JM FINN

Prospects

National treasure?
How to save the NHS

Stability and growth
The budget explored

A wine revolution
Showcasing a British success

The JM Finn Quarterly Periodical

No.41 *Winter 2022*

No.41
Winter 2022



Equity prospects
JM Finn's insights into companies 07, 11,25, 31.

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Published by JM Finn on
16th December 2022

Welcome

Following the previous Chancellor's mini-budget in September, confidence in the UK fell dramatically driving the UK market to a low for the year. Despite a market rally since then, we are entering the closing weeks of the year with an uncertain future continuing to face investors.

The good news is that markets clearly have more faith in the new administration in Downing Street. The bad news is that successive policy changes have left a mess which Chancellor Hunt will find tricky to clear up, without adding to the pain being felt by consumers. And this is still within the context of high inflation around the world.

There is little doubt that Messrs Sunak and Hunt have their work cut out for them: will they need to move away from traditional conservative values? In the Economic Focus on page 12, the increasing role of the government in our economy of recent years, with the view that the days of low tax and small government are well and truly behind us, is explored. The author also suggests that we may need to change the way we judge the performance of our political leaders in future, to how successful they are in stimulating economic growth, as it becomes increasingly difficult to separate the two main parties.

Some of the changes in the ensuing budget, as announced by Chancellor Hunt in November, while designed to put the UK economy back on an even keel, do have significant implications for individuals. The most noticeable was the reversal of the majority of his predecessor's policies in order to restore confidence in the market but there were also some complicated tax changes; we have tried to simplify the key developments which will likely affect our readers on page 16. The changes to the capital gains tax (CGT) exemption and the dividend annual allowances are two that I would encourage all investors to take note of and review how this might affect your personal financial circumstances. For those investors considering how they might leave their assets for the next generation, the freezing of the inheritance tax (IHT) nil rate band will no doubt have consequences and readers might want to consider taking advantage of our wealth planning services, to help ensure they have a good grasp of how best to structure their wealth.

The political conundrums continue to contribute to increasing mobilisation of the unions in the UK, as the train drivers, ambulance drivers, postal workers and now nurses stage strike action. Readers of our Guest Editorial might find this very timely, as we feature a former medical expert giving inside views as to how we can start to fix our beloved National Health Service.

On a brighter note, I am delighted to include an article on a very British success story. One of the smallest wine regions in the world is celebrating a revolution, as our cool climate sparks the interest of wine experts and enthusiasts around the globe.

Also on a positive, I would like to announce that we are relocating our Yorkshire office. After 20 years in Leeds, we took the opportunity to review our situation when our current lease expired. After much consideration, we have decided to relocate to York. Renowned for its beautiful architecture and powerful history, including twice being the capital of the Roman Empire, being in York is where we feel we belong! With the new office sitting in the shadows of the City's ancient walls, we have signed a lease for a newly-built office which sets the bar in terms of sustainability, and which we feel perfectly reflects our own approach – a modern firm with traditional values. We look forward to welcoming our clients there from mid-January 2023.

Hugo

Hugo Bedford
CEO

Editorial

Unintended consequences

Sir John Royden
Head of Research

Illustration by Emily Nault

Head of Research, John Royden looks at the unintended consequences of consumer protection and suggests an alternative approach to banker's remuneration.

I often find myself defending the seemingly indefensible; that is the often excessive and tone-deaf bonuses paid to bankers, one of several policy issues that placed our previous chancellor in a bit of a pickle. And in turn, I don't think we should lay the blame for the last financial crisis solely at the door of these bankers, as our policy makers must surely take some of the heat.

Why? It's all thanks to bank deposit protection schemes. These schemes, which are of course designed to protect the end consumer, allowed bank managers to do as much high risk / high interest rate lending as they wanted and finance the risk with high paying deposit accounts. They were allowed to get away with this as, thanks to the deposit protection schemes, depositors cared little about the risks taken because they knew they would get bailed out by the government guarantee.

To explore this point further, consider these choices for a bank manager: Choice A: High risk banking with a 75% chance of success with a £2 million bonus or a 25% chance of failure with a nil bonus. Probability adjusted outcome of £1.5 million (75% * £2 million = £1.5 million)

> "The politicians thought that if they limited bankers' bonuses, the problem would go away.

Choice B: Low risk banking: 90% chance of success with a £300,000 bonus or a 10% chance of failure with a nil bonus. Probability adjusted outcome of £270,000 (90% * £300,000 = £270,000)

These choices help explain why Fred Godwin took such massive risks as CEO of RBS; he went for Choice A. The problem was that Choice A included £billions of losses for the bank in the failure outcome. But all the time, we, the depositors, did not care a jot what Fred Godwin was up to, because we knew we would always get bailed out by the government compensation scheme.

The post-Global Financial Crisis mistake the politicians then made was to address the symptoms and not tackle the root cause of the moral hazard born from government bank guarantees. The politicians thought that if they limited bankers' bonuses, the problem would go away. Politicians thought that Choice A became: High risk banking a 75% chance of success with a capped £300,000 bonus or a 25% chance of failure with a nil bonus. Probability adjusted outcome of £225,000. (75% * £300,000 = £225,000).

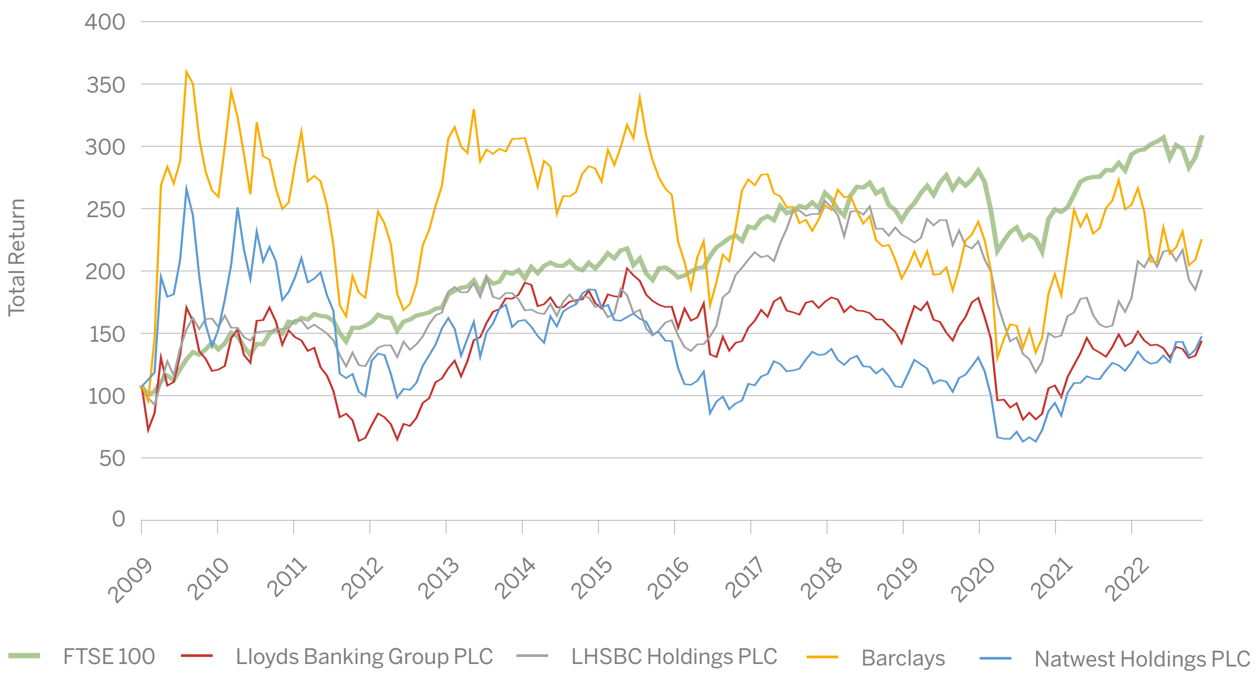
Prospects

And hey presto ... Safe banking Choice B with a £270,000 bonus becomes the most rewarding option and banking supervisors can all relax. Politicians also thought that they could avoid pumping any more public money into banks by asking banks to hold more spare cash or more capital.

But as we all know, always be careful what you wish for as the unintended consequences can often surprise. There is evidence that banks just adjusted their base salaries higher to compensate for the lack of bonus, but that just made banks more risky because they took on higher fixed cost bases than they might have otherwise done: not a great recipe for a recession. And there are suspicions that the limit on bonuses drove the best bankers across the Atlantic to bonus-unlimited America. In our post-Brexit Britain, politicians want to rebuild London as the European financial capital of the world and scaring away the best bankers is not a great start.

