JM FINN

Prospects

The JM Finn Quarterly Periodical

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Contents

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

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Cover Illustration:
Jordan Atkinson / Everything–Connected

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Welcome

The last three months have perfectly demonstrated the unpredictability of stock markets. Having highlighted the ascent of the FTSE 100 to a record high in the last edition of Prospects, we've since seen a drop towards the 7,300 mark and then a bounce back of more than 600 points, only to be swiftly followed by another fall to 7,444.

The much written about causes remain the same; that is uncertainty about inflation and whether the UK falls into a recession, and whilst this translates to an unsettling ride for investors it does serve as a salient reminder that stock market movements, like all free markets, are symptoms of emotion. Ensuring that the most basic human emotions, fear and greed, do not get in the way of the in-depth research that we do on our portfolio holdings, is key to successful portfolio management.

As we move into summer we hope that current inflation concerns can be controlled and subsequent interest rate rises can cease, providing a little more comfort for markets. Economists and investors alike are watching the various indicators to determine whether or not the UK economy avoids recession, as suggested by the IMF recently. The Economic Focus article on page 12 suggests a recession cannot be ruled out, but the expectation is that we will only witness a minor contraction.

Another area covered in this edition of Prospects, is the impact of the changes to pensions announced as part of the Spring Budget, particularly the news that the Lifetime Allowance (LTA) is to be abolished from the 2024/25 tax year. We have reviewed and simplified the main points that might affect your pensions, but I suspect many readers will agree it's not a straightforward topic. We would suggest that if there are concerns as to how these issues might impact your specific circumstances, to seek professional advice. Our growing wealth planning team specialises in offering pension advice, with consolidation of pension pots the most common area of advice given in recent months and they would be willing to assist our clients on this.

One of our overriding goals at JM Finn is to ensure that our clients are fully aware and understand what we do and why, and we place a significant emphasis on our communication with clients. In our previous surveys we have tested satisfaction with both the timeliness and quality of our communications, both written and digital, and we have been very grateful for the feedback. You will note that we have included, with this issue of Prospects, a survey to probe more specifically into our readers' opinions of our quarterly periodical and especially our avoidance or explanation of jargon, which is so prevalent within our industry.

We would love to hear your thoughts and as ever hope that our client proposition, which is predicated on a personalised and individual level of service, gives our clients the opportunity to feed back on all aspects of our services.

Hugo Bedford
CEO

Editorial

Equity exodus

Michael Bray, CFA
Senior Research Analyst

Illustration by Jordan Atkinson

Michael Bray, Senior Research Analyst examines the reasons behind the ongoing decline in UK equity listings, and asks what can be done to reverse the trend.

Cheshire-based Dechra Pharmaceuticals plc (Dechra) is an excellent business. It operates in the attractive veterinary pharmaceuticals market and has achieved strong growth, earnings per share[1] have compounded by +13.6% p.a. over the past five years. So in a period where shares had been trading soft, you can understand the frustration when Dechra disclosed (following a leak) that it was in talks with Swedish private equity house EQT to be taken over at a price, £40.70 per share, and valuation multiple, which the company traded at just last spring.

Following a downgrade to full-year profit guidance by Dechra, the takeover price has now been proposed at £38.75 per share. Nonetheless, this anecdotal example did get me thinking more broadly about the vitality of the UK's equity market which appears to have been waning. The evidence does unfortunately back the view that it is being hollowed out: since 2008 the number of listed companies has declined by a whopping 40%. The main causes are:

1. companies being acquired or moving their primary listings abroad due to the relatively lower valuations attained on a UK listing; and
2. fewer companies coming to market via initial public offerings (IPOs) — this is where limited companies are floated on a public stock exchange.

Simon French, Chief Economist and Head of Research at Panmure Gordon, has carried out research which shows publicly traded companies in the UK (PLCs) are consistently trading at a discount compared to international peers. This shows that a company with earnings per share growth of +50% over the next three years will have a valuation[2] of just 16x its earnings in the UK, versus 19x in Europe and 24x in the US.

[1] Earnings per share (EPS) is calculated as a company's net profit divided by the number of shares it has outstanding.
[2] Company valuations ('price/earnings ratios') are calculated as the share price of a company divided by its earnings per share.

French says multiple factors are to blame. Brexit has not helped, with a clear UK discount emerging in mid-2016. Liquidity (the market value of shares traded) remains an issue; over the last three months, only 150 UK PLCs traded more than $5m in volume per day (due to lack of UK pension investment, discussed later), whilst all the companies trading on the US and European-based S&P500 and Stoxx600 indexes did. There is also the burden of being a PLC (which brings additional reporting, environmental social and governance (ESG) and cost responsibilities for companies) meaning some of the UK's most investable companies choose to remain as limited companies and do not become publicly traded.

UK IPOs, although poor of late, do appear to have performed relatively in line with international peers. The UK has however missed out on a number of high profile listings, including that of Arm - a Cambridge-based semiconductor chip designer - with owner Softbank choosing to list in the US instead. In addition to French's points, other factors have increased barriers to listing, such as onerous rules requiring shareholder votes on transactions between UK-listed companies and related parties (this was a factor blamed by Softbank for their decision to not list Arm in the UK). Other barriers include the often confusing two tier UK standard and premium listing structure, and the lower acceptance of high executive pay in the UK compared to the US, making executive talent recruitment much easier in the latter. Some of these existing measures do improve corporate governance and increase shareholder protection, but this makes little difference if businesses do not want to list in the UK. The Financial Conduct Authority (FCA) has said it is open to 'streamlining' policies and procedures in order to address these problems.

Yet, at the heart of the UK's declining equity market lies a lack of funding for higher risk, higher reward investments, particularly from pension funds. According to the OECD (an intergovernmental organisation which promotes pro-economic growth policies), the proportion of UK pension fund assets invested in equities was just c.26% in 2021, down from c.56% in 2001. This difference amounts to hundreds of billions of pounds which could have been used to fund UK companies, particularly smaller/growing businesses that struggle to access debt financing under economical terms. This shift, The Financial Times notes, has been spurred by IFRS17, an accounting standard introduced in 2000 which requires companies to calculate the surplus/deficit on their defined benefit schemes each year and disclose any deficit as a liability in their accounts (discussed further in this edition of Prospects 'understanding finance'). Consequently, plan sponsors (e.g. corporates) have pressured trustees to shift their asset allocation to lower risk, lower return fixed income assets such as bonds, and away from equities, where prices are more volatile, even though they are the asset class which has historically delivered the best inflation-adjusted returns.

At the heart of the UK's declining equity market lies a lack of funding for higher risk, higher reward investments.

Many defined benefit pension schemes are now closed to new participants, but defined contribution schemes often do not produce adequate returns. The predominant cause is a lack of risk culture, despite the fact that many pension beneficiaries will be unable to meet their retirement needs by investing solely in fixed income assets. Robert Swannell, a director of the Investor Forum and a senior adviser at Citi, calls it "among the biggest financial issues facing the UK government today" and says the switch to defined contribution schemes needs to be accompanied by a financial literacy campaign and "huge societal education about risk and return".

There is no silver bullet and the many required reforms will take time to implement.

The necessary changes will therefore require government intervention, with measures expected to be published this autumn. These include plans to exclude performance fees from caps on workplace pension charges, allowing more schemes to invest in private assets. The idea of a mandated allocation to growth equity could also be of merit, with the automatic enrolment of workers into company retirement schemes introduced in 2012 proving to be a successful example of such a scheme. On the defined benefit side, the further pooling of assets and the separation of pension performance from corporate sponsors' balance sheets would allow UK schemes to achieve greater scale and focus on long-term performance. Such measures would likely result in greater equity exposure (public and private) and could help returns match that of successful Canadian and Australian pension funds, which have much more flexible mandates.

Ultimately, there is no silver bullet and the many required reforms will take time to implement. In my Prospects editorial, Winter 2020, 'Change is happening in the UK...but let's try and make it positive: how the UK can boost its productivity', I prosed that the UK, and its equity market, have the potential to flourish. We are a creative and innovate nation, however we do lack consistent political will to push through policies that are materially impactful over the long term, but are slow to take effect. On behalf of our clients, JM Finn can invest in brilliant companies in almost any market in the world, but we should still strive for a thriving domestic market – capitalism remains the best driver of economic and social good.

BIG YELLOW

Henry Birt
Assistant Research Analyst

PRICE
£11.90

52 WEEK HIGH-LOW
£14.39—£9.39

NET YIELD
3.80%

HIST/PROS PER
30/22

EQUITY MARKET CAP (M)
£2,180

Whilst structured as a Real Estate Investment Trust (REIT), Big Yellow is quite different to other REITs. An owner and operator of self storage units, Big Yellow is more akin to an operating business which just happens to use property as its underlying product.

