JM FINN

Prospects

Defence spending
A product of economic strength

Beating inflation
Staying optimistic

Mitigating markets
Adopting regular savings

The JM Finn Quarterly Periodical

No.40 *Autumn 2022*

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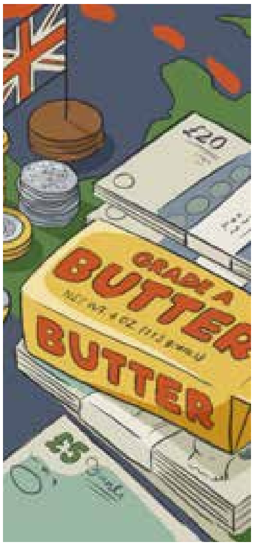

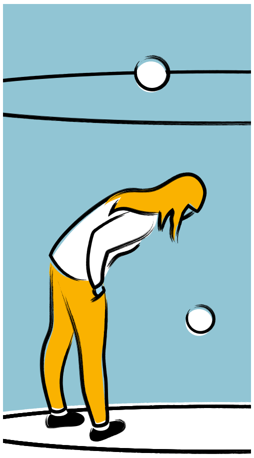

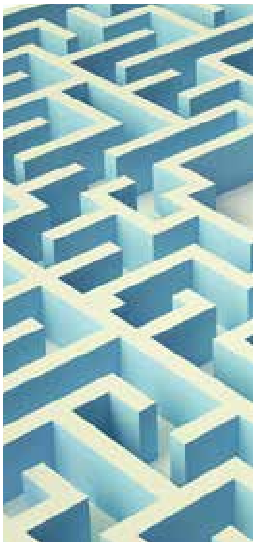

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Editor
Oliver Tregoning
oliver.tregoning@jmfinn.com

Cover Illustration:
Adi Kuznicki/Everything–Connected

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Welcome

In the commentary that accompanied the periodic statements at the end of the second quarter, we suggested that some of the difficult economic conditions may already be priced in to stock markets. Whilst UK equities recovered during July and August, volatility remains and we still believe this could continue for some time yet.

With many pressures facing stock markets at present, from the Russian aggression in Ukraine, the geopolitical tension in Taiwan, global supply chain issues and soaring energy prices, it is no wonder economists and investment strategists seem to have consensus on economic prospects. With some forecasts of high double digit inflation facing us and fears of recession, it is uncomfortable reading from most angles. That being said, history has taught us to reflect and indeed challenge moments of strong consensus and so we are careful to keep our positioning balanced on portfolios. One area in which we agree on at JM Finn and which chimes with the author of this edition's guest editorial (a journalist with 40 years' experience) is that good companies generally remain good companies. By focusing on investing our clients' assets in stocks with sound financials we ensure we are focused on what we know, not what we don't.

This mantra is also shared by our contributing author to the collectives commentary on page 20. Running a fund with the explicit goal to achieve absolute returns, i.e. to produce positive returns whether markets rise or fall, has been particularly tricky throughout this year but a common theme has been to pivot towards those asset classes such as infrastructure, which should offer some inflation protection. There is no doubt we are having more conversations with clients about total return investment strategies and also, where appropriate, using capital to supplement income, for those investors who have historically relied on their investment income for day to day living expenses.

Another investment strategy that is explored in this edition, is pound cost averaging. Our wealth planning team often recommend this approach to investors looking to place new money into the market, or first time investors, and with the current economic situation giving us unsettled and more volatile markets, drip feeding money into the markets on a regular basis can be a sensible approach.

With a new prime minister in place, we will have to wait to see if this has any impact on short term economics. One area to watch will be the role the UK will look to play in Ukraine. Currently positioned as a world leader by overtly supporting Ukraine, defence spending will come under considerable scrutiny given the challenging economic conditions. This is explored further in the editorial on page 4, where investing in defence stocks is now viewed as a defence rather than offense investment, which helps surmount the growing headwinds to the sector from a social and governance perspective.

I hope you continue to find these publications of interest. We also publish a variety of market comment on our website and curate a collection of these that can be sent to you via email, for those who might want some commentary on a more regular basis. If you would be interested to receive this, please ask your investment manager to be added to the "Insights" mailing list.

Hugo Bedford
CEO


£50
50
£50
£50
£20
20
GRADE A
BUTTER
NET WT. 4 OZ (113 grams)
£10

Editorial

Guns versus butter: how the UK's perception of defence has changed

Henry Birt
Assistant Research Analyst

Illustration by Adi Kuznicki

The guns versus butter dilemma has occupied civilisations for millennia and the civilisation that often jumps to mind is Rome. The Romans were warmongering people who owed much of their success to the relative sophistication of their military. It is therefore no surprise that in both imperial and republican Rome, military wages consumed over half of the government's revenue.