Higher capital requirements arguably meant that banks started earning the same profit on a higher capital base so that the yield went down, which in turn contributed to poor share price performance. As seen in the chart below, banks have significantly underperformed the FTSE100 since the start of 2009.

Bank performance since 2009



Source: FactSet. Data shows Total Return from 01/01/2009 to 28/11/2022

What I think we need now, is a structure that properly punishes banks for throwing too much risk at the bank guarantee scheme. My solution would see banks being forced to issue £1 billion of bonds with identical terms and conditions. Bonds that convert to zero value if the bank "gets into difficulty" and where the interest rate demanded by the market would be used to price the risk; let's call these "Royden Bonds."

"Gets into difficulty" could be defined as drawing on Bank of England support or the Financial Services Compensation Scheme paying out. Banks already have bonds that get close to converting to zero value if the bank gets into difficulty; they are called CoCos, but these have different terms and conditions, such that comparisons are difficult.

Contingent Convertibles or CoCos

CoCos are debt instruments often issued by banks which work in a fashion similar to traditional convertible bonds. They have a specific condition that, once breached, converts the bond into shares. CoCos are high-yield, high-risk products often called an enhanced capital note (ECN). These hybrid debt securities carry specialised options that help the issuing financial institution absorb a capital loss. Their use helps to shore up a bank's balance sheet by allowing it to convert its debt to shares if specific capital conditions arise. Contingent convertibles were created to help undercapitalised banks and prevent another financial crisis like the 2007-2008 global financial crisis. By the time a CoCo is converted into shares, the shares are probably going to be worthless which means the CoCo converts into £nil when the bank is in trouble.

The FCA views the risks involved in investing in CoCos and the complexity of the instruments of such a nature that they prohibit firms from selling them to retail clients. As such, you are not able to purchase CoCo bonds through JM Finn.

The current government guarantee is free to banks and I would be reluctant to see this go and competitively disadvantage London. I would therefore suggest that Royden Bonds be used to drive payments from more risky banks to less risky banks such that the net effect of payments was £0. In a world of Royden bonds, risky banks that pay a fair price for excessive risk should be able to pay bonuses if their risks generate strong revenues.

The key to Royden Bonds is that risk gets priced by market forces and the perception of risk by the crowd of professional investors. And the wisdom of crowds, as nineteenth century statistician Francis Galton observed, comes closer to getting things right much more often than not. And it is certainly, in my opinion, a better approach than letting regulation based civil servants run their slide rules over accounting based metrics.

Please read the important notice on page 1.

AXON

James Ayling CFA
Research Analyst

PRICE
$185.55

52 WEEK HIGH-LOW
$193.85—$82.49

NET YIELD
0.00%

HIST/PROS PER
0/94

EQUITY MARKET CAP (M)
$13,339

Recently I travelled to San Francisco and Seattle on a US company roadshow. It was an incredible opportunity to speak with numerous well-known businesses and discover new companies. Axon seek to address a growing 'trust' market need in US policing. Yet, I'd assumed Axon's applicability overseas was less apparent; that a priori view may be incorrect.

Axon's mission is humbly simplistic - 'to protect life' and began life producing the Taser, an electroshock device that seeks to temporarily incapacitate an individual for a safer arrest. Axon explained a glaring challenge with current policing; escalating the use of force to subdue an individual. Serious injury rates rise, unsurprisingly, from escalating policing force used: physical restraint < baton strike < firearm. Yet, Tasers can de-escalate physical force escalation through temporary incapacitation at a much lower risk of serious injury.

Taser success gave Axon credibility to further advance policing and they are now developing smart cameras (hardware and software combinations) and data recording solutions to improve policing transparency and accountability that could have broader international appeal. Separating Axon from peers is its holistic vision to improve the justice system.

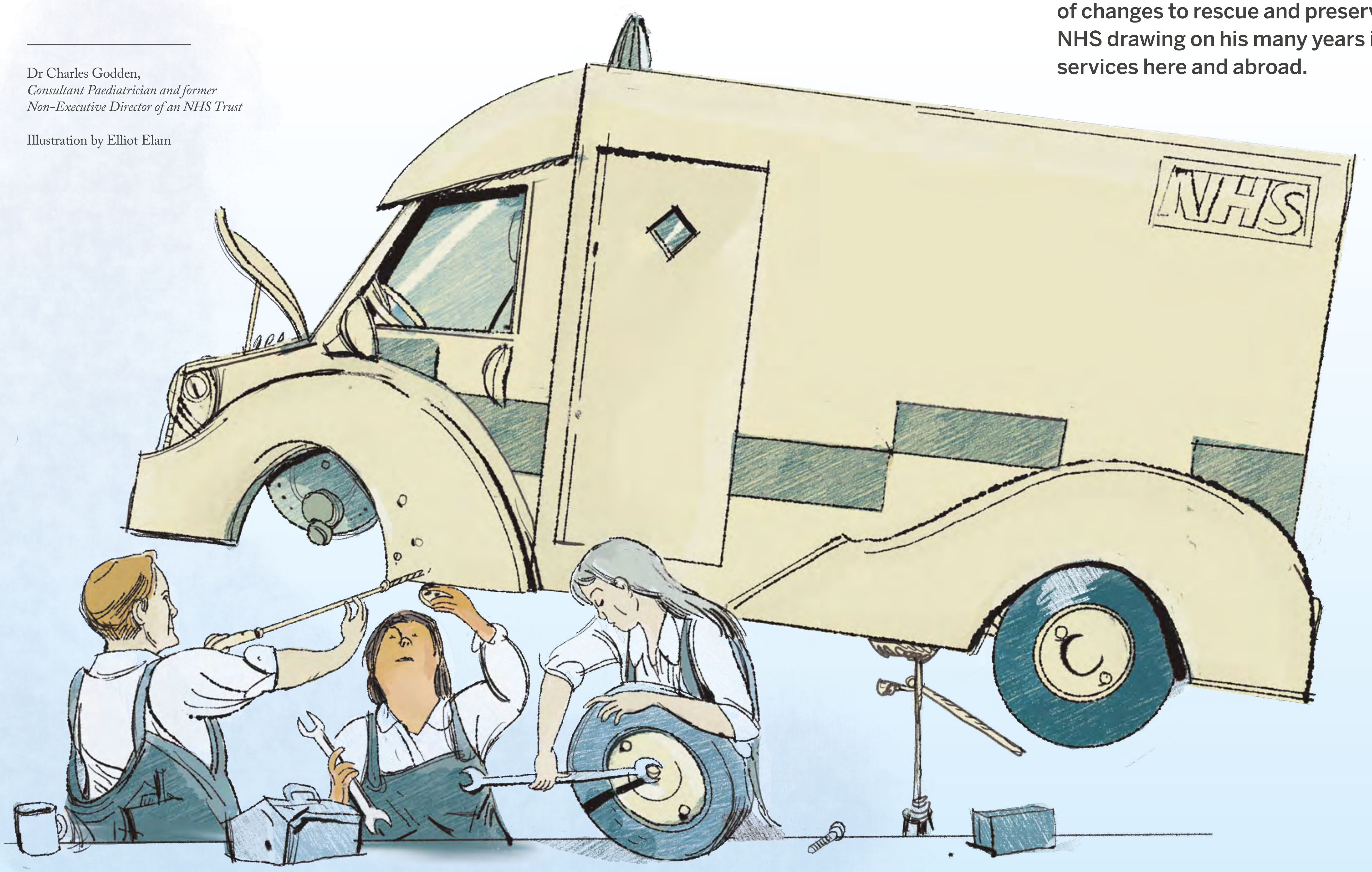
Please read the important notice on page 1.

Guest Editorial

Not in the Best of Health

Dr Charles Godden,
Consultant Paediatrician and former
Non-Executive Director of an NHS Trust

Illustration by Elliot Elam



Dr Charles Godden, a recently retired Consultant Paediatrician and former Non-Executive Director of an NHS Trust, thinks the NHS is at great risk of fragmentation. Here he suggests a raft of changes to rescue and preserve the NHS drawing on his many years in health services here and abroad.

Donna Ockenden's March 2022 review of maternity services highlighted appalling flaws in healthcare, exposing a culture with a failure to investigate, a failure to learn, a failure to improve and a failure to safeguard mothers and babies. Three months later, in the summer of 2022, the knife was twisted further when General Sir Gordon Messenger's independent report into health and social care leadership exposed a culture of senior management bullying and blame. This happened in the same year that over half of the advertised consultant physician posts in England and Wales went unfilled, and nurses voted, for the first time in over 100 years, on taking part in a nationwide strike.

