animals and need to learn how to communicate properly with the rest of the world, be polite and learn self-control.

Janet will start teaching Jessie basic obedience commands. She will learn to sit and wait for her meals, being released from her wait with the sound of a whistle. This gives Jessie an association between the whistle and food, which can then be used to teach her recall when she's a bit older. Janet will introduce Jessie to her green Dogs for Good training jacket,



so she feels comfortable wearing it, as this allows Janet to take her into places that pet dogs aren't allowed to go. It's important Jessie associates her jacket with lovely experiences, so Janet will give her lots of praise, reassurance and treats when she's wearing it.

Jessie has an exciting year ahead but it is early days so it is hard to predict how her personality and behaviour will develop, but with the love and support of Janet and her family and the team at Dogs for Good, she has every chance of success.

New hires bolster regional presence

Two new senior members of staff have been recruited to enhance our regional presence.

In our Leeds office, Andrew Aitken has joined as Head of the office. Andrew brings 19 years of industry experience, both in London and in his native Yorkshire, to help the management of the office and to support the firm's regional business development. Andrew brings the total number of staff in our Leeds office to 13, of which eight are investment managers who look after nearly £500 million of client funds built up since we opened the office in 2002.

We are also delighted to announce the arrival of Gavin Budd as a Senior Investment Manager, based in our Cardiff office.

Gavin joins from a competitor based in Bristol where he managed discretionary portfolios on behalf of private clients, trusts and charities sourced directly and via independent financial advisers. He will spend most of his time in Cardiff but will maintain a presence in our Bristol office, while he looks to develop JM Finn & Co's client base in Wales, our newest branch office.

Equity prospects

NEXT

James Godrich, Research Assistant

PRICE

£49.51

52 WEEK HIGH-LOW

£81.02–£35.50

NET YIELD

3.23%

HIST/PROS PER

10.8–11.2

EQUITY MARKET CAP

£6,977m

Next is a UK-based retailer selling clothing, footwear and accessories. The company operates through four main business segments: Next Retail, a chain of more than 500 stores in the UK and Ireland; Next Directory, a home shopping catalogue and online platform; Next International Retail, with almost 200 mainly franchised stores globally and Next Sourcing, which is involved in the design, sourcing and buying of Next products.

Next have benefited in the past from first mover advantage with their desktop website. In more recent times though management have become aware that they have been late to address their, arguably more important, mobile-enabled websites as sales migrate from desktop computer to phone and tablet. The design and build of the mobile-enabled websites have now been brought in-house and initial results seem encouraging, with Next Directory outperforming the group's other divisions in recent trading.

Strategic and operational issues appear to be moving in the right direction for Next. But with a likely negative impact on household discretionary spend and sterling related inflation on their cost of goods sold, the macro outlook for the UK retailers appears uncertain at best.

Please read the important notice on page 2.

DECHRA

PHARMACEUTICALS



Dechra Pharmaceuticals (Dechra) is an international veterinary pharmaceuticals business that specialises in the development, manufacture and sales of a portfolio of branded and generic drugs, exclusively for vets around the globe.

Theo Wyld, Research Analyst

The CEO, Ian Page, who visited us recently for what was a highly informative and well-attended meeting, has been instrumental in the company's transformation from a low-margin drug distributor, to the high-margin manufacturer it is today.

Their largest business division is Companion Animal Products (CAP) making up circa 53% of the group revenue. This essentially is made up of drugs for dogs and cats treating a variety of ailments from skin problems to endocrinology.

The next largest is Food Producing Animal Products (FAP) which targets reducing the incidence and spread of disease in livestock, predominantly through antibiotics. They are also dipping their toe into poultry vaccines following a recent acquisition of a company called Genera. It will be a few years before we see the true benefits of this as they build up their suite of vaccines on offer. One of the main structural drivers for this division is simply that the world is consuming more and more meat.

