JM FINN

No.29 Winter 2019

Prospects

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Winter 2019



Equity prospects
JM Finn's insights into companies 07, 11, 33, 37

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Contents

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Welcome

As we are all aware, since the referendum, UK investors have benefited from the fall in the pound due to continued concerns about Brexit and the risk of a change of government.

Over the last few years, we have generally taken an international stance on investment and my belief is that we should continue to do so long-term. It certainly has helped performance in recent years but having said that, the London Stock Market is in its own right very international with approximately 70% of the earnings of the top 100 companies coming from overseas; whereas, the FTSE 250 is the opposite with 70% of the earnings being domestic. Up until recent months, international companies have significantly outperformed domestic companies but to some extent that has been reversed and in recent weeks the gap in valuation levels has been noticed by investors.

We always live in uncertain times and with modern technology and modern media, everybody is aware of any problems that happen anywhere in the world worthy of mention by journalists within hours of it happening. Forty years ago when the UK stock market was somewhat more volatile, during the Wilson/Heath era, it is worth remembering that the stock market and our economy were very dependent on Great Britain and therefore, the risk of significant political swings was so much greater than today.

Once Brexit is out of the way, if the pound remains as low as it is against the US Dollar then I can see a lot of overseas money, particularly dollar money, coming into the UK taking advantage of the low level of the pound, whether it be investment by American biotechnology and pharmaceutical companies setting up laboratories around Oxford and Cambridge, or some of the top US tech companies setting up their European headquarters in London. Or it might simply be dollar based companies or private equity houses buying up cheap UK assets. Either way I think it is time to be more domestically orientated from an investment perspective. Markets have a knack of anticipating events before they actually happen and to some extent this is why the UK market has behaved as it has over the last few weeks.

The main focus on international markets in the last year or two has been growth in America, particularly the technology companies, but there is a sharp variation in valuations across the world. Leading Asian exporting technology companies tend to trade on a fraction of the value of their American competition. For a long time America has tended to lead the way in many areas but the Japanese also have technological expertise and their economy has been moribund for 25 years. Their stock market is still trading at half the level it got up to 25 years ago and yet, although the government is heavily indebted, Japanese people and companies tend to be cash rich. It has been quoted that the value of the Emperor's palace in Central Tokyo might have been worth the equivalent value of all the property in California; that certainly would not be the case today.

Looking at the performance of economies and stock markets of countries which host the Olympics, I note that generally speaking, markets tend to perform well when host nation. If Japan's stockmarket was going to have a good year then looking into my crystal ball, one could reasonably expect it to be in 2020. They certainly did a good job with the Rugby World Cup despite the meteorological challenges.

James Edgedale

James Edgedale
Chairman

Editorial

Caution: ICE and electricity won't mix well... Watt?!

James Ayling, CFE
Research Analyst

Is the internal combustion engine's dominance on the wane? In this article James Ayling glances back at the competing powertrains of the 19th century, compares the total cost of ownership and powertrains of Battery Electric Vehicles (BEVs) and Internal Combustion Engine (ICEs) cars, and explores what impact BEVs may drive throughout the automotive industry and broader economy.

> *Now the major efficiency gains for ICEs have been achieved and the pace of improvement is slowing.*

Electricity and water are a deadly mix but let's leave that melting pot aside for the time being. Instead, we seek to explore the disruptive impact battery electric vehicles[1] (BEVs) could have on the internal combustion engine (ICE), whose dominance may disappear over the next decade.

Early BEVs appeared in the first half of the 19th century but struggled to gain traction because of their feeble range and lack of rechargeable batteries. Yet the 1859 lead-acid battery invention unlocked rechargeable batteries and improved range which revived BEV aspirations. In the 1890s London saw "Hummingbird" (a reference to the vehicle noise) electric taxis on the streets. These early BEVs offered several advantages over ICE cars such as automatic start (no manual cranking), no gearing, no smell and minimal noise pollution.

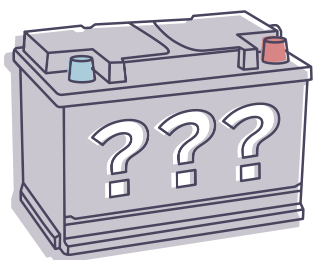
BEVs became increasingly inferior because of a slower development pace. Their limited range became more of an issue as road infrastructure developed encouraging longer distance travel. Additionally, electric start was invented for ICE cars making them easier to operate and mass production of the Ford Model T made ICE cars increasingly affordable.

Now the major efficiency gains for ICEs have been achieved and the pace of improvement is slowing. Meanwhile, battery chemistry continues to progress and new cell formulations offer potential step changes in performance. BEVs today offer sufficient range for most people, avoid exhaust pollution and are quieter and easier to operate. Importantly, BEVs are also a technologically superior enabling platform for autonomous vehicles (more on that another time).

[1]We are not looking at hybrid electric vehicles as we view them as inferior to BEVs

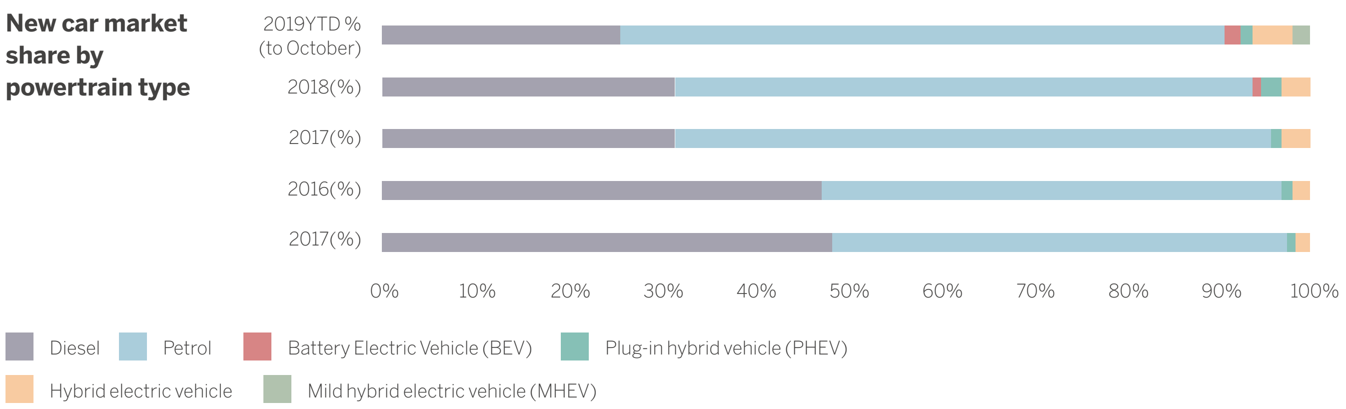
Does it all boil down to cost? BEVs are increasingly cost competitive with ICE. As consumers, we are typically poor at considering the total cost of ownership (TCO) of anything. Economists debate whether we are myopic or rational in limited domain i.e. we shortcut our decision making. Regardless, in the context of car ownership, we tend to place greater emphasis on upfront cost versus lifetime cost. So, let's consider a simplified example of the five year TCO for the BEV versus ICE. The results below might surprise you: BEVs are already cost competitive with ICEs when carefully considering TCO.

	Ford Fiesta	VW Golf	Ford Focus	BMW 3 Series	Nissan Leaf	Tesla Model 3
Powertrain type	ICE	ICE	ICE	ICE	BEV	BEV
Upfront cost	£20,215	£24,145	£24,345	£39,275	£32,845	£43,045
UK plug-in grant	£0	£0	£0	£0	£3,500	£3,500
Purchase price	£20,215	£24,145	£24,345	£39,275	£29,345	£39,545
Estimated 5 year deprecation	£7,043	£5,607	£9,434	£16,007	£17,382	£9,491
Residual value (Year 5)	£13,172	£18,538	£14,911	£23,268	£11,963	£30,054
Annual car tax	£145	£140	£145	£135	£0	£320
Annual servicing & maintenance	£549	£549	£549	£549	£289	£289
Annual Fuel	£973	£864	£958	£958	£291	£260
Annual insurance	£711	£845	£821	£1,143	£854	£1,081
Total cost of ownership (over 5 years)	£18,935	£17,599	£21,804	£29,934	£24,553	£19,237



What will power us forward?

Currently BEV sales account for less than 2% of new UK car sales but if more consumers consider TCO we could see a more rapid adoption of BEVs than currently predicted.



The ICE powertain

The fuel tank links to the engine which ignites fuel and pushes on the engine's pistons to rotate the crankshaft and ultimately rotates the vehicle's wheels. Burning fuel generates lots of heat which means ICEs require a cooling system and incomplete combustion results in particulate emissions that need to go through an exhaust system to help reduce tailpipe toxicity.

The ICE is an engineering marvel. Yet, for all its complexity, we are ultimately left with a vehicle that is less than 30% efficient (tank to wheel), generates unhealthy tailpipe emissions and has thousands of component parts waiting to go wrong: good for automotive servicing revenues; bad for consumers' pockets.

The electric powertrain on the other hand offers considerably greater tank to wheel efficiency: over 75%. Additionally, the BEV has significantly less componentry. The battery connects to an inverter which switches DC to AC current, powering an electric motor causing the vehicle's wheels to rotate. BEVs also require a cooling system but tailpipe emissions are nil. What's more, the biggest cost in a BEV is the battery pack which is estimated to have fallen by c85% from 2010-18, according to Bloomberg. On higher future production volumes, we forecast further cost reductions ahead.

Looking at the automotive industry: Forget Volkswagen think 'Volts'wagen

If BEV adoption occurs quicker than expected, traditional automotive companies could be sitting on significant amounts of redundant capital. At the same time, car manufacturers may need to rapidly raise and invest new capital to switch from ICE to BEV production.

For automotive suppliers, the question boils down to vehicle content. Unlike ICEs, BEVs won't require pistons, crankshafts or turbos. Those component makers could quickly suffer overcapacity issues as their products become increasingly redundant.

