JM FINN

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Prospects

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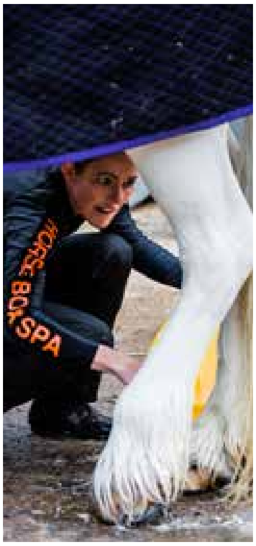
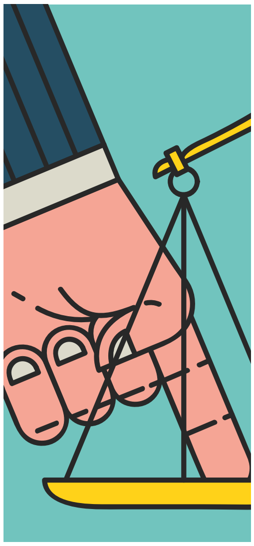
No.27

Summer 2019

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Cover Illustration:
Adam Mallett/Graphic Alliance

Welcome

I was hoping that by now we would have a little more clarity on the political situation in this country but as this is not going to resolve itself very quickly the best we can hope for is a more orderly exit than the process thus far might suggest.

But we are not alone in this uncertain political environment. In many parts of the Western world, we continue to see the politics of populism creeping in and at the same time encroaching regulations on many aspects of life. I will not go on about politics and instead focus on markets.

Markets over the last year have shown modest returns but this does not take from the fact that at the end of last year conditions were extremely volatile and markets were concerned about a number of factors, including rising American interest rates, the continuing trade war between America and China, Brexit, the prospects of a recession in the United States and lower returns in Europe. Many of these issues remain but fundamentally the world economy is continuing to grow and I suspect will continue to do so over the next year or two. The American leadership will likely do what they can to continue this until after the next presidential election.

I have taken the view over the last couple of years to be fairly internationally invested and at this juncture, based on the politics in the United Kingdom, I continue to do so. However, at some stage I think the valuation differences between domestically based companies and the internationally based companies will change as, today, domestically based companies are trading on considerably lower valuations than international companies. I cannot see this changing in the short term but will probably do so in the medium to long term.

In the meantime we continue to watch the macro situation closely as well as remaining focussed on the fundamentals of the companies in which we invest our clients' assets. You may notice in this edition of Prospects we have revamped our current investment thinking snapshot by adding to the asset allocation view the comments on specific sectors from our stock selection committee.

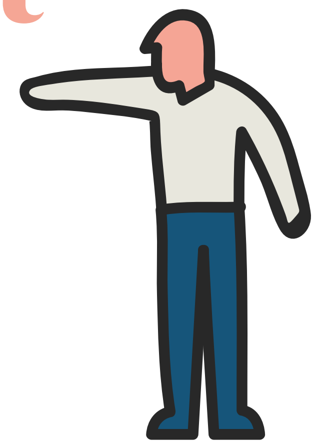
Additionally in this issue, I would like to draw your attention to the section where we detail the results of our client survey. Firstly, I would like to say to those clients who completed the survey a huge thank you. It is highly instructive for us to gather this data to ensure we continue to develop our services in line with our clients' needs. We made a commitment to share the results with our clients and I hope readers will forgive us for trumpeting these as we are incredibly proud of the feedback which serves as a testament to the success of our business, which of course we hope will be used to encourage further recommendations.

James Edgedale

James Edgedale
Chairman

Editorial

Why cash might not be king



By James Godrich
Fund Manager

Illustration by Adi Kuznicki

The rise of populist politics through the early 21st Century is something that I'm sure will be delved into, with hypotheses about its causes for years to come. Whilst I don't think I have the answers to why populism is prevalent now, I do find it interesting that the rise of a type of politics that, according to the Oxford English Dictionary, 'strives to appeal to ordinary people who feel that their concerns are disregarded by established elite groups' comes at the same time as ordinary labour workers see their share of overall income diminish.

In economics terms, the functional distribution of income describes the division of income between labour and capital. Between 1950 and 1995 that share of US national income being paid to labour workers has averaged slightly above 63%, with a fairly strong tendency to mean revert on a short time horizon. Since the turn of the century though, that number has fallen steadily and today stands at more like 57%. All of this is to say that a greater proportion of profits are being taken by capital providers (i.e. shareholders). The question for us is why this has happened, whether this trend might continue and how it could ultimately end?

Crucial to the divergence in the share of income has been the weakening bargaining position of workers. This has come about through a combination of labour off-shoring, technological replacements and the diminishing power of the Trade Unions. If I, as a worker, was worried that my employer could off-shore my job to a lower cost region or country, replace my output with that of a computer or that I could no longer join with my colleagues as part of a union, my ability to bargain for higher wages and share in any productivity gains would be significantly reduced.

> *A greater proportion of profits are being taken by shareholders.*

At the same time as weakening labour power, there has been a rise in corporate power driven by industry consolidation and growing oligopolistic power amongst some firms, particularly in the tech sector. For example, Google in web searches, Facebook in social media and Amazon in online retailing.

> ## *When interest rates are higher, there is greater emphasis placed on immediate rates of return and thus, increased competition.*

There has been some research into the formation and break up of cartels, a market structure similar to what economists might describe as a 'rational oligopoly'. After studying over 500 cases between 1961 and 2013, economists Margaret Levenstein and Valerie Suslow concluded that the most important factor was interest rates; where interest rates are low, market participants more easily show the necessary patience to build up market dominance. When interest rates are higher, there is greater emphasis placed on immediate rates of return and thus, increased competition. An interesting observation given the extended period of historically low interest rates that we are currently experiencing.

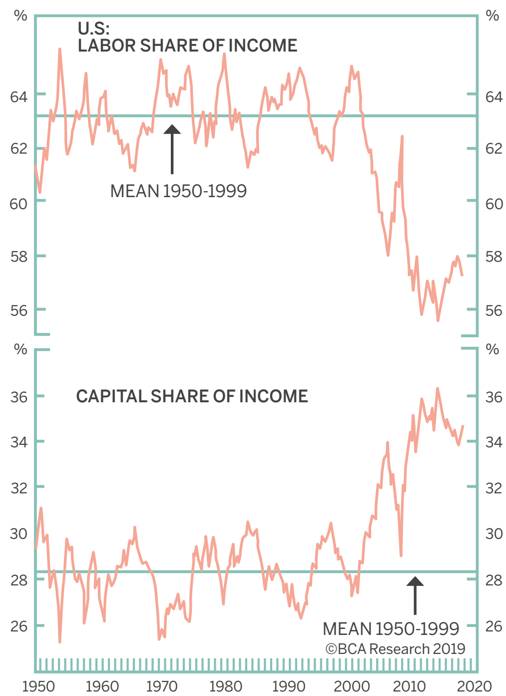
Given that it is difficult to see any of these trends reversing any time soon, it is not unreasonable to assume that income shares between labour and capital are set to continue to diverge resulting in increased wealth and income inequality. In fact, in his book 'Tracing the global history of inequality from the Stone Age to today', Walter Scheidel argues that, according to thousands of years of history, mass violence and catastrophes are the only forces that can seriously decrease economic inequality.

Whilst this has been the case in the past, I believe that there may be differences in modern day society which could lead to a different result. These included improved healthcare which should reduce the chances of pandemic illness, greater understanding of the no-win situation that is global warfare, but most importantly the introduction of universal suffrage, which in the UK was only introduced as recently as 1918.

Where the working class were only important to the elite to the extent that their health and well-being would be a key component of any country's military strength as foot soldiers, universal suffrage has introduced a more democratic society in which political agendas are driven by the will of ordinary people as well as the established elite. The kind of environment that might encourage a rise in populist politics perhaps.

So given the conditions of rising inequality and the will of the people in place, what could be the possible outcomes of populist political intervention? Whilst socialism and nationalisation is a clear risk that is getting much air-time at the moment, I would argue that a greater threat would be government policy targeting higher inflation. This could occur through the break-up of deflationary tech firms (Amazon can charge low prices in their Retail operations because they make vast profits in their Cloud Computing business) or through the reformation of the Central Bank mandates which, generally speaking, target low and stable inflation.

A Major Divergence in Income Shares



Source: BCA Research

Higher inflation acts as a wealth transfer from lenders to debtors by reducing the real value of debt. This would also significantly reduce the real value of cash balances and any equity investments whose underlying business doesn't enjoy strong pricing power. The impact would clearly be a reduction in wealth inequality and perhaps a return to central politics.

Whilst this isn't something that is going to happen overnight, it is not unreasonable to prepare for a world where cash might not be king and capital preservation is the name of the game.

Understanding Finance
THE NETWORK EFFECT

Michael Bray
Research Analyst

Businesses that benefit from the network effect are said to see the value of their product or service increase with the number of users. This may sound simple, but it is actually quite uncommon and is a pretty powerful competitive advantage for a company to possess.

Think about your favourite restaurant. That business delivers value to you by providing good food at a reasonable price. It likely doesn't matter too much to you whether the place is crowded or empty, and in fact, you might prefer it if it wasn't terribly crowded. The value of the service is almost completely independent of how many other people use it.

Now if we look at a business like Visa, then this dynamic changes. Visa acts as a card network which allows consumers to transact with merchants. The more merchants which accept Visa, the more places which you can use your Visa debit or credit card, therefore the more valuable those cards become to you. The power of this competitive advantage is demonstrated by the fact that the top three card networks – Visa, MasterCard and Amex - control over 90% of all spending on debit and credit cards globally. It is extremely hard for a would-be competitor to replicate the merchant networks which these businesses possess, leading to the concentrated market structure which exists today for card networks.

We are most likely to find the network effect in businesses based on sharing information, or connecting users together, rather than in businesses that deal in physical goods.

Bear the network effect in mind the next time you use your bank card, view your social media or make a purchase from an auction website.