The balance of the group comprises an Equine business focusing on supporting equine veterinary surgeons and Diets. Geographically Dechra's largest market is the UK, followed by Germany and then North America, the latter being an area they are concentrating on expanding into given the size and growth characteristics of the available animal health market.

There are much larger players in the veterinary pharmaceutical industry with the top five sharing 75% of the market but Dechra does a good job of avoiding direct competition and finds its niche in products used to treat specialist conditions for which there are no other effective solutions, or where they have some sort of competitive advantage. They do this by re-engineering molecules designed for humans and adapting them for certain species of animals which greatly reduces the pipeline risk, not least because these drugs have been deemed fit for human consumption before pets.



Zoetis, the largest of the competitors, invests in more widespread, common medicines such as those aimed at the flea market but I don't envisage them expanding and mopping up Dechra's markets for two reasons; firstly, the intellectual

or a drug which treats Crohn's disease in dogs, for example. It is through this medium that Dechra not only earns the trust of the veterinary community, but can emphasise the various benefits of using their products.

One of the key risks associated with the market is that a truly global, generic distributor establishes itself. However, I believe this would be extremely difficult and expensive as it would likely involve plenty of consolidation and Dechra would be a prime target.

Animal health spend is growing at an annual growth rate of 7% globally and is showing no signs of abating

property barriers to entry are high and secondly, and perhaps more importantly, is that a blockbuster drug in animal health generates c. \$5m-\$10m in sales, as opposed to \$5bn in human pharma. Therefore, it is not worth chasing after a competitor's specialist drug as it would be expensive in terms of research and development and sales and marketing.

This leads neatly on to the importance of having a sales team on the ground with strong relationships with vets. Dechra have this infrastructure in both their main markets, Europe and North America, and are looking to replicate this elsewhere, as evidenced by a recent acquisition of just that in New Zealand and Australia.

The sales tactic, across all divisions, is based around education of the vets. They hold multiple events across varying formats which teach groups of practitioners about the benefits of a certain dietary regime,

Animal health spend is growing at an annual growth rate of 7% globally and is showing no signs of abating, meanwhile Dechra have been growing well ahead of this thanks to a combination of M&A activity, organic growth and geographic expansion.

The company has acquired four businesses of note throughout this financial year, but one stands out in particular; that of Putney. This is a US generic drugs business which had been a target for a while. It is particularly difficult to get a drug registered in the US, but Putney seem to have a winning process formula as they are responsible for 43% of all drug registrations in the US since 2012.

Where this tie-up works is that Dechra can now leverage their existing sales teams and the all-important relationships with vets and sell Putney's portfolio of generics alongside the Dechra branded drugs without cannibalising their existing revenue or massively increasing overheads.

The company boasts a strong balance sheet, cash conversion and healthy gross margins, north of 45% and it is hoped that the management team can continue to position Dechra to take advantage of a growing animal health market.



PRICE
£12.90

52 WEEK HIGH-LOW
£14.62-£8.11

NET YIELD
1.42%

HIST/PROS PER
90.5-23.5

EQUITY MARKET CAP
£1,207m

A CHANGING TIDE In

It is no secret that traditional 'antique' markets are regarded by many as old fashioned or the preserve of previous generations and that consequently Georgian chests of drawers, card tables and 18th century paintings are now more affordable than they have ever been. However there is a growing belief that factors such as value for money, quality and dare we utter it, a changing tide of fashion are conspiring to reinvigorate the prices in 'old school' collecting areas.

**Will Richards, Deputy Chairman,
The Fine Art Auction Group**

The background of the page is a photograph of an interior space. It features a wall with intricate white plasterwork, including large corner medallions and rectangular panels. In the bottom left corner, a portion of a green velvet armchair with a dark wood frame is visible. The floor is a light, neutral color.

THE ART MARKET?