Why has it come to this and what can be done? Both of these questions will provoke strong and differing opinions, and nobody has all the answers.

At the inception of the NHS in 1948, Health Minister Aneurin Bevan expressed three essential values: services would help everyone, would be free and care would be based upon need. In my opinion this "triad of inconsistency" is no longer achievable. Other countries, aware of this problem, manage healthcare in different ways. For example: in the US, it is of high quality but not available to all; in New Zealand, it is available to all and high quality but doesn't cover all health demands. We, in the UK, stand alone in failing to address this impossibility. Instead, we try to keep every plate spinning, accompanied by the frequent sound of smashing crockery.

Do you believe the NHS can provide the best care possible for every condition and for everyone in our nation, free? Really? As a doctor working in the 1980s, I believed it could; but, with the advances in medicine and surgery, and an ever increasing and elderly population, combined with woeful provision of social care, I now believe this ideal is unachievable.

The NHS is trying to do everything for everyone and failing on every level. Something must change. So, to try to save the NHS, I'd suggest a 7 step plan; the 7Rs:

Return
Return community midwives, nurses, physiotherapists and health visitors to their pre-efficiency-savings roles and responsibilities; it makes sense to treat patients within the community whenever possible.

Replace
Replace chief executives who have no clinical experience with those who do. Those who deal with patients understand hospitals best. I include — not exclusively, and in alphabetical order — doctors, nurses, pharmacists, physiotherapists, porters, receptionists, secretaries — indeed anyone with hands-on experience of handling patients.

Replace the current financial model of running the NHS as a business with the reality that it is a service, like education. That way it would no longer be run by accountants focused on savings, but as a service investing in the country's future.

Reduce
Reduce protocols and legislation; you can't cover every eventuality.

Reduce litigation. It's madness to encourage a business of sticky-fingered self-promoters, hell-bent on squeezing the life-blood out of the NHS. No-fault compensation works in Denmark, Sweden, Finland and New Zealand. Why not in the UK?

Ration
Ration healthcare; the elephant in the room. Design a cross-party, apolitical body to debate whether it is right to fund certain procedures and practices within the NHS. No longer can everything be provided for everyone free. Make a list. Be brave. Be realistic. Be open. Be honest.

> “The NHS is trying to do everything for anyone and failing on every level. Something must change.

Reverse
Reverse bed closures; the UK currently has approximately 2.5 beds per 1,000 of the population. France has over double, and Germany over treble that number per capita.

Remove
Remove external consultants; they aren't worth their fees, and they undermine health care.

Remove the concept of revalidation; it has been tried and proven to be a waste of valuable resources. It won't stop another Shipman.

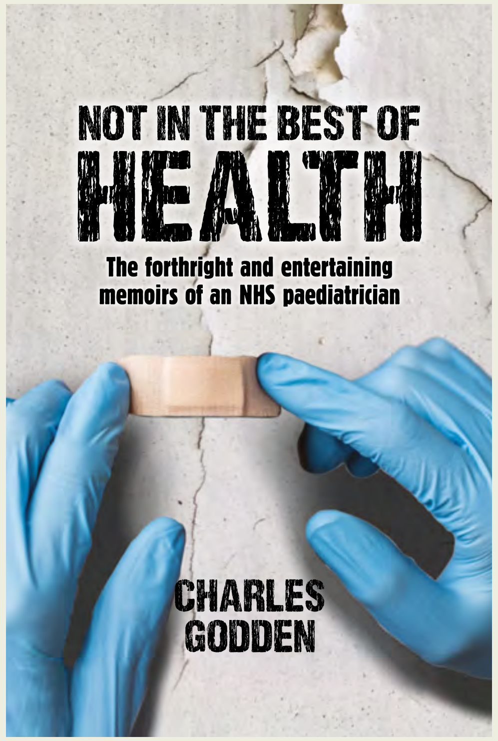
Respect
Respect the public and the staff; neither are stupid. They shouldn't be at loggerheads.

Respect the different needs of older clinical staff; and allow them the opportunity to come off onerous acute on-call rotas. Don't force them into early retirement.

Respect the burden of on call, with increased leave, if not higher salaries.

Am I qualified to make these comments? Some may say no. But, I did work for over twenty years as an NHS consultant paediatrician in Surrey, was lead clinician for paediatrics, led the hospital's special care baby unit and was the director of medical education for the trust for five years then, after resigning, I worked as a non-executive director in an NHS trust and as an expert medical witness for the defence.

The very existence of the NHS sits on a knife-edge. It's time to open the debate.....



In Charles's book, Not in the Best of Health, published by Goldcrest Books International Ltd, Charles charts his career from the irresponsible antics of medical school, through a series of patient encounters, diagnoses, bizarre operations and personal crises, to later stages when the buck stopped at his desk and when clinical teams, patients and anxious parents awaited his decisions. Interwoven through the narrative is a series of case histories, using aliases to protect patient identities, presenting the many unusual cases he encountered in his career – the teenage girl with no anus in Papua New Guinea, the Zulu farmer whose aching tooth he pulled, the baby whose lungs were clogged from a misplaced feeding tube, another baby whose head he immersed in a bucket of iced water in order to reduce her heart rate, and the mischievous boy whose stubbornness and courage proved so moving, as he lost his long battle against cystic fibrosis.

BARRY CALLEBAUT

John Royden
Head of Research

PRICE
CHF 1932

52 WEEK HIGH-LOW
CHF 2318—CHF 1763

NET YIELD
1.49%

HIST/PROS PER
28/23

EQUITY MARKET CAP (M)
CHF 10,286

Zurich based Barry Callebaut (BC) trades and manufactures cocoa based ingredients for sweets, pastries, drinks-out-of-vending-machines, ice creams and desserts as well as actually making some of those products. They are a business to business company which is why you may well not have heard of them. BC has 13,000 employees and is responsible for buying 20% of the world's cocoa crop.

Asia's wealth is growing and with it comes greater demand for BC's Gourmet & Specialities. Emerging markets demand is also rising, as is more outsourcing to specialists like BC. BC's recession proof-ness is observed through an historic ability to grow through recessions; driven by its consumer staples orientated food manufacturing customers. Risks include a question-mark over the widespread adoption of chocolate by emerging markets, geopolitical risk from dealing with Russia and from a price / earnings (PE) ratio which still looks elevated, relative to history suggesting the stock is expensive. Being significantly exposed to one commodity (cocoa) is also a significant risk.

Please read the important notice on page 1.

Economic Focus

WELCOME TO CONSERVATIVE SOCIALISM

Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Adam Mallett

When the new Conservative administration took over in 2010, admittedly with the support of the Liberal Democrats, it is said that a Treasury minister from the outgoing Labour government left a note confessing that all the money had been spent. The larder was, so to speak, bare. And so, under Chancellor George Osborne, a new era of austerity was introduced into a nation still reeling from the after effects of the most serious financial crisis any of us had ever experienced.

The banking crisis of 2007/08 was undoubtedly a seminal moment when it came to determining economic policy. The collapse of Northern Rock at the start of the mayhem that engulfed financial markets and the subsequent government rescues of such major institutions as the Royal Bank of Scotland undermined confidence in the financial system. The outgoing ripples saw many casualties, but it was the decision of the American authorities not to spring to the rescue of Lehman Brothers that finally set the tone for a number of difficult years.

The immediate response came from central banks and we all had to get used to a new phrase in monetary policy. Quantitative Easing (QE) became the watchword as the Fed and the Bank of England, not to mention many other august financial institutions, poured money into the financial system to shore up those concerns that had been damaged by the various catastrophes that had changed the face of our world. QE appeared to work, though many, including me, thought it contained risks that would one day return to haunt us.

Put simply, QE involves printing money. It wasn't so much putting cash directly into the pockets of consumers, as ensuring banks had sufficient capital to continue lending to business and financing the consumer in order to support the economy. On the face of it, it appeared to work. The big risk with printing money is that inflation is a likely by-product. But on this occasion it didn't happen, so a lengthy period of low interest rates arrived. A decade after the exercise had been kicked into gear, governments felt able to return to a more normal, less austere, approach to managing the economy. Until, that is, the Covid-19 pandemic struck.

This introduced another major shock to the world economy and resulted in a swift and sharp downturn in economic activity. It also created supply chain disruption which continues today. This in turn caused inflation to tick up, though it has been the war in Ukraine which has produced the greatest impetus in forcing the cost of living higher. Meanwhile, China is still suffering the consequences of the Covid-19 pandemic, which is slowing growth in the world's second largest economy and is hardly likely to lead to improvement in the delivery of much needed components.