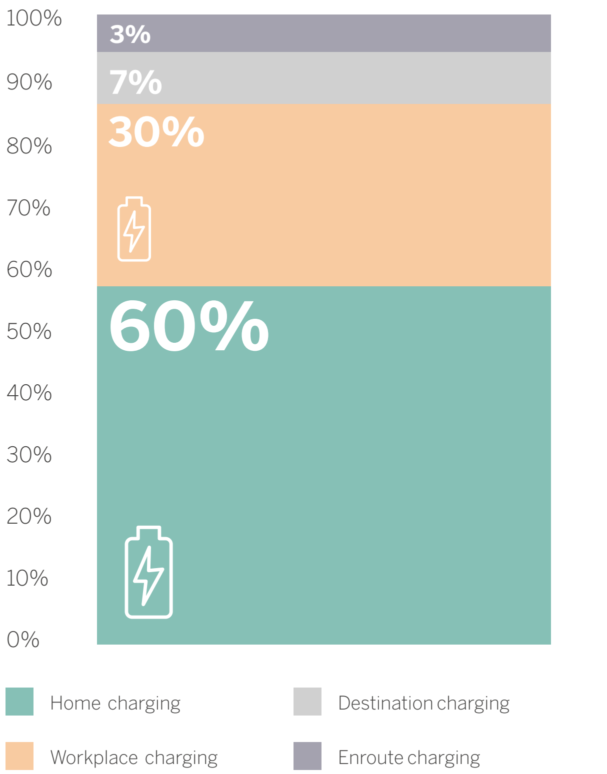
Instead, for BEVs, we suspect greater focus will be on advancing battery chemistry, cell and pack design and software development. Automotive suppliers will need to provide new content such as battery management systems, electric motors, inverters and battery chargers.

However, with significantly fewer components in BEVs, common components like electric motors could quickly become commoditised; hence producers of such products might not capture the benefits of the BEV revolution. Greater value creation might sit in more niche and specialised equipment.

BEVs are heavier than ICEs because of their large battery packs so BEVs could see greater tyre wear. BEV adoption could therefore result in higher tyre sales. Could this benefit tyre manufacturers and their supply chains more than is being factored in today?

Consumers worry about being able to charge BEVs at public charging infrastructure, yet this concern could be overblown. We need a mind-set shift: we need to stop thinking like ICE drivers, who regularly fill up at fuel stations. We must acknowledge the top-up culture of EV charging. Pod Point predict charging locations as per the chart on the opposite page:

The top-up EV charging ecosystem



The more important question we should be asking about charging is how might the electricity grid cope with peak EV charging demand? I.e. the rapid increase in electricity consumption as everyone returns home from work and plugs in their BEVs.

The answer may sit somewhere between software management of charging known as 'smart charging', dynamic software driven electricity pricing and hardware based reinforcement of localised distribution networks of the electricity grid – let's wait and see.

Data from the Department of Transport shows c72% of UK drivers park overnight on private property implying most of us could charge our BEVs then.

Given the average UK consumer drives 146 miles per week and, if we charge just five days per week, then on average we need a top-up charge of approximately 30 miles each session. On that logic, using a standard 3kW home charger would take just 2 hours per day.

So, let's stop watering down the positives of BEVs and instead charge ahead with this automotive revolution.

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AMAZON

James Ayling, CFA
Research Analyst

PRICE
$1800.80

52 WEEK HIGH-LOW
$2035.80—$1,307.00

NET YIELD
0.0%

HIST/PROS PER
79.8—57.2

EQUITY MARKET CAP (M)
$892,832

Typically Amazon is viewed as the world's largest e-commerce store, you can near enough buy any item, from A to Z. Yet, Amazon should be viewed through a different lens. Amazon does far more than e-commerce: it leads in cloud computing globally, is an advertising giant competing with the likes of Google and Facebook and, increasingly produces media.

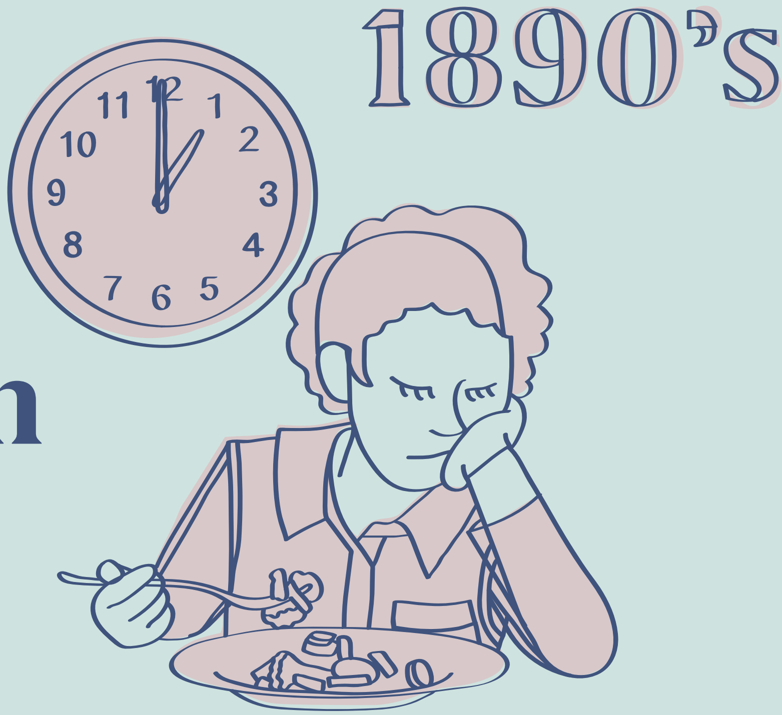
So instead let's try to view Amazon through the lens of an infrastructure provider driven by 'network effects.' Amazon operates in markets where the value it provides becomes greater as more customers use its services - this builds significant barriers to entry. For consumers, 'Amazon Prime' offers these network effects; currently the big focus is the expansion of Prime's 'One-Day Delivery', investing billions to advance shipping and fulfilment to improve consumer experience. As delivery improves customers purchase more, entrenching them in Amazon's ecosystem and yielding benefits of scale.

However, Amazon faces risks. Are we reaching peak possessions? Increasingly younger consumers are favouring experiences over physical goods. Elsewhere, 'big tech' is facing greater regulatory scrutiny. If regulators constrain businesses like Amazon that benefit from network effects, consumers might ultimately suffer.

Please read the important notice on page 1.

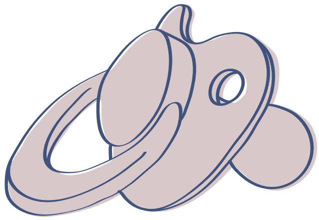
Guest Editorial

Changing Attitudes in Parenting



By Sarah Ockwell-Smith

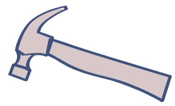
Illustrations by Adi Kuznicki



Childcare theories are ever-changing. It seems that every week, a new piece of news tells us that we need to change how we raise our children. While current knowledge is based on new scientific understanding, historical beliefs were often influenced by what was happening in the economy and society. Sarah Ockwell-Smith takes a brief tour of childcare beliefs, from the late nineteenth century, to the present day.

In the 1850s, just after The Industrial Revolution, a time that saw a move towards using machinery over human hands, factories were born and so was a man named Luther Emmett Holt. Holt was an American doctor, specialising in caring for children who, in 1894, published the book, 'The Care and Feeding of Children'. Holt was keen on routine and record-keeping and his advice echoed the more regimented and predictable machine production in industry at the time. Holt advocated all babies should be treated the same; they should be fed at specific times and should never be played with. Parents were advised to withhold affection as Holt believed this stern approach was best for the future character of the child. Holt's theories remained popular for many years.

In 1928, ten years after the end of the First World War, the American Psychologist John B Watson took the reigns as the eminent childcare expert of the time. Watson had been heavily involved in war strategy, helping his government attempt to try to control the enemy through the power of psychology. His work during the war clearly influenced his parenting theories and his book "Psychological Care of Infant and Child" focused heavily on controlling children. Mothers were told to shake off their instinct to hug their children and instead should shake their hands. He was famously quoted as saying "If you must, kiss them once on the forehead when they say goodnight. You will soon be ashamed at the sentimental way you have been handling it." Holt advocated that babies should be left to cry, rather than responded to, so that they didn't learn to manipulate their parents. Watson's work certainly reduced the time parents spent with their children, perhaps affording them time to work hard rebuilding their country after the war.



ONLY

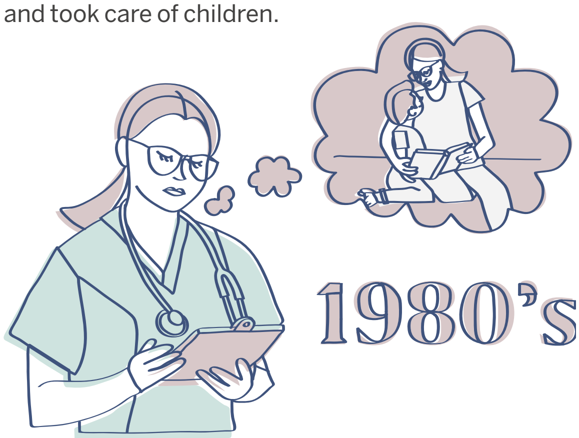
34%

Of women had any work outside of home during the 40's & 50's

The Second World War saw the next big shift in childcare ideology. British Psychologist John Bowlby became interested in the emotional wellbeing of children who had been orphaned, alongside those who had been evacuated and hospitalised. At the time, children who were hospitalised were forbidden from having visitors, even their own parents. Bowlby noticed that children suffered immensely from what he termed 'maternal deprivation'. This spurred his work on Attachment Theory, the idea that children need free access to their primary attachment figure (usually their mother) to cope with the world. Bowlby's ideas were further developed by both Harry Harlow, who showed it is not only humans who need affection to survive and thrive but monkeys too, and Mary Ainsworth, who developed a method to test for attachment which is still used today. Donald Winnicott, an English Paediatrician also spoke widely about the importance of a mother's love and affection in the early years. The tide was turned.

These child-centric theories collided with the ideal of the 1950s housewife, women who stayed home, took care of their children and made themselves and their homes look good for their working husbands. Another famous doctor, Dr Benjamin Spock, cemented the idea that women should stay home with their children.