•

BARCLAYS

John Royden
Head of Research

PRICE
£1.49

52 WEEK HIGH-LOW
£2.01—£1.45

NET YIELD
4.3%

HIST/PROS PER
16.1—7.2

EQUITY MARKET CAP (M)
£25,509

Barclays Bank has been in the news recently, but not quite for all the right reasons. An American shareholder activist called Ed Bramson has been pushing for the bank to restructure its investment bank with a view to getting returns up. Returns are typically measured as ROE or return on equity which is Net Income ÷ the value of the equity. Banks prefer to use tangible equity (ROTE) as the denominator as it gives them a more visually attractive higher ratio.

Although Ed Bramson failed to get elected as a director at the May 2nd AGM, his threat still lingers and so CEO Jes Staley is resolutely focussed on hitting his 9% ROTE this year and 10% next. The trouble with slimming down the cost base of an investment bank is that 100% of the revenues are attached to legs whereas only 50% of the costs are attached to legs. Well, that's how the new Chairman Nigel Higgins so elegantly put it.

Please read the important notice on page 1.

Enigma and the Bombe are relevant to security today

By Paul Kellar

Enigma, the enemy:

The Enigma was used throughout WWII as the Germans' encryption device of choice for all but the very highest level of secret communications.

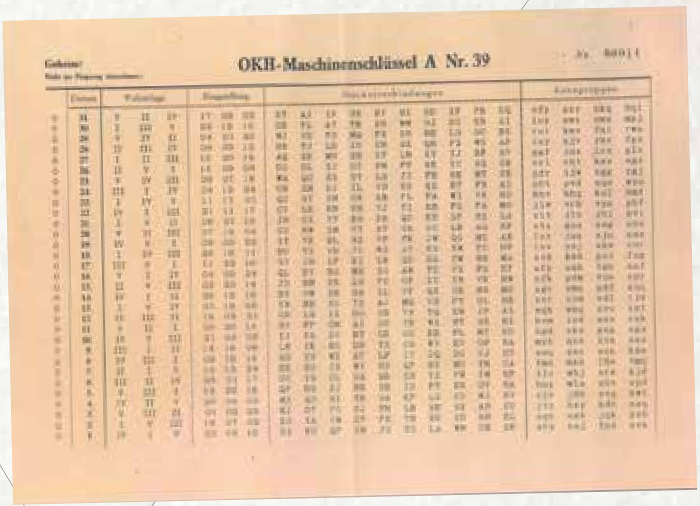
To encrypt a message, the sender's Enigma was set to the key of the day (changing at midnight) and the three scrambling wheels were set to a different start position for each message (sent as the message header). As each plain-text letter was typed, a lamp would light to show the corresponding encrypted letter, and the right-hand wheel would advance to change the scrambling of the next letter.

To decrypt a message, the multiple recipients would use the message header and the known key of the day to set their Enigma and its wheels to exactly match the sending Enigma. As the encrypted text was then typed, the original plain text would be read from the lamps.

The settings comprising the key of the day consisted of:

- **Walzenlage: the choice and order of three scrambling wheels from a set of five (later eight for the Naval Enigma).**
- **Ringstellung: a setting for a ring on each wheel defining the point at which that wheel moved on as letters were typed, to give 26x26x26 changes.**
- **Steckerverbindungen: the positions of ten scrambling links between the keys, the scrambling wheels, and then the lamps.**
- **This gives at least 150,000,000,000,000,000,000 combinations; a number on which no two analysts agree . . .**

Above: Enigma


OKH-Maschinenschlüssel A Nr. 39

Above: Key of the day

The attack:

It was the Poles who, knowing in the 1930's that they were under threat, set up a successful department to break the Enigma traffic they were intercepting at that time. However, they recognised that their technique would fail when the Germans would add extra wheels and change their procedures for wartime use. They passed all their knowledge to Bletchley Park, where Alan Turing and a brilliant team invented, constructed and used the legendary Turing/Welchman Bombe of which over 200 were eventually manufactured.

A completely authentic and fully operational Bombe has been built by a team of volunteers, and is demonstrated daily at The National Museum of Computing at Bletchley Park. We regularly break keys sent as Challenges by GCHQ.

Turing's brilliant strategy was based on cribs ('guessed plaintext' in modern parlance), thereby overcoming enough of the Poles' problems, and when Gordon Welchman added the Diagonal Board the throughput increased to typically break the key of the day within a few hours of the daily change.

Lessons for today:

1

Immeasurably high combinations do not guarantee security.

However high the number of possible combinations, the crib approach implemented by the Bombe completely sidestepped all of the combination calculations, and the Bombe even used the Steckerverbindungen, as part of the solution rather than part of the problem.

2

Single key, multiple users.

Because it was - and often still is - necessary that many users in a group should all be able to read each other's messages, as long as a crib could be found from any one user, then the broken key would allow Bletchley Park to read everyone's messages for the rest of that day.

Any single careless operator could compromise the whole network.

3

Cribs.

There really are a lot more cribs around today than there were then.

For example, once you know who sent an intercepted email, you probably have a perfect crib: how often do you change the automated signature at the end of all your messages?

4

Systematic errors.

If you look again at the OKH-Maschinenschlüssel you will see a classic example of 'good engineering, very bad cryptography'.

Consider: if the original choice of five wheels gives 60 wheel orders, what is the reduced wheel order choice on any given day as a result of the blunder encapsulated in this monthly chart?

Hint: the engineers felt it was a good idea not to leave the wheels in the same place day after day, so as to keep the contacts in good order.

5

Backwards-compatible system-wide updates.

Admiral Doenitz was perhaps the most suspicious of them all about the security of the Enigma. He increased the set of wheels to eight, and introduced a four-wheel Enigma for the U-boat fleet, but some identical messages were sent in both 3- and 4- wheel form.

At this point, of course, the scrambling of the new wheels was revealed.

Above: Enigma

Above: The Turing/Welchman Bombe

6

Codebreakers, like burglars, do not leave footprints.

Long before the Zimmerman Telegram in 1917, we well understood the need for the enemy (and some friends) to believe that their communications were secure. If they wanted to believe that it was just bad luck that a spotter plane had happened to come across a convoy in the Mediterranean which was subsequently attacked, then it was not up to us to disabuse them. Indeed, on one (admittedly possibly apocryphal) occasion when it was too foggy to fly, a message was sent to an imaginary agent in Naples thanking him for pointing us at a recently attacked North African convoy.

They wanted to believe.

Conclusions:

It's the people,
not the machines.

These mistakes are all
available today.

Our people have to be
cleverer than theirs.

Certificate of Appreciation

This certificate is presented to

The Bombe Rebuild Team

in recognition for the valuable contribution made to the GCHQ and Bletchley Park live link up 12th - 17th June 2012 in support of Cheltenham Science Festival

KKB GDX DKD

RECNZ ZCIHF HRPTI NWXSV XQVTG

CUETK FTCZX UZKLJ LKTAQ NVFZM V

Signed Date June 2012

Director General for Technology

BLETCHLEY PARK
National Codes Centre

Above: GCHQ certificate

Paul Kellar

Paul Kellar, MBE, retired after an engineering career as Director of Research of Quantel. He is now Chair of the Turing/Welchman Bombe Rebuild Trust, which owns and operates the Bombe at The National Museum of Computing at Bletchley Park. Paul is a long-term private client of JM Finn.

About The National Museum of Computing

The National Museum of Computing at Bletchley Park brings to life the history and ongoing development of computing with the world's largest collection of historic working computers. Catering for generalist and specialist audiences, the museum is regarded as one of the world's top computing museums. Funded solely by entrance fees and private donations, the Museum welcomes support in its work.

FACEBOOK

Michael Bray
Research Analyst

PRICE
$177.47

52 WEEK HIGH-LOW
$218.62—$123.02

NET YIELD
0.0%

HIST/PROS PER
22.8—20.9

EQUITY MARKET CAP (M)
$506,623

Often in the news for the wrong reasons, Facebook is not a company which many would call a success. But from a financial perspective the business has performed incredibly well since its stock market listing in 2012. Operating profits have grown over 46 times during that time as the business has benefitted from the spending shift from traditional advertising to digital advertising.

Through its primacy on social media platforms Instagram and Facebook itself, Facebook has been able to acquire an impressive 21% market share of global digital advertising spend, second only to Google. With Facebook looking to monetise its platforms further, and global digital advertising spend expected to increase by 17% throughout 2019, the business looks well positioned for continued growth.

Growth however isn't the main source of concern for Facebook - the issues around privacy and data usage of its platform users are a genuine concern for investors. Regulatory oversight looks imminent, with even CEO Mark Zuckerberg recently calling for increased regulation. The form this regulation takes, and the financial implications on the business, are still unknown.

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
Rio Tinto

COMMUNICATION SERVICES
Facebook

CONSUMER CYCLICAL
Wallgreens Boots Alliance,
Saga

CONSUMER GOODS
Imperial Brands, Nestle,
British American Tobacco

CONSUMER NON-CYCLICAL
Alpha

CONSUMER SERVICES
J Sainsbury, RELX, Whitbread

FINANCIALS
Schroder, Lloyds Banking Group,
Prudential, Burford Capital

HEALTH CARE
Genus, Smith & Nephew,
Roche Holding Ltd Genusssch.,
Novartis, Novo Nordisk

INDUSTRIALS
CRH, Rotork, Ricardo, Bunzl
Jardine Matheson,
Deere & Company

INFORMATION TECHNOLOGY
Microsoft

MATERIALS
BASF

OIL AND GAS
BP, Royal Dutch Shell, Total

TECHNOLOGY
Apple , Tencent

UTILITIES
SSE, Pennon Group

1.

Smith & Nephew

Price **£16.64**
52 week high-low **£16.80 – £12.42**
Net Yield **1.7%**
Hist/Pros PER **27.6 –20.8**
Equity Market Cap **£14,498m**

Health Care
Andrew Swift, Head of Investor Relations

Smith & Nephew (S&N) sells products and services linked to advanced wound management, orthopaedic implants, sports medicine and trauma. It has historically not been as good as peers at selling into these markets: its revenue growth has averaged around 2-3% p.a. whilst the wider market has grown by 4% p.a.

Recently appointed CEO Namal Nawana is implementing changes to three areas with a view to accelerate growth.