The business model is simple: buy warehouses in locations convenient for people to travel to and convert the space into many storage units of varying size, each of which can be rented out for a diverse set of uses. Big Yellow holds c.30% of the London market in terms of capacity which, along with competitors, means that there isn't much left to buy in London. This has pushed Big Yellow to expand into other urban areas outside of the M25.

For an indication of the resilience of the business, we need only look to 2007, when the business saw earnings per share (EPS) growth stay positive throughout the crisis. In good times or bad times, people need storage and Big Yellow don't expect this to change. The question now, is whether Big Yellow can find buildings to feed its growth and continue its up until now successful expansion.

Please read the important notice on page 1.

fig.1

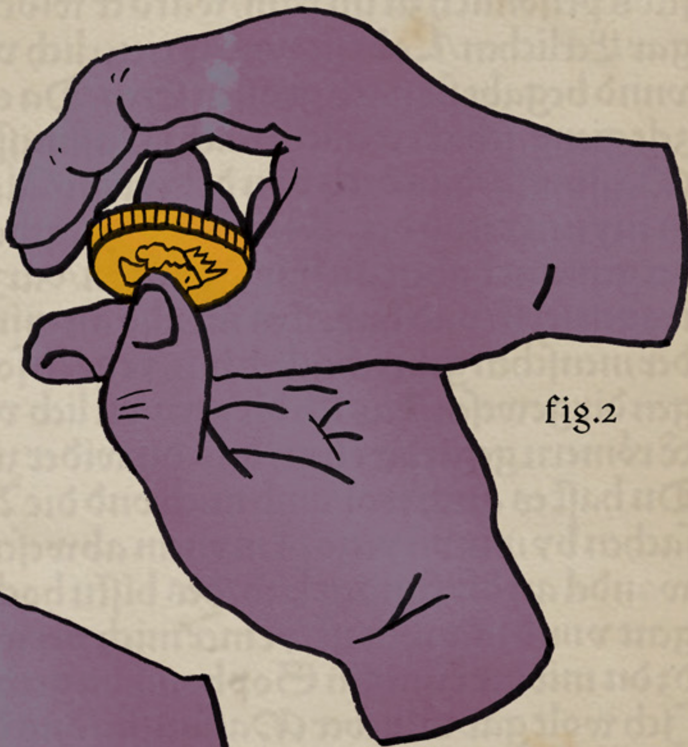


fig.2

fig.3

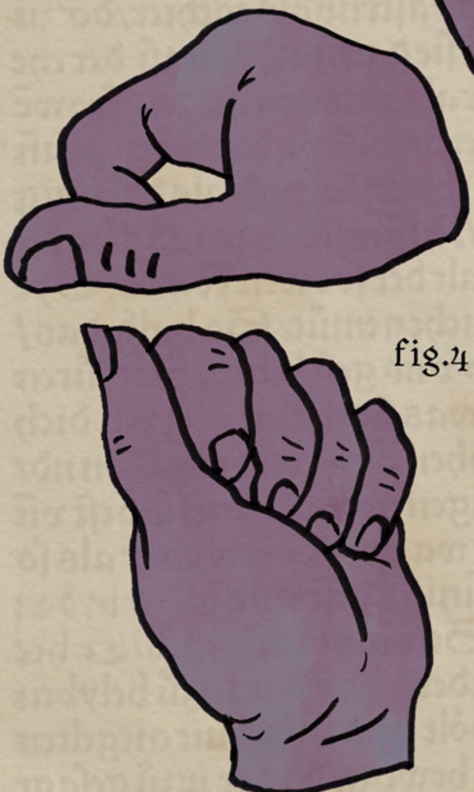


fig.4

fig.5

Guest Editorial

Mint condition: a brief history of UK coins

Georgie Potter
Specialist Numismatics, Spink

Tim Hirsch
Director of Global Auctions, Spink

Illustration by Adam Mallett

Georgie Potter, Specialist Numismatics and Tim Hirsch, Director of Global Auctions at world-leading auction house Spink give a whistle stop tour of the history of coins in the UK.

Thrown into wishing wells for luck and also a commodity tracked and recorded. Struck in many metals but of only one currency. A visual documentation of a monarch and simultaneously of many faces and values. Yet, the idiom to 'take something at face value', derived from these items, coins, is exactly what should not be done when understanding them. Not just in terms of intrinsic value (gold does not just mean gold) and nominal value, when of collectable interest, but also in terms of design.

For the first time in seven decades the face of a new monarch adorns our coins. In many ways, the five subtly changing portraits which sympathetically charted the reign of Elizabeth II were such constants that her image became more an iconic signifier for currency rather than appreciated as artworks, crafted in the same manner as those on canvas or film by artists such as Lucien Freud and Annie Leibowitz. Yet, there have been times throughout our numismatic past when artistry and function have notably been struck as one.

Henry VIII (1509-1547), Third Coinage, Testoon, 1544-1547, after Hans Holbein

At auction, examples frequently achieve results from £1,000 to upwards of £10,000 for exceptional pieces – many times their original face value.

To mark the coronation, Charles III has been depicted wearing the Tudor Crown, an emblem also seen on the coinage of his predecessor Henry VIII. However, it was the later coinage of Henry VIII which portrayed him as he is best remembered. His third coinage, produced between 1544 - 1547, broke with previous depictions of Tudor kings, to show him not in profile but forward facing to his subjects in a far more realistic manner than had been seen before. It marked a development in the sophistication and realism of coin portraiture as well as the monarchy's obsession with image. Due to the debasement of the currency, these coins also colloquially earned the king the nickname 'old copper nose' because of the colour they developed when worn from circulation. The portrait of the king, now in the final years of his life and in poor health, offered an image of a monarch who was astutely aware of the importance of iconography and its ability to not only convey but create dynastic strength.

The portrait, which was struck on the silver denominations of currency (Testoons, Groats and down to Halfpennies) referenced the great works produced by the court painter Hans Holbein the Younger. Most notably his masterpiece in propagandistic expression, the Whitehall Mural was completed in 1537. The painting was disseminated amongst officials and high powered individuals through numerous smaller works produced on panel. It is therefore not surprising that this was a strategy also adopted on the king's currency as a means to further cement this perception in the minds and pockets of his subjects. Although the portrait of Hans Holbein was destroyed by fire in 1698, it is in the coins which survive today that this image of majesty is still tangible. At auction, examples frequently achieve results from £1,000 to upwards of £10,000 for exceptional pieces – many times their original face value, although still a fraction of the figure which would ever be paid for Holbein's painted works.

By the nineteenth century the production of coins had far surpassed the hand produced means of earlier decades. However, it was a time when royal imagery was to enter a period of unparalleled interest and circulation. The accession of Queen Victoria created a new problem at the time: how was a woman of only eighteen to reconcile the roles required as the head of state? The answer to this was found in allegory, specifically from Edmund Spencer's Faerie Queen, a fable most associated with Britain's celebrated female monarch, Elizabeth I. The characters Una and the Lion, were seized upon by William Wyon, master of the Mint and the first medallist to be acknowledged by the Royal Academy, for the production of a Pattern Five Pound piece struck for 1839. It was the first time a British monarch was represented on a coin as anything other than themselves. Una, a young princess previously imprisoned, is joined by a lion on her quest for freedom. The lion, captivated by her virtue and beauty, becomes her companion and protector. Wyon's depiction of Victoria as Una, an innocent yet powerful controller of the British lion, played perfectly into the zeitgeist of Britain and its self-perception as a global power and internal haven for morality.

"

The accession of Queen Victoria created a new problem at the time: how was a woman of only eighteen to reconcile the roles required as the head of state?

Still today this medallic artwork is understood to be perhaps the most beautiful design ever to be struck. The pieces were never intended for circulation, with only a few hundred ever made. Beauty and scarcity have therefore combined to create record-breaking auction results, with the most recent example sold by Spink hammering for £230,000. Yet the portrait busts of Victoria by Wyon, struck on her currency until her Golden Jubilee in 1887, are also of profound merit – a merit which is perhaps becoming more recognised, with earlier dated Sovereigns and Half-Sovereigns previously appreciated purely as investment items now realising prices above their intrinsic value.