His 1946 book "Baby and Childcare" is the bestselling childcare book of all time. Women were expected to conform and very few worked outside of the home, in fact in the 1940s and 50s, only 34% of women had any work outside of the home. Men oversaw bank accounts, legal documents and household expenditure while women cooked, cleaned and took care of children.



1980's

By the 1970s, 52% of women had returned to the workplace, in part due to the 'hippy movement' and a strong focus on Women's Rights. The work of Spock became unfashionable as the family became more diverse. By 1980, the number of women working hit 57%. The 1980s are infamously the decade of Thatcher, Poll Tax, Commercialism and 'Yuppies'. As Gordon Gecko said, "The point is ladies and gentlemen that greed, for lack of a better word, is good". In the pursuit of 'more', society needed to work - hard. By the end of the 1980s, almost 65% of women were in work. This trend continued through the 1990s and alongside it, a return to a more authoritarian way of child-rearing.

In 1999 the childless nanny Gina Ford, published her multi-million selling 'The Contented Little Baby Book'. Ford advocated strict routines and leaving babies to cry to get them sleeping through the night. There is undoubtedly a large cross-over between Ford's advice and the need for children to be less bother to their busy working parents. Despite this, Ford's ideas have been largely attacked by professional bodies for not meeting the needs of children.

2000's

The turn of the twenty first century, and the last ten years specifically, has seen another paradigm shift. Once again, parents are turning to a more compassionate way of child-rearing, akin to that of the 1940s and 50s. The driving force behind this being the development of science and the ability to prove the impact of care, via neurological imaging and ever more sophisticated psychological experiments. For instance, in 2012, research showed that Gina Ford's Controlled Crying method does not leave babies contented, rather it left them in a heightened state of stress, albeit not communicating this distress to their parents anymore by crying.

Now, with 70% of women working, a balance must be struck. Childcare is improving rapidly, as are family rights, with the introduction of shared parental leave. We know that the economy is important, as is the ability of mothers to work, but we also know that parents and children matter too. There is still work to be done, but hopefully, this time, we'll reach a point that equally considers the needs of all and stay there.

Sarah Ockwell-Smith is a well-known parenting expert and a highly regarded popular parenting author who specialises in the psychology and science of parenting, 'gentle parenting' and attachment theory. She lives in Essex, with her husband and four children. This article was originally commissioned for JM Finn's Wealth Across the Generations report, detailing the different wealth issues faced by different generations. For a copy, please contact your investment manager or email marketing@jmfinn.com

Understanding Finance

GREEN BONDS

John Royden
Head of Research

Younger and more socially conscious investors have increased demand for Environmental, Social and Governance (ESG) compliant portfolios. This in turn has driven demand for a new class of ESG compliant bond more commonly referred to as "green bonds".

Green bonds are bonds that are used to raise capital specifically for environmental and sustainable projects. This year, the green bond market size reached a record $1 trillion. Since their launch, only ten years ago, labelling bonds as "green" has become an easy way for companies to promote their ESG profiles and fit their securities within the ESG or green mandates that now abound. Some green bonds tie lower coupons to meeting ESG targets.

After an unclear and rather opaque set of initial definitions, the market has evolved to accepting, for now, the International Capital Market Association's (ICMA) definition which is that projects are green if they are aligned with these objectives: climate change mitigation and adaptation, natural resource conservation, biodiversity conservation and pollution prevention and control. We still regard this categorisation as quite vague.

For example, a shipping company might wish to improve the fuel-efficiency of its ships and issue green bonds in the name of reduced fuel usage. But, if the main driver of this decision is a higher profit margin through reduced fuel costs, then we ask is this really a green bond or just a conventional one? The issuance of a green labelled bond could feel more like a PR project rather than genuine concern for the environment.

Due to these issues of "greenwashing" (the act of exaggerating or falsely claiming ESG credentials), projects linked to green bonds have to be closely monitored, by both issuers and investors. This increases the cost of issuing green bonds relative to traditional bonds. The compensation for the issuer is the aforementioned PR exposure and demand from ESG portfolios. The investor faces higher monitoring costs with no additional yield in 85% of green bond issuances, apart from a cleaner conscience.

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DIAGEO

James Ayling, CFA
Research Analyst

PRICE
£31.65

52 WEEK HIGH-LOW
£36.34—£26.89

NET YIELD
2.2%

HIST/PROS PER
24.4—22.6

EQUITY MARKET CAP (M)
£74,487

Diageo, at first glance, is an international drinks producer and distributor operating across developed and emerging markets. But, if you look deeper at the company you quickly discover that it represents a portfolio of iconic beverage brands including Johnnie Walker Scottish whisky, Smirnoff vodka, Baileys Irish cream liqueur and Guinness Irish stout. This broad brand portfolio allows it to offer a diverse drinks range to consumers meaning as drinking trends ebb and flow, Diageo can benefit from changing consumer tastes by leaning in to trends through one or a few of their respective brands.

A key trend that Diageo has benefited from has been 'Premiumisation'. As consumers place greater emphasis on their health, and their incomes grow, alcohol volume consumption is declining but more favour is now being placed on more premium drinking experiences. Consumers seem to be trading up brands and favouring a pricier tipple, with food, versus just drinks.

Nevertheless, risks remain. Alcohol consumption remains a public health concern and high import tariffs for international companies could mean competing against local market players becomes more challenging. And, if we see harder times ahead, to what extent will the Premiumisation trend remain intact if consumer incomes are squeezed?

Please read the important notice on page 1.

Company Meetings

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

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

John Royden
Head of Research

Michael Bray
Research Analyst

BASIC MATERIALS
Anglo American, BHP Group, Croda International, Rio Tinto

COMMUNICATIONS
Vodafone Group, Walt Disney Company

CONSUMER, CYCLICAL
Dalata Hotel Group, Diploma, InterContinental Hotels Group, Whitbread

CONSUMER, NON-CYCLICAL
AstraZeneca, Clipper Logistics, Dechra Pharmaceuticals, Diageo, Genus, GlaxoSmithKline, Intertek Group, Intuitive Surgical, Ocado Group, Reckitt Benckiser Group, RELX, Smith & Nephew

ENERGY
Hunting, Royal Dutch Shell

FINANCIALS
Aviva, Barclays, Burford Capital, Close Brothers Group, Lloyds Banking Group, M&G, Prudential

INDUSTRIALS
Halma, Northbridge Industrial Services

TECHNOLOGY
Apple, Microsoft Corporation

UTILITIES
Centrica, National Grid

1.

Dechra

Price **£28.34**
52 week high-low **£30.80 – £20.20**
Net Yield **1.0%**
Hist/Pros PER **33.0 – 28.9**
Equity Market Cap **£2,908m**

Consumer, non-cyclical
Ian Page (CEO), Paul Sandland (CFO)

Dechra, an international veterinary pharmaceuticals business that specialise in the development, manufacture and distribution of a portfolio of branded and generic drugs, have been able to double operating profit to £50.3m over the past five years through acquisitions, new product launches and geographic expansion.

Despite revenues and operating profit growth of +18% and +26% respectively for the latest financial year, they remain confident on the growth runway which they see for the business, giving the example of more money being spent in the UK on champagne than on veterinary supplies. Management see increased global vet spend being driven by not only the increased welfare standards for pets but also for farm animals.

Although Dechra aren't typically reliant on any one product, in their pipeline they do have a couple of developments which could be dial moving for the business. One is a novel, once weekly insulin product for dogs, which could take a big chunk of the £100m global daily insulin market. This is, however, likely to be 4-5 years away. The other product is via their 48% stake in a business called Animal Ethics. Animal Ethics are currently developing a pain relief spray (Tri-Solfen) which can be used on livestock following routine farming surgical procedures, such as tail budding on lambs, where previously no pain relief was administered. Tri-Solfen has the potential to be used on a large amount of applications in livestock farming as national governments increasingly enforce higher ethical standards. Management talked about the potential of a world where meat could be labelled as 'pain-free' in supermarkets. Whether this scenario manifests is another thing, but it is likely that Tri-Solfen will still take many years to commercialise.

2.

Intertek

Price **£55.16**
52 week high-low **£59.82 – £44.85**
Net Yield **1.8%**
Hist/Pros PER **30.7 – 26.2**
Equity Market Cap **£8,954m**

Consumer, non-cyclical
Andre Lacroix, CEO

Intertek is one of those companies that piggy backs on global trade by being a global leader in testing, inspecting and certifying products, commodities and services.

Andre Lacroix (CEO) discussed their 5X5 strategy for growth and how it integrates with their corporate purpose, which is stated as being "Bringing Quality, Safety and Sustainability to Life". The depth of this market place was emphasised in the way that the four activities of assurance, testing, certification and inspection ("ATCI") span the entire value chain from raw material supply to manufacturing to distribution to retail. Upside for growth of GDP plus, came from his view that out of the $200 billion of global TCI activity, only $50 billion has actually been outsourced. They can grow by doing more with their existing customers, cross selling across the customer base (particularly with their new assurance product) and winning new customers from existing outsourcers as well as those who don't yet outsource.

Their 5X5 strategy is about employee safety and engagement, superior ATCI service, margin accretive revenue growth, strong cash conversion and an accretive capital allocation process to drive their M&A growth. Their thoughts on sustainability centre on the demands from governments, employees, customers and communities together with the need for authentic action, rather than a box ticking process. The result is that companies can ask for the Intertek Total Sustainability Certificate if they pass all ten of their examinable areas. My worry is that revenues from ATCI conflict with the impartiality needed to grant an audited certificate of sustainability.

3.

National Grid

Price **£8.90**
52 week high-low **£9.27 – £7.45**
Net Yield **5.3%**
Hist/Pros PER **15.2 – 15.1**
Equity Market Cap **£30,763m**

Utilities
John Pettigrew, CEO, Marcy Reed, President Massachusetts, and Dean Seavers, US Executive Director

National Grid USA (NGU) generates half of the listed National Grid PLC's operating income from its transmission and distribution networks that cover seven million accounts and 20 million people. Located in America's East Coast states, NGU takes electricity from the generator to the customer's meter; and likewise with gas.