Value for money is certainly now a factor. At Dreweatts our regular mixed discipline 'Interiors' sales offer a good indicator of this change as a growing number of private buyers are purchasing at auction. Examples abound, a late Georgian mahogany chest sold recently for a hammer price of £380. Interestingly, this is exactly the same sum Ikea is asking for their range-topping solid pine and fibreboard chest of drawers (PS2012). Admittedly you will need to pay a buyer's premium on top of the hammer price to acquire a lot at auction but it is a safe bet, even in this post-Trump era, that the antique example will prove by far the better investment.

Furthermore, having survived over 200 years to date there is a good chance it will outlast its younger counterpart. In the same vein, private bidders are now starting to buy old master drawings and Georgian landscapes and portraits for similar prices to modern gallery pictures which tend not to retain their value, unlike their older equivalents. This affordability therefore is a major element in encouraging the young to look again at traditional antiques. ►



The collection of Ian Askew Sale, April 2015

Value for money, quality and a changing fashion are conspiring to reinvigorate prices in “old school” collecting areas

A stroll down the Pimlico Road, SW1, with its array of antique shops and interior decorators provides another snapshot of emerging vogues, not least Rose Uniacke who offers a cool mix of ancient and modern typified by a Louis XIV sofa upholstered in a bold green velvet shown on her website. Ploughing a more traditional furrow is Jamb in the same road owned by Will Fisher who peddles Palladian elegance with classic 18th and 19th century English furniture.

A growing number of leading interior designers are using a purer minimalist Georgian approach which combines traditional interiors with classic antiques and objects in uncluttered, beautifully proportioned rooms alongside modern works to create a rich and more eclectic look that is consistent with the current modern functioning interior.

In addition to these financial factors a wider change in fashion can also be sensed. Current interior decorating trends would appear to support this view, as overworked minimalist schemes give way to more eclectic furnishing styles.

An example of this is provided by a recent addition to the Soho House London club portfolio, 76 Dean Street, whose house style is at the vanguard of fashion. Its main reception rooms are furnished in a traditional manner with a contemporary twist. The furniture mixes Georgian themes including tripod tables, gateleg tables and chests of drawers, with 19th century dining chairs and Victorian button-upholstered seat furniture. The overall look is combined with a bolder palette of colour in stark contrast to the neutral greys and white-based tones prevalent in recent years.

Returning again to the auction market, if one is considering selling then this changing mood offers opportunities to maximise the outcome by accessing this changing demand. An example of this is the marked increase in single owner collections being offered in one catalogue - as opposed to the historic preference for salerooms to divide properties into specialist sale categories. This is due to the increasing appetite among buyers and collectors for sourcing from known collections with a defined interior style. The provenance and the credibility that a well-regarded collection offers, is something to which the current market attaches a significant premium, resulting in notably higher selling rates.



When the collection of the late Ian Askew was auctioned recently his flair, knowledge and eye for good traditional objects reassured collectors of its pedigree drawing great interest from an international array of buyers which translated into the sale nearly doubling its pre-sale estimate.

An exception to the general trend in most collecting spheres is of course the premium end of the market, where prices often hold their own or demonstrate exponential growth. A recent example of this was an Irish Georgian side table sold for £185,000 plus premium. This matched the auction prices realised at the height of the Irish market 20 years ago. If the table came into the vendor's possession around this time it could be shown that there was no gain and therefore there would be no CGT to pay and the full value could then be realised. This shows that even in weaker markets there can be tax and legacy planning advantages and we are advising clients on cases such as this on a regular basis.

Whilst a few swallows don't make a summer, it is tempting to speculate that there is a changing alchemy in buying patterns prompted by an attractive pound, a renewed interest in historic styles and a natural revolution in the market cycle. Certainly this chimes with Rose Uniacke's mantra 'Interiors matter... They have the potential to change us and our lives for the better.'



**Dreweatts &
Bloomsbury**

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JM Finn & Co is not able to give individual advice of this nature. Clients who wish to explore the points that this article refers to should seek advice from a specialist in relation to their own personal circumstances.