Previously, the business had not fully understood the needs of its customers and had failed to appreciate that surgeons are typically the key decision makers. For example they failed to recognise that surgeons made the buying decisions and would always prefer a higher spec 4K keyhole surgery camera which S&N didn't sell. Management have now reorganised the sales structure of the business to ensure that specialist sales stay in close contact with surgeons rather than generalists.

The company was slow to recognise the strength of their own products. However the renewed focus has helped to drive hip implants to market growth rates of 4% over the past two quarters, where previously it had grown at around just 1%.

Finally, S&N has historically not been as acquisitive as peers, but since Nawana became CEO, the business has announced four which operate in markets that are adjacent to S&N's existing businesses. Osiris, a fast growing regenerative medicines company which focuses on skin and bone grafts is one such company. It is expected to accelerate growth from S&N's advanced wound management business.

Initial signs of the turnaround look promising, but whether it achieves sustained market growth rates, and beyond, remains to be seen.

2.

Tencent

Price **HKD 326**
52 week high-low **HKD 431 – HKD 215**
Net Yield **0.3%**
Hist/Pros PER **33.5 – 29.9**
Equity Market Cap **HKD 3,160,826m**

Technology
P H Cheung, Investor Relations Director

If the stock market gave out their equivalents of man-of-the-match awards, Tencent would have probably won it a few times. Back in 2004 the shares cost you HKD 0.85 each. Today you'd have to fork out close to HKD 330 for the same share. The company now has a market capitalisation of HKD 3.1 trillion or £310 billion. By way of comparison, Royal Dutch Shell have a market capitalisation of £192 billion.

At first glance Tencent can appear to be a bit of a Chinese conglomerate. Its businesses cover e-games, music, video and books online and they own the QQ and WeChat apps. They have over one billion users on their chat apps and have used the platform to promote everything from e-payments to launching new e-games to pushing their new and fast growing cloud platform. You can do a lot with over one billion active users.

Our meeting focussed on the launch of their fantastically popular PUBG shooting game. Using your smart phone, you get to run your avatar around a battleground fighting anonymous people or your friends.

PUBG has 180 million active users and the plan was to monetise the game by allowing players to buy $5 shirts for their avatars. But in 2018, the Chinese government stopped giving permissions for violent and potentially addictive games to be monetised in China. The expected annual revenue from PUBG post-Chinese permission was estimated at $5 billion. With good margins, that would have been a dial moving event for Tencent's operating profit last year.

Tencent have since given up on the idea of getting permission in China and now direct their players to an alternative, and permissioned but less exciting "Elite Force for Peace" game.

3.

Jardine Matheson

Price **$64.18**
52 week high-low **$72.05 – $56.44**
Net Yield **2.3%**
Hist/Pros PER **13.9 – 13.5**
Equity Market Cap **$47,376m**

Industrials
John Witt, Group, Finance Director and
Matthew Bishop, Group Treasurer

Jardine Matheson Holdings Limited (JMH) is often thought of as being the equivalent of a Far Eastern Investment Trust Company with a very diverse collection of businesses under its full or partial ownership. Interests cover Asian land investments, supermarkets and convenience stores, car sales and distribution, engineering and airport infrastructure, and the Mandarin Oriental hotel group.

From its foundation in 1832 the company has grown by doing business in China and the Far East, they do not operate in India, South Korea and Japan. Over the last twenty years EBITDA or cash profit has grown at 12% pa which has meant that JMH has proudly beaten the Hang Seng Index.

The company's strategy is to make investments that benefit from their large and increasingly affluent populations in the markets where they operate. They manage their diverse base of investments by having JMH representatives on the Finance Committees of their subsidiary companies as well requiring large projects to be sanctioned by the local and JMH boards. Managerial targets are a mixture of returns and strategic targets aligned with their long term investment profile. We were assured that they had new management in place to deal with the problems at Dairy Farm, their supermarkets, hypermarkets and convenience stores business.

They say that the trade wars will have a short term impact on the business but that in the long term Trump's policy will push Asia to being less dependent on the US.

Please read the important notice on page 1.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Guest Editorial

Talk isn't cheap. Word of Mouth is still hugely valuable

By Simon Andrews
Illustration by Lesley Imgart

Perhaps the biggest change in marketing in the last few years has been the rise of online influencers.

People who have cultivated a huge following on social media (YouTube, Instagram and SnapChat primarily) have been able to get brands to pay them handsomely to mention a product. The most successful seems to have been Kylie Jenner - one of the Kardashian family - whose post of herself wearing an Adidas tracksuit drove 2 million searches from her 120m Instagram followers. She has now become the world's youngest self made billionaire - her cosmetic business alone is worth $900m.

But whilst this may look so 21st century, it is actually the oldest form of marketing - word of mouth. Her followers trust Jenner's opinion and when she mentions a product they take a look - and often buy on her recommendation.

Business, like life, has always been about trust. Is it a good idea to buy from this stranger? Well if my neighbour has bought from them and tells me the spices were good, I will trust their opinion and buy. And, happy with my purchase, I am happy to recommend the seller (no longer a stranger) to others. This combination of trust and familiarity in word of mouth is powerful and continues to be a significant force today, as Jenner's success demonstrates.

Online has added real scale to word of mouth. According to Nielsen, 92% of consumers believe recommendations from friends and family over all forms of advertising. But in today's connected world trust extends beyond friends and family. Online reviews are highly trusted as well. Why? Because it may be that no-one you know has bought in a particular sector and the plethora of online reviews fills that gap.

When asked to rate the influence of media touchpoints for recent purchasers when making a decision to purchase 74% said word of mouth (friends, family, sharing comments and reviews online) - the highest influence by far.

Think of Amazon - it's huge range of products with low prices and quick delivery is only really valuable because for every product you can read what other people, who are usually verified buyers, thought of it.

On Trip Advisor, a hotel or restaurant lives or dies based on how previous customers have rated them. Smaller businesses don't need to miss out as companies like Trustpilot aggregate customer reviews.

> *92% of consumers believe recommendations from friends and family over all forms of advertising.*

A staggering 97% of customers read online reviews before they buy. And almost half of those interviewed will only trust 4-stars or better. Beyond friends and family, 88% of people trust online reviews written by other consumers as much as they trust recommendations from personal contacts.

Anyone can be and is an influencer - the humblebrag of a carefully taken photo of your avocado toast for breakfast (but somehow never a Greggs sausage roll) is also an endorsement - a review of the cafe or restaurant. So powerful is this phenomenon that restaurant designers now strive to make their projects Instagramable.

Writing a review on Amazon or Trip Advisor is encouraged by businesses as they know how powerful customers' experience and knowledge is. And we find people are generally happy to share their opinion as they are conscious they are helping someone make a better buy - and avoid a dud.

> *In a world of fake news and false claims people still trust other people.*

Of course any system can be gamed and the online firms work really hard to maintain the integrity of their reviews - preferring verified purchases (Amazon) or insisting on longer reviews (Trip Advisor). Personally I always read the 1 star and the 4 star reviews to try and get a better picture.

Businesses like Ocado continue to benefit from one of the simplest forms of word of mouth with "Member Get Member" schemes - get your friend to start using Ocado and you both share the benefits with money off vouchers.

Even as online develops and Artificial Intelligence and Machine Learning algorithms recommend the perfect product to customers online, good old fashioned word of mouth has huge value as it allows people to sense check the product recommended to them.

And in a world of fake news and false claims people still trust other people - which is why people often use social media like Facebook and Twitter to ask for recommendations.

Word of mouth remains the best form of marketing and no technological advance will change that.

Simon Andrews

Simon Andrews is Managing Director at The Media Kitchen, a full service media agency with a strong digital core. Simon specialises in starting and running businesses that help brands profit from the new opportunities digital enables. His early career saw him build DLKW Dialogue into one of London's most respected digital agencies before launching Big Picture which focused on emerging media such as mobile & social in 2005. He then joined WPP/ MindShare as Global Chief Digital Strategy Officer. He speaks at conferences around the world and is published in many industry titles.

Client Survey 2019

Over the following pages Oliver Tregoning, JM Finn's Head of Marketing, reviews our recent 2019 client survey.

Report

Personal service underpins positive client feedback

Surveys are often like Marmite – you either love them or hate them. I know people who feel let down by a brand which doesn't ask them how their experience was, but for every one of those, there is someone who feels a survey cheapens the product or service.

The wealth management services that we offer are multi-faceted and to get a robust view of how we are doing and, more importantly, what we need to do to continue to meet our clients' needs, is essential for our ongoing success.

Building on the survey we conducted in 2015 our objectives were to measure key performance indicators including satisfaction, trust and net promoter scores to test how we are doing, in addition to an evaluation of our communication methods. We also wanted to explore clients' willingness and awareness of our wealth planning services and online capabilities and assess overall preparations for generational wealth transfer.

The survey was conducted online in March by a third party consultancy and we were delighted to receive over 2,000 responses representing a response rate of nearly 30%, which makes the data set extremely valuable.

Key performance indicators

In summary, we scored highly on all the main key performance indicators (KPIs), especially trust and satisfaction, for both individual investment managers and the firm as a whole. We were also delighted to learn that our

> *A very friendly and open relationship with regular communications and updates.*

net promoter score, a measure of our clients' willingness to promote or refer us, well surpassed industry averages. As a further proof point of this, 49% of all those surveyed say they have recommended us to their friends and family, half of whom say this was in the last 12 months.

It has been a breath of fresh air to talk to someone who understands the markets and provides very sensible independent advice. I understand the processes and thinking behind the discretionary decisions made on my behalf and feel part of the process.

When asked what it was that clients are particularly satisfied with, the overarching statement was the personal service we offer. This is particularly satisfying as this remains our point of differentiation versus much of our competition, as they increasingly put the investment management decision making at arm's length to the main point of contact; something we firmly believe will compromise the service we offer.

Staying with the KPIs, we were delighted to learn that we continue to improve on the service we provide to our clients, with all KPIs improved on the scores obtained in 2015. We also noted a 95% satisfaction rating of the proactivity of our investment managers and 92% satisfaction of investment performance, with nearly two thirds suggesting they were extremely satisfied.

There are an abundance of research reports that suggest that the industry does not serve female clients very well. It was most pleasing for us to see from our survey results that, despite having no differences between the service levels, our female clients scored us higher on all the KPIs. Again, we believe this is thanks to the focus on building relationships which in turn allows us to be responsive and reactive to individual needs.