I felt that management think NGU has better growth prospects and higher return prospects than the UK assets. Higher asset growth, is expected to reach 8% per annum as the USA catches up with the UK in terms of mandated investment to replace decaying and old infrastructure like out-dated electricity sub-stations. Recent storms and floods have highlighted the need for a more weather-proofed and reliable network. The company's growth is also being driven by new connections to renewable electricity generation. Marcy added that a firmer approach to the cost base could move profitability higher at a greater rate.

The US approach to regulated income allows a return on equity or "ROE". It is then up to NGU to get as close to that return as possible. We were pleased to see that NGU was starting to achieve much closer (95%) to its allowed returns than had been the case in the past (85%).

The situation in the USA contrasts to the politically charged environment in the UK where politicians of all parties query National Grid's level of profitability and put pressure on the UK regulator, Ofgem, to lower allowed returns from the start of the next regulatory period which comes into force in spring 2021. Added to that, Labour politicians aspire to nationalise the company as well.

Please read the important notice on page 1.

3700km
700km
800km
39.3210° N
111.0937° W
4027km
37.8136° S
144.9631° E
64.9631° N
19.0208° W
620km

Jamie Ramsay

As an Endurance Adventurer Jamie Ramsay has covered thousands of miles. Here he tells us why he made such a drastic career choice and what drives him.

Being a British Endurance Adventurer is a "job" I have only had for a few years as before that I worked for an international PR agency. I felt unfulfilled by that career and sought something more aligned to my passions that would challenge me in a way that I could grow and develop rather than fester and stagnate.

My first adventure was in 2013 and was a 240km run through Vietnam. This was meant to be an organised race but it was cancelled and my only option was to go solo and unsupported. This ignited a fire in me and the following year I quit my career, despite being recently made a partner, and set off on a solo and unsupported run from Canada to Argentina. This adventure was 17,000km long, across two continents and through 14 countries. It took me 367 days of running and I wore through 17 pairs of shoes. Since then I have completed 16 other adventures and right now, I am attempting to complete my challenge of finishing seven adventures in seven continents.

> *When things get tough, I simply sit down and remember the life I used to live, that's all I need to get back up again.*

When not adventuring I spend my time talking about the adventures I have done or planning the adventures I want to take on. It is an all-consuming life in the pursuit of pushing personal boundaries.

I often get asked why I do what I do, which is a tricky question with many layers to the answer; but at least with the kind of challenges I take on, I've got time to think of the answers.

The idealistic part of me acknowledges that I love doing what I do because of the places I visit, the people I meet and the cultures I interact with. I am able to choose where I go and how to push my personal limits while discovering new things about what I am capable of. I hope that when I complete an adventure and talk about it online or at events it might ignite a flame in other people and give them the push needed to pursue their own adventures.

JAMIE'S OTHER ADVENTURES INCLUDE:

800km
wilderness hike across Utah

3700km
cycle from Sao Paulo to La Paz

Successful summit of Aconcagua (6962m)

400km
Cape Wrath Ultra run

420km
Scottish isles run

265km
Transalpine run (twice)

700km
UK three peaks run

> *The more I adventure, the more I realise there is a deeper, potentially sadder aspect to what drives me.*

But there is also a darker side to the endurance aspect of my adventures. Due to Instagram, YouTube etc., we only see the glossy aspect of adventuring and less of the hidden motivation. The more I adventure, the more I realise there is a deeper, potentially sadder aspect to what drives me.

My decision to start adventuring wasn't the result of being happy and fulfilled with life but because I was sad, lost and spiralling. Adventuring provided me with a positive and productive way to turn that negativity around. After five years of pushing my mind and body I have realised that I am like a coal power station. I mine deep for all the negatives I feel and then turn them into positive energy and determination to succeed.

The biggest motivator I have to continue is remembering the decision I made back in 2014. I didn't want to be a person that lives a life without passion or satisfaction. I use that decision when I find myself at a point where things are scary, difficult or quitting seeps into my mind. When I am struggling, I find somewhere to sit and tell myself that I made the decision to be where I am and I can either get up and carry on or give up and return to a life I hated.

Another misconception is that those who adventure are instantly happy. This is often not the case. Adventuring is a life of highs and lows and like a drug the highs need to get bigger to give the satisfaction and as a result the lows become deeper. My job is to manage that ebb and flow and find productive ways to continue what I do.

While this may all sound a little darker than expected there is great joy in what I do. I derive a lot of pleasure and sense of purpose from my life. An existence of Solo Endurance Adventuring means a life of pushing yourself to places where it hurts and where you need to endure. Perversely, I derive a huge sense of achievement and satisfaction from that process and this is a life I chose and relish.

620km
run across Iceland

370km
camel hike through Mongolian winter
(leading camels not riding)

4027km
cycle from Melbourne to Darwin

Adventure has become part of my DNA to the extent that I now need to keep it in my life in some shape or form. Right now I have managed to engineer a life where I get to adventure and I can sustain that lifestyle but I am very aware that circumstances can change and there needs to be a back-up plan.

My initial move into adventuring was to escape the confines of a life behind a desk and discover a life driven by passion. The more I have been pursuing that goal the more I have realised that there is probably a balance somewhere in the middle where conventional work and passion can form a lifestyle that delivers fulfilment and builds a financial plan for the future.

In the immediate future my plans are to run across things, cycle through places and climb up things. In the medium term I want to find an enterprise or business that I can work with that either helps people pursue their dreams or introduces people to the world of adventure. The more the world centralises on cities and lives vicariously through screens, the more there is going to be a need for escape both physically and mentally.

Jamie is a brand ambassador for JM Finn and tirelessly supports The Campaign Against Living Miserably (CALM), an award-winning charity dedicated to preventing male suicide, the single biggest killer of men under the age of 45 in the UK. To read more about Jamie's adventures visit www.jamieramsay.net

39.3210° N
111.0937° W

64.9631° N
19.0208° W

Economic Focus

You pays your money and you takes your choice.

Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Isabelle Bamberg

Having studied economics at school (though not terribly successfully, it has to be said), I learned early on that this is not an exact science. Indeed, so far as economic forecasting is concerned, you might consider it more an art than science.

True, there is a positive cornucopia of data for economists to sift through in order to come up with reasonable interpretations of what the future might have in store, but as I have said many times before, forecasting is a mug's game, whether it be for the direction of markets, currencies or economies.

That said, we are fast approaching a new year and it behoves me to at least attempt to identify what are likely to be the main themes that will determine how economies behave and thus what is likely to happen to markets. There will always be the unexpected, of course, though sometimes these events are signalled in advance – like the financial crisis of 2008. It’s just that we don’t always read the runes as well as we might. Two themes do stand out, though, as likely to influence outcomes as the year progresses - politics and debt.

So far as the domestic scene is concerned, we are on the brink of learning what the political shape of our country is likely to be for the foreseeable future. Far be it for me to second guess the outcome of a General Election that will have taken place by the time you read this, but the make up of the House of Commons will have a clear impact on likely economic performance in the fairly immediate future. A Corbyn win is likely to see sterling dumped in foreign exchange markets and those industries set for re-nationalisation suffering big time as investors take fright.

Boris back in No 10 is likely to be more of a calming influence in the short term, but much will depend on the nature of the deal he secures with the European Union as the year progresses. Another hung Parliament just adds to the uncertainty, with any deals done behind closed doors likely to be controversial and probably subject to revision. If there is any certainty it must be that volatility could be even more of an issue in 2020 than it has been in the past. Not that this is necessarily a bad thing as it throws up opportunities. It may not feel too comfortable, though.

> ***If there is any certainty it must be that volatility could be even more of an issue in 2020 than it has been in the past.***

On the global scene we mustn't forget that 2020 is a Presidential election year in the US – always assuming Donald Trump survives the impeachment hearings. Just as Brexit has divided our nation like never before, so the Trump presidency has split America down the middle. Of course, the election itself is not due to take place until late in the year, but as the fateful day approaches, so speculation on the likely result will increase. Markets over there have done well under Trump and the economy has been surprisingly buoyant. It remains to be seen if these conditions would survive a change at the top – or even the maintenance of the status quo.

As for debt, while there are few signs of cracks appearing in the system so far, the fact remains that the level of borrowing around the world is causing some economic commentators to warn of an impending crisis. Part of their concern lies around the central bank's inability to bail out failing economies, given the amount of monetary easing they have dished out to support growth in the wake of the financial crisis. Important central banks, like the Fed, the ECB and our own Bank of England have turned the cash taps on again to head off a slowdown. This may continue – but for how long?

These twin threats to our wellbeing may in the end prove to be nothing more than passing clouds in an otherwise blue-sky economic scenario. There were plenty of nay-sayers following the retrenchment in markets that took place at the end of 2018, but it all turned out to be fear-mongering rather than accurate forecasting of approaching Armageddon. And there's the rub. Economic forecasters are capable of determining where the threats and opportunities might lie, but have no more idea than any of us as to what will actually happen. It doesn't stop them nailing their colours to a mast, though.

Might either of these potential threats drive the global economic galleon onto the rocks? I doubt it, but that's not to say we might experience some choppy seas as political landscapes are redrawn or debt threatens to drown us all. It's up to all of us to decide whether we can live with the uncertainties that remain a part of the investment scene. Don't forget it was ever thus. If uncertainty did not exist, the opportunity to prosper from astute investing would not either. My money is on a global economic slowdown to continue in 2020, but for a recession to be avoided. At least I know it's a pure guess.

JM Finn News

JM Finn extends RDA support

Enriching lives through horses

At Riding for the Disabled Association (RDA), their horses benefit the lives of over 25,000 disabled children and adults. With fun activities like riding and carriage driving, they provide therapy, fitness, skills development and opportunities for achievement – all supported by 18,000 amazing volunteers and qualified coaches at nearly 500 RDA centres all over the UK.

“

The activities support their clients' education and learning.

RDA is an inclusive and diverse organisation welcoming clients with physical and learning disabilities and autism, and there are no age restrictions. Through the network of member groups, RDA is at work in every corner of the UK, in cities and remote rural areas, bringing the therapy, achievement and fun of horses to as many people as possible.

The charity's impact

Committed to researching and measuring the impact of their activities allows their donors to give with confidence; volunteers and coaches can understand the difference they make and – most importantly – riders and carriage drivers know they are getting the best possible experience from their time.