Equity prospects

ROYAL DUTCH SHELL

James Godrich, Research Assistant

PRICE

£21.11

52 WEEK HIGH-LOW

£22.52–£12.62

NET YIELD

7.23%

HIST/PROS PER

48.2–26.5

EQUITY MARKET CAP

£165,751m

Royal Dutch Shell (Shell) is one of the largest global oil majors with revenues split, in financial reporting terms, between its Upstream, Downstream and Integrated Gas divisions.

The Upstream division, which is involved in oil exploration and production, continues to be impacted by depressed oil prices. Downstream, which has provided the majority of earnings through the oil price downturn, is involved in the refining and distribution of the Upstream products. The Integrated Gas division reports, amongst other sources, the revenue of the recent BG acquisition which, in February 2016, helped Shell to create the biggest global trader of Liquefied Natural Gas (LNG).

In strategic terms Shell divides its revenue slightly differently into Cash Engines, Growth Priorities and Future Opportunities. Through its Cash Engines, such as conventional oil and gas, the group intends to fund dividends and strengthen the balance sheet with strong free cash flow and returns.

Through Growth Priorities, such as deep water drilling, Shell intend on growing positions in markets which they hope will become Cash Engines from 2020 onwards. In Future Opportunities the group sees new energies and shale gas as a path towards future profitability with managed exposure and material upside. A seemingly sensible long term strategy.

Please read the important notice on page 2.

ARE YOUR AFFAIRS IN ORDER?

Justine Alford, Partner



Justine Alford of Burningham and Brown Solicitors reflects upon the importance of having a Will, the need to update it as your circumstances change and the benefits of setting up a Lasting Power of Attorney.

According to recent research two thirds of adults in the UK do not have a Will. This can lead to untold upset and uncertainty for the family left behind. Without a valid Will, the rules of intestacy will govern who can manage and benefit from your estate. Apart from making sure that your hard earned assets pass in accordance with your wishes, there are other reasons to take advice and make a Will, which can be summarised by asking the following questions:

- Would you like to ensure that your spouse or partner can continue to live in the family home?
- Who would look after your children if something happened to you and how will your children be provided for?
- If you own properties subject to a mortgage how will the mortgage be repaid, would it be possible to settle any inheritance tax due on your estate without selling up?
- Do you own property overseas?
- Do you own your own business, have a share in a partnership or own private company shares – what do you envisage happening to your business after your death?

- Have you been married more than once and would you like your current partner to be secure while at the same time ensuring that children from a previous marriage are protected?

Even if you have a Will it is important to review it from time to time as changing circumstances can have consequences. For example, perhaps you have recently received a large inheritance, divorced or made a large gift to one of your children. You may have bought a second home or invested with others in a shared property. Any of these scenarios would require a review of your Will to ensure it remains relevant.

A Will deals with what will happen when you die, but what will happen in your old age or if you were to have an accident, stroke or develop an illness that left you without the mental ability to make decisions for yourself? Who will pay your bills and manage your finances so that you can pay for the care you need?

If you hold assets jointly, then perhaps your spouse or partner could manage your affairs but they may not be able to. What about ISAs and investments that you hold in your sole name? Financial institutions will be meticulous in ensuring that anyone giving instructions on your behalf has the proper authority to do so and quite rightly in our opinion. This is where a Lasting Power of Attorney (LPA) for Financial Decisions comes into play.



An ordinary Power of Attorney is a document by which one person ('the donor') appoints another person or people to act for him for a specified purpose or period of time. Once it is properly set up, a Lasting Power of Attorney will be valid for use until such time as the donor cancels it or dies. When and if the donor can no longer make decisions, or needs help to do so, his attorney can step into his shoes and act for him.

According to recent research two thirds of adults in the UK do not have a Will.

An LPA for Health and Care Decisions allows a donor to appoint an attorney to make decisions about his care should the donor be unable to do so. Decisions may include where the donor should live and the treatment he or she should receive. If you have not appointed an attorney, doctors and social workers will make these decisions for you or a family member will have to apply through the courts to be appointed as your deputy.