It may be a cliché to say that only time will tell whether or not the coins of the House of Windsor will be the collectors' items of the next generation. What is for certain is that coins struck with beauty and artistic merit in mind will always be appreciated, and will always appreciate.

www.spink.com

RICHEMONT

Jack Summers
Research Assistant

PRICE
CHF 145.75

52 WEEK HIGH-LOW
CHF 161.10—CHF 91.73

NET YIELD
2.40%

HIST/PROS PER
40/20

EQUITY MARKET CAP (M)
CHF 82,259

Richemont is a Swiss-based luxury goods holding company which owns an array of brands including jeweller Cartier, watchmaker Roger Dubuis and James Purdey & Sons, maker of some of the finest 'London best' shotguns and rifles in the world.

Over the last 15 years, Richemont increased the contribution of jewellery as a percentage of total sales to 51% from 24% and shifted its cost base to be more variable and less fixed. During downturns, jewellery tends to be more resilient in terms of sales and margin decline, but also bounces back faster than other luxury goods such as watches. Cartier is a market leader in jewellery, with a broad product offering in terms of type, geographical availability and price point.

China has been a key driver of growth for Richemont and other luxury names for some time now, and whilst its zero-COVID-19 policy was a negative factor impacting sales, spending is picking up post reopening. Furthermore there remains plenty of growth runway in the region, as just a fraction of China's high income population are currently classed as 'luxury shoppers'.

Please read the important notice on page 1.

Economic Focus

What exactly do we mean by 'recession'?

Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Adi Kuznicki

Could ongoing raised inflation, persistently high interest rates and rising wages lead to a recession anytime soon?

First the good news. According to the International Monetary Fund (IMF), the UK should avoid a recession this year. And this despite their previous expectation that a shrinking economy for our domestic market was inevitable.

Having said all that, the IMF's recent forecast does not make particularly comfortable reading. It seems the likely outcome for UK plc is a modest growth for the rest of this year – just a few basis points into positive territory. It all sounds too early to break out the champagne – or, better still, the sparkling wine of the South Downs which apparently has been overtaking the vineyards of Reims and environs in recent surveys.

Recessions are inevitable, given the nature of trade worldwide and the fact that not all events can be built into forecasting models.

Not that the IMF has given us a clean bill of health. Inflation, which has remained persistently high here when compared with our other major developed competitors, is a real concern for the number crunchers of Washington. Certainly, the latest set of numbers from the Office of National Statistics did little to calm markets. While inflation did at last dip below 10% for the first time in half a year, the fall was much less than had been expected and, worse, core inflation (i.e. inflation excluding food, alcohol, tobacco and energy) actually rose.

The fact that wage settlements have been on the up and the service sector is seeing inflation worryingly high can account for this surprise jump from 6.2% to 6.8% for core inflation – a new peak. The government will find this particularly concerning and I doubt the IMF will be too impressed by this turn of events. One consequence is that the Bank of England must now be more likely to increase interest rates. A rise to 4.75% in June is now widely anticipated, with perhaps more to follow if the inflation picture does not improve.

The problem with such a scenario as is now being painted is that ongoing higher interest rates (as the Bank of England tries to combat rising prices) lessen growth prospects and makes the chances of UK plc sinking into negative growth that little bit more likely. So far the economy has been buoyed by consumer demand. This has been helped in no small measure by King Charles' accession to the throne and this year's Coronation. Certainly, celebrations around this event saw spending on wine and food increase and hospitality benefit as a consequence.

So far, so good. Still, the IMF's reassessment on our medium term economic prospects was concluded before these latest inflation numbers were in the public domain. We might just avoid sinking into a recession, but the fear of a global recession lurks in the background, not least because of worries over US debt – a concern largely dismissed by markets. If, indeed, this turns out to be the outcome, then it seems unlikely we can avoid a slowdown. This seems like a good moment to try to define a recession and examine just what it might mean to you and me.

Recessions are generally defined as two quarters of contracting economic output. A single quarter's dip might be dismissed as an aberration, but if the decline persists for six months, then a real problem is perceived to exist. And recessions are inevitable, given the nature of trade worldwide and the fact that not all events can be built into forecasting models. However, recessions will necessarily vary in magnitude and the effects for you and I could be significant or barely noticeable.

The two most recent recessions were stimulated by specific events. The financial crisis of 2008 saw US GDP contract by 5%. COVID-19 saw an even greater contraction, with economic activity declining by twice as much. The current pressures are less significant, with the rise in inflation cited as the most important element in driving economic activity lower. After all, if consumers are feeling under threat, they tend to spend less, which is then reflected in lower economic activity.

So far consumption has held up relatively well, not just here but around the developed world. And employment numbers do not point to a major economic downturn. This must be considered as encouraging, but the dark clouds on the horizon are far from dispersing. We continue to have issues here at home which may yet impinge on our economic performance. A recession here cannot be ruled out but, barring unforeseen developments, it is unlikely to be more than a modest contraction that, in the end, we may not even notice.

Company Meetings

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

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

Henry Birt
Assistant Research Analyst

Jack Summers
Research Assistant

CONSUMER DISCRETIONARY
Dowlais Group, WH Smith, Whitbread

INDUSTRIALS
Smiths Group, Experian, RELX, Spirax Sarco, IMI, Diploma

CONSUMER STAPLES
Barclays, Cranswick, Haleon

MATERIALS
Rio Tinto, Hill & Smith

FINANCIALS
Lloyds, M&G, Beazley, Schroders, Chesnara, Prudential

REAL ESTATE
SEGRO, Shaftesbury Capital

HEALTH CARE
Dechra Pharmaceuticals, Genus

1.

Crest Nicholson

Price **£2.54**
52 week high-low **£2.94 – £1.71**
Net Yield **6.66%**
Hist/Pros PER **25/13**
Equity Market Cap (M) **£652**

Real Estate
Duncan Cooper (CFO); David Brown (Executive Managing Director) and Jenny Matthews (Head of Investor Relations)

Crest Nicholson is a house builder operating predominantly in the South of England. House builder shares have struggled since the end of 2021, with rising interest rates affecting demand for their houses and rising input costs squeezing their margins. The nadir for share prices occurred in the wake of the mini budget when rapidly rising mortgage rates portended much weaker housing demand going forwards. Given this outlook, Duncan naturally addressed it by arguing that the world was looking more positive. He highlighted that banks are now better capitalised and have avoided delinquencies and foreclosures in a way that was seen in 2007. Mortgage rates have also come down since the Trussonomics shock, thus creating less of an affordability cliff than was initially feared.

House builders are, as Duncan conceded, ultimately price takers and will inevitably see margin decline if house prices fall persistently. Yet Duncan was more sanguine, in light of strong sector balance sheets and a general moratorium on buying new land. House builders also don't burn through cash like retail companies when downturns do come. Most potential customers don't walk away from home purchases and those that have exchanged are very unlikely to default – so this tends to provide more protection.

Looking forward, Duncan was keen to stress how important housebuilding is likely to be in next year's election, with him predicting that the issue will be front and centre in manifestos. Until the election, the business must navigate ongoing cost pressures. He explained that some of this was abating slightly, however managing this will be key to reducing the severity of any margin decline in the year to come.

2.

Rolls-Royce

Price **£1.50**
52 week high-low **£1.60 – £0.64**
Net Yield **0.00%**
Hist/Pros PER **n/a /0.64**
Equity Market Cap (M) **£12,551**

Industrials
Jeremy Bragg (Investor Relations Director)

This once stalwart of UK industry and staple in portfolios has developed an unfortunate reputation for restructuring, disliked accounting practices and overrunning contracts. As a new CEO takes the helm, could Rolls-Royce finally be on the path to recovery? So argued Jeremy Bragg, the also relatively new Head of Investor Relations.

Jeremy explained how all three divisions (Civil Aerospace, Power Systems and Defence) will all have new heads by the close of this year. This, in conjunction with the appointment of Tufan Erginbilgic, a specialist turnaround CEO, should catalyse the much needed change to its culture. While a cultural shift will be slow, there are more immediate changes to contracts and pricing, where there will be more oversight at the senior management level, which Rolls-Royce hopes will avoid repetition of past contract failures.

One of Tufan's first actions was a benchmarking exercise focusing on each of the divisions and from this he has identified that the company has higher overheads than its peers. Cost cutting is to come and this, stressed Jeremy, is where Tufan's previous turnaround experience should help.

Jeremy was also keen to stress the strength of some of Rolls-Royce's key product lines. In the civil aerospace business, where its focus is on wide-body planes, it has a best in class engine. In the Defence business, its exposure to the recently confirmed AUKUS deal illustrates the strength of Rolls-Royce's engineering which has been ubiquitous within UK defence for decades.

It is too soon to tell whether this turnaround will drive success, but as Jeremy highlighted, this is likely to be easier with the tailwind of increased defence spending and the aerospace recovery.