RDA's research shows that horse riding with RDA delivers physical benefits, boosts confidence, improves communication skills and helps to build relationships. The activities support their clients' education and learning, and that having the opportunity to compete improves confidence in daily life. Each year they build on their knowledge and use the insight from their research to help them do more of what they do – and to do it even better.

Impact at a glance

68% Improve communication

Experience more enjoyment 76%

76% Show greater confidence

Experience physical improvement 77%

82% Improve ability to build relationships

Riders and carriage drivers know they are getting the best possible experience from their time.

JM Finn have been involved with RDA since 2012 when we sponsored the Best Turned Out competition at that year's national championships. Since then we have helped in a variety of ways including supporting their AGM, attending their gala dinners and supporting the RDA Endurance which, having been embraced around the country, now has 96 registered groups taking part and which we have committed to supporting for the next three years. We have also sponsored a pony at the RDA Lowlands Equestrian Centre for the next three years.

We have now included RDA as one of our official corporate charities which benefits from our internal staff fund raising. We look to raise funds via a variety of efforts organised by the Corporate Social Responsibility (CSR) committee, including quiz nights, cake sales and a silent auction and raffle held at the staff Christmas party each year. Our staff have always been extremely generous and long may it continue. All funds raised across these events are split between the chosen charities and we are delighted that the RDA is now included.

Collectives Commentary

Singing a different tune

Merck Mercuriadis
Hipgnosis Songs

Illustration by Adi Kuznicki

Hit songs by culturally important artists are like gold and oil; they have predictable and reliable revenues and are therefore investable. So says Merck Mercuriadis of Hipgnosis who discusses this alternative market from an investment perspective.

Hit songs could in fact be deemed better than gold and oil as they are uncorrelated. When life is great music is the soundtrack to that celebration. When life is challenged music is the escape. Music is always being consumed on a daily basis.

Unfortunately between 2001 and 2015 much of that consumption was illegal thanks to the technological disruption of illegal downloading. The only good thing that came from that is that it has left these incredible songs available at attractive prices just as the technology has evolved into streaming which has made it more convenient to once again consume music legally. As a result, revenues are growing and are set to grow even more over the next 10 years when it is projected that there will be growth from the 200 million paid subscribers globally today to more than 2 billion. 600 million of those will be a tripling of the world as we know it today and a whopping 1.4 billion are predicted to come from emerging markets that currently do not contribute to the steady state income on which songs are bought. Keep in mind there were only 50 million paid subscribers worldwide only two years ago. Over the same period, and based on the cash flooding through from that growth, Vivendi have increased their valuation of Universal Music Group from $6 billion to over $30 billion thanks to the proposed acquisition by TenCent of 10% (for $3 billion).

Investors could access this anticipated market growth by investing in a vehicle that has bought the catalogues of celebrated artists, such as Eurythmics 'Sweet Dreams (Are Made Of This), Chic - Le Freak, Journey - Don't Stop Believin'', Al Green - 'Let's Stay Together', Beyonce - 'Single Ladies (Put A Ring On It), Rihanna - 'Umbrella', Ed Sheeran - 'Castle On The Hill', Luis Fonsi, Daddy Yankee feat Justin Bieber - 'Despacito', Diana Ross - 'I'm Coming Out', Sister Sledge - 'We Are Family' and others.

> *Hit songs could in fact be deemed better than gold and oil as they are uncorrelated.*

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Songs can now be considered the currency by which the music industry revolves.

In 2019 the UK music industry has contributed a huge £5.2 billion in Gross Value Added (GVA) to the UK economy and the US is on pace to be a $10 billion business again for the first time since the year 2001. The opportunity is a result of the systemic change in the way that music is now consumed as a result of streaming. Many believe what this means is that the music enthusiast who used to consume vinyl, CDs or downloads is now getting their music via streaming services. That may be true for some but the real systemic change is that the passive consumer, who has never paid for music before, who was happy listening to it on the radio or watching on TV, is now spending £120 per year on music streaming because the combination of access to everything from The Beatles to Beethoven and Chic to Chopin, and the convenience has moved music from a luxury purchase to a utility necessity. Songs can now be considered the currency by which the music industry revolves.

The investment thesis is that streaming is going to grow revenue, that the songwriters share of the royalties will increase, that we might be able to bring efficiencies to the collection of the income and critically that we would actively manage these precious songs to new levels of success all of which has the aim of adding significant value over and above the predictable and reliable income on which the songs were acquired. It would be remiss to not mention that songs are also protected by rule of law which is 70 years after the death of the last co-composer, so these are long-term income streams with the average length in the catalogue being over 100 years and the average acquisition multiple being 12.6x.

It is my belief that we are on the cusp of proven hit songs not only being truly recognised as an asset class that belongs in everyone’s portfolio but indeed an extraordinary one at that.

Views and opinions have been arrived at by Hipgnosis Songs Fund Limited and should not be considered to be a recommendation or solicitation to buy or sell any products or securities that may be mentioned.

Please read the important notice on page 1.

Stock in Focus

Microsoft

Michael Bray, CFA
Research Analyst

Illustration by Andrew Rees

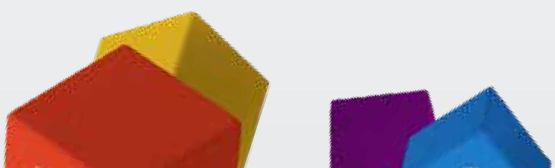
More than just the creator of the Windows operating system and Excel, Microsoft sells a range of software, hardware and IT services across an array of computing devices. Customers are primarily enterprises although Microsoft does have a consumer offering in markets such as gaming and laptops/tablets.

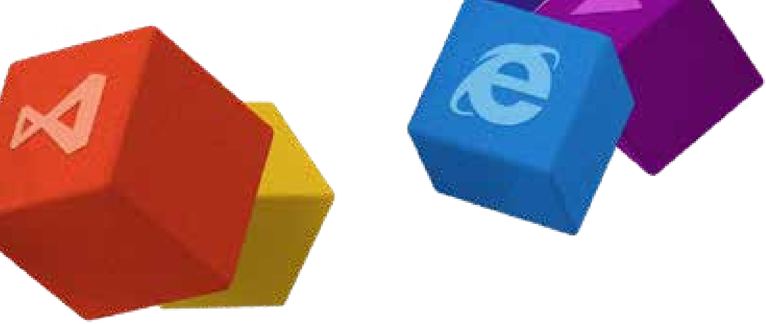
Following numerous failed pivots into the consumer device segment (e.g. Nokia acquisition/Windows phone), Microsoft has now developed a clear growth strategy based upon cloud computing. Cloud computing (The Cloud) marks a dramatic evolution in the ICT industry, effectively allowing the streaming of computing power from data centres to, and the collection of data from, any internet connected device. Depending on The Cloud service, this means there is a limited need for enterprises to house on-premise (on-prem) ICT infrastructure (e.g. servers) and hire less ICT personnel.

The advantages of The Cloud include cost-savings and enhanced security, but perhaps most importantly it provides enterprises of all sizes with almost unlimited ICT resources. This enables enterprises to digitise more of their workflows and receive more real time data, allowing them to make their business models more innovative and efficient. Microsoft's cloud partnership with the US grocer Kroger is a good example. Together they have developed cloud backed "digital shelves" that can show ads, price dynamically, help reduce food waste and make personalised suggestions to customers. Another use is in oil rig maintenance. Internet-connected sensors, backed by Microsoft's cloud platform, transmit real-time data which can alert engineers to earlier signs of rig failure and help avoid the potential revenue loss.

This technological change is known as 'digital transformation' and underpins many secular ICT trends such as cyber security, artificial intelligence and the internet-of-things. The structural need for more computing power, driven in large part by The Cloud, has meant that ICT costs are increasingly moving from being an overhead cost for enterprises to a cost of doing business. As a result, the $2.5T global ICT market is expected to nearly double over the next decade.

Microsoft is expected to take a big share of this increased spend. Microsoft's cloud platform, Azure, is the largest globally by revenues and by data centres, possessing more than Amazon and Google combined. The Cloud accounts for c.30% of Microsoft's $126B of revenue, has driven over 80% of Microsoft's revenue growth over the past three years and is expected to drive the majority of growth moving forward. Management are forecasting a healthy low double-digit growth in total company revenue and operating profit for the foreseeable future.





PRICE
$151.38

52 WEEK HIGH-LOW
$152.50—$93.96

NET YIELD
1.2%

HIST/PROS PER
30.3—28.1

EQUITY MARKET CAP (M)
$1,154,849

> *The Cloud accounts for c.30% of Microsoft's $126B of revenue.*

Cloud growth for Microsoft does however differ by model. Microsoft is one of the few providers of all three cloud models: Infrastructure-as-a-Service (IaaS), the cloud alternative for physical server and datacentre infrastructure; Platform-as-a-Service (PaaS), which includes IaaS services, as well as resources which support the life cycle of an application, such as Excel (i.e. the building, managing, updating and deploying); and Software-as-a-Service (SaaS), which includes IaaS and PaaS services, but also allows for applications (not just the support software) like Excel, to effectively be rented and streamed from Microsoft's data centres.

SaaS is Microsoft's slowest growing cloud model but is still performing well. It primarily centres on Office 365, its cloud version of its Office suite of applications, Outlook, Excel, and PowerPoint etc, which grew +30% in FY19.

The biggest cloud prize for Microsoft lay within IaaS and PaaS where the bulk of enterprises' digital transformations are captured. Microsoft's IaaS and PaaS sales are primarily recorded under its Azure product line, the Azure platform itself does however power all cloud services. Azure grew +72% in FY19 and is Microsoft's fastest growing segment.

Microsoft is the no.2 player (c.22% market share) in the IaaS and PaaS cloud market, behind Amazon (c.47%) which has had a several year head start, but has been able to catch up quickly over the last few years. This is in large part due to Microsoft's on-prem software presence which it has built up in enterprises over the past few decades; c.70% of the world's on-prem server workloads run on Microsoft software. Microsoft's strategy has been to leverage this vast installed base of on-prem server customers by migrating them over to the cloud for no additional cost. This initial move is from on-prem to IaaS. Once Microsoft has customers on The Cloud with IaaS, the monetisation comes from selling higher margin PaaS services, such as security, operating systems, database and data analytics (e.g. artificial intelligence) software. Microsoft say that this process is still within its infancy as many businesses have only just started their digital transformation journeys.