So, here we are in a world where wage rises are lagging the rise in the cost of living significantly, industrial action is growing as a consequence, economic activity is stalling and the ruling Conservative Party are in clear disarray, with three Prime Ministers in unprecedented short order. Moreover, there remain labour shortages in many industries, despite immigration running at record levels. And do not forget the record levels of government debt as a result of measures taken to shore up the economy and to protect consumers from the rapid rise in the price of energy.

> **“The days of low tax and small government may be behind us.**

All this is taking place when interest rates are starting to return to what many would consider are historically more normal levels. This is hardly helpful to the government as it will push up the cost of servicing the increased levels of debt that have been built up through the various crises we have faced recently. Little wonder, then, that the new incumbent of Number 11 Downing Street and his next door neighbour have introduced budget measures that would not have looked out of place under a Labour administration.

Conservatives have traditionally presented themselves as a business-friendly, low tax, small government party. Yet the role of the government in our economy has been increasing steadily in recent years, admittedly as a consequence of having to deal with a series of unprecedented economic shocks. Aside from the support that the government has had to provide in recent years - and which seems likely to have to continue - the burden of dealing with an ageing population that will require increasing levels of medical and social care seems set to ensure that the days of low tax and small government may be behind us.

Perhaps the way in which we will need to judge the performance of our political masters in future will be in how successful they are in stimulating economic growth. We now know that markets can act as a restraining influence on governments that seek to use less conventional methods to kick start the economy. I rather think that it will become increasingly difficult to separate the two main parties through their tax and spend policies. Welcome to the new Socialist Britain.

Company Meetings

A spotlight on three of the key companies we've met during the past quarter.

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

James Ayling, CFA
Research Analyst
Michael Bray, CFA
Research Analyst
Henry Birt
Assistant Research Analyst

CONSUMER DISCRETIONARY
Tesla, Whitbread, Persimmon, Baratt Developments

CONSUMER STAPLES
Sainsbury's

ENERGY
BP, Shell

FINANCIALS
HSBC, Burford Capital, Aviva

HEALTH CARE
AstraZeneca, Edwards Lifesciences, CVS Group, Dechra

INDUSTRIALS
Ceres Power, Spirax-Sarco, Melrose, Intertek, Raytheon Technologies, Smiths group, QinetiQ, Chemring

INFORMATION TECHNOLOGY
Microsoft, Adobe

REAL ESTATE
Big Yellow, Derwent

1.

AstraZeneca

Price **£112.00**
52 week high-low **£115.40 - £80.90**
Net Yield **2.00%**
Hist/Pros PER **1400/21**
Equity Market Cap (M) **£173,175**

Health Care
Andrew Barnett, VP Global Head of Investor Relations

AstraZeneca's (AZN) business is a far cry from where it was a decade ago when the business was highly indebted and facing patent cliffs on key drug franchises. Thanks to its greatly improved research and development (R&D) engine, the business has successfully developed and commercialised a number of drug franchises, particularly in oncology.

Andrew was keen to highlight the optimism the R&D team have around its clinical pipeline and commented that the pace of innovation is in fact accelerating. Such is the business' confidence that they have provided guidance of a double-digit annual growth rate for earnings out to 2025, and to 2030, have guided to "above industry growth".

Key to this has been the emphasis that management have placed on orientating the business around its R&D team and selecting academics for leadership positions, including board positions. This had led to a science-based culture of innovation with the company currently generating sales from eleven blockbuster drugs (>$1B in annual sales). In contrast, many peers are dependent on only a few drug franchises.

A degree of uncertainty does however surround pricing in USA where the risk comes from the company's exposure to Medicare – US government medical support - which represents c.15% of group revenue. AZN maintain that it is better insulated to pricing pressures than peers due to its speciality focus and more conservative pricing strategy, but there remains uncertainty over how the US pricing environment could change, particularly as we move through the election cycle to 2024.

2.

QinetiQ

Price **£3.48**
52 week high-low **£3.96 – £2.36**
Net Yield **2.09%**
Hist/Pros PER **22/14**
Equity Market Cap (M) **£2,018**

Industrials
Steve Wadey, CEO and Carol Borg, CFO

QinetiQ is a UK headquartered aerospace and defence company. Steve Wadey (CEO) took the opportunity to reiterate the company's strategy in light of a few recent acquisitions. The business aims to deliver six distinctive offerings which range from land robots that replace humans on the battlefield, to tools which enable militaries to engage in war games to aid training. These capabilities are then delivered predominantly in three core countries: the UK (62% of revenue), the US (26%) and Australia (8%); the three countries now conveniently tethered by the AUKUS pact.

The US, by far the world's largest defence market, has understandably become an increasingly important part of the strategy. QinetiQ recently acquired Avantus which is a market leader in cyber and data analytics, which fits with the cyber & information advantage theme, and comes with a suite of US defence customer relationships. This acquisition doubled the size of the US business and added 25% to group revenue. Avantus also came with higher-than-group-average growth. Questions were asked about the valuation paid but overall, having listened to Steve's rationale, it is obvious why Avantus was purchased and its fits with the long term strategy.

The question that most concerned us was the strategy itself. Do you think you can win in the US? What is QinetiQ's competitive advantage? Steve's reply nodded to QinetiQ's unique capabilities and ability to provide bespoke customer relationships in a way not possible for a US defence stalwart such as Lockheed Martin or Northup Grumman. Only time will tell, but it seems the US, as is often the case, is the battleground on which the strategy will succeed or fail.

3.

Whitbread

Price **£26.06**
52 week high-low **£32.70 – £22.46**
Net Yield **2.27%**
Hist/Pros PER **124/21**
Equity Market Cap (M) **£5,254**

Consumer Discretionary
Alison Brittain, CEO, Hermant Pate, CFO, and Peter Reynolds, Head of IR

It is commonly stated that 'the only constant in business is change' and so I always feel apprehension when I see an exceptional management team handover the reins to new management. We held an in-person meeting with Whitbread in our offices as they are in the midst of such senior management change.

Nicholas Cadbury, Whitbread's Group Finance Director until March 2022, was, in my view, a prudent and highly skilled finance leader who subsequently joined British Airways owner, IAG, as their new CFO. Nicholas' successor at Whitbread, CFO Hermant Patel joined from Greene King where he led the finance division, covering over 1,700 managed pubs. Hermant brings relevant experience in both hospitality and real estate management of freehold and leasehold property assets. This background appears valuable for advancing Whitbread-owned Premier Inn's German expansion.

Alison Brittain, Whitbread's current CEO is also set to leave Whitbread in 2023 to join the Premier League as its new Chair. Alison is a highly energetic and driven individual and an accomplished business leader and negotiator. She comes across as highly likeable, self-confident and resilient but equally open-minded and forward thinking. Set to replace Alison is, Whitbread alumnus and outgoing CEO of Domino's Pizza Group, Dominic Paul. I've yet to meet Dominic who joins Whitbread in early 2023. However, he led Costa Coffee under Whitbread's ownership and should therefore bring, on paper, valuable experience to re-energise Whitbread's restaurant division post-COVID.

Looking ahead, we will focus on monitoring any new strategic initiatives that Whitbread's new CEO and CFO announce to assess carefully how we believe they may resonate with Whitbread's culture and the current opportunities and challenges facing the business.

Please read the important notice on page 1.

Wealth Planning in focus

How does the latest Autumn Statement affect you?

Ryan Gordon
Paraplanner, JM Finn Wealth Planning

Personal taxation is a complicated matter and getting to grips with how you are taxed is not made easier with annual Government alterations to the UK tax rules. We asked paraplanner, Ryan Gordon to help simplify the changes that may affect our clients.

This year has been particularly unusual with the new Chancellor, Jeremy Hunt's recent budget plan coming only two months after his predecessor's, Kwasi Kwarteng. Many may be left unsure as to what has changed and how this will affect them, so this article will answer the question on many people's minds; 'How will this autumn budget plan impact me?'