Services

When exploring the awareness of the additional services we offer, the numbers were lower than we had expected. With only 25% of respondents aware of our ability to offer retirement planning services and only 20% aware of our inheritance tax portfolio service. Of course many don't need these services but with the challenges of changing demographics and wealth transfer these are services that we have built to complement our investment proposition and that we feel could be of value to clients looking to plan for their own and their children or grandchildren's futures.

Genuine personal service is rare these days. Keep up the good work!

Communication

There was a range of preferences for the frequency of meetings with an investment manager, with the majority wanting a meeting once a year and nearly 20% more often than that. Over half prefer these meetings to take place at one of our offices.

In terms of the satisfaction of the meeting frequency, face to face meeting frequency met with a 92% satisfaction level and telephone and email contact had a 96% satisfaction rating. This suggests our focus on client communication and the flexibility we can provide is hitting the mark.

> ***I feel confident that my money is well looked after. Most importantly I know the people I speak to and trust them.***

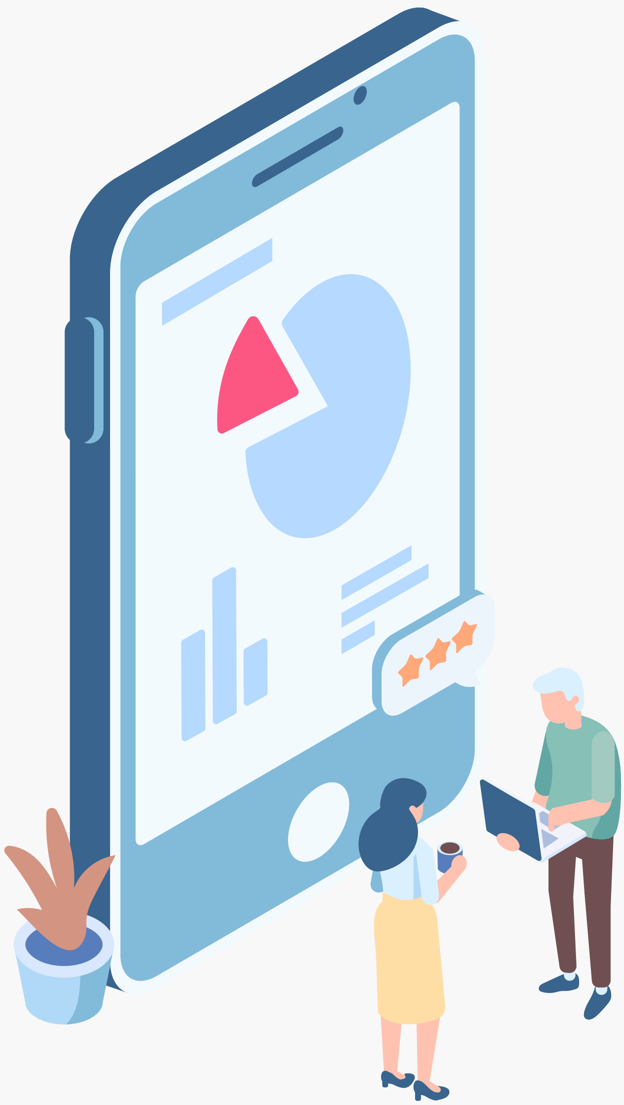
For the formal client reporting we were delighted that 98% said the information provided is clear and easy to understand, whilst there was a high level of satisfaction with the personalised annual portfolio review letter. We were also delighted to learn that 91% of respondents felt that Prospects was relevant and interesting.

Digital

Providing a suitable and easy-to-use client portal has been a focus of ours for some years, having been one of the first providers to offer one nearly 20 years ago. In addition to providing a personal library to store account paperwork online, we believe we can help protect confidential data better via a portal, rather than relying on email which is deemed to be easier to compromise. That said, over 80% of our clients said they were aware of our portal but less than half use it. Of those that do use it, over three-quarters were satisfied with it. The app received the same satisfaction rating but usage was much lower with only 11% actively using it, despite access being much easier if you have a smartphone that can take advantage of finger print or facial recognition.

Digital spotlight

Over 80% of our clients said they were aware of our portal but less than half use it. Less were aware of our app with **only 11%** actively using it.



Next generation

The final area explored was the preparedness of our clients for transferring their wealth to the next generation. The vast majority of our clients feel prepared, although only half have discussed their plans with their inheritors, which may explain why a quarter of respondents suggested they would be interested in attending a wealth transfer seminar or event to learn more.

Finally, we explored the appetite for investing with consideration for environmental, social and governance factors alongside financial factors in the decision making process and determined that nearly two thirds may be interested in understanding what this may look like and a third suggesting their children would be particularly interested.

> “*Personal communication and online services are vastly superior to offerings from much larger firms.*”

To conclude, we were delighted with the responses which continue to verify that we are servicing our clients to the best of our abilities. This additionally gives us comfort that the way we do things meets with our clients' approval.

Thanks again to those who took part in providing this valuable information. We did ask all respondents at the end whether they'd be willing to do another survey within 12 months, purely to test the appetite for such things and the vast majority suggested they would be willing. As ever we actively encourage feedback and would be delighted to hear any suggestions for improvements or additions to the services we offer and we hope that these results will give our clients comfort that their wealth is in good hands.

Research objectives

1. Measure key performance indicators including satisfaction, trust and NPS, and compare to 2015 scores
2. Evaluate communication satisfaction
3. Measure awareness and usage of JM Finn digital offering
4. Understand the extent of clients' wealth planning needs and awareness of JM Finn's services

15-minute online survey

An option of a shorter 5 minute survey for smartphone users

2,094 completed surveys

(c.29% response rate)

65% (1,385)

agreed to take part in a follow-up or similar research in the next 12 months

Client survey in numbers

The NPS demonstrates clients' willingness to promote the firm on a scale of -100 to +100

49% of clients have made a referral to:

48% Friend

42% Family member

Net Promoter Score (NPS)

70

JM Finn far outstrips the industry average and some of our leading competitors

Investment Manager

94%

are satisfied with their Investment Manager

Overall experience

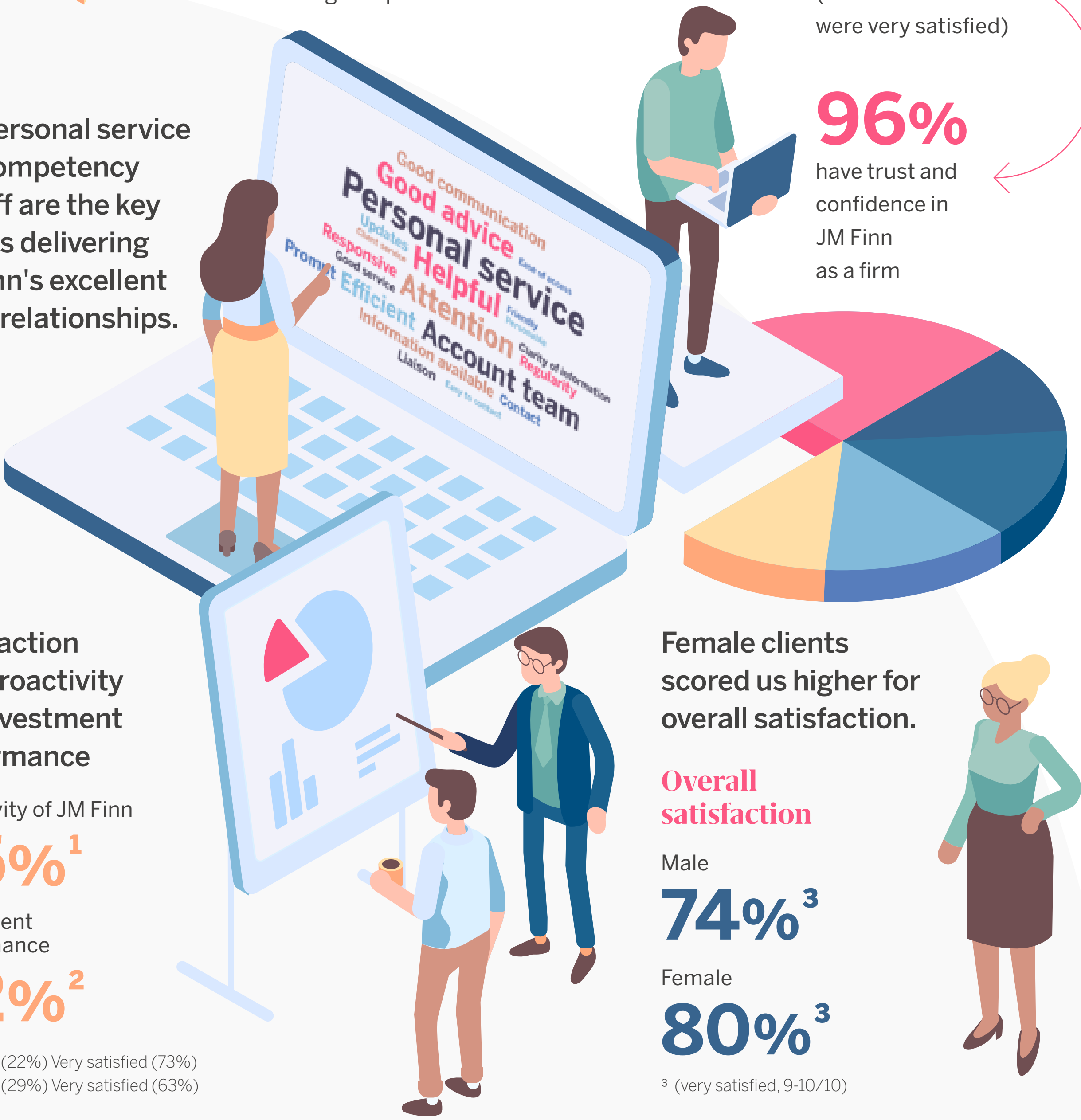
93%

are satisfied with the overall experience from JM Finn (of which 77% were very satisfied)

96%

have trust and confidence in JM Finn as a firm

The personal service and competency of staff are the key factors delivering JM Finn's excellent client relationships.