Despite the positive backdrop for Microsoft, there are some headwinds that face the business. Some basic IaaS cloud services, such as storage, are likely to become more commoditised over time, causing a race to the bottom in terms of pricing which would impact the business. Additionally, a big chunk of Microsoft's business (16% of revenues) is still accounted for by Windows software, of which some is cloud-based with the rest bundled with PC manufacturer sales. PC sales remain highly cyclical and are dependent on product cycles and the wider macro environment. Perhaps the biggest threat to the business comes from technological change to distributed computing. The cloud is the established model for distributed computing currently, but this could change with the onset of quantum computing.

Independent view

Estate planning: Giving and protecting family assets

Nick Rucker
Head of Tax, Trusts & Estates London & International at Irwin Mitchell

Asset protection, succession and estate planning often require the use of a suitable entity for holding and managing family wealth. Many people use their will to distribute wealth to loved ones on death but forget that there are a number of strategies to gift assets during your lifetime, which Nick Rucker of Irwin Mitchell summarises.

Through careful structuring, family assets can be safeguarded for future generations and protected from creditors and matrimonial claims. Such planning enables a controlled transfer of wealth reducing the risk of disagreements arising on death.

Each strategy has its own particular benefits, issues and tax considerations. Some of the common approaches are briefly considered below together with available exemptions and reliefs that apply when lifetime planning. Deciding how to approach succession planning can be a daunting and difficult task. A lot depends on your objectives, your personal circumstances, tax legislation and the wider tax environment.

1

MAKE OUTRIGHT GIFTS

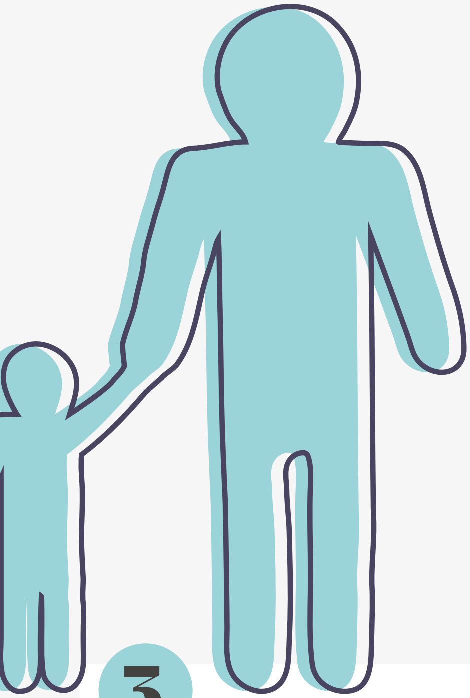
If you gift cash or assets to your children/ wider family members and survive seven years, then the gifted assets will be outside your estate for inheritance tax ("IHT") purposes on death. You must be careful that you do not continue to use or benefit from the gifted assets as this would be a "gift with reservation of benefit" and will not reduce your taxable estate.

2

USE YOUR IHT ALLOWANCE AND OTHER EXEMPTIONS/RELIEFS

Everyone has a tax-free allowance to make cash gifts of up to £3,000 per year. Any amount in excess may trigger an IHT charge on death. The rate of tax currently payable tapers over a seven-year period after giving, so if you survive seven years of making the gift, the cash transferred is free of IHT.

Gifts between spouses/civil partners and gifts to certain universities or charities are exempt from IHT. Business or agricultural assets (provided certain requirements are met) can also be exempt but partial claw back can occur if some of the property meets the conditions and some does not.



3

MAKE GIFTS OUT OF INCOME

If you have surplus income and you can afford to make regular gifts of this income, either outright to your chosen beneficiary or into a trust, then you can rely on the "regular gifts out of income" exemption. This is effective (especially with saving for minors) when surplus income is paid into a trust and can accumulate over time.

4

ESTABLISH A TRUST

A trust is a flexible tool if you want to give assets away to your children/grandchildren now, but want to postpone the time at which they get access to the funds.

There is normally an immediate 20% IHT charge on transferring assets worth more than the IHT threshold (currently £325,000) to a trust, so most individuals are limited to trust gifts of a maximum of £325,000 in any seven years. For married couples, the effective limit is £650,000. Trusts work particularly well when assets qualify for business or agricultural property relief and particularly effective planning can be undertaken before the sale of a family business if timely advice is taken.

Although capital gains tax ("CGT") may have to be paid on a gift of an asset (at market value), CGT can usually be deferred when gifting to a trust.

5

USE A FAMILY INVESTMENT COMPANY ("FIC")

FICs have become popular as a bespoke, collective holding vehicle for family assets. A FIC is typically a private limited company that is used for controlled wealth transfer planning. Irwin Mitchell has been advising on these structures over the last decade further to the decline in the use of trusts in estate planning. FICs also provide robust protection in the context of divorce. The articles of association and shareholders' agreement can be drafted to provide that children enter into a pre-nuptial agreement before marrying. Mechanisms to recall the shares if they do not do so can be included.

The company structure enables tax efficient accumulation of wealth and provides an opportunity for gradual control to be handed over to the next generation. Shareholders in a FIC only pay tax to the extent that the FIC distributes income to them. If dividends are not issued, the profits will remain in the FIC and can be reinvested to produce greater profits. With decreasing corporation tax rates, we envisage that FICs will remain an important tool in estate planning armoury.

6

USE A FAMILY LIMITED PARTNERSHIP ("FLP")

FLPs are an alternative vehicle for controlled succession planning and are typically used in estates of considerable size to manage and transfer multi-generational wealth. FLPs are likely to be classified as a collective investment scheme. Cost implications and operator functions may need to be delegated to the FCA regulated operators.

•

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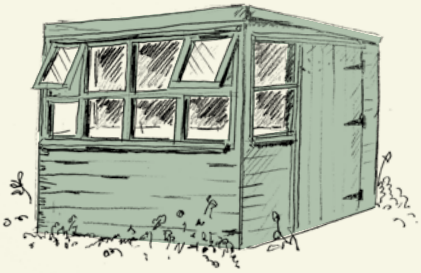
The above must not be taken as advice and is generic. Advice should be tailored to an individual situation and it would be strongly recommended that such advice is sought on any of the above.



The Potting Shed

The number of new businesses in the UK continues to grow year on year. In this series we ask entrepreneurs to describe the challenges they faced when embarking on their ventures.

No.7

Novalux Energy

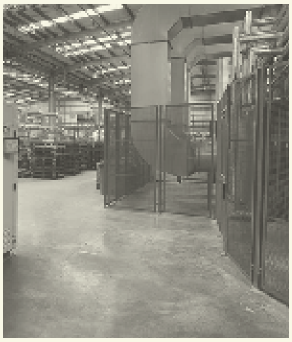
Jo Allcott
Founder

I've always been interested in engineering, so when the opportunity to set up a renewable energy company came in 2010 it felt like the right decision.

My good friend Jamie Vaughan and I started Novalux Energy with the intention of helping businesses switch to more efficient technology and make financial savings. We planned to help companies secure the funding to pay for the upgrades, whilst taking a cut of the savings. What we didn't anticipate was that the business owners were prepared to make the investment themselves, essentially making us a middle man.

We wanted our business to be more involved in the energy industry, so when a customer asked for us to install Solar Photovoltaics (PV) we saw it as an opportunity. Despite working a minimum wage weekend job and running Novalux in the week, we rushed to gain the necessary accreditations so we could install it ourselves.

One of the challenges of working in the renewables industry is that for the most part it is not a free market. The economic motivation for installing the technology is often underpinned by incentives. Various tariffs have been available over the years, such as the Feed-in-Tariff (FiT) and Renewable Heat Incentive (RHI). These schemes work to incentivise the uptake of renewable energy by giving those who invest payments for twenty years thereafter.



This provides a good selling point and in theory makes the switch to carbon neutral technology easier. However, as it's driven by Government policy, cuts to the scheme can be announced at short notice, making it difficult to plan business growth.

Unfortunately, the day after I gained my accreditation to install solar, I found out that the tariffs had been retrospectively reduced, taking the market with it overnight. It was frustrating to say the least. Running our business has meant having to constantly persevere. Had I known that the pipeline we had worked hard to line up would disappear, I may well have given up. Thankfully we didn't, the High Court overturned the decision and we were able to install our first solar system.

Gaining that first contract and completing the job without assistance gave us the optimism to continue. Whatever stage we got to, we kept looking for opportunities, and when a local energy business folded we were lucky enough to hire some of their staff.

Small scale biomass at the time was incredibly popular due to the RHI and our new staff had been working in a team who had been installing it, so it made sense for us to diversify the services we offered to include biomass boilers. We investigated ways that we could provide customers with power as well as heat and decided on Organic Rankine Cycle (ORC) – a technology which harnesses heat from a biomass boiler to generate power.

At the start, because the technology was more complex than solar, our profit margins were low to help us get a foot in the door and build a reputation. We put customer service at the forefront which has been essential in growing our business, as we depend on word of mouth recommendations. At times it has been hard work, especially when we've been low on staff. Back in 2014 - not wanting to let a customer down, Jamie and I spent a particularly bleak Christmas eve digging trenches for heat pipes in the snow.

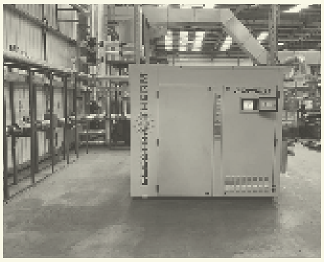
Value your team and celebrate the small wins.