Firstly, to provide some context, Hunt proclaimed in his speech that this budget plan would provide "stability, growth and the sufficient funding of public services". This assertion was expected as his budget arrives at a time of soaring inflation, a global energy crisis in part caused by Putin's war in Ukraine, poor UK economic growth and UK debt interest spending forecast to hit record highs. The fragile situation had not been helped by his predecessor's September "growth" plan which introduced a plethora of tax reductions intended to inject a shot of growth into the UK's struggling economy. Unfortunately for the Government at the time, the announcement of these policies had a dramatic impact on the markets, with the pound falling drastically and gilt yields rising. Therefore, the most noticeable detail of Hunt's budget was the reversal of the majority of his predecessor's policies in order to restore confidence in the market. Hunt emphasised that the revisions within his budget would realign the Government with the Bank of England's inflation measures and would rectify the UK's over reliance on debt.

Income Tax

The first policy of note was the freezing of the personal allowance and higher rate threshold for income tax. Both thresholds will be frozen at their current level until at least April 2028. These frozen tax thresholds, at first glance, may appear benign. However, they are insidious in nature, as they drag millions of tax payers into the higher tax thresholds due to the effects of inflation. The approach is known as fiscal drag and is a calculated way for Governments to increase tax revenues in a covert manner. The budget plan also saw a blunter tool applied, with the additional rate threshold for income tax being reduced from £150,000 to £125,140, which will see approximately 250,000 taxpayers fall into the additional rate tax bracket. The Office for Budget Responsibility (OBR) said it estimated that there would be 3.2 million new taxpayers created by the now six-year freeze on the personal allowance and that the freezes take the real value of the personal allowance in 2027-28 back to its 2013-14 level.

This makes taxation for those individuals with over £100,000 of income particularly uncomfortable. Those whose income falls within £100,000 and £125,140 are taxed at a rate of 60% on earnings within this range as their personal allowance is reduced by £1 for every £2 over £100,000. Immediately above this range, the individual now finds themselves as an additional rate tax payer. There is some good news as, fortunately, there has been no change to the annual pension contribution allowance. This means that you may still maximise the pension contributions you may make within each tax year as an effective way of reducing your total income to avoid falling into a higher tax bracket.

“ The most noticeable detail of Hunt's budget was the reversal of the majority of his predecessor's policies in order to restore confidence in the market.

Capital Gains & Dividend Allowance reduction

As of next April, the capital gains annual exemption will be reduced from £12,300 to £6,000. This allowance will be halved once again to £3,000 in the 2024/25 tax year. This is a large reduction of the allowance and those with assets that they were intending to sell will be impacted considerably by these changes. Those potentially impacted have four months to utilise this tax year's capital gains tax exemption before it is reduced. Where appropriate the spousal exemption for capital gains tax could be used to equalise the assets before selling, which means both exemptions could be fully used.

The dividend allowance will also be reduced from £2,000 to £1,000 and then further reduced to £500 again in the 2024/25 tax year. This will have an impact on those who rely upon dividends to meet expenditure, as their net income will be lower. These changes to dividend tax are a reminder of the benefits of investing through an ISA, which come with a generous annual allowance of £20,000 of tax-free savings.

> The inheritance trap continues to widen and places greater emphasis on estate planning.

Triple Lock Pension continuation

Some welcome news for pensioners as Hunt's budget confirmed that the State Pension would continue to honour the 'triple lock guarantee' and, as such, the State Pension will be increased by 10.1% next April in line with inflation. This is welcome news for those who rely on the State Pension, but there is an arising concern that, as the State Pension increases in line with inflation, there may be a point in the future where the personal allowance is less than the State Pension to be received and more and more pensioners will be pulled into the income tax net.

Inheritance Tax frozen

Both the Inheritance Tax (IHT) Nil Rate Band of £325,000 and the Residence Nil Rate Band of £175,000 have been frozen until the 2027/28 tax year. Like the freezing of the income tax brackets, the impact of this is that inflation will eat into the value of the inheritable assets that can be passed tax free to future generations. The IHT Nil Rate Band has been frozen since 2009, which, had this been raised in line with inflation, would see us with a nil rate band worth over £500,000. The inheritance trap continues to widen and places greater emphasis on estate planning.

To discuss how any of these changes might affect your personal situation, please do contact your investment manager to arrange a meeting with one of the wealth planning team, particularly around estate planning with a view to minimising your inheritance tax liability.

Summary changes:

Additional rate income tax threshold reducing from £150,000 to £125,140.	Capital gains tax annual exemption decreasing from £12,300 to £6,000, then reducing further to £3,000 in 2024.	Dividend annual allowance decreasing from £2,000 to £1,000, then reducing further to £500 in 2024.	Inheritance tax nil rate band frozen until 2028.	State Pension triple lock is retained.

The information provided in this article is of a general nature. It is not a substitute for specific advice with regard to your own circumstances.

Understanding Finance

THE OVERLOOKED EXPENSE – STOCK BASED COMPENSATION

Michael Bray, CFA
Research Analyst

The slowing global macro backdrop is feeding through to the performance of a range of businesses. Even the technology sector, which has seen an impressive performance over the past decade, is feeling the effects leading many technology companies to pivot away from a pure sales growth focus towards cost cutting in order to preserve profits. One of the biggest expenses for tech companies has been stock based compensation (SBC). That is the share options which companies give to employees as part of their remuneration package in order to attract talent, in what is a competitive industry.

Tech companies have historically been sneaky in stating that SBC is not an underlying cost for their business and does not impact cash flow, but in reality that is not the case. If a company grants SBC this dilutes existing shareholders by increasing the number of shares. If a company offsets this dilution through share buy-backs then this is a cash outflow from the business, meaning less cash available to shareholders.

When times were good, many investors were willing to overlook the impact of SBC, but this is now changing, with more scrutiny being placed on this expense. The question is how will tech companies respond? Share prices in the sector have fallen substantially over the year meaning share options are now less valuable. As compensation, employees may demand more share options or higher base pay. Companies will however need to balance such demands against investors' justified concerns; we expect this to be a key theme to watch out for in 2023.

JM Finn *News*

Moving to York

We have had a presence in Yorkshire since 2002, when we hired eight investment managers to help us establish a presence in the North of England. After 20 years in Leeds, we have made the decision to move our office to York, having been given the opportunity to do so, due to the expiration of our current lease.

As we looked for new premises, we were benefiting from the experience of changing working practices post-pandemic which has taught us that we can work flexibly and made us think about the role of the office. We will always meet clients where is most convenient for them but we also recognise that other client advisers, such as lawyers and accountants require accessibility, so with that in mind, we felt the need to have an office that worked for both.

Having considered a number of locations in Yorkshire we decided on our new offices in York for a number of reasons:

- It is a brand new building with great facilities allowing us to create a fantastic space for our clients and staff
- It is in a very good location, walking distance to the centre of York and the station
- Excellent rail links to London keep us connected to our headquarters and the research resources we need

We also wanted an office that meets with enhanced sustainability standards – this office has excellent credentials in this area and will set the standard for our other branch offices, with an EPC rating A, a BREEAM UK rating of Excellent and charging points for electric cars.

We look forward to welcoming clients to our new office from mid-January 2023.

JM Finn, HQ Building, Toft Green, Hudson Quarter, York , YO1 6HP

Collectives Commentary

To begin, if I may, my lord
I've no wish to remind you
But you'll notice just behind you
There are ships in the bay
They've been sitting there all day
With a letter to convey
And they haven't gone away
And there's every indication
That they're planning to stay, my lord...

"Chrysanthemum Tea" from "Pacific Overtures"
by Stephen Sondheim

Where are the Black Ships?

Sam Perry
Senior Investment Manager
Pictet Asset Management Ltd

An article on Japanese equities is already of pretty niche interest, so why not go even more niche by starting off with Stephen Sondheim?

Pacific Overtures is a story of the friendship between a samurai and a fisherman set against the background of Commodore Perry's (no relation) Black Ships anchoring themselves in Edo Bay and demanding trade access to Japan and the ending of Japan's policy of isolation.

Time has passed, attitudes change, and instead we find ourselves standing on the shores of Tokyo (née Edo) Bay wondering at the near complete absence of Black Ships. Foreign interest in Japan has ebbed away with the tide.

Going back a decade to 2012, just before Shinzo Abe returned as Prime Minister and the eponymous Abenomics, interest in Japan from foreign investors had similarly been at all-time lows – but with more reason. However, the ensuing decade has seen a steady increase in profitability, shareholder returns, and a revolution in corporate governance.

Over the last ten years the Japanese stock market has risen threefold, outperforming both the FTSE and European markets (albeit not in the last year or so). Despite that, the market never rerated upwards and despite that, the foreign investor has left. It's not easy to get a complete picture of asset allocation to Japan but various analyses suggest that it is now even lower than it was in 2012.