Satisfaction with proactivity and investment performance

Proactivity of JM Finn

95%[1]

Investment performance

92%[2]

[1] Satisfied (22%) Very satisfied (73%)
[2] Satisfied (29%) Very satisfied (63%)

Female clients scored us higher for overall satisfaction.

Overall satisfaction

Male

74%[3]

Female

80%[3]

[3] (very satisfied, 9-10/10)

Telephone and email contact

82%

Had their expectations met

Face-to-face meetings

81%

Had their expectations met

ESG Investing

34%*

of clients under 50 are more likely to be interest in ESG investing

* 36% of those interested in ESG investing believe that their children would also be interested

Periodic statements

98%

say the information is clear and easy to understand

Prospects

91%

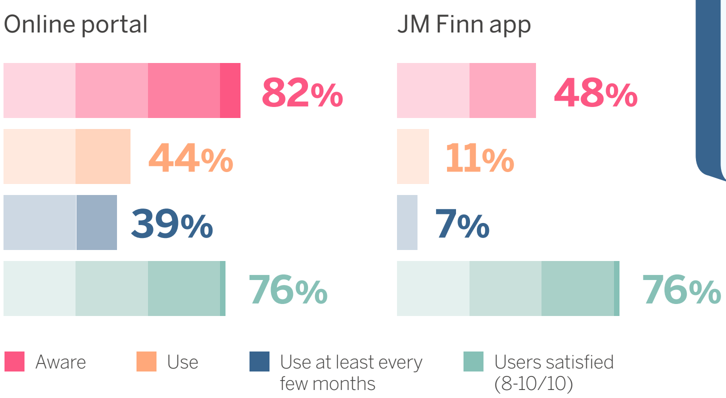
find it relevant and interesting

Using JM Finn

90%

would definitely choose to invest with JM Finn if making the same decision again

Awareness of the portal is higher than the app. However, those who use the app do so more frequently.



At a glance

Communication

95%

are satisfied with the communication they receive from JM Finn

Trust

98%

have trust and confidence in the individual who acts as their investment manager

Confidence

96%

have trust and confidence in JM Finn as a firm

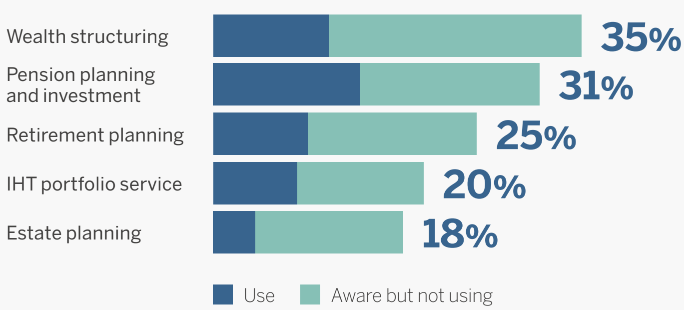
Referrals

70

JM Finn's NPS which improved from 59 in 2015

Awareness of services

When exploring the awareness of our wealth planning services, the numbers were lower than we had expected.



Bond Focus

By John Royden
Head of Research

For some while I have held the view that the most important medium term driver of interest rates is what happens in America, because I think America is going to be the catalyst for the next recession.

My view is that Trump stimulates the economy into the next November 2020 election. With 3.6% unemployment, the lowest level since 1969, the probability is that further economic growth is going to feed through to wage inflation which is already quite high at 3.4% and much higher than CPI inflation at 2%.

Put more simply, if the economy grows faster than its current rate of 3.2% then employers need to produce more to meet the new demand. That means either productivity improvements (making more with the same assets) or employing more people. If there are no unemployed then employers have to raise wages to attract workers from other employers. If this wage inflation feeds through to the cost of goods and services via workers buying more with their greater wages, or through employers passing through the higher wage cost to the goods and services, then CPI will increase.

Over the last decade, the Fed, and indeed most central banks have been trained, by the markets, to be cautious with putting rates up in the face of greater inflation. Also, President Trump is not exactly shy when it comes to criticising the Fed for putting rates up so political pressures must weigh on their thinking as well.

What this means is that when the Fed sees CPI inflation increasing, they could well be timid about putting rates up to start with. This will allow CPI inflation to run away with itself until, in my opinion, the Fed goes into “interest rate catch up mode”, pokes in some swift and firm rate hikes to the point that the US, and indeed the rest of the world, flips into the next recession.

This view rests upon the US and China reaching an agreement on trade before the next US election in 2021. Trump sits with a strong hand. He knows that China’s sensitivity to US growth is much stronger than America’s to China’s, so trade tariffs hurt China more than they hurt the US. As mentioned above, Trump has a strong US economy growing at 3.2% and strong wage inflation riding far above CPI inflation. The Americans can take a small trade war driven hit to their economy and still feel pretty good.

By contrast the Chinese are in a weak position. They have a political objective of stability and they see debt as a driver of instability and are trying to get it down. But at the same time they have to grow their economy by 6% per annum in order to generate the jobs that the 16 million Chinese school- and university-leavers need each year.

If Trump slows China’s economy then the Chinese have to stimulate their economy by making it easier to borrow more and generate the growth that they need to avoid social unrest. The Chinese would rather not do this which is why I think the US and China will agree to drop tariffs towards the first half of 2020. Even if interest rates soften over the next few weeks, expect them to be trending higher by this time next year.

Economic Focus

The Price of Safety

Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Darren Richards

The fifth JM Finn Annual Investment Conference, which took place in May at the Royal College of Physicians, was a fascinating, if somewhat scary, insight into how security now plays a far bigger role in our daily lives. A distinguished panel, which comprised the BBC Security Correspondent, Frank Gardner, a senior ex-police officer who had been involved in Counter Terrorism, an American lawyer specialising in technology who divided his time between London and Los Angeles, and our own Jon Cosson, who is presently studying for his PhD in cyber crime, covered a wide range of security issues pertinent to us all.

The biggest change that has been wrought in this all encompassing field has been through the development of information technology. Whether it is the jihadist terrorist seeking to add to his followers through social media, or the hacker harvesting our personal information for financial gain, or organised crime using the dark web to barter ill gotten goods, technology is now playing a crucial role amongst those who would seek to do us harm through attacking us physically or stealing our money.

If there was a positive message to be taken from what was otherwise a rather sobering event, it was that those combating terrorism and criminal elements are getting better at it using the same technology that has opened the door for cyber crime and enhanced opportunities for terrorists. In the end it seems to be down to us all to be vigilant and to protect ourselves as best we can from the efforts to separate us from our possessions. But with technology now deeply embedded in all our daily lives, I could not help but wonder what the consequences might be for future economic development.

Maintaining our security comes at a cost to us personally and to the business world, not to mention the price governments have to pay to keep their citizens safe. The situation has been thrown into relief with the news that the US government has ordered Google not to provide the Chinese telecoms giant Huawei with further assistance on operating systems. This could, of course, be largely attributed to yet another skirmish in the trade war that has erupted between China and America, but there appear genuine concerns that, if push comes to shove, Huawei's sophisticated telecoms network could be pressed into service as a spying mechanism for the Chinese government.

Our esteemed editor, who opened the conference, was kind enough to make mention of the book I had written 25 years ago on the topic of how technology was changing the investment world. There are aspects of the book of which I am proud, most notably my slightly tongue in cheek predictions of how investment might look half a century from when I was putting pen to paper. A lot of the ideas

I expressed did indeed come to pass in one way or another, but I was deficient in two areas. First, much of what I expected to happen by 2044 or thereabouts had already taken place, demonstrating that the pace of change continues to accelerate. Second, I did not expect financial crime to move into the technology sector in quite the way it has.

> *Being in the vanguard of technological advancement brings massive dividends.*

That technology is a force for good economically speaking is a given. But it is not a one way street. Witness the devastation being wrought in our high streets and amongst our traditional, often big name, retailers. Being in the vanguard of technological advancement brings massive dividends. In the 1990s emerging Asia was viewed by many as where to place your investment bets. But over in America, technology was making huge forward strides and it was US markets that dominated the performance tables, at least until the bursting of the bubble in the early days of the new millennium. Even now American giants are the leaders in so many aspects of technology. The Sino/American trade spat probably has much to do with whether the US can maintain its role out in the front.

As for the security aspect of technological advancement, legislation is at last beginning to catch up with what is happening out on the corporate and criminal battlefields. The General Data Protection Regulation, or GDPR, seeks to shift the burden of looking after personal data squarely back upon the shoulders of the companies that supply us with the platforms on which so many of us choose to operate these days. Introduced last spring, it demands an opt in approach to how companies might use your data, a more straightforward approach to describing what is involved and heavy fines for non-compliance. Whilst generally welcoming this initiative, the lawyer on the conference panel was far from certain much had changed.

Perhaps the fine aspect will make a difference as social media platforms, faced with breaches in the management of the data they hold, could face fines of literally billions of dollars. This, and the need to ensure your systems are fit for purpose in both delivering to your customer base so far as expectations are concerned, as well as maintaining at all times a properly secure environment in which to manage your data, must be a new and, as yet, unquantifiable cost to business. If there is one further prediction I would make, it is that the speed at which companies fall in and out of favour is bound to increase, making the job of an investment manager that much harder. Who said life was ever easy?

European Companies: Seeking Winners on the World Stage

Alexander Darwall,
Head of Strategy, European Growth – Jupiter Asset Management Limited

Europe has some great investment opportunities, but you could be forgiven for thinking otherwise. In March, the European Central Bank cut sharply its growth forecasts for 2019 and pledged to keep interest rates negative. Yet with consumers and companies unwilling to borrow to fund their consumption or investment, the central bank's limited ability to stimulate economic growth is clear.

Meanwhile, Donald Trump's use of truculent trade tariffs to bring China to the negotiating table has highlighted how vulnerable much of Europe is to external shocks – especially because since the eurozone debt crisis of 2011 it has been unable to generate enough domestic growth. Indeed, the EU Fiscal Compact prevents many European countries like Italy from using tax cuts and higher government spending to stimulate their economies while those with large budget surpluses such as Germany, who could do so, remain reluctant.