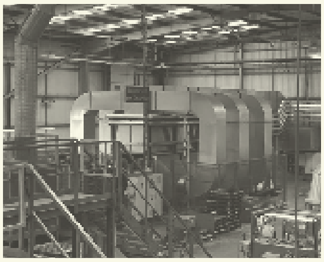
Despite the many difficulties we've come up against over the years we have managed to diversify our services, which has helped us to outlast many of our competitors. Three years ago, we made the decision to raise money to build our own 2.5MW combined heat and power plant. Up to that point we had grown Novalux organically, but because of our experience in installing the technology we had the confidence to invest in our own plant. We now provide renewable heat and power to an industrial site in South Wales. By showing our customers that we believe in the product enough to install it ourselves, we have been able to install the largest fleet of distributed Organic Rankine Cycle (ORC) and waste wood power plants in the UK.

What I've learnt is to stay agile, take a step back sometimes in order see the bigger picture, value your team and celebrate the small wins.

Although we've been running for nine years, we have kept our start up mentality and we are still always looking for the next thing – which now means building a network of our own distributed power plants.

Stay agile, take a step back sometimes in order to see the bigger picture.





Novalux Energy Solutions Ltd

We know engineering having worked with many technologies over the years and that's how we know which renewables are right for your business. Novalux Energy install, own and operate combined heat and power plants (CHP) and Solar PV systems which provide low cost, renewable, distributed heat and power to businesses and industry. We provide energy solutions to business premises across the UK to help them reduce their energy consumption, and hence their overall cost of energy.

Our focus is on commercial buildings (offices, warehouses, schools etc.) where we will assess a buildings' energy consumption and look at ways to reduce this primarily through installing new, proven technologies.

A major part of our offering is that we will finance the installation which, over a period of time, will be paid for by the savings created from the reduced energy bills. This alleviates companies from having to find the capital to fund the project. For further details visit www.novaluxenergy.com.

Wealth planning in focus

Lasting Powers of Attorney and Discretionary Portfolio Management

Atticus Kidd
DipPFS, Paraplanner

Illustration by Rebecca Sadie May

With a growing elderly population, putting in place an 'attorney' acting under a Financial and Property Affairs Lasting Power of Attorney (LPA) or Enduring Power of Attorney is becoming more prevalent. In order to ease their role, an attorney might wish to open a new discretionary portfolio on behalf of the 'donor' of the LPA, or the attorney wishes to instruct the investment manager to continue to manage the assets on a discretionary basis after the donor loses mental capacity. In this article Atticus Kidd explores one major pitfall that attorneys and donors should be aware of in this context.

Typically as part of a Wealth Planning review into someone's financial affairs a planner will recommend that individuals have in place either a Property and Financial Affairs Lasting Power of Attorney (LPA) or the older style Enduring Power Attorney (EPA). Such a Power of Attorney is a legal document that enables a nominated individual (an 'attorney') to help make decisions or make financial decisions on your behalf (the 'donor' of the LPA/EPA), should you become incapable of doing so yourself. This is particularly important if you ever have an accident or suffer from an illness that means you lose your capacity to make decisions.

The EPA was replaced with the Property and Financial Affairs LPA from October 2007. An EPA that was signed and witnessed before October 2007 can either continue to be used or cancelled and replaced by a Property and Financial Affairs LPA.

Where a Power of Attorney is in place, there is an existing limitation that it is important to be aware of to ensure that your attorney has the greatest flexibility in managing your financial affairs were you to lose capacity.

> *Under existing legislation it is not possible for the nominated attorney to delegate decision-making to third parties.*

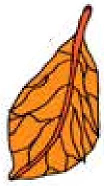
Under existing legislation it is not possible for the nominated attorney to delegate decision-making to third parties. This includes financial investments and would therefore require that the attorney manage the donor's assets on an advisory basis rather than a discretionary basis. This adds various complications where there is already a discretionary managed portfolio in place and means that the attorney has the responsibility for making final decisions with regards to investments which they may not be comfortable or familiar with doing.

Where an existing Power of Attorney is in place without permissions to delegate powers of investment management, the attorney would be required to apply to the Court of Protection for an Order that would allow them to benefit from the use of a discretionary investment service. This can be both a costly and lengthy process with no guaranteed outcome. However, when setting up a Power of Attorney it is possible to insert wording that will allow the attorney to delegate investment decisions to a discretionary investment manager. The Office of the Public Guardian, the body that regulates LPAs and attorneys, has suggested:

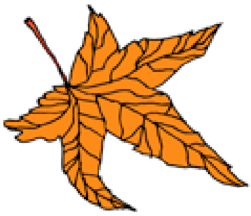
"My attorney(s) may transfer my investments into a discretionary management scheme. Or, if I already had investments in a discretionary management scheme before I lost capacity to make financial decisions, I want the scheme to continue. I understand in both cases that managers of the scheme will make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

It is advisable to speak with a solicitor when establishing a Power of Attorney in order to ensure that such wording is included in order to provide your attorney with a greater degree of flexibility in managing your investments.

Unfortunately, if you have already established a Power of Attorney it is not possible to amend it but, it is possible to revoke any existing arrangements and make a new Power of Attorney if you still have mental capacity. Once the donor's mental capacity is lost it will no longer be possible to appoint any new Power of Attorneys so, it is important that you review any existing arrangements with your solicitor and ensure that they are tailored towards your needs.



> ***It is possible to insert wording that will allow the attorney to delegate investment decisions to a discretionary investment manager.***



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. You are recommended to obtain professional advice from a professional accountant or solicitor before you take any action or refrain from action.

To meet one of our Chartered Financial Planners to discuss tax and estate planning, please contact your investment manager who will be happy to arrange a meeting.

SPIRAX-SARCO ENGINEERING

Michael Bray
Research Analyst

PRICE
£89.25

52 WEEK HIGH-LOW
£94.40—£58.75

NET YIELD
1.1%

HIST/PROS PER
29.9—34.6

EQUITY MARKET CAP (M)
£6,603

Spirax-Sarco Engineering (Spirax) is one of the true great multi-national British engineering companies, comprising three complementary niche businesses operating in thermal energy management market, steam and electrical process heating and unique pumping solutions.

An example of these businesses in action can be seen in food manufacturing. Steam is used for blanching, cooking, baking, packaging, cleaning and sterilising. Electrical process heating elements are used in high-temperature commercial food equipment and Pumps are used to meter ingredients, deliver food to process lines and handle process waste.

These solutions help customers increase efficiency, meet environmental targets, improve product quality and enhance the safety of their operations. The Spirax group supports a diverse range of market sectors including beverage, pharmaceutical and power generation. Spirax's competitive advantage not only comes from the uniqueness and breadth of its technologies, but also from its direct engineering sales force which have allowed Spirax to develop a detailed understanding of their customers, enabling them to create and implement bespoke customer solutions, presenting a formidable barrier to entry for competition. However, Spirax is still impacted by the global industrial production cycle which is in the midst of a downturn.

Please read the important notice on page 1.


2025
Inflation
The RPI recalculation risk
3000m

Bond Focus

John Royden
Head of Research

Illustration by Darren Richards

The UK has two main measures of inflation, the Retail Price Index ("RPI") and the Consumer Price Index ("CPI") and they produce different results, as explained by John Royden.

The RPI includes housing costs but that is not the reason why it tends to be 0.7% per annum greater than CPI. The method of calculation drives the main difference. For those with Maths A-Levels, RPI is calculated with arithmetic growth using the Carli method whereas CPI is a geometric growth calculation using the Jevons approach. Statisticians say that geometric is the one to go for and I agree with them as in the long run it is more accurate.

Index linked gilts ("linkers") are indexed to RPI, but over the last few months, debate has arisen as to whether the government should change to CPI or indeed whether RPI should be calculated geometrically. A geometric RPI would result in it being lower by c0.7% per annum.

The government would like to see RPI lower. The FT estimated that lowering the RPI by 0.7% per annum would save the country £3 billion on index linked gilts alone and if you include RPI linked pensions, which the government also pays, then the savings climb even higher.

Under the Statistics and Registration Service Act 2007, the Office for National Statistics ("ONS") is responsible for calculating RPI with the basis of the methodology fixed until 2030, at which point the ONS has the ability to change the methodology from arithmetic to geometric. The commentary emanating from the ONS suggests that they would like to do this. John Pullinger, the recently retired national statistician, said that the "RPI is a very poor measure of general inflation". David Norgrove, chair of the UK Statistics Authority ("UKSA" which oversees the ONS), said: "With this strong evidence for the deficiencies of the RPI, I remain concerned by its widespread use". Mark Carney, Bank of England governor, mentioned "known errors" and has called for a transition in the calculation of the RPI.

The pressure started mounting in earnest in mid-2018. Liz Truss, Secretary of State for International Trade asked the UKSA to put forward reforms. John Pullinger indicated that the issue of reform was "when" rather than "if" and that he thought a lead time of less than ten years was appropriate.

In February of this year the Treasury Select Committee and the Lords' Economic Affairs Committee urged statistical authorities to seek consent from the chancellor to fix the RPI index and end a "ridiculous merry-go-round" of inaction.

> ***The FT estimated that lowering the RPI by 0.7% per annum would save the country £3 billion on index linked gilts alone.***

That prompted the UKSA to ask Chancellor, Sajid Javid for permission to reform RPI in September of this year and in spite of investment giant M&G warning that radical reform would half the price of the 0.125% (⅛) linker of 2068, Sajid agreed; with the proviso that the reform would take place sometime between 2025 and 2030. 2030 is when the UKSA think they can make the change without political approval and the Chancellor is currently consulting on whether he should bring forward the date for change to 2025. We will know the results of that consultation in early 2020.

On the day, pricing at the long end of the index-linked market was not as badly affected as many thought. The 0.125% (⅛) linker of 2068 fell 16%, less than M&G feared, but has since fallen further.

So we now have three levels of ambiguity. Will the consultation be supportive of a 2025 date? Secondly, will Javid act on the consultation and thirdly, will the UKSA bring forward the date if they are allowed to? I am inclined to the view that the date will be brought forward and that the market must be pricing this in. But if the market is not, then linkers longer dated than 2030 could suffer another 3% fall if the date for reform is confirmed as 2025.

JM Finn *News*

Award-winning services

Last quarter we mentioned that the firm had been nominated for an award and we're delighted to say that we won it, which seems a natural opportunity to highlight the various accolades that the firm and our staff have achieved over the last few years.