An attorney appointed under an LPA is not given a 'blank cheque' but acts in accordance with the principles of the Mental Capacity Act 2005. When the donor has lost mental capacity, his attorney must continue to attempt to consult with him, act in his best interests and always in a way that is least restrictive of the donor's freedom.

You may already have an Enduring Power of Attorney in place, these documents preceded Lasting Powers of Attorney and, although they can still be used, the process of making sure that they are valid for use when needed is more complicated. EPAs do not cover healthcare decisions.

Wills and LPAs should be discussed with a professional who can help you to think about your affairs with clarity and care. If done properly, the process can help you structure your affairs and give you some peace of mind. But a final word of warning: when you look for a legal advisor make sure you understand how experienced the person you will see is and who you can speak to if you have questions or want to review matters further down the line.



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JM Finn & Co is not able to give individual advice of this nature. Clients who wish to explore the points that this article refers to should seek advice from a specialist in relation to their own personal circumstances.

Wealth Planning in focus



As many readers will recall, we carried out a survey of our clients in 2015 to ensure, amongst other areas, the services we offer remain relevant to our clients.

The private client investment industry has evolved significantly since our days as a stockbroker, with integrated wealth management becoming more prominent and it was little surprise to us that a meaningful proportion of our clients, particularly those under the age of 50, wanted us to be able to provide certain wealth planning services, in addition to our core investment management offering.



Anna Murdock
Head of Wealth Planning

Having graduated with a BA Hons degree in Psychology from the University of Newcastle-upon-Tyne, Anna started her career in 1998 by winning a place on the graduate training program of a nationwide firm of financial advisers, where she helped establish a branch in Middlesbrough. Taking the decision to move from a client servicing role to a technical advice role, Anna moved to a firm of accountants where she started her in-depth technical learning to advise corporate and private clients on complex advisory matters.

In 2004 Anna became a qualified financial planner and by 2008 she had achieved Chartered Financial Planner status, culminating in her current status as a Fellow of the Chartered Insurance Institute. In 2008 Anna joined UBS Wealth Management in Newcastle where she implemented a financial advice offering for the North-East region. Following the successful roll-out of this new service she left her native North-East to move

At the end of 2015 we made the strategic decision to provide a wealth planning proposition to complement our investment management offering and hired Anna Murdock to build and manage this new service.

Following regulatory approval, we are now in a position to offer clients advice on their specific circumstances in relation to four key areas of wealth management:

- Retirement planning
- Estate planning
- Wealth structuring
- Protection

With the tax year end rapidly approaching, we asked Anna to highlight some key areas where investors could look to tidy up their financial affairs and make the most of any tax efficient allowances.

to London in 2011, where she was a senior consultant providing complex advice to the bank's private clients, both domicile and non-domicile. She was soon promoted to Head of Financial Advisory in the UK and left to join JM Finn & Co in 2015.

For the last year, Anna has been building the wealth planning offering from the bottom up, initially seeking the relevant regulatory permissions, implementing appropriate processes and procedures and finally hiring a second wealth planner and an assistant to ensure we are in a position to meet our existing clients' advice requirements.

When not advising clients, Anna enjoys making the most of London's theatre and restaurant scenes, playing tennis and keeping fit. When time permits she likes to travel far and wide (Japan this year) and is currently learning Spanish.

SMART PLANNING FOR TAX YEAR END

Anna Murdock, Head of Wealth Planning

With many allowances offered on a 'use-it-or-lose-it' basis, now is the time to consider smart financial planning strategies that are aimed at reducing your tax liability and growing your wealth. It is also a great time to consider financial planning strategies for the year ahead.

Individual Savings Accounts (ISA)

With historically low interest rates on deposits, inflation and taxation present very tangible risks to the value of savings in real terms.