But, despite the apparent gloom, it is important to note that European companies have not stopped investing. One simple thing they do is to look elsewhere. Corporate investment no longer goes primarily into the eurozone, it flows out into the rest of the world. This is why our investment approach has never been a play on domestic Europe. Instead, we search hard to identify European companies run by highly competent management teams with some special product or service, often protected by intellectual property rights, which allows them to take advantage of moments of change. These moments typically arise from change in regulation, consumer habits, technology and innovation. Changes in banking regulation hampered incumbents and left gaps for nimble opportunists. For example, a German small-ticket IT leasing company has developed its own highly specialist digital database and flourished by offering tailor-made financing to small businesses in a way which big banks struggled to do.

> ***We are looking for 'winners through the economic cycle', companies that can come out of a recession stronger than when they went in.***

We do not like companies where a binary outcome is likely, for example where success depends on whether the dollar is going up or down. We avoid telecoms and utilities where regulators can control competition and cap profits, or companies which use debt to supercharge pedestrian earnings. We prefer companies which are 'future proofed', i.e. companies which are relatively agnostic about which way their industry is going. For example, the world's leading chocolate manufacturer is largely indifferent about whether it sells to global multinationals or trendy pop-up shops in California selling innovative vegan, dairy-free and Ruby chocolate.

We look for structural changes in the world and companies that can benefit from them. For example, the long-term rise in obesity not only creates opportunities in treatment but also in the drive towards healthier lifestyles. Thus, the world's leading insulin supplier continues to prosper by treating the diabetes pandemic. We also like the world's foremost salmon farmer where long-term demand from healthier eating is outstripping supply. This Norwegian company differs from its peers in being able to produce fish feed, do its own processing and sell value-added products. Such 'vertical integration' allows it to capture more of the profit.

The growing sophistication of digital technology offers great investment opportunities. For example, the world's second-largest sporting goods company uses digital technology to be supremely consumer-driven. This is a key advantage which, along with formidable brand strength and strong global growth, makes it hard for peers to compete. Another example is a French company specialising in prepaid corporate vouchers which uses digital technology to increase the range of its offerings and reach more customers with greater convenience for them.

Indeed, we see digital technologies everywhere, from publishers cutting the costs of distributing legal and scientific journals worldwide to a company which provide power semiconductors for cars. In our view it could be a winner because of the increasing use of digital technology to develop the connected car. In the digital payments space, we focus on companies who do not particularly care which methods of payment or schemes will prevail. Whether you are serving Visa or Mastercard or looking at point of sale terminals or code-scanning contactless, considering all the ways it could change, you need to be a payment company that can succeed in a range of scenarios.

In summary, we are looking for 'winners through the economic cycle', companies that can come out of a recession stronger than when they went in. We ask ourselves whether a company is special enough to take advantage of the opportunities ahead? We focus on companies with robust business models that operate in a favourable industry landscape. Where such companies compete on the world stage and succeed, the rewards can be commensurately great.

Independent view

Busting the myths of cohabitation

By Claire Johnson and Gaynor Dickens

So, it is much less complicated if you just live together, right? Wrong.

There are an estimated 3.3 million cohabiting couples in the UK, this fastest growing family type has more than doubled since the mid-1990s.

Society is changing, but unfortunately the laws of England and Wales haven't kept up. A recent poll revealed that a significant number of cohabiting couples mistakenly believe they are 'common law spouses' and that this will protect them should their relationship end or one partner die. The truth is you may have lived with your partner for years, brought up children together and even given up your career for the family's benefit, but you still have no right to support if the relationship breaks down and no automatic entitlement to benefit from your partner's estate.

When a marriage breaks down the court can allocate the available assets and pensions based on what is fair and the needs of each party to the marriage. That is simply not the case for unmarried couples. If the property you live in is in the name of your partner establishing that you have any interest in it can be extremely difficult, even if you have paid towards the bills for years. Making a claim relying on a piece of legislation known as the Trusts of Land Act 1996 can be extremely complicated and expensive, with no guarantee that the financially weaker party will be awarded what may seem fair.

The good news is that there is plenty you can do to avoid problems in the future with a little forward planning.

Think about how you own property

If you are buying a property together, or moving in to your partner's property, think about how you are paying for property both in terms of the initial deposit and mortgage repayments. Be aware that if one partner is contributing all the funds towards the purchase of the property, but you are buying in joint names the partner paying will effectively be giving away half the house immediately, which may not be his or her intention. Equally, by placing the property in one person's name, you are not guaranteeing the other partner's security. If contributions towards the deposit or the mortgage payments are unequal, this can be reflected in the deeds or in a separate Declaration of Trust. There are likely to be tax implications, so it is important to seek advice before you take any steps to change the ownership of the property.

Make a cohabitation agreement

No one wants to think that their relationship may break down, but then again no one drives a car without the benefit of car insurance.

A cohabitation agreement can set out who brings what into a relationship and how it should be shared on separation. This can include the house but also other items such as cars and house contents. Think about how things may change; for example, what if you have children together? Ask an experienced family lawyer to help you put the agreement in place and review it on a regular basis

Make sure you have an appropriate Will in place:

The harsh truth is that a cohabiting partner has no automatic right to benefit from their partner's estate after his or her death, no matter how long they have been in a relationship or whether they have children together. Instead, the surviving partner may face bringing a claim through the courts (under the Inheritance (Provision for Family and Dependants) Act 1975) against their partner's relatives or even against their own children for reasonable provision from the estate to maintain themselves.

It is possible to frame your Will to provide for your partner for his or her lifetime, to stay living in the house, for example, whilst also protecting the capital to pass to your children eventually. This may be particularly relevant and appropriate where there are children from a previous relationship.

Assets held by a couple jointly (as 'joint tenants'), such as a house or a joint bank account, will belong to the surviving partner automatically on the death of one of you. But it is important to have advice before making any changes to the ownership of assets because of potential tax implications.

Sort out pension and death in service benefit

If you have a pension or life insurance policy (including death in service benefit), it is important to make sure you have nominated your partner as the intended beneficiary of the policy if you want him or her to benefit (this is usually via a nomination or expression of wish form rather than under your Will). Again, it is a good idea to take advice from your financial adviser to make sure you have taken the right steps to deal with pensions and life policies.

Plan ahead to avoid an unwelcome tax bill

Cohabiting couples do not benefit from the same inheritance tax allowances as married couples, leaving them at a distinct tax disadvantage. There are steps which can be taken to improve the position, for example, via carefully structured Wills. Couples may also wish to consider life insurance written in trust to cover any inheritance tax bill on first death.

Feeling inclined to propose?

For those who have decided not to marry because they want to keep their finances and property separate (perhaps having been 'stung' in a previous divorce), the good news is that a well drafted and properly implemented pre-nuptial agreement coupled with appropriately tailored Will planning can effectively address those concerns.

If marriage is in prospect, it is important to note that an existing Will is automatically revoked on marriage unless it includes a specific provision contemplating the forthcoming nuptials and expressly preserving the Will.

Whether you are thinking of tying the proverbial knot, consider this a step too far, or are perhaps concerned on behalf of adult children or grandchildren in the legal limbo of cohabitation (particularly if you are helping them out financially), the importance of planning ahead with the benefit of specialist legal advice cannot be underestimated. This allows couples to make well informed choices and take appropriate action for real peace of mind.

For further information please contact Claire Johnson or Gaynor Dickens two of the Partners in the Private Client & Family team respectively at Geldards LLP.

Geldards is one of the country's leading regional law firms with over 350 staff based in Wales, The Midlands, and London. We are a full-service law firm providing practical legal advice to private and public companies, local authorities, public bodies, charities & government agencies as well as private individuals.

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Stock in Focus

Novo Nordisk

By Michael Bray,
Research Analyst

Illustration by Jordan Atkinson

Novo is a Danish pharmaceutical company which focuses on treating chronic illnesses. It is the world's largest diabetes care company and operates in over 180 countries.

Novo specialises in protein-based medicines. By product segment, revenues split into Diabetes (81%), Obesity (3%), Haemophilia (9%), Growth Disorders (6%) and Other Biopharmaceuticals (1%).

Diabetes and obesity care have been the primary drivers of growth for Novo. This is due to not only the rise of global obesity and the subsequent incidence of diabetes (which has increased from 220 million in 2005 to around 425 million currently) but also due to the inadequate treatment of the disease. Only c.6% of diabetics live a life free from diabetes-related complications, costing health organisations tens of billions of dollars each year.

Novo has also benefitted from favourable competitive dynamics within diabetes care. The number of players in the industry has remained fairly constant, with the four largest accounting for 80% of its market share. Novo is the biggest at 28%.

The barriers to entry are high for several reasons: 1) Scale requirements are significant as diabetes care is a high volume, low-value product in contrast to more patented drugs which have high prices but are comparatively cheap to produce; 2) Insulin is produced biologically and is impossible to precisely replicate. Copies are bio-similar, not generic. Switching to biosimilars is not easy and requires further trips to an endocrinologist and a new prescription, resulting in high switching costs which creates strong brand loyalty, even for off-patent drugs; 3) Novo has an excellent track record of innovating and replacing products before they go off-patent.

This has helped Novo record an impressive performance over the past ten years with operating profit growing +14% p.a. and its share price growing by over 570%.

However, growth slowed markedly in 2016 as a number of negative factors culminated in higher than expected price erosion in the US insulin market, sending shares down c.30%. The U.S. accounts for around 47% of revenue. These included consolidation amongst Pharmacy Benefit Managers (PBMs, purchasers of drugs on behalf of healthcare insurers), the entrance of a number of biosimilars and the replacement of off-patent insulin by a next generation product (Tresiba) which was deemed only moderately more effective. As a result, organic sales growth fell from +8.4% in 2015 to a multi-decade low of +2.3% in 2017.