3.

Smiths Group

Price **£16.19**
52 week high-low **£18.07 – £13.64**
Net Yield **2.48%**
Hist/Pros PER **24/17**
Equity Market Cap (M) **£5,674**

Industrials
Jemma Spalton (Director of Communications and Investor Relations) and Stephanie Heathers (Head of Investor Relations)

Smiths Group has five divisions: John Crane (35% of total revenue) produces specialised mechanical cartridge seals; Smiths Detection (26%) makes scanning and screening systems for air and sea ports, and crowd events; Smiths Interconnect (14%) produces electronic components for use in remote/adverse environments and space; and Flex-Tek (25%), which makes components to safely move gas/liquid in and around buildings.

For some time, Smiths has had weak organic growth (i.e. growth through sales and output rather than mergers or takeovers), declining operating margins and compound annual growth rates below the rate of GDP growth. However its results in the first half of 2023 have improved. Organic sales grew +13.5% year-on-year, and its operating margin rose by 20 basis points to 16.1%, with strong performance and cost inflation across its divisions.

Jemma attributed this performance to Paul Keel, who became CEO in May 2021. Paul has repurposed the operating model, equipping divisional experts with resource to address operational inefficiencies. A set of key performance indicators has been developed to measure the progress of each division compared to the others. Paul has also diversified revenue sources to smooth out cyclical trends, by expanding some products into new markets. For example, using pre-existing intellectual property for oil, gas and water system seals in the emerging hydrogen system seals market, where competition is low.

High demand from most end user markets and a lack of flexibility in prices will continue to generate revenue growth. US construction and semiconductor testing are exceptions; both are facing macroeconomic headwinds and adverse positions in their product cycles.

Please read the important notice on page 1.

Wealth Planning in focus

A welcome change?

The end of the lifetime allowance

Rebecca Dawkins and Anna Murdock

Illustration by Adam Mallett

Rebecca Dawkins, Associate Wealth Planner, and Anna Murdock, Head of Wealth Planning review the impact of the changes announced in the Spring Budget.

The Chancellor of the Exchequer delivered the Spring Budget on 15th March, and one of the key announcements was the unexpected changes to pension tax allowances. The changes aim to encourage workers over the age of 50 to extend their working lives and ensure high skilled individuals, such as NHS clinicians, are not disincentivised from remaining in the workforce. The new Finance Act 2023 is currently being updated and is expected to be finalised this summer. The key changes are set out below. If these changes are likely to impact you, we recommend seeking expert financial advice on your pension options and related tax implications from a qualified professional.

The Lifetime Allowance

The lifetime allowance (LTA) is the maximum amount of savings an individual can make in a registered pension scheme without incurring a tax charge. The current LTA is £1,073,100.

For those who withdrew their pension before 6th April 2023, the excess was taxed either at 55% where taken as a lump sum, or at 25% where taken as a pension. Most individuals with an excess above the allowance were subject to the standard LTA. However, when the LTA was introduced, and each time it has been reduced, protections have been offered to safeguard individuals who had already built up significant pension savings on the expectation of a certain level of LTA.

The LTA tax charges were removed from 6th April 2023 and the LTA will be abolished altogether from the 2024/25 tax year, if it is successfully ratified in legislation. These changes will generally affect those considered 'higher earners'; people who have built up pension savings of more than £1,073,100 across all of their pensions, or those who expect their pension savings to exceed this amount.

In the 2023/24 tax year, LTA checks still need to be done, but if the allowance is exceeded when benefits are taken during the person's lifetime there won't be an LTA charge. Any excess is simply taxed as income in the normal way.

Please note however that the maximum Pension Commencement Lump Sum has been set and frozen at £268,275 (i.e. 25% of the current LTA), unless the individual has protected tax-free cash or pension protection as part of a specific scheme.

As of 6th April 2023, individuals who held pension protection before 15th March 2023 are now able to accrue new pension benefits, join new arrangements or transfer their savings, without losing their entitlement to their higher protected LTA amount for the purposes of the 25% tax-free lump sum.

Pension savers have seen their pension benefits tested against the LTA since it was introduced in April 2006 and the removal should make it less complicated for those retiring after 6th April 2023.

Annual Allowance

In order to receive tax relief on their contributions, an individual is capped at the lower of their earnings or the annual allowance. This annual allowance limit has increased from £40,000 per annum to £60,000 per annum from 6th April 2023. This is certainly a welcome change for pension savers, especially at a time when we have seen tax thresholds frozen or in some cases, reduced.

Where pension contributions in a tax year exceed the annual allowance, the excess is subject to a charge at the individual's marginal rate of income tax.

Tapered Annual Allowance

The tapered Annual Allowance is £10,000, which has increased from £4,000 since 6th April 2023.

The tapered Annual Allowance applies when an individual's threshold income is above £200,000 per annum and an individual's adjusted income is above £260,000 per annum. The available Annual Allowance is tapered by £1 for every £2 adjusted income exceeds £260,000 per annum. In simple terms, threshold income is all taxable income and adjusted income is all taxable income plus employer pension contributions.

The maximum reduction is £50,000. So, anyone with an income of £360,000 or more has an annual allowance of £10,000. People with high income caught by the restriction may have to reduce the contributions paid by them and/or their employer, or an annual allowance charge will apply.

Money Purchase Annual Allowance

When an individual accesses their pension through a drawdown arrangement or by cashing in their pension, the maximum amount they can contribute to their pension is reduced to the Money Purchase Annual Allowance (MPAA). From 6th April 2023, the MPAA has been increased from £4,000 to £10,000. This will make it easier for individuals who wish to continue working and saving once they have taken money from their pension savings, if they want to.

Summary

The pension changes will be welcomed by high earners who wish to contribute more into their pension and to individuals who already have pension funds valued above the £1,073,100 LTA – specifically those without pension protection. It will take significant work to amend the current pension legislation and there may be further technical changes once the LTA is completely abolished in April 2024.

We recommend speaking to a qualified financial adviser regarding your pension arrangements. Our expert wealth planners at JM Finn are able to provide advice on how to access your pension benefits in the most tax-efficient way. If you would like further information, please contact your investment manager.

JM Finn News

Meet the Ace of Blades team

Laura Langton
Investment Manager

JM Finn are proud sponsors of this all-female team, who are gearing up for a gruelling 3,000 mile row across the Atlantic in under 40 days.

In December this year, I will be rowing 3,000 miles across the Atlantic with three other women, as part of the World's Toughest Row – Atlantic, previously known as the Talisker Whiskey Atlantic Challenge.

We will depart from La Gomera in the Canary Islands and head to English Harbour in Antigua, hoping to arrive in less than 40 days. We anticipate battling 20ft waves, mitigating the risk of capsize and potential salt sores, sea sickness and technical failure. The four of us on the crew, Lizz Watson, Kit Windsor, Beth Motley and me are undertaking this challenge in aid of three fantastic charities: Macmillan Cancer, the Outward Bound Trust and Prostate Cymru.

When people hear that we are heading out into the vast Atlantic Ocean in an 8 metre by 2 metre boat, rowing two hours on and two hours off throughout the duration of the crossing, it is not unexpected that people ask "Why?" I find this a tricky question to answer, because fundamentally, why not? I am from a rather sporty and adventurous family and have always been inspired by those around me. My grandfather was an accomplished rower and, whilst I didn't have his success in traditional rowing, I have always loved the sport. I have also always been interested in testing myself, having a focus and doggedly working towards it to succeed. Therefore when the opportunity presented itself to undertake this challenge, I knew I couldn't say no. Having the support of my fiancé and my family is incredibly important, however I also knew I needed JM Finn and my team to back me as well. They have gone above and beyond my expectations and I am incredibly lucky to be encouraged by so many people at the company.

To prepare ourselves, we have a strict training programme, with three sessions per week that focus on power, endurance and strength. Most past rowers we have spoken to have wished that they had focussed more on their mobility and core strength, specifically their oblique muscles, and we therefore have a couple of sessions throughout the week to build on these areas. I also aim to row approximately 30km per week. We took possession of our ocean rowing boat, a Rannoch R45 called "SS1", in September last year and have been undertaking training rows to experience the unpredictability of the ocean. This has tested our navigation skills, knowledge of tides and how to anchor.

We are also undertaking mental preparation, focussing on each of our responses to critical situations and how our personalities may determine our reactions. We have a crisis management coach and have recently also started with an ocean rowing coach to support us with scenario planning whilst at sea. These scenarios can vary from dealing with equipment failure through to handling sea sickness. All of this preparation will hopefully enable us to have contingency plans if these situations materialise, and as a team we will agree how to manage them.