A significant part of the problem over the last year has been the currency. The Yen has depreciated significantly year to date since it is the last major economy still maintaining a quantitative easing policy. This may look bizarre to Western observers but core inflation (ex-fresh food and energy) is still just 1.5%.

Japan's monetary easing policies – known as Quantitative and Qualitative Easing (QQE) – that were introduced in 2013 by the Bank of Japan Governor Haruhiko Kuroda were designed to increase inflation. While the headline rate of CPI still looks low, this is somewhat misleading. Inflation has broadened out significantly. In the 30 years since the end of the Bubble, there has never been a period when so many different parts of the CPI basket are increasing as rapidly as there are now.

This is not just a statistical artefact. Companies are telling us that they can lift their prices in Japan and those price hikes are sticking.

This shift in behaviour potentially presages a sea change in the Japanese economy. A persistent feature of Japan has been the vast amount of cash on companies' balance sheets. This is a result of the deflation that lasted from the Japanese banking crisis in the early 2000s through to QQE. The financial crisis and associated deflation caused a period of sharp deleveraging by corporations. That in turn exacerbated the deflation and in so doing increased the attraction of holding cash even more - the classic deflationary spiral.

"The Yen has depreciated significantly year to date since it is the last major economy still maintaining a quantitative easing policy.

This is what QQE was meant to unlock. It was never about saving the banking system like QE was in the West. It was about changing inflation expectations: as inflation lifted then the cash that companies were hoarding would stop offering a risk-free real return and instead become a wasting asset.

We believe that we are now at that pivot point. This implies that we are on the threshold of a strong investment cycle in Japan as those cash piles are used for capex or M&A or paid to shareholders. Thus the vicious cycle turns virtuous. A rerating should follow.

A further consequence is that we are heading to a turning point in monetary policy. Kuroda's term of office ends in April. While Kishida has said little about who he might nominate for the next BoJ Governor, it is worth noting that he did place Hajime Takata, who has been consistently calling for an end to QQE, onto the BoJ's Monetary Policy Board.

A change at the BoJ towards normalising monetary policy would cause a sharp strengthening of the Yen. Foreign investors who return would therefore benefit from a currency tailwind as well as the benefits of a new investment cycle. Could we once again see Black Ships in Tokyo Bay?

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Stock in focus

Raytheon Technologies

> Raytheon is comprised of four segments, two aerospace-focused and two defence-focused.

PRICE
$99.50

52 WEEK HIGH-LOW
$106.02—$79.51

NET YIELD
2.16%

HIST/PROS PER
39/21

EQUITY MARKET CAP (M)
$146,917

Henry Birt
Assistant Research Analyst

Illustration by Andrew Rees

Raytheon Technologies is an American aerospace and defence business split 45% aerospace, 55% defence. The business is the result of a 2020 merger between two businesses: United Technologies and Raytheon.

Raytheon is comprised of four segments, two aerospace-focused and two defence-focused. The two defence businesses (46% of sales) came from the legacy business which was one of the big US defence prime contractors or 'primes'. These businesses focus on space, cyber, missile defence and hypersonics. On the other side of the business are the two aerospace businesses, formerly of United Technologies . Arguably the most famous is Pratt & Whitney (27%), which is one of three global aircraft engine manufacturers, alongside CFM (a joint venture between GE and Safran) and Rolls Royce. The final segment, Collins Aerospace (27%), is the world's largest aerospace equipment supplier focusing predominantly on communications.

The defence businesses exhibit the same competitive advantages as all US defence primes: their scale and track record of reliability mean that US defence contracts are invariably divided between these big names. This is an almost insurmountable hurdle to overcome, one which has only got harder following industry consolidation. Looking forward though, Raytheon is also well exposed to what look to be the growing priorities for the US government. Areas such as cyber warfare and hypersonics, which are only in their infancy and are rapidly growing in importance.

On the aerospace side of the business, competitive advantages abound too. The oligopoly of engine makers, of which Pratt & Whitney (P&W) is a member, reduces to a duopoly in the narrow-body segment of the market (Rolls Royce manufactures only wide-body compatible engines). Engine making is not only hugely complex, it also operates with very long product cycles and long roads to profitability. Engines are typically sold at a loss initially to aircraft makers Boeing or Airbus with profits made in the high margin aftermarket when engines need maintenance or 'shop visits'. A new engine will go, on average, seven years before its first 'shop visit' and thus, if we add the development and production time to these seven years, it could easily be 15+ years before an engine maker breaks even.

It's no wonder the competitive structure of the engine making market has hardly changed since the 1960s. Margins are however depressed during periods of development and launch, but as engines mature and the lucrative aftermarket becomes a greater portion of sales operating margins trend upwards. P&W appear to be at the onset of this stage currently.

Collins Aerospace also benefits from scale. Being twice the size of nearest competitor Safran, gives Collins a scale-based cost advantage. It also presents a one stop shop for customers when they are fitting an aeroplane, where they can source everything from a trusted supplier.

Since the merger, Raytheon has not been without problems. The pandemic saw sales in Collins Aerospace and Pratt & Whitney fall -25% and -18% in 2020 respectively. What the pandemic did provide though, was a lesson in the benefits of diversification. As the aerospace businesses saw sales plummet, the affect at the group level was more muted. The two combined defence businesses saw sales flat year-over-year which helped to dampen the blow.

More recently, the fortunes have flipped and it is now the aerospace businesses which are helping to smooth over some issues at the defence businesses. Supply chain issues have been flagged by myriad companies and Raytheon is no different. Early in 2022 Pratt & Whitney flagged supply issues surrounding structural castings which led to delays on engine deliveries. This is evident in comments from Boeing as they have cut back production forecasts, owing largely to a paucity of engines. However, the delays in the aerospace businesses seem to be resolving and the recent Q3 2022 results saw both aerospace businesses performing well, with full-year profit guidance raised.

Within the defence businesses though, supply remains tough. The root cause is twofold: a labour shortage at suppliers further up the chain and a shortage of rocket motors. Neither are expected to be quick fixes. The silver lining is that the demand side shows no signs of slowing down. It is therefore more likely a case of demand deferral rather than demand loss, however frustrating this is in the short term. We therefore hope that once these problems abate, Raytheon should be able to take advantage of growth in defence spending and the aerospace market and create value for investors over the long term.

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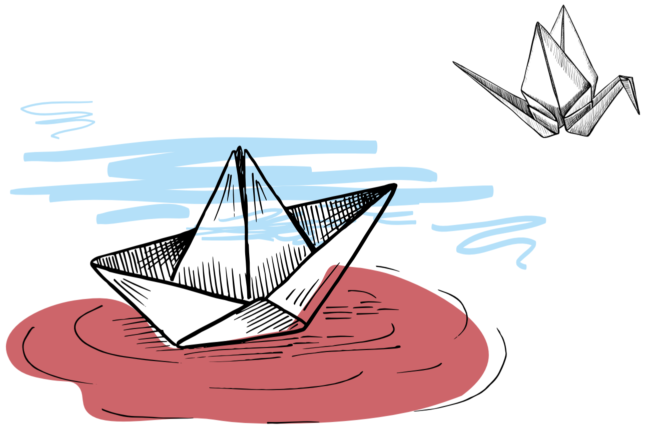
Please read the important notice on page 1.

Bond focus

Floating Rate Notes (FRNs)



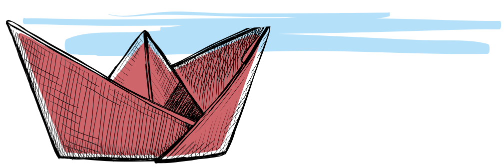
James Ayling, CFA
Research Analyst

Illustration by Isabelle Bamberg

Financial theory and countless financial textbooks outline how fixed income investments are traditionally considered, in aggregate, to be a lower risk asset class than equities.

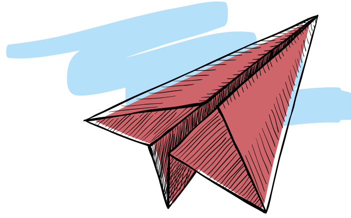
The financial media has regularly referred to US Treasuries (US government bonds) as risk-free investments on the basis that the US government fully backs to pay the coupon and principal payments on its debt instruments. And historically, we know, they have a strong and consistent track record of making said debt payments.

Additionally, it is frequently suggested that the government has power to raise taxes on its entire population of consumers and businesses to raise sufficient funds to meet its interest and principal payment obligations. This does imply US Treasuries are a relatively lower risk asset but I think it's important to clarify this viewpoint implicitly assumes an investor holds such bonds to maturity.