ISAs are a tax efficient investment vehicle as an individual pays no tax on the income received from ISA savings and investments (including dividends), nor does the individual pay tax on capital gains arising on ISA investments.

The table below highlights the strength of ISAs in shielding wealth from the impact of tax and inflation.

Equivalent Gross savings rate needed to equal the rate of inflation

Inflation Rate	ISA	Basic Rate Taxpayer	Higher Rate Taxpayer	Additional Rate Taxpayer
1.00%	1.00%	1.25%	1.67%	1.82%
1.50%	1.50%	1.88%	2.50%	2.73%
2.00%	2.00%	2.50%	3.33%	3.64%

Source: JM Finn & Co

The individual allowance for the current tax year is £15,240 – increasing to £20,000 next tax year. The Junior ISA allowance is currently £4,080 and available for anyone under the age of 18. An interesting quirk in the current legislation is that 16 and 17 year old children currently have access to two ISA allowances: £4,080 for a Junior ISA as well as £15,240 for an adult cash ISA. Consideration may also be given to converting a Child Trust Fund into a Junior ISA, permitted since April 2015.

Action

If appropriate, take up all ISA allowances, remembering they are not carried forward to the next tax year. Given how low interest rates are, consider investing monies currently held on deposit. ►

- Inflation as measured by Retail Prices Index (RPI) is 2.00% as at October 2016
- Inflation as measured by Consumer Prices Index (CPI) is 0.9% as at October 2016
- Families affected by IHT is at a 35 year high
- HMRC IHT receipts reached £4.673 billion in 2015/16: 22% higher than in 2014/15
- IHT receipts are expected to increase to £5.6 billion by 2020/21
- Over 2.5million people subscribed to a stocks and shares ISA in the last tax year

Source: Office for National Statistics, HMRC, TISA & Office for Budget Responsibility

Capital Gains Tax

Regular and proactive capital gains tax management will serve to reduce the impact of taxation on wealth accumulation/preservation.

The individual tax-free capital gains allowance, known as the 'annual exempt amount', is £11,100 for the current tax year. Where sensible, the annual capital gains allowance should be fully utilised each tax year. Failure to do so will result in the benefit being lost. Effective use of the allowance could reduce your tax liability by up to £2,220.¹

Consideration may also be given to realising gains on assets and transferring them to a lower or non-taxpayer or tax effective investment, such as an ISA. Losses on capital assets may be realised in order to offset any taxable capital gains that were realised in the current tax year.

Pension Contributions

The tax incentives offered by pensions make them a very attractive means of accumulating wealth for retirement. The new pension freedom rules have provided investors with greater access, flexibility and control over their pension savings.

The current annual allowance for pension contributions is the lower of £40,000 or 100% of your earnings. Restrictions apply to individuals earning more than £150,000². The key benefits of making additional pension savings before the end of the tax year:

- Boost retirement savings within a highly tax efficient investment vehicle.
- Access pension tax relief at source of 20%.
For example, if you contribute £32,000 (subject to allowances), the government will top up the contribution by a further £8,000 (making your total contribution £40,000).
- Reduce your tax liability: contributions made by higher rate (HRT) and additional rate (ART) taxpayers may attract additional tax relief of 20% and 25% respectively.

- Reclaim allowances: the standard tax free personal income allowance of £11,000 is reduced for incomes over £100,000 (cutting out altogether at £122,000). Pension contributions can be used to reduce an individual's taxable income and reinstate the personal allowance, providing tax relief of up to 60% on the contributions made.
- Contributions can also be made for non-working family members, such as a spouse, child or grandchild. If a contribution of up to £2,880 is made, the government will contribute a further £720, by way of pension tax relief.

Action

Don't miss the opportunity to carry forward previous pension allowances: the current rules may allow you to make use of unused pension allowances from the previous three tax years. This can be a particularly useful tax planning strategy for those with high tax liabilities and a great way to utilise unexpected windfalls. But don't act without seeking professional advice.