PRICE
DKK 314.70

52 WEEK HIGH-LOW
DKK 349.70—DKK 265.15

NET YIELD
2.74%

HIST/PROS PER
19.6—19.1

EQUITY MARKET CAP (M)
DKK 749,760

> ***Diabetes and obesity care have been the primary drivers of growth for Novo.***

Novo expects pricing pressure in the US insulin segment to continue and has responded by focusing attention on the GLP-1 (Glucagon-like peptide 1) segment. This class of diabetes drug has grown by +39% p.a. for the last five years and is considered highly innovative. Not only are they better than insulin at keeping blood sugar levels within the desired range for longer, but they also have the added benefit of aiding weight loss and reducing cardiovascular risk - two serious health complications which diabetics are at greater risk to. The GLP-1 market is essentially a duopoly, and is dominated by Novo and Eli Lilly. A game changer for the segment could also be the release of the first oral GLP-1 product by Novo in 2020/2021. GLP-1 products are currently injected which is considered undesirable by most diabetics. With two-thirds of diabetics taking oral anti-diabetic drugs (OADs), the opportunity for Novo is potentially large.

The flipside to this is that GLP-1 products are expected to drive c.70% of revenue growth over the next five years and are the most expensive diabetes treatment class. Novo argues the dynamics are different, but the concern for some investors is that the extent of price declines which occurred in the US insulin market in 2016 will occur in the GLP-1 segment when Novo's first GLP-1 product (Victoza) loses its patent in 2023. Additionally, if Novo wants to capture more of the diabetes care market with its oral GLP-1 product it will potentially have to offer larger discounts than expected to ensure wider take-up.

Pricing uncertainty is amplified by the intensifying political pressure in the US around healthcare costs. The majority of the US healthcare system is paid for via insurance plans in a complex and opaque system where rebates (i.e. discounts) are provided by drug manufacturers, such as Novo, to PBMs for selecting their products, and are supposed to flow through to the end patient. This has however not been happening correctly, with some patients finding that they have to pay the full-list price upon purchase. Ongoing talks in Congress are seeking to determine who is exactly at fault for the predicament in the rebate system, which could have a significant impact on how Novo negotiates pricing.

Novo continues to benefit from the increasing global demand for its diabetes products, but a big unknown for the business remains around the future of its pricing.

Please read the important notice on page 1.

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.5

The Horsebox Spa

After nine years at my home yard, a field with no mains water or electricity and having just endured one of the longest winters in decades, the thought of another without the little luxury of hot wash facilities triggered an idea.

When you consider that every equine service from the vet, the farrier, the dentist to the physio goes direct to the horse... then why not the spa? I felt the need for a new equine service was evident enough to take the risk, so I quit my job in the City and used the equity from the sale of my London property to buy a small cottage in East Sussex and the remaining £80,000 to set up the business. Given the high-risk nature of my start up (brand new service, not tried or market tested) I didn't want any loans or financial burdens, enabling the spa to ride out any seasonal lows it may experience in the first couple of years.

This business was the first of its kind so there was no model from which to base it on and no way of knowing if the concept would work. This led to the first issue I had to overcome...insurance. There is no policy that covers this type of business which I discovered by approaching every broker and insurer in the market all of whom declined to quote, except one.

Next, I got in touch with a high-end horsebox builder with a list of specific requirements and design ideas on how to turn a regular new-build horsebox into an equine spa studio. As an industry first I knew competitors would shortly follow and copy my concept so I had 18-24 months to establish the brand and make it a market leader. The build had to have everything and my equipment had to be of the highest quality.

Looking at the spa facilities rented out by some yards, the facilities themselves were typically just a hot shower in a barn with a solarium... functional, but not what I'd consider to be a spa as such. The Horsebox Spa isn't bound by preconceptions of services which gave me free rein to create a sensory spa experience around the traditional services you'd expect. For example, I've taken inspiration from human spas; for the horses: ambient lighting, mood music, rolled towels and pre heated robes; for the owners, refreshments and a relaxation lounge. I also looked to other professional groomers (dog, show sheep/cattle) for inspiration. One of the biggest problems with bathing horses in winter is how long they take to dry (5-8hrs). Here I discovered high velocity blaster/dryers which allows me to dry off horses in around 1hr which will completely revolutionize my Autumn/Winter market.

The business launched during a quiet time of year which gave me an opportunity to test my equipment, timings and to better understand my costs and price points. Given none of the equipment is designed to be mobile or withstand the constant vibrations of being on the road, things do break, but I've learnt the inner workings of my equipment very well and can fix most issues quickly and on the go.

One thing I didn't anticipate was the amount of cleaning and how long it would take. I take biosecurity, parasitic control and hygiene extremely seriously and can confidently say our processes are on par with an equine hospital. But it takes over 4 hours to fully clean and disinfect the horsebox after every yard visit, meaning in the winter we can only work every other day.

When Equine Flu broke out this year and many yards locked down on all but essential services, my turnover was seriously impacted but it's important to use these setbacks positively so I used the time to look at my processes and IT, integrating new CRM and scheduling software.

> *This business was the first of its kind so there was no model from which to base it on and no way of knowing if the concept would work.*

In April I launched some promotions and the business sprung into life. Almost overnight I was fully booked 6 weeks ahead with over 100 registered horses. I then signed up as a sponsor of Chilham Park Horse Trials and for the first British Eventing event we offered complimentary washdown spas. The response was phenomenal and we spa'd 186 over 2 days!

I've got big plans for the future but for now the focus remains the local market, what services carry the greatest demand and what marketing events and promotions are most profitable.

The best advice I could give anyone looking to set up their own business would be to mould your career around your lifestyle, not your lifestyle around your career – but that often means taking a risk.

> *I've got big plans for the future but for now the focus remains the local market.*

The Horsebox Spa

We bring 5 ★ spa facilities directly to equestrians, to both their home yards and events, which in addition to the many practical benefits of the spa, offers a truly luxurious sensory soother.

Founded in November 2018, The Horsebox Spa is a brand-new service and an industry first mobile equine spa studio, capable of operating 100% off grid. The equine spa treatments typically include, hot power showers under infrared heaters, rug warming, infrared solarium, Equissage & Equilibrium massage pads, blow drying, ice infused misting fan, whitening and glossing treatments, mane and tail pulling, clipping plus specialist spas for show preparation, traditional cobs, de-itching, whitening and fly control to name just a few.

www.thehorseboxspa.co.uk

Wealth planning

Success by default

By Atticus Kidd
Wealth Planning Assistant

Illustration by Andrew Rees

Atticus Kidd, Wealth Planning Assistant at JM Finn, explores how the success of the auto enrolment initiative can be attributed to the core principles of behavioural science.

In 2012 we saw the launch of auto enrolment pensions in the UK. You have likely heard of the scheme and may have a workplace pension as a consequence. However, this is not a new concept; financial innovators Australia, who lead the world in contactless payment and have discarded copper coins, adopted the idea two decades prior and have watched the initiative's success ripple around Europe.

The initiative works by changing the default scenario from having to set up a pension, into one where you automatically receive a pension but are given the option to opt-out. This resolved an age-old issue for policymakers struggling to convince the population to save more, despite £20 billion per annum in subsidies set aside to entice willing savers.

The scheme has attracted over 10 million extra savers for retirement in the UK since its inception, and statistics from the Department for Work and Pensions show that eligible private sector workers participating in their workplace pension have increased from 42% to 81% from 2012 to 2018 and opt-out levels have remained consistently low at around 9%.

This is no surprise to those familiar with the theory behind auto enrolment that has enabled it to achieve so much. The initiative uses the principles of behavioural science and the research surrounding default options. In complex situations such as pension planning there can be friction surrounding decision making as you are asked to contemplate future scenarios with multiple variables. This requires a great deal of thought and conscious contemplation. Behavioural scientists instead want to appeal to the instinctual part of our psyche. Most of us are aware that saving into pensions is something we would like to be doing, we may not be aware of how best to achieve our retirement objectives but we can instinctively say that this is something the majority of us believe we should be doing. By changing the default question to 'would you like to remain in a pension scheme?' rather than 'how would you like to save for retirement?' the process becomes immensely simplified.

Unfortunately, despite all of its successes there are still some issues with auto enrolment pensions. Areas as complex as pensions rarely have one-size-fits-all solutions. We must then look at ways to tailor pensions to ensure that they fit retirement objectives. Currently there are three core issues surrounding auto enrolment pensions.

> Eligible private sector workers participating in their workplace pension increased from 42% to 81% from 2012 to 2018.

1

People not saving enough

Although the government has hiked minimum contributions up to a combined 8% from employee and employer this is not an indication of the optimal amount required to retire comfortably. Pensions experts have in fact indicated that total pension contributions would need to start at the 12% level before you could begin to see a meaningful impact on savings towards retirement.

The majority make the maximum contributions that their employer will match with little thought given to whether this is a sufficient amount to achieve any given objective.

Which? recently completed a survey on more than 6,000 real retirees. They found that to enjoy a comfortable retirement with a reasonable level of luxury (including long-haul trips and a new car every 5 years) requires £39,000 per annum. To achieve this Which? estimate you would need a minimum retirement pot of £455,500. A 20 year old would need to save £572 a month to achieve such a pot and a 50 year old would be looking at monthly contributions of £1,741. This is assuming basic rate tax relief, state pension and growth of 3% a year after charges.

One problem in making pension contributions can be affordability. Behavioural economists at the University of Chicago and University of California have found a solution for this problem which they have named 'Save More Tomorrow™'. This involves committing a portion of future salary increases, in advance, towards retirement savings. We often live within our means and once those means expand, so too does our lifestyle. The scheme allows you to maintain moderate increases to your lifestyle whilst helping you to achieve a comfortable retirement. Those participating found that over 40 months their average savings rates had increased from 3.5% to 13.6%.

> *To enjoy a comfortable retirement with a reasonable level of luxury requires £39,000 per annum.*

2

People saving but not engaging

Although a great deal are aware that they have a workplace pension, only a fraction know the features of their pension schemes.

Two areas to look at are investments, ensuring they match your attitude and capacity for risk, and nominated beneficiaries. The latter are those you elect to receive your pension when you die. Making sure your family are sufficiently provided for in the event of death is a popular overall objective within financial planning and is an easy way of ensuring tax efficient assets are passed on to loved ones. It is important to regularly update nominated beneficiaries to reflect your objectives.

Lifestyle funds can also present an issue. These are investments that de-risk themselves over time eventually moving entirely into low risk assets at your intended retirement date. However, if you have the incorrect intended retirement date or the fund simply does not match your retirement objectives then this can have negative consequences for the growth of your pension pot.