You might, however, be scratching your head in frustration and, appropriately so, when you look at the reality that US Treasuries have underperformed US equities so far in 2022. How could a supposedly risk-free government bond underperform a higher risk equity investment? It comes back to what happens when you relax theoretical assumptions and, reflect back upon the past decade of ultra-low interest rates and negligible inflationary pressures. Events conditioned financial markets, investors, companies, individuals and governments into expecting the 'modus operandi' to endure. Yet, the COVID-19 pandemic tore up the past decade's operating manual and stress tested somewhat fragile and transient assumptions.

So, the price of US Treasuries has fallen through 2022 to reflect mark-to-market price drops that emanate from two key risk factors inherent in nominal US government bonds: interest rate risk (known as duration risk) that seeks to reflect the negative price hit a bond faces from rising rates and; inflation risk which reflects the negative price hit a nominal government bond faces when its fixed coupon becomes uncompetitive relative to other investments after you factor in the real value erosion of inflation.



> **"How could a supposedly risk-free government bond underperform a higher risk equity investment?**

Today's prevailing environment appears to be: high levels of headline inflation and, a central bank reaction that seeks to hike short term interest rates aggressively to slowdown the global economy. This is a plea to compress aggregate demand downwards towards aggregate supply and quell inflationary pressures. Should we therefore investigate the potential of floating rate notes?

Floating rate notes (FRNs) are short dated fixed income instruments but unlike nominal government bonds with fixed coupons, FRNs tend to pay out variable coupons which adjust upward or downward based upon a variable benchmark interest rate. Floating rate notes can be issued by governments or corporates and tend to have low maturities i.e. two to five year terms. In today's high inflation and rate hiking environment they might just help investors mitigate interest rate and inflation rate risk.

Though, a word of caution, the market for floating rate notes is considerably smaller than that of nominal government bonds. Investors should carefully consider liquidity risks and potential crowding risks when seeking out less liquid investment opportunities.

Please read the important notice on page 1.

HILL & SMITH

Jack Summers
Research Assistant

PRICE
£11.86

52 WEEK HIGH-LOW
£18.72—£8.59

NET YIELD
2.68%

HIST/PROS PER
28/15

EQUITY MARKET CAP (M)
£948

Hill & Smith is an industrial holding company consisting of 29 manufacturing and galvanising subsidiaries operating in the UK, US and Europe. Aside from galvanising, end markets include road safety (e.g barriers), security (e.g fences & bollards) and utilities (e.g composite products and pipe supports).

The company is currently undergoing somewhat of a facelift having historically exhibited a weaker growth and margin profile than other UK industrial peers. With the recent disposal of lower performing subsidiaries such as France Galva, and departure of CEO Paul Simmons, the clear focus now is on developing and acquiring businesses with more lucrative end markets such as US galvanising, roads and infrastructure. The latter of which is set to benefit from the $1.2tn US Infrastructure Bill. The latest trading update showed +18% year-on-year revenue growth and an ability to pass increased costs through to customers. Revenue in 2022 is expected to increase +6.5% vs 2021 with modest operating margin expansion. Whilst the near-term signs are encouraging, the business still needs to recruit a CEO capable of executing on its strategy over the long-term.

Please read the important notice on page 1.

Asset allocation and sector focus

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

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

These committees, which consist of members of our research team and a number of investment managers, aim to provide a view that seems most suitable in the current climate. The output of the monthly meetings remains a suggested stance and it is important to note, that the views expressed are those of the committees and may not necessarily be those of your individual investment manager.

Here we present a snapshot of the current views.

Sector Views

Overweight Neutral Underweight

Communications

We expect elevated demand for online services to fall back and consumers shift their spending habits. Digital advertising growth is also expected to slow versus 2021 as marketing spend moderates and instead corporates review discretionary spend in the face of rising geopolitical concerns.

Consumer Discretionary

Consumer sentiment has deteriorated rapidly with rising energy and food prices undermining consumer confidence and savings buffers have been eaten into; hastening a switch from discretionary spend towards more essential everyday spending.

Consumer Staples

Consumer Staples businesses tend to be of high quality and more economically resilient during market turbulence. Sector valuations look fair in the context of history and whilst the sector faces rising input cost inflation we have seen evidence of inflation pass-through to customers.

Energy

Longer term Environmental, Social and Governance (ESG) considerations have fallen to the back of investors' concerns as the Ukrainian geopolitical situation has forced investors to focus on short term supply. With energy prices heavily correlated to GDP, we have become less constructive on the performance of the sector. Capital returns to shareholders should nonetheless remain strong.

Financials - Banks

US banks have enjoyed good performance on the back of strong balance sheet growth prospects and are now retracing as Ukraine delivers a shock to growth expectations and margin expansion. Higher inflation is likely to tame demand, reducing the need to hike interest rates. European banks are more exposed to Russia and suffer from large national debt and higher rates driving declines in their loan books. Margin expansion expectations for UK banks has been lowered given the diminished growth outlook.

Diversified Financials

Many names are high quality but valuations are not at a level to turn more positive.

Insurance

Life insurance companies benefit from a steepening yield curve but with higher rate expectations softening, we think neutral remains the correct stance.

Health Care

Demographic tailwinds and relative resilience of global healthcare spend mean this is a sector with growth and defensive attributes. Valuations have become stretched in growth names and those which have benefited from the pandemic. However, a greater weighting is to those negatively effected by the pandemic i.e. elective surgery names. Such companies still offer reasonable valuations, defensive earnings and encouraging long term growth outlooks.

Industrials

Global industrial production forecasts, although still positive, have fallen in recent months as supply chain disruptions and heightened cost inflation pressures weigh on broader economic growth.

Information Technology

Valuations contracted over the past year but are now more reasonable. We take confidence from the resilience of technology names whose products are being classed as non-discretionary by consumers and businesses.

Materials

Majors with solid balance sheets should continue to pay strong dividends. The short term outlook is clouded by weakness in Chinese demand, driven by the property market crisis. Recession fears now cloud the outlook which historically led to reduced demand for commodities. The other big issue is input costs, although this problem is baked into consensus numbers. Longer term we remain bullish on energy transition metals e.g. copper.

Real Estate

Global real estate may offer better value than other fixed income instruments but rising rates can feed through to mortgage rates, with the subsequent fall in demand for real estate hitting property valuations.

Utilities

The sector has some safe haven support, however it is not immune from the slowdown as business customers suffer. Rising power prices are good for producers however the suggestion of windfall taxes to reduce the impact on consumers may keep a lid on this. There is some inflation protection in pricing however rising bond yields could provide a headwind to the sector which is viewed as a bond proxy.

Asset Allocation

Overweight Neutral Underweight

UK EQUITIES	
UK	UK equities offer good value for long term investors and we prefer large cap UK equities with more overseas earnings because Sterling weakness should mean translated overseas earnings are greater in Sterling terms. The U-turn on fiscal policy which, whilst welcomed by financial markets in terms of financial credibility, does heighten the likelihood of deeper domestic economic recession that would hurt smaller domestically focused companies more so. The UK also appears favourable in the prevailing economic downturn. Relatively more exposure to: Consumer Staples which tend to show greater resilience in recessions; Financials which typically benefit from rising interest rates because of the widening differential between lending and deposit rates and, Energy & Materials sectors which are typically considered better insulators under inflationary times.
INTERNATIONAL EQUITIES	
North America	There are structural reasons to like US equities such as their higher returns on capital and, higher earnings growth track record. Despite this, we have moved underweight US equities due to expensive relative valuations to other developed equity markets and growing concerns about US Dollar overvaluation. It remains clear that the Fed will continue hiking interest rates to tackle the high level of US inflation brought about by rising wage pressures from the tight US labour market.
Europe	Continental Europe remains concerning and heightened political risks are never too far away. Europe is a pro-cyclical equity market and hence vulnerable to global recession. Forward looking economic indicators for the Eurozone remain downbeat and the read across from weaker business and consumer confidence indicators may be that earnings expectations for the Eurozone remain too optimistic for 2023.
Japan	Slow economic recovery out of the pandemic has endured. Manufacturing and Service sector output remains in expansionary territory in contradiction to many major economies and business confidence has been on an upward trend whilst the BoJ has remained steadfast in their commitment to keep Japanese interest rates very low.
Asia Pacific	Geopolitical flashpoints between the West and East are driving a fundamental rethink around supply chain exposures and dependencies. This is a multi-year theme but we increasingly hear about international companies exploring ways to diversify their supply chains outside of China into Asia Pacific more broadly.
Emerging Markets	Valuation remains supportive at the index level versus developed markets but, we note the strong US Dollar hurts emerging market liquidity and China remains pre-occupied with another resurgence of COVID cases.
BONDS	
Conventional	Whilst underweight, we increased exposure to shorter dated government bonds offering higher yields resulting in a better duration profile against the tide of rising rates.
Index Linked	Offering a positive real return and whilst expensive, they are a necessary protection against inflation.
Corporate bonds	We remain underweight corporate bonds but have actively reduced the extent of our underweight to reflect the higher yields offered by corporate bonds vs. government bonds of similar maturities.
CASH	
Cash	Tactically, we are overweight cash in this challenging market environment.
PROPERTY	
Property	Real estate offers up some level of natural inflation protection but high levels of inflation have historically undermined real estate because of the impact of rising interest rates.
ALTERNATIVES	
Alternatives	We continue to seek some assets that are less correlated to our equity and fixed income holdings. For example, we continue to hold gold as a means to diversify portfolios.