Whilst there is a significant focus on the things that might go wrong and how we deal with them, I am incredibly excited for the experience we are going to have during our crossing. During our training rows we have experienced lots of wildlife, including dolphins, seals, puffins and enormous jellyfish. I am looking forward to hopefully adding whales and sharks to this during our crossing!

> **Having the support of my fiancé and my family is incredibly important, however I also knew I needed JM Finn and my team to back me as well.**

The challenge is a physical one, but it is also a case of looking after yourself and your teammates when sleep deprived and low on energy. I am eager to see how I rise to this challenge, ensuring that I am focussing on the task at hand and supporting my crewmates, while looking forward to arriving in Antigua and seeing my partner, family and friends.

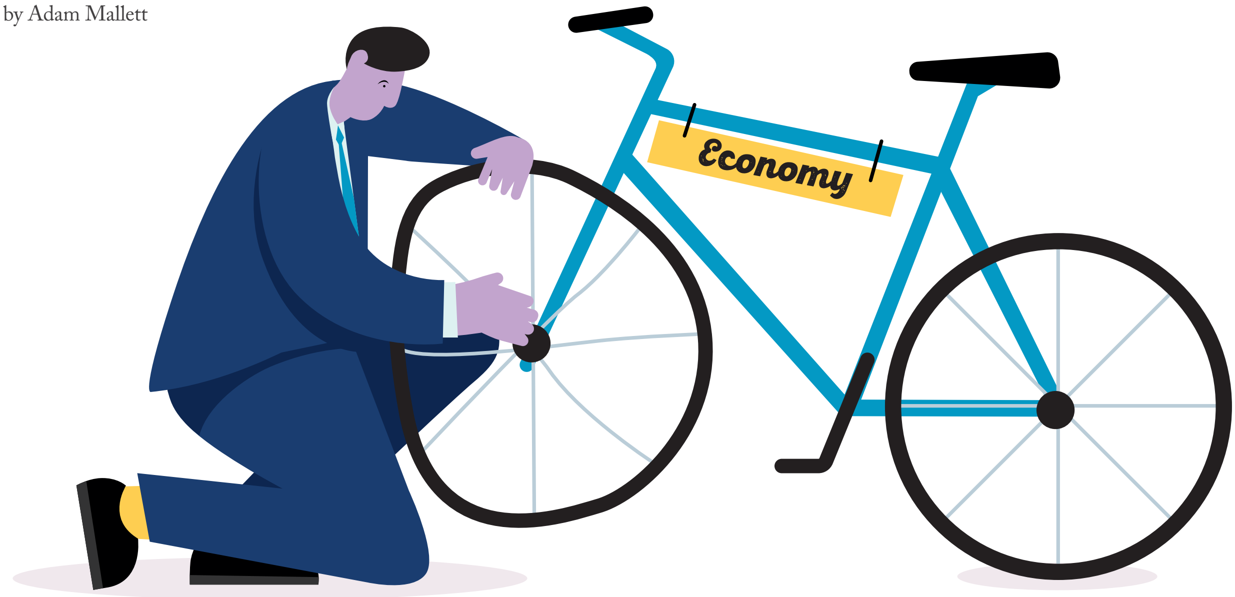
We are approximately six months away from the start of the race. We are lucky to be supported by some fantastic businesses and people who are helping us make this dream a reality, and continue to build new partnerships to help fund the challenge and raise money for our selected charities. We have a few more months with our beloved "SS1" before she is shipped to La Gomera in early October, and it will then be a case of fundraising as much as possible for our charities and continuing our preparations to ensure we start the race in the best possible position.

Collectives Commentary

Why bonds are back

John Pattullo, Co-Head of Global Bonds
Janus Henderson Investors

Illustration by Adam Mallett



Sub-optimal economic indicators are contributing to rising bond yields, making some bonds more attractive than they have been for a long time.

We are currently progressing through a typical boom-bust cycle at tremendous speed. Central banks were slow to lift interest rates, and this, compounded by shocks such as the war in Ukraine, has required them to play catch-up. For central banks, tackling inflation remains the key objective, but they seem intent on hiking rates into a big growth downturn.

Cycles can be confusing because not everything turns at once, so conflict often exists between data. But to be clear – leading economic indicators have been flashing red since last year, and coincident data (describing the pulse of the economy today) is now sending a similar message. While that is not good news for the economy, it offers a good environment for sovereign bonds and high-quality investment-grade corporate debt, at a time when the yields on offer here have improved significantly. Historically, buying high quality bonds when central banks reach the last rate hike has been a winning strategy.

Business cycle framework

Many commentators seem transfixed on indicators that lag the economic cycle such as today's inflation, unemployment, and corporate default data. These look at the economy through the rear-view mirror and tell us little about where we are headed.

Our framework of the business cycle seeks to identify economic variables as leading, coincident, or lagging. Leading indicators signal where the economy is headed on a 6-12 month horizon – variables such as real (inflation-adjusted) money supply growth, the rate of change of bond yields, housing and the shape of yield curves. These are plumbing the depths seen in previous downturns. Coincident indicators are also at stall speed. Looking at data points that the National Bureau of Economic Research (NBER) use to define a US recession, the path followed in this cycle looks remarkably similar to that seen in the run up to previous recessions.

"

Cycles can be confusing because not everything turns at once, so conflict often exists between data.

The current consensus view is of a strong US labour market but lead indicators such as voluntary versus involuntary part time work confirm we are near a tipping point. This is corroborated by the decline in job openings – 18% down from their rolling 12-month peak in the US; a decline of 15% is a sufficient condition historically for an employment downturn. While the UK cycle is lagging the US, vacancies have declined by 17% from their peak.

On the inflation side, commodity and freight prices have tumbled this year, and the collapse in broad money growth also suggests inflation is set to moderate. Central banks tend to focus on core inflation i.e. excluding volatile items such as energy. Looking through history, core inflation does not move in a separate cycle – it has tended to follow headline inflation, but with a lag.

Opportunities in bond markets

We believe central banks are now at or near terminal rates in the US / UK, and based on history, rates do not stay at these highly restrictive levels for long. As such, we believe opportunities exist within government bonds, primarily in the US, alongside countries with high sensitivity to variable rate mortgages and the housing cycle (e.g. Canada, Australia and Sweden).

In this environment, we believe there is little to be gained from stretching too far down in credit quality. Sub-investment grade (high yield) corporate bonds are pricing in a soft landing and could be vulnerable in a recession. There are some valid arguments that the high yield market today is better quality than in previous downturns, as the aggressive financing of more marginal businesses has been in the secured loan and/or private credit markets. A sell-off in high yield corporate bonds could potentially create a buying opportunity, but we see no reason to be an 'early hero' when the risk-adjusted potential is appealing today in investment grade.

Please read the important notice on page 1.

Stock in focus

Experian

Sir John Royden
Head of Research

Illustration by Emily Nault

At its simplest, Experian is a credit bureau. Historically, it is the result of many mergers: one line of its history started c.200 years ago as the credit department of a Mancunian department store. The business evolved into being owned and then spun out of Great Universal Stores (GUS).

27 years ago, the UK and American businesses merged to form Experian. 16 years ago, Experian acquired its Brazilian business and has since grown into a global (30 countries) data business.

Experian has two main divisions: Business-to-Business (c.75% of 2022's $6.3 billion turnover) and Consumer Services (c.25%). Business-to-Business divides into Data (c.53%) and Decisioning (c.22%). Operating profit broadly follows the split of revenues; geographically, North America accounts for 68% of revenues, Latin America for 14% (mostly Brazil) and the UK for 12%.

Over the last century, many businesses advancing consumer credit or loans came to realise that they had a mutual interest in sharing credit data with one another. No bank wants to lend money to somebody who has over-borrowed from another bank. Credit bureaux plugged the gap by collecting, analysing and then publishing the data.

Experian's Data division is about selling the actual data, whereas Decisioning is about selling the credit scores and software (PowerCurve) that enables automated decisions, as well as identity and fraud solutions.

Banks use credit bureaux at the point of sales, but they also use credit bureaux to monitor the health of their borrowers. Banks are required to estimate future bad debt losses, and data that they gather from Experian about the ongoing financial welfare of their customers is critical, as is the Experian data that banks use for their stress tests. Society benefits too: if banks know the riskiness of their proposed borrowers, then they charge the right interest rate. This democratises fair access to finance and advances the 'social' component of Experian's well respected ESG (economic, social and governance) credentials[1].