¹ Based on £11,100 of assessable gains at rates of up to 20% (applicable to higher or additional rate taxpayers)

² For individuals with 'threshold income' in excess of £110,000 and 'adjusted income' in excess of £150,000, your annual allowance will be reduced by £1 for every £2 above £150,000. The maximum reduction is limited to £30,000.



Inheritance Tax Planning

Inheritance tax (IHT) is a pervasive influence on the intergenerational transfer of wealth. IHT is payable at a flat rate of 40% on estate assets in excess of £325,000 (known as the nil rate band) for a single person or £650,000 for a couple.

From 2017/18 the nil-rate band will increase to include an additional main residence allowance of £100,000 when the residence is passed on to direct descendants.

Small gifts made out of normal income do not generally attract IHT, proving a useful IHT mitigation strategy. This is known as 'exempted gifts'. Whilst the 'exempted gift' threshold is considered by many as insignificant, it can be used as an effective means of investing for grandchildren via contributions to Junior ISAs.

Action

You can give away £3,000 worth of gifts before 6 April 2017 without them being added to the value of your estate. If you haven't used your annual exemption of £3,000 from last tax year, you can also carry it forward and use it this year.

Whilst many of the above-mentioned approaches to managing your financial affairs efficiently are fairly straightforward, many investors often don't connect all the dots and consider wealth planning alongside their investment portfolio.

The points made in this article are for illustrative purposes only and if you require any assistance with any of the above opportunities in relation to your personal circumstances, contact your Investment Manager who can make an introduction to our specialist wealth planning team.

It is important to note that JM Finn & Co is a not registered tax adviser and where tax advice is required, we would look to work with your existing advisers or refer you to a trusted external tax specialist.

Tax Year End Checklist (where appropriate):

- ☐ Utilised Individual Savings Account (ISA) allowances
- ☐ Optimised management of Capital Gains Tax liabilities
- ☐ Maximised pension contributions for you and your spouse
- ☐ Implemented proactive Inheritance Tax planning measures

Asset Allocation in focus

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

FIXED INCOME

UK Government Bonds – Conventional gilts		We see the re-emergence of inflation as a topic in the US and think that the same drivers will arise here. We prefer shorter dated index linked for the time being.
UK Corporate Bonds		Investment grade bonds with the shortest maturities are preferred, within the constraints of income requirements.
UK Government Bonds – Index linked gilts		As with conventional gilts, we prefer shorter dated index linked bonds. GBP weakness will only work to boost inflation.

UK EQUITIES

UK Financials		The sector could benefit in the short term from the strength of the UK economy.
Consumer Goods		We like this sector for its defensive qualities, but are cautious on valuation of overseas earners.
Oil & Gas		Given the unfavourable supply/demand dynamics we do not expect any improvement until we see concrete production cuts announced. We do think we have seen the bottom in oil prices.
Consumer Services		Some interesting opportunities in Media and Leisure exist.
Industrials		Selective opportunities still remain in the sector that should benefit from weaker sterling.

OTHER EQUITIES

US		We are now positive on North America thanks to the reflationary political situation and an improved earnings outlook.
Europe		Upcoming political events and the potential for sterling strength lead us to be cautious here, with the banking sector concerns likely to overshadow the markets.
Japan		We have little conviction as to Japan's economic outlook and subsequent policy response.
Asia/China		There are signs of the economies stabilising but we remain cautious on a potential US rate rise and its effects.
Emerging Markets		Generally positive on emerging markets but some caution required due to recent strength, coupled with a potential US rate rise.

ALTERNATIVES

Property		The preference remains property companies rather than open-ended funds, but caution on liquidity.
Absolute Return		Exposure might be appropriate given current market conditions. We suggest caution on the "yield hunt" and are wary of lower quality products.
Infrastructure		As with absolute return, investors should be cautious when looking for yield and pay close scrutiny to the quality of the investment product.