General interest

Gusbourne Vineyards

Cheers to the great wines from Britain

Julia Trustram Eve
Head of Marketing, Wine GB

An exciting wine revolution is taking place in the UK today. This is the British wine industry – one of the smallest wine regions in the world but proving to be one of the most dynamic, sparking interest with wine experts and enthusiasts alike and gaining renown on the national and international stage.

Leading the charge are Britain's 'classic method' sparkling wines, which have established the UK's reputation for producing high quality wines, and make up two-thirds of the country's total wine production. What makes a great sparkling wine? It needs to be fresh, crisp, delicate but complex enough to marry with the exquisite bubbles in the glass; Britain's cool climate produces wines with a lively acidity and delicate fruit that lend themselves well to the sparkling wine process and give great ageing capability.

Sharpham Wine

Most are produced by the same method as Champagne (for our wines we have coined the term 'classic method') and from the same varieties - (Chardonnay, Pinot Noir and Pinot Meunier). Their finesse and longevity are proving their credentials year upon year on the world stage in blind tastings and competitions. Champagne houses are now investing in England - Taittinger in Kent and Vranken Pommery in Hampshire – proof of the confidence in this wine country and it's future. Cava producer Freixenet has purchased a sizeable vineyard operation in Sussex. Other overseas investors are looking on with interest. These wines are served at the highest tables. Just recently a Blanc de Blancs from Sussex producer Ridgeview was served at the first state banquet hosted by King Charles, in honour of the South African president Cyril Ramaphosa.

The success of these 'classic method' sparkling wines has largely contributed to the phenomenal growth in vineyard plantings, which has seen an impressive 70% increase in acreage planted in just 5 years and more than quadrupled since 2000. Viticulture is one of the fastest growing agricultural sectors in the UK today; the UK boasts 879 vineyards and stretching over some 3750 hectares (just over 9000 acres). This is an industry that is going places.

Other styles of sparkling wine are also now produced – from lighter, fruitier Prosecco-style wines (produced by a different method to Champagne) giving a light, fruitier style to pet nats (Pétillant natural) and even canned wines – something for every occasion.

> “A recent study has shown that Pinot Noir has the capacity to produce quality red wine every bit as good as red Burgundy in the years to come.

The UK's still wines are also well worth discovering. Grape varieties such as Bacchus and Pinot Gris as well as other aromatic and new varieties that thrive in Britain are producing styles of wines to delight the palate. The result is a wide range of styles from dry to medium dry whites, refreshing rosé, luscious dessert wines and fruity reds. Chardonnay and Pinot Noir are also producing some fine still wines and show a promising future.

A recent study has shown that Pinot Noir has the capacity to produce quality red wine every bit as good as red Burgundy in the years to come. The hotspot area for this? Essex. Watch this space. (The study is by Viticulture Climatologist, Dr Alistair Nesbitt)

English and Welsh wines are readily available through high street and independent retailers, restaurants and hotels that proudly promote and sell them. Sales have been booming in recent years as more wine lovers buy in to local wines.

There is of course the added advantage of buying direct from many of the producers via their own online sites or visiting them in person for a memorable shopping experience.

Over 200 vineyards across England and Wales welcome visitors, offering a range of experiences including tours, tastings and 'cellar door' shop. Guided tours are conducted by people who are knowledgeable and entertaining - in some smaller vineyards you may even get the owner or winemaker. Visitors will take away some great memories and new discoveries – and hopefully a bottle or two to enjoy at home.

You can even stay at a vineyard – from a hotel, self-catering properties to luxury shepherds' huts, lodges, tents and even a 'Hobbit House'. Many of the larger vineyards boast sophisticated visitor centres with fine dining, winemaker events, wedding and celebration parties, to name but a few.

And now vineyards have joined forces to promote their region, such as Wine Garden of England in Kent, Sussex Modern, Vineyards of the Surrey Hills and The Yorkshire Wine Trail, inviting you to immerse yourself in the wine, food and hospitality in their beautiful part of the country.

Denbies Autumn tasting

To make things even easier a number of tour operators organise visits to different wine regions in England, from bespoke luxury tours through to day trips, via e-bike or on foot. All in all, a perfect recipe for a wine staycation / experience.

So next time you are looking to buy wine, consider looking a little closer to home and toast to a Great British success story!

For more information on the British wine industry, visit www.winegb.co.uk. The website also lists the vineyards of Great Britain and provides plenty of background information on English and Welsh wines. There are now also a number of great books and guides for the wine enthusiast.

SERVICENOW

Michael Bray
Research Analyst

PRICE
$425.60

52 WEEK HIGH-LOW
$672.97—$337.00

NET YIELD
0.00%

HIST/PROS PER
367/57

EQUITY MARKET CAP (M)
$84,246

In its simplest form ServiceNow (NOW) can be described as a software company that helps businesses automate their processes. For example, a multinational company may relocate an employee from London to New York. In order for this to happen succinctly a number of business processes need to occur. These could include changing the employee's tax jurisdiction with payroll; generating a new entry badge with facilities; and providing the correct IT hardware for them upon arrival. These individual processes may be managed by single focused applications such as Workday, SAP and Salesforce but what NOW does, is add an additional collaborative interface layer. This enables information sharing and visibility across different applications and departments, enabling greater process automation.

As NOW sits on top of other applications, its integration is fairly straight forward and does not require businesses to rip out and replace existing software applications. Such usability has seen sales grow at >30% p.a. for the last three years. The flipside of this, is the stock is very expensive which leaves shares vulnerable within a rising interest rate environment.

Please read the important notice on page 1.

Meet the manager

Joanna Thomas

Senior Investment Manager, York

Lives Harrogate

Family Married with son and daughter

Started at JM Finn 2008

Hobby / pastime I love to be in the garden but have just taken up racketball which will help to fill the winter months – along with some skiing!

Last holiday Family holiday in Corfu

Heroine Charlotte Brontë

Favourite book It's difficult to choose between several of Dickens' – probably, David Copperfield

Favourite artist Peter Doig

What does relocating the office to York mean for you as an investment manager?

The best of both worlds! The new office is in a fantastic location in the heart of the city and includes parking for clients and staff; equally, the excellent rail links to London will keep us more closely connected to our headquarters and research resources. I'm also looking forward to developing our relationships with some of the other professional advisers in the city.

Having been at JM Finn for nearly 15 years, can you tell us what it is that makes the business tick?

The clients and the enjoyment that comes from working with our clients – knowing that we have the constant support of the firm to manage our clients' portfolios empathetically results in us providing a distinctly personalised service, which, in my view and with conversations with some of my newer clients, helps set us apart.

With a young family, how do you manage to balance the demands of work and your home life?

It can be challenging at times. However, it comes down to domestic teamwork – very helpfully for me, my husband runs his own business and tends to be pretty flexible in terms of working pattern. But generally, this industry is a great one to be in for managing a work/life balance.

Clearly it has been a tricky year for investors, but what areas of the market are you optimistic about in the medium term?

I'm optimistic on the healthcare sector, an area that has delivered superior investment returns over the long term. It is well understood that populations globally are ageing and spending on healthcare will only continue to increase. This is a growing problem for governments but there will be investment opportunities in innovative companies that are able to deliver enhanced patient outcomes with, importantly, a clear cost benefit. Currently, valuations in the sector look attractive and a number of the investment trusts in the space are trading on discounts to net asset value, that is to say, the price of the trust is less than the sum of the underlying holdings. Meanwhile, the UK market continues to look cheap and offers some appealing dividend yields. I'm not sure what the catalyst will be for the market to re-rate, but on current valuations there does seem to be something of a margin of safety, but as ever, only time will tell.

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