The revenue model is attractive. Banks and credit institutions provide the data for free and then Experian sells it back to them after it has conducted extensive data checking, cleaning and matching. This facilitates relatively frictionless and automated decisions about lending and credit applications. Experian prefers subscriptions, which preserve revenue in times of economic hardship. During COVID-19, business volumes were down between 70% and 90%, but Experian only saw single digit declines in actual revenue. Demand for stress testing during COVID-19 helped as well.

[1]https://globalaccess.sustainalytics.com/#/ga/research/company/Experian_Plc_e7c9b0eb-cd30-417a-9e1a-d382bd306ce5/risk/overview

PRICE
£28.98

52 WEEK HIGH-LOW
£31.60—£22.42

NET YIELD
1.48%

HIST/PROS PER
35/25

EQUITY MARKET CAP (M)
£26,340

"Over the last century, many businesses advancing consumer credit or loans came to realise that they had a mutual interest in sharing credit data with one another.

The Consumer Services business originated because Experian saw that consumers' access to financial data supporting their credit scores was largely unavailable. So Experian allowed consumers to view their credit reports under a subscription model.

Credit Karma disrupted the market in 2007 when it started offering free credit scores to consumers. Experian successfully adapted to compete with it, driving revenue (paid for by banks) by marketing credit sales to consumers. Customers appreciate this, because being offered close-to-pre-approved credit avoids being rejected and damaging your credit score. The Consumer division is now focussed on providing financial education and tools to save consumers money. Experian's Boost helps consumers use their data to improve their credit scores.

Experian's clients are the large tier 1 banks like JP Morgan and Wells Fargo, which tend to sign multi-year contracts with many bundled services. Experian also provides its services to health care providers (mostly US hospitals) and clients in the automotive, telco and utility sectors. Experian tries to grow revenue with add-on services rather than price increases.

Competition mostly comes from TransUnion and Equifax. Experian is the largest provider in the consumer space, while Equifax focuses on regional banks and income verification. TransUnion is larger in fintech and gaming through identity and fraud prevention.

Regulation is an entry barrier. Data is collected from banks and other sources, and is subject to oversight. Experian says it is #1 or #2 in its geographies, which deters new entrants due to economies of scale. Experian's broad reach into, and ability to mix, complex data sets for unique insights as well as offering leading analytics and software is hard for a new entrant to replicate.

Experian's business model has been a driver of regular revenue and profit growth. If mergers and acquisitions can take percentage growth closer to double digits, then the regular shareholder value creation could continue. The main risks are: (a) the risk of a damaging cyber-attack on Experian's data; (b) a recession or a fear of one leading to tighter lending criteria could dent volumes and drive weaker revenues and (c) overpriced equity.

Please read the important notice on page 1.

Bond focus

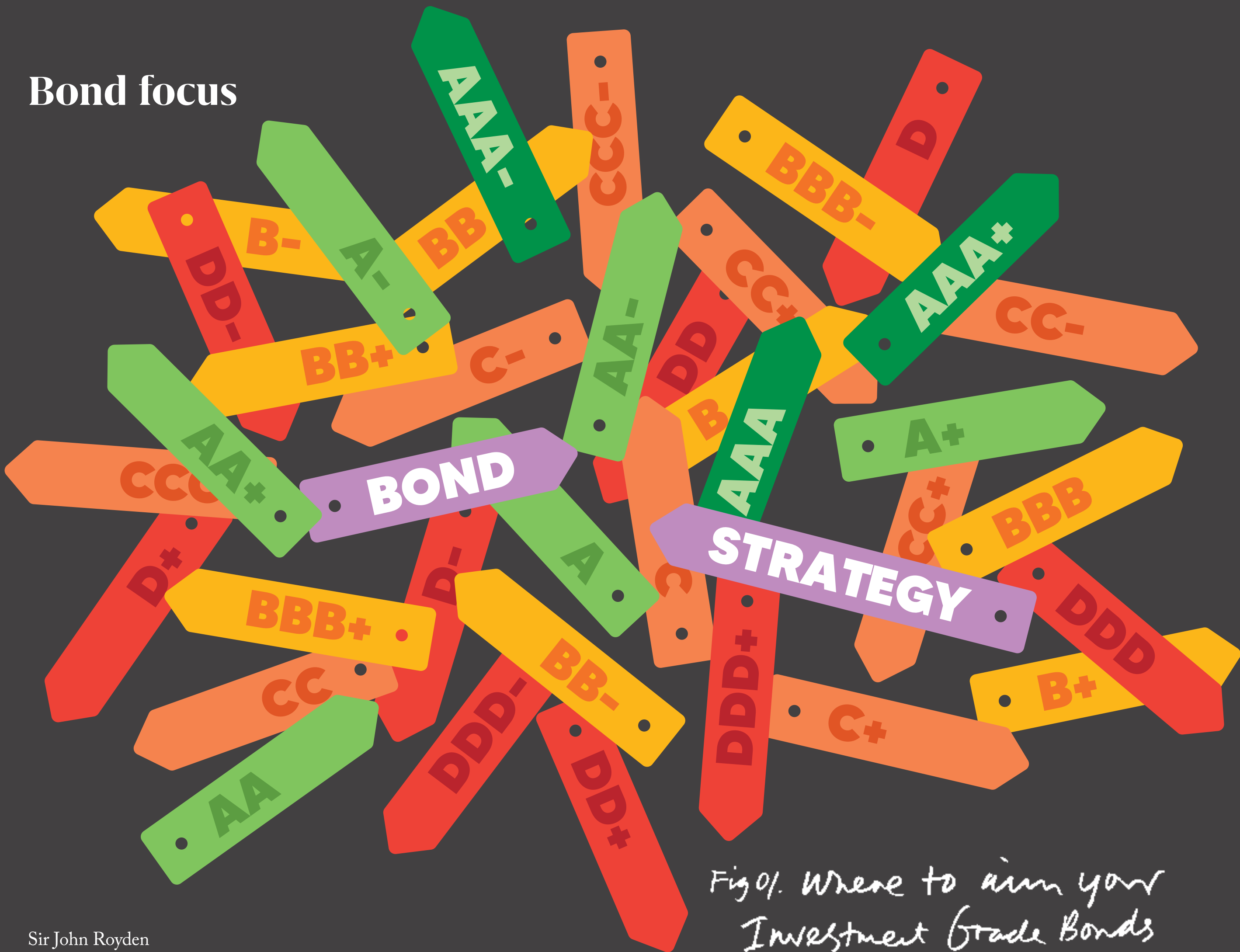


Fig 01. Where to aim your Investment Grade Bonds

Sir John Royden
Head of Research

Illustration by Darren Richards

Sorting the wheat from the chaff: Sir John Royden, Head of Research, explains how bonds are rated and how they typically perform during recessions.

Investment grade bonds or 'IG' are defined as having a rating of BBB or above. IG bond ratings go from the best at AAA or 'triple A', then to AA then to A and then to BBB. Bonds rated below BBB (ie BB, B, CCC, CC, C and D) are politely called 'speculative grade bonds' or, known colloquially as 'junk' or 'high yield' bonds. The lowest D rating denotes 'in payment default'. Each category has sub-categories; so the AAA rating goes from AAA+ to AAA to AAA-.

There are three credit rating agencies that provide ratings: Standard & Poor's, Moody's and Fitch. IG was originally defined as the issuer having the "ability to repay debt with no concern". Debt rated BB+ to D was considered to have "an uncertain future". The lower the rating, the greater the probability is that the bond defaults.

The crossover between (a) investment grade and (b) junk is an arbitrary accident of history and can be traced back to 1936 when the USA introduced regulation to prohibit banks from investing in speculative investment securities (junk bonds). US banks were permitted to hold only IG bonds. 'Investment' grade meant banks could invest in them.

The impact of recessions on junk bonds

In theory you buy 'blown out' junk bonds at the bottom of a recession. This is when junk bonds should be trading at very cheap prices because many of them will have defaulted in the recession. As the economy comes out of recession, junk bonds should reprice significantly higher to reflect a lower probability of default.

As the economy grows through the economic cycle, investors should slowly increase the credit rating of their bond holdings. The strong growth that follows one recession eventually drives higher interest rates until just before the next recession, at which point investors should be holding AAA bonds. The probability of default, particularly important in a recession, is the lowest with AAA bonds.

Sensitivity to interest rate changes

As interest rates climb during post-recession recovery and growth phases, so investors should, in theory, also shorten the duration of their bonds. Duration is the average life of the bond and the life of a bond is the time to maturity. Duration takes into account the fact that you don't get all your money back at maturity because you get interest coupons on the way. For example, the UK Government 6% of December 2028 government bond has a life of 5.6 years but a duration of 4.7 years. Duration, or modified duration to be precise, is also a way of measuring a bond's sensitivity to interest rates. Bonds with long durations are more sensitive to changes in interest rates.