Forgive us showcasing this, but our aim is to provide a top quality service to our clients; the results of our client survey (see Summer edition of Prospects) and these third party endorsements help us determine how we are doing and it is encouraging to know that we are meeting with the approval of most.

2019

Wealth Management Firm of the Year 2019: MoneyAge Awards

Wealth Management Firm of the Year 2019 - England and Wales: SME Awards 2019

Best Wealth Management Firm UK 2019: Cfi.co Awards

Best Wealth Management User Interface - Systems in the City Awards 2019

City of London Wealth Management Awards Female Wealth Manager of the Year: Lucy Coutts

PAM Top 40 under 40: Chris Barrett

Citywire's Top 100 Fund Selectors: Alasdair Pike

Wealth Planning and Preservation CEO of the year 2019: Steven Sussman

Named as "Outstanding in field" in the Spear's 500 2019: Hugo Bedford

2018

The WealthNet's Top Financial Planning Companies 2018

Gold Standard Awards 2018 Winner: Discretionary Fund Management

UK Wealth Management Advisory Firm of the Year 2018: Finance Monthly Fintech Awards

City of London Wealth Management Awards Female Wealth Manager of the Year: Kim Woolmer

Named in the PAM 50 Most Influential 2018: Steven Sussman

•

SEVERN TRENT

John Royden
Head of Research

PRICE
£22.43

52 WEEK HIGH-LOW
£23.79—£17.58

NET YIELD
4.3%

HIST/PROS PER
17.8—16.5

EQUITY MARKET CAP (M)
£5,292

Ofwat regulates the water companies. On 16th December 2019 Ofwat publishes its determinations for how water companies will get rewarded in the next regulatory period called AMP7 (2020 to 2025).

There has been political pressure on our utilities. The Tories capped electricity bills and the pressure on the water industry has manifested itself in an expectation for bill reductions. This in turn has driven Ofwat into pressing for a lower allowed return on equity and moving from RPI to CPI as the basis for growing revenues. Ofwat will also squeeze total expenditure, which is the amount that Ofwat expects companies to spend over the AMP (Asset Management Period).

Whilst lower bills and moving to CPI make for good tabloid headlines and smiling politicians, there is an element of Ofwat taking with one hand and giving with another. By changing "below the tabloid radar" rules to accelerate water companies' cashflows over the medium term, Ofwat can compensate for some of their taking. The result is that if Severn Trent and others in the industry (such as Pennon and United Utilities) cut their dividend, we would expect compensation to come in the form of higher expected dividend growth rates.

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

Materials	We turned more cautious following a strong first half of 2019 as macro economic indicators suggest global economy stuttering. Dividend attractions however remain and balance sheets are not stretched.
Consumer Staples	We like the sector for its defensive attributes and high quality businesses. However, we are wary of valuations and the sector's vulnerability to rising interest rates.
Consumer Discretionary	Focus on the disrupting companies and high quality brands. Structural growth and rising wages should support the sector. Note Amazon represents 15% of this sector.
Financials ex Banks, Life Insurance, Property	This includes a broad range of stocks which are generally geared to investment markets. Valuations now reflect the cautious lower growth outlook.
Financials Banks	Uncertain domestic outlook, falling interest rates globally and a stuttering economy makes us reluctant to add to this sector. We see structural as well as cyclical headwinds for the sector.
Financials Property	Some discounts in the UK are at historically wide levels due to Brexit concerns and structural issues facing the high street however we do see emerging value in some of the niche/ specialist areas of the sector which is where our focus is. We recently upgraded the sector.
Financials Life Insurance	Supportive demographics, particularly internationally, however valuations appear fair value.
Financials Real Estate	Global real estate may offer better value but again caution on bond proxy status.
Health Care	Growth and defensive attributes and global demographic tailwind. Distinguish between pharma/healthcare/biotech sub sectors. Remains a key theme for medium term.
Industrials	Valuations look more reasonable following the correction in 2018 but watch out for value traps eg. low price/earnings cyclicals as economic backdrop not supportive for the sector.
Energy	Oil price supportive for dividends between \$55-\$65 however supply/demand dynamics look less supportive for capital growth or capital expenditure expansion. Possible headwinds also from an environmental, social governance perspective.
Information Technology	Traditional tech firms - Apple, Microsoft (make up 24%) with Visa, Intel, Cisco - be selective.
Communication Services	New restructured sector - Alphabet, Facebook, Netflix, Tencent (make up 30%) included with Verizon, AT&T, Disney and Comcast - be selective and focus on quality compounders eg. Disney.
Utilities	Valuations now reflecting political uncertainty in UK. UK interest rates unlikley to move considerably from current level.

Asset Allocation

Overweight · Neutral · Underweight

UK EQUITIES		
UK	Overweight	Heightened political risk means that we expect near term volatility, although on balance the greater risk is to the upside, both in high quality domestic names and overseas earners. While sterling weakness continues to make UK assets a target for opportunistic overseas buyers, we should be cognisant of our exposure to overseas earnings in case we see a lifting of headwinds and a strengthening in sterling.
INTERNATIONAL EQUITIES		
North America	Overweight	Remains in a fundamentally sound economic position which includes reasonable growth, low unemployment, real wage inflation and a more dovish Fed. That being said we are wary that a positive outcome to the trade war and the impact of looser monetary policy is increasingly priced in.
Europe	Underweight	We remain underweight domestic European stocks due to longer term structural concerns, such as political risk, higher unemployment and subdued inflation and economic growth. Accommodative monetary policy has supported equities for now, but the long term efficacy of this policy in the absence of fiscal stimulus remains to be seen.
Japan	Neutral	We see similar structural concerns to those in Europe whilst also note lower conviction on our expectation for Chinese stimulus (a key export partner)
Asia Pacific	Neutral	We are concerned around the risk of escalating trade wars and hold a lower conviction on the impact that Chinese stimulus will have. Whilst we continue to see it in the interest of both parties (the US and China) to agree a trade truce, we would ascribe a low likelihood of a near term resolution.
Emerging Markets	Neutral	As for Asia Pacific, we are concerned around the risk of escalating trade wars and hold a lower conviction on our expectation for significant Chinese stimulus.
BONDS		
Conventional	Underweight	While we see limited risk of interest rate rises in the foreseeable future, the negative real yields on offer make this an unattractive investment at present.
Corporate	Underweight	Despite the current interest rate outlook reducing credit risk, we see spreads as offering little value without much downside protection.
Index Linked	Overweight	Inflation has been subdued for some time but at a time when real yields on conventional gilts are negative preference is for index-linked gilts.
CASH		
Cash	Neutral	We have returned to a neutral position for cash as we feel that provides us with sufficient optionality at a time of heightened volatility.
PROPERTY		
Property	Neutral	The sector generally trades at a large discount to net asset value due to Brexit concerns, structural challenges to bricks and mortar retailers, and the risk of higher inflation and interest rates in the future. Nevertheless, there are specific opportunities in high quality names to increase exposure to sterling at a level where the downside risk is limited.
ALTERNATIVES		
Alternatives	Neutral	Bottom up selection is key in this heterogenous sector. While real yields remain negative we would highlight infrastructure and gold as potentially better diversifiers than cash or conventional gilts.

Meet the manager
Lucy Coutts
Investment Director, Leeds

Lives North Yorkshire

Family Partner, and two Generation Z daughters, who make me laugh

Education Fulneck Girls' School, Yorkshire. And yes, my maths was good enough

Started at JM Finn 2011

Charity I'm spontaneous rather than loyal to one charity. I support whatever tugs at my heart strings. Most recently, helping Koalas after the bush fires in Australia

Favourite Film Casino Royale

Who you'd most like to meet Jane Garvey

Passion Beekeeping

As winner of the female investment manager of the year at the 2019 City of London Wealth Management Awards can you explain what you think are the most important qualities for a wealth manager?

Firstly, communication skills. Our industry is filled with jargon; people may not understand what we mean and quite often they don't ask questions because they don't want to appear stupid. There is nothing complicated or mysterious about what we do so the language we use should reflect that. Secondly, be disciplined in your approach to investment. I have four simple rules when looking to invest in businesses that I hope to be future proof: those with unique qualities and/or strong brands; with growing sales; offer a high return on capital; and are cash generative. There is no point in being a busy fool.

What do you see as the biggest challenges for the industry in recruiting more females into client facing roles?

Bluntly, our industry is dominated by middle-aged, white males. Combine this with the fact that women are more risk aware and some depictions of our industry point to greed, boorish behaviour, high risk and thrills. I'd prefer a picture to be drawn of my own experience at JM Finn; a broad church of individuals offered the same opportunities where integrity and respect for each other and our clients is embedded in our everyday culture. My Generation Z daughters see fewer barriers, so I am hopeful the shift has begun.

What is JM Finn doing to address the imbalance that exists across the industry?

Creating a more diverse work force is something that is now on the management's agenda, as we look to ensure our client base, where we have more female clients than male, is reflected in our staff. To help us on our journey for this, we have developed a number of initiatives over the last year such as a formal mentoring programme, leadership coaching sessions, pre- and post-maternity leave coaching, a review of our hiring policy in addition to some targets around female representation on the management committee. I hope that in years to come these will all help us in our efforts to having a more diverse and balanced work force.

Given a crystal ball, what do you see as the main themes for 2020 from an investor's perspective?

I remain positive for equities but policy uncertainty, almost everywhere, is bringing some short term challenges. That said, I buy companies that I envisage holding for a long time. Of course, their price will ebb and flow with market swings, but if the business is set to benefit from structural change or shifts, such as in global payments, then I would buy them no matter what the short term uncertainties are. Alibaba (Alipay), Tencent (WeChat), Apple (Apple Card), Facebook (Facebook Pay on WhatsApp) and Visa are all set to benefit from this trend in my opinion, by charging merchants a small transaction fee for processing payments. That's a very nice recurring revenue model, though of course none of them are without investment risk and might not be suitable for everyone.

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 Research recommendations published by JM Finn during the quarter ending September 2019 are categorised: Buy 50%, Hold 12.5%, Sell 12.5%, Unrated 25%. In no case did JM Finn supply material investment banking services to the relevant companies during the previous 12 months.


JM FINN
Nurture your passions