You may also accumulate multiple pensions over your working life. With all of these schemes typically working towards the same objective there may be benefits to consolidation, such as cost savings or simplification. Most pension schemes will facilitate transfers in but before proceeding you should ensure that the recipient contract is suitable for your retirement needs and that no guarantees are forgone by transferring.

3

Individuals who still remain under-saved

Unfortunately there are still a number of people who remain illegible for automatic enrolment. The government is taking steps to increase involvement by reducing the age cap from 22 to 18 and eliminating the lower earnings limit of £10,000. However, these measures are not due to be implemented until mid-2020.

The principal group left unaffected by auto enrolment are the self-employed. Due to the typically irregular nature of income it can be tricky to establish a consistent and affordable level of pension contributions. Fortunately there are a number of freedoms and flexibilities afforded to the self-employed that allow alternative avenues to be explored. Retirement saving amongst the self-employed remains low but, auto enrolment would serve as a restriction compared to the solutions currently available so research into this area should be considered.

In conclusion, auto enrolment is a fantastic initiative and one that should be praised for its success. However, there still needs to be more active involvement in order to ensure that pensions can adequately provide a comfortable retirement.

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.

INTUITIVE SURGICAL

Michael Bray
Research Analyst

PRICE
$464.85

52 WEEK HIGH-LOW
$589.32—$430.24

NET YIELD
N/A

HIST/PROS PER
49.2-41.4

EQUITY MARKET CAP (M)
$55,999

Intuitive Surgical is a company which develops and manufactures surgical robots, and is the global leader. These however aren't the fully automated robots that you may be thinking of.

Intuitive's robotic system – the da Vinci Surgical System - provides assistance to surgeons during surgery, but doesn't completely replace them. Robotic-assisted surgery helps to make surgical procedures more precise and less invasive. Complex procedures such as heart valve and cancer surgery can be made through 1 cm to 2 cm incisions. This leads to better patient outcomes and lower overall healthcare costs.

In 2018, da Vinci Systems assisted with over one million surgeries. The company estimates there are five million applicable surgeries related to gynaecologic, urologic, cardiothoracic and head/neck operations which their system could be used for, and that's just in existing countries where it sells products.

With such an attractive market opportunity, price competition from new competitors is likely to increase. How hospitals weigh the value proposition of Intuitive's proven technology vs lower priced competing solutions remains to be seen.

Please read the important notice on page 1.

JM Finn News

JM Finn 2019 in pictures...

— Our continued sponsorship of Surrey CCC

— Race sponsors at various point to points

— Sponsor of celebrity cricket match to support Rwanda Aid

— Supporting a charity clay pigeon event

— Annual golf day at the New Zealand Golf Club

— Spring Conference at the Royal College of Physicians

Reminder of ISA rules regarding the death of a surviving spouse/civil partner, or an ISA holder with no spouse/civil partner.

Changes brought in last year have extended the tax advantages of an ISA in the event of the death of an ISA holder.

For an ISA investor who died before 6 April 2018, the ISA loses the tax-free status, and income and capital gains tax will be payable on the assets held within the ISA from the date of death.

The changes mean that in the event of the death of an ISA investor, on or after the 6th April 2018, the ISA will be designated as a 'continuing account of the deceased investor' or 'continuing ISA'. The ISA will continue to be exempt from income and capital gains tax until the earlier of:

- closure of the account
- the completion of the administration of the investor's estate or
- the third anniversary of the investor's death

When the ISA ceases to be a 'continuing ISA', the account will no longer be exempt from tax. In both instances, the ISA can remain invested as long as the ISA provider's terms and conditions allow it (which JM Finn's do) but no further subscriptions can be made.

STANDARD CHARTERED

John Royden
Head of Research

PRICE
£6.87

52 WEEK HIGH-LOW
£7.59—£5.14

NET YIELD
2.5%

HIST/PROS PER
42.8—11.3

EQUITY MARKET CAP (M)
£22,172

Standard Chartered is a restructuring story. The bank is led by CEO Bill Winters, who took over a bit of a mess back in 2015. From 2000 Standard Chartered pursued what they now see as a flawed policy of focussed lending to oil and commodity producers in India, China and Indonesia, rather than selling all-encompassing banking services. This strategy went wrong when the commodity and oil markets collapsed in 2015 and drove the bank to launch a £3.3 billion rights issue and cut the dividend.

Bill's strategy for less risky growth is to focus on banking and wealth management and to down play the lending unless it is key to the banking relationship. Whilst many of the countries in which they operate can be thought of as being high risk, the bank is seeking to follow the supply and distribution chains of companies like Apple where much of the credit risk is related to Apple rather than a local business.

The market seems to be coming around to the idea that Bill might just be able to deliver on his ambitious expectations for growth in profitability.

Please read the important notice on page 1.

Asset Allocation 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 see ongoing Chinese stimulus during 2019. Commodity markets are benefitting from this. Dividend attractions also support our positive stance.
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 higher inflation on margins. We downgrade to neutral.
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	Prefer globally exposed banks to domestic, look for beneficiaries of rising rates.
Financials Property	Some discounts in the UK are at historically wide levels however caution on Brexit uncertainty and structural trends impacting High Street.
Financials Life Insurance	Supportive demographics, particularly internationally, however the sector is a geared play on the market.
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. Key theme for medium term.
Industrials	Valuations look more reasonable following the correction in 2018 but watch out for value traps e.g. low P/E cyclicals.
Energy	Demand/supply dynamics are becoming more favourable as year progresses. Dividends sustainable with oil at current levels and valuations appear attractive.
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.
Utilities	Valuations now reflecting political uncertainty in UK. UK interest rates unlikely to move considerably from current level.

Asset Allocation

UK EQUITIES		
UK	Overweight	Whilst political risk remains, we think valuations offer upside risk following prolonged underperformance. We have increasing confidence in our small overweight position on domestic names with a focus on mid cap opportunities. That being said, we continue to prefer high quality names and would avoid highly levered, cyclical businesses.
INTERNATIONAL EQUITIES		
North America	Overweight	Appears (for the near term at least) to be in the goldilocks scenario of strong growth, real wage inflation and a more dovish Fed. Whilst we remain overweight, we would be less inclined to add aggressively with the market now again near record highs.
Europe	Underweight	We note that the high beta, cyclical nature of many European economies could lead to short term stock market outperformance for 2019 but given longer term structural concerns (such as political risk, high unemployment, north/south divide persist), we remain underweight.
Japan	Neutral	We had previously been overweight, and whilst we still expect the tailwind from Chinese stimulus, we hold lower conviction in our bullish dollar view. In addition we do note longer term structural concerns.
Asia Pacific	Overweight	Recent stabilisation in economic data should support valuations for the near term. We continue to add with greater conviction following signs of Chinese stimulus which will allow EM/AsiaPac equities to continue to recover from depressed levels.
Emerging Markets	Overweight	As for Asia Pacific, recent stabilisation in economic data should support valuations for the near term. We continue to add with greater conviction following signs of Chinese stimulus which will allow EM/AsiaPac equities to continue to recover from depressed levels
BONDS		
Conventional	Underweight	With inflation risk and rising interest rates we see significant duration risk and would remain short dated.
Corporate	Underweight	Despite a rosier economic outlook, we see current spreads as offering little value with little downside protection.
Index Linked	Overweight	With the threat of inflation globally we like the protection afforded by index linked gilts. However we would be wary on valuations here and would be selective in exposure.
CASH		
Cash	Neutral	We continue to (selectively) put cash to use where possible. Given our expectation for the current negative interest rate environment to persist, we would avoid any significant overweight cash positions.
PROPERTY		
Property	Underweight	Structural challenges alongside rising rates means we remain underweight the sector.
ALTERNATIVES		
Alternatives	Neutral	Bottom up selection is key in this heterogeneous sector. With the threat of higher inflation going into the next downturn, we would highlight Infrastructure and Gold as potentially better diversifiers than Cash or Conventional Fixed Income.

+ Overweight / Neutral − Underweight

Meet the manager
James Godrich
Fund Manager, London

Lives Earlsfield, SW London

Education Nottingham High School and Cardiff University

Started at JM Finn 2015

Life ambition To be someone that made a net positive contribution to society

Favourite book *Red Notice*; surely number one in the 'true story financial spy thriller' category

Alternative career Economics teacher; leather elbow patches and all

Last holiday Japan – food, drink, culture, history and scenery all in one

As a charter holder of the CFA, what advantage do you think you get from taking these incredibly tough exams?

The CFA doesn't in itself make you a great investor, just like learning all your scales doesn't necessarily make you a great musician. What it does give you though is an important and thorough understanding of how to critically analyse and quantitatively value businesses.

As you are moving from research to the management of the Coleman Street Investments, can you describe your investment process?

We wake up every morning with the aim of finding great companies, being disciplined on not overpaying for our share in the business and allowing that business to compound value over time.By maintaining a consistent, patient and disciplined process I believe that investors can take advantage of the opportunities thrown up by the fear and greed of others to generate superior long term returns.

Are there any themes or sectors that you are particularly interested in from an investment perspective at present?

The barriers to entry that you find in network businesses are exceptionally attractive. It would be very difficult for me to compete with AutoTrader tomorrow without finding both dealers to sell cars and consumers to buy them. I couldn't create a viable alternative to PayPal without not only attracting consumers willing to use my payment platform but also retailers willing to accept payment on it. And what would be the use of starting a new Facebook if I only had me and a couple of other people on the platform?

Can you tell us why some investors choose to invest in the Coleman Street Investment portfolios?

The advantage of CSI being unitised is the cost efficiency of pooling funds to achieve a suitably diversified portfolio allowing savings to be managed in an active and flexible manner. There is added flexibility in that Capital Gains Tax is not payable on gains within the funds which allows the managers full discretion over investment decisions without tax constraints.

Have you invested in the funds?

Of course! I'm a big believer in eating what you cook. As part of my investment process I always look to see how aligned management are with me and with us as investors. I once emailed the senior management of one of our portfolio companies after noticing that the Chairman had sold a large holding in the business to ask why - they said he was renovating his house in Hampshire. Given the value of the share sale I imagine it's a nice house now!

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