So as the cycle of growth progresses, investors may aim to reduce duration risk by owning progressively shorter dated bonds into the peak of interest rates. Then, at the peak of the economic cycle and at peak interest rates, you could switch to owning AAA long duration bonds as the economy goes into recession and governments cut rates to help growth end the recession.

Please read the important notice on page 1.

FEVER-TREE

Jack Summers
Research Assistant

PRICE
£14.12

52 WEEK HIGH-LOW
£15.58—£8.05

NET YIELD
1.16%

HIST/PROS PER
66/72

EQUITY MARKET CAP (M)
£1,647

There's a good chance that those opting for a G&T as their drink of choice this summer will top off their Gordon's or Tanqueray with a Fever-Tree tonic. The premium mixer's rise in popularity in the UK has been a real success story; however, replicating that success across the Atlantic hasn't been as easy.

Issues in the US haven't been demand related, with US growth averaging 26% in the last three years. However, significant inflation in transatlantic shipping and input costs, most notably energy intensive glass, has seen Fever-Tree's operating margin fall from 33.6% in 2017 to just 9.3% in 2022. Management has been forced to lower guidance on multiple occasions, which has left investors unimpressed.

However with input costs set to normalise in late 2023 and 80% of US supply now being made in the US, Fever-Tree are hopeful that their foray into a market where currently just 10% of mixers sold are premium (vs 40% in the UK), might finally start to come good.

Please read the important notice on page 1.

Asset allocation and sector focus

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

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

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

Here we present a snapshot of the current views.

Sector Views

Overweight Neutral Underweight

Communications

We have seen a faster than expected unwind in digital demand from peak levels reached during COVID-19. Online gaming spend is expected to moderate as player engagement reduces. Digital advertising spend is also contracting. The telecommunications sub-sector may prove more resilient, but represents a small weighting over the overall sector.

Consumer Discretionary

Consumer sentiment is weak. The cost of living crisis is squeezing disposable income, with higher necessary outlays on food and cost of energy hitting discretionary spend. Higher interest rates are pushing up mortgage and rental costs in addition to the cost of unsecured borrowing, which is discouraging credit card spend.

Consumer Staples

Sector valuations look fair. Whilst the sector faces rising input cost inflation, which has hurt gross margins, we have seen evidence of inflation passing through to customers. Rising bond yields have the potential to hurt valuation multiples, but the deteriorating macroeconomic backdrop is of more concern, so focus is more on the earnings resilience of the sector.

Energy

Investors are focussed on short term supply as Russia faces ongoing constraints on its exports of oil and gas. Economic uncertainty has increased during the year, and with energy prices heavily correlated to GDP, we are now less constructive on the performance of the sector. Capital returns to shareholders should nonetheless remain strong.

Financials - Banks

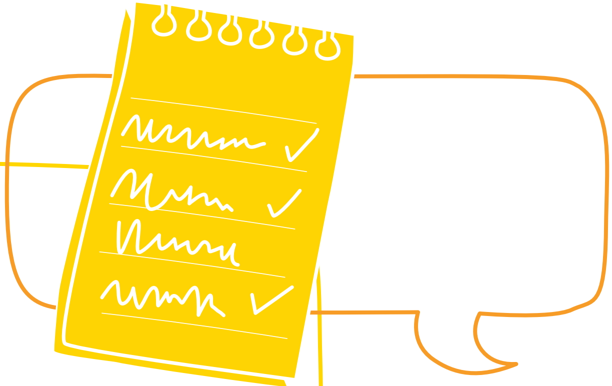
The fear of contagion from the succession of bank failures seen earlier this year has diminished, which leaves us once more with the balancing act of understanding the negative drivers of higher credit losses into an economic slowdown versus the prospect of more persistently high interest margins. Interest rates look to be close to peaking, leaving us with a near-term net positive view for this sector.

Diversified Financials
We change our stance to neutral in light of higher inflation and interest rates, which we expect to dampen financial assets.
Insurance
Normally, life insurance performs better with higher interest rates as long-term liabilities are lowered and prospective fixed income investment returns increase. The yield curve is currently inverted, meaning investment returns are lower. General insurance also appears to be benefiting from stronger insurance pricing, leaving us neutral on this sector.
Health Care
The resilience of global healthcare spend means this sector offers growth and defensive attributes. The sector has outperformed over the past year, and should continue to, as pharmaceutical and medical technology companies exhibit good relative earnings growth at reasonable valuations.
Industrials
Geopolitical uncertainty has benefited the earnings outlook for defence exposed names. Yet, a higher proportion of companies have more cyclically exposed industrial end markets, and these firms have held up better than expected. Recent earnings results confirm a strong industrial backdrop, resulting in our more positive view on the sector.
Information Technology
Many technology names are increasingly viewed as non-discretionary, however valuation will be the bigger short-term driver of performance. The recent sector rally means valuations are elevated. Higher levels of inflation could persist and many expect to see further interest rate hikes. Given the sensitivity of the sector to interest rates, we believe it prudent to be positioned underweight.
Materials
The short-term outlook is very uncertain, however the markets have rallied on Chinese reopening optimism. At company level, balance sheets remain strong. Longer term, we remain bullish on energy transition metals, e.g. copper, but flag short term weakness. The neutral rating is driven by the expectation of strong dividends.
Real Estate
The rise in interest rates is now feeding through to valuations. As rates rise, so do property yields and this is offsetting any growth in rental income as a result of inflation-linked leases. It seems likely there will be further valuation declines to come, although much of this has already been priced in, hence our neutral stance.
Utilities
The sector has inflation protection built into regulatory models, which should protect companies from input cost increases and margin pressure. Yet we are cognizant of the bond proxy nature of the sector and, with the uncertainty surrounding interest rates, remain neutral and would want to see peak rates before becoming more positive.

Asset Allocation

Overweight Neutral Underweight

UK EQUITIES	
UK	The UK market appears cheap. Recent bids and moves to US listings endorse that view. That can be explained by political concerns and higher inflation, together with fundamentals pointing to slower relative growth. A lack of risk capital from pension funds has not helped. But even with those considerations, the UK's rating makes it attractively valued as sentiment recovers from the Truss discount and perceived Brexit risk.
INTERNATIONAL EQUITIES	
North America	The American market looks expensive; added to which it is probably most exposed to a potential risk of a US debt default. Debt ceilings and default aside, the jury is still out on whether a recession is likely. There also remains a lingering bank crisis risk and well publicised concerns surrounding American commercial real estate.
Europe	Europe rebuilt gas reserves to avert a crisis, and so easing energy prices should be economically supportive. Monetary policy is tightening gradually and the labour market has spare capacity, which means that rates should peak at a lower point. This would be helpful for the continent, as should Europe's relatively benign political environment, its more pronounced exposure to China's reopening, and reshoring trend in the manufacturing industry.
Japan	Japanese equities have rallied and we have downgraded to UW from neutral. Japanese equities would suffer from their higher bank and manufacturing exposures in a global downturn. The suppression of interest rates by the central bank leads us to expect more JPY weakness, although this could change if wage inflation and higher rates surface as a concern.
Asia Pacific	Companies reevaluating their supply chain exposures and diversifying away from Chinese concentration into other Asian countries should be positive for the region. Longer term, Asia is home to some of the fastest growing economies in the world, such as India, China and Indonesia.
Emerging Markets	Equity valuations look cheap relative to developed markets. Central banks have tightened policy ahead of developed markets and should be first into a recession. With global growth slowing, corporate earnings could prove more vulnerable. A strong USD (normally associated with economic downturns) would be a headwind for emerging markets.
BONDS	
Conventional	A rising yield environment pushes down bond prices, although we are starting to like the high yields available in short-dated government bonds.
Index Linked	With a positive real return, linkers are once more a valid protection against inflation. If inflation proves stickier over the medium term, shorter dated inflation-linked bonds should do well.
Corporate	Spreads of corporate bonds over government bond equivalents have stabilised at a point where they are unlikely to discount the effects of an economic slowdown. High yield bonds could do well if inflation drives revenues higher in an environment where central bankers show a weak response to higher inflation.
CASH	
Cash	Cash could be deployed to increase UK equity exposure and reduce government bond and corporate bond allocation to reflect the rising yields available on those fixed income instruments.
PROPERTY	
Property	There are concerns that high levels of inflation could push up the need for higher interest rates, hurting near term capital values of property assets as financing become more expensive.
ALTERNATIVES	
Alternatives	Less correlated opportunities and more market neutral hedge fund investments could be sought after, such as gold. We allocate to gold as a diversifier, inflation hedge and way to reduce currency debasement risk.