ASSET ALLOCATION: A SNAPSHOT

The Asset Allocation Committee, which consists of three 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



Equity prospects

MARKS & SPENCER

James Godrich, Research Assistant

PRICE

£3.35

52 WEEK HIGH-LOW

£5.08–£2.55

NET YIELD

7.04%

HIST/PROS PER

21.4–11.3

EQUITY MARKET CAP

£5,356m

Marks and Spencer Group (M&S) is a well-known retailer dividing its stores into General Merchandise and Food or sometimes Simply Food. This divides not only its stores but also its profitability and growth where Food has been the crown jewel for M&S versus declining General Merchandise revenues.

Against this background the new CEO, Steve Rowe, has set about a group-wide turnaround strategy in two parts. The first of these targeted growth in revenue and margins in their clothing and homeware division. Management chose to lower prices with less reliance upon sales, offer 10% fewer clothing lines and increase availability; an approach which initially appears to be bearing fruit.

The second and more recent group-wide strategy update was three fold and includes exiting loss making international stores, at a cash cost of £150-200m, reducing clothing and homeware space by 10%, at a cost of £50m per year for three years, rising to £100m in years four and five, and simplifying head office operations.

Directionally the strategy seems sensible but there remains market wariness over the cost, timing and risk of its successful implementation.

John Royden is a beneficial owner of Marks & Spencer.

Please read the important notice on page 2.

Meet the manager

HUGO BEDFORD

LONDON



Lives Hannington, Hampshire

Family Married with 3 children (13, 12 and 12)

Education Charterhouse & Durham University

Started at JM Finn & Co 2006

Current Position Investment Director & Vice Chair of the Management Committee

Interests Fishing, tennis, music

Favourite gadget My iPhone

Last holiday Driving an RV with my family across Montana and Nevada in the US – we are still talking!

With so much market uncertainty around Brexit and further European elections next year, how are you positioning portfolios?

Brexit has set the tone and next year's elections, when 75% of Eurozone voters go to the polls, could have repercussions if the populist vote results in more fiscal activism. In the short term I do not think this damages investment prospects and the return of some inflation could benefit equities. It is too early to see how Brexit will play out but there is some complacency in the market on the potential cost and complexity and so I think some caution is warranted.

Most of the portfolios managed by my team are focused on globally diversified businesses but we are on the look-out for opportunities in the UK.

Can you briefly describe your core investment philosophy and the key disciplines that you try and stay true to?

I like the philosophy of investing in good businesses without being put off by their share price valuations. As Terry Smith, the founder of Fundsmith says – if you are a long term investor, owning shares in a good company is likely to be a much larger determinant of your investment performance than whether the shares were cheap when you bought them. I also believe that asset prices generally 'revert to mean' and this helps to provide checks to any over-enthusiasm for particular sectors or markets.

What are your long-term fears for stock markets?

We have had a few false dawns but I think a fall in bond prices remains a near term danger. Longer term, I think the key risk has to be the level of global debt as we return to more normalised interest rates; higher long term rates will of course be better for savers, but the transition to a more normal cycle may mean a difficult period of adjustment.

As a member of the management committee who also manages client portfolios, you're in the thick of it – what are the big picture issues on the horizon that are affecting our industry?

One long term, industry-wide concern is the growing pensions gap that exists in the UK, exacerbated by the aging population. Firms like ours can help but we need to be able to reach younger audiences to help them understand the importance of saving for their futures. Being able to offer wealth planning advice will be a valuable addition to what we already do.

What lessons that you've learned over your 25 year career would you tell a new starter to the industry?

I think being disciplined in your investment approach is critical; having conviction in your investments without becoming emotionally attached to any particular company, and not being afraid to sell investments that are not working but remaining patient with good companies that may be going through difficult periods.

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Contact your investment manager to see how JM Finn & Co's wealth planning service can help you on your financial journey.

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An eye for investment

JM Finn & Co

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