Planning ahead: the power of difficult conversations

Some topics are harder than others. But when fear, awkwardness or stigma stop people talking about end of life, it can leave them feeling deeply unprepared and distressed. Kate Vernon, Business Change Manager at Marie Curie highlights why thinking about your care and wishes ahead of time is perhaps the greatest gift you can leave your loved ones.

Talking about dying and death is not easy. According to Marie Curie research conducted in 2021[1]:

— Just 14% of respondents have shared future health and care preferences

— Only 20% of people have made financial arrangements for their funeral

— Only 40% have talked to someone about whether they want their body to be buried, cremated, or donated.

But if we're not having open conversations about this subject, then we are limiting our own choices around our preferences for the end of our lives, and after.

Planning ahead allows us to:

— Discuss and identify what matters to us

— Make personal and informed choices about the type of care we wish to receive

— Be better prepared to cope with the emotional and practical experiences around death

— Have the opportunity to get our finances and personal affairs in order

— Enjoy greater peace of mind knowing that wishes are understood and plans are in place.

A gift for our loved ones

However it's not just about us – it's about our loved ones too. By planning ahead and thinking about our care and wishes ahead of time, we:

— Empower our loved ones to make decisions on our behalf when we are not well enough to do so

— Provide comfort by knowing they are honouring our wishes

— Make it as easy as possible for them to deal with practical and administrative aspects of our death

— Minimise their levels of anxiety, stress, guilt and regret at the most difficult of times

— Enable them to celebrate our life and cherish our memory.

[1] public-attitudes-to-death-and-dying-report-final.pdf (mariecurie.org.uk)

Planning for life

Talking about death is about planning for life, helping us make the most of the time that we have. Asking yourself, 'what matters to me?', can help you plan for the future.

There may be things you want to do or see before you die. There might be people you want to spend time with and activities you want to do together. Some people want to revisit past experiences, like seeing friends, visiting significant places or looking at old photographs or letters.

Thinking about your future care

Most people don't think about their future care until they become ill and really need it. But it is never too early to start thinking about what your preferences might be. After all none of us know what the future holds and it is possible that many of us could need care, or might lose capacity to make decisions for ourselves.

This process is sometimes referred to as advance care planning and includes any decisions you make about your future care. This might be:

- How you would like to be looked after
- Where you would like to be looked after in the future and in your final days
- Any treatments you don't want to have - sometimes called an advance decision to refuse treatment (ADRT)
- Any spiritual or religious beliefs you would like to be taken into account
- Who your doctors or nurses should talk to if you don't have capacity to make decisions
- The details of the person you have appointed to make decisions on your behalf if you're unable to make them (your Lasting Power of Attorney)
- How you would like practical matters to be dealt with, such as the care of a pet
- What you would like to happen to your body after you die.

None of us know what the future holds and it is possible that many of us could need care.

Other things to consider

There are plenty of other things to consider, not least putting together a folder of important documents and records capturing your wishes. More details about planning can be found on the Marie Curie website.

Whatever stage you're at in your life, planning ahead can ensure that other people know what you want and make it more likely that your wishes will be followed in the future. But perhaps most important of all, it will make it as easy as possible for your family or friends. At an emotional and difficult time, it could be one of the greatest gifts you leave them.

Marie Curie
Care and support through terminal illness

Marie Curie has a wealth of resources on its website and is currently offering its Compassionate Workplaces training covering a range of topics relating to dying, death and bereavement, including a module on Planning Ahead.

For more information, please see: Compassionate workplaces training programme (mariecurie.org.uk) or contact: kate.vernon@mariecurie.org.uk

Understanding Finance

THE SILVER LINING OF RISING RATES

Henry Birt
Assistant Research Analyst

Rising interest rates are causing problems for many companies, but a silver lining can be found in the dwindling defined benefit (DB) pension obligations on company balance sheets. DB pensions are largely a thing of the past, as employers now prefer defined contribution schemes, where an employer commits only to add a certain amount to employees' pots each month. This shifts the risk of the underlying asset performance from the employer onto the employee.

However, many companies retain legacy DB pension schemes. In accounting terms, a pension has two component parts; the defined benefit obligation (the present value of what the pension fund expects to pay out) and the pension assets. If the former exceeds the latter, i.e. if the company owes more than it can cover with the pension fund's assets, then a net pension liability will be reported on the company's balance sheet.

The issue with these pension liabilities is that they continue to grow beyond original estimates. As employees work for longer, they earn benefits which the company is obliged to provide. If, for example, the pension actuaries forecast an increase in life expectancy, companies will be required to provide an annuity for a longer period of time.

The recent rise in yields has changed this though, as the present value of these liabilities has shrunk. Present values are calculated using a discount rate which is linked to UK base rates. So as interest rates have risen, so the present value of future liabilities has shrunk.

While higher rates are testing many balance sheets and business models, companies with big DB pension scheme deficits may finally breathe a sigh of relief.

EUROWAG

Jack Summers
Research Assistant

PRICE
£0.97

52 WEEK HIGH-LOW
£1.08—£0.69

NET YIELD
0.00%

HIST/PROS PER
40/15

EQUITY MARKET CAP (M)
£688

W.A.G Payment Solutions (trading as 'Eurowag') is a fleet management and payments platform targeted at commercial road transport (CRT) companies in Europe and now covers c. 86,000 vehicles. The platform offers two key services: payments and mobility.

Payments consolidates how fuel and toll charges are paid across differing operators and countries as well as reclaiming administrative taxes. Traditionally a driver might have to carry five or six different fuel cards to access Europe's fuel network; Eurowag offers a single postpaid fuel card usable at over 15,600 fuel stations. Similarly for toll payments, five or six independent units on a truck are replaced by two integrated units. Mobility uses telematics so dispatchers can plan routes more efficiently, track vehicles in real time and access tachograph data.

The improvements to administrative and operational efficiency for smaller sized hauliers are compelling and the platform costs are minimal compared to the labour cost saving. However, the underlying services are not particularly unique and so the competitive advantage of the platform is questionable in the long term. Rivals may emerge given the high margins and size of the market opportunity.

Please read the important notice on page 1.

Meet the manager

Jonathan Goldring

Investment Director / Head of the Bury St Edmunds Office

Lives Small village on the Essex/Suffolk border - Constable Country

Family Married with two sons

Started at JM Finn 2007

Hobby / pastime Rugby, skiing, paddle-boarding, golf (appallingly), music (preferably live)

Favourite holiday Anywhere on a mountain skiing with friends and family. Most unusual recent holiday was spending Christmas on an Arctic safari in Northern Sweden

Favourite film Chinatown – or almost anything with Jack Nicholson

If you weren't an investment manager Ski Guide

Fondest memory Many to choose from, but being at the front at Wembley Stadium for Live Aid when Queen performed

You've recently expanded your role to include being Head of the Bury St Edmunds office. How does having a presence in Bury St Edmunds enhance your client offering?

The Bury St Edmunds office is the largest regional branch outside of London and looks after more than 1500 clients. Having a local office to meet our clients, or for those that prefer to meet at their own home, is vital.

We have had an office in Bury St Edmunds for 17 years, building a very good reputation in the region, which has enabled us to become one of the largest discretionary investment management firms in East Anglia. This reputation has allowed us to build strong relationships with professional intermediaries across the region, including many independent financial advisers who value our expertise in investment management.

Looking ahead, we are keen to build on our position as East Anglia's go to wealth manager. We also have a dedicated wealth planning team that can advise on many areas such as pensions, retirement or estate planning.

This year marks your 16th anniversary at JM Finn. What do you think it is that encourages people to stay at the firm for so long?

One of JM Finn's key strengths is our truly bespoke service, driven by strong, long-term relationships built directly between our clients and their dedicated Investment Manager. We have the freedom to create individual investment strategies for our clients rather than being constrained by the use of off the shelf products. This flexibility to fully use our expertise and experience gives our highly qualified teams the ability to develop and enjoy their careers over the long term.

What are your thoughts for the year ahead from an investment perspective?

Although inflation has lasted longer than many anticipated, we appear to be close to a peak point, and increasing the likelihood of a decline in the coming months. This will hopefully see the pace of interest rate rises slow and then cease, at which point markets may take heart from the stability this will provide.

Our approach to invest in high quality companies that generate above average returns on capital, have strong free cash flows and robust balance sheets has served us well over the last 12 months. I feel confident that these quality businesses are well placed to lead us out of the challenging market conditions we have experienced over the last year or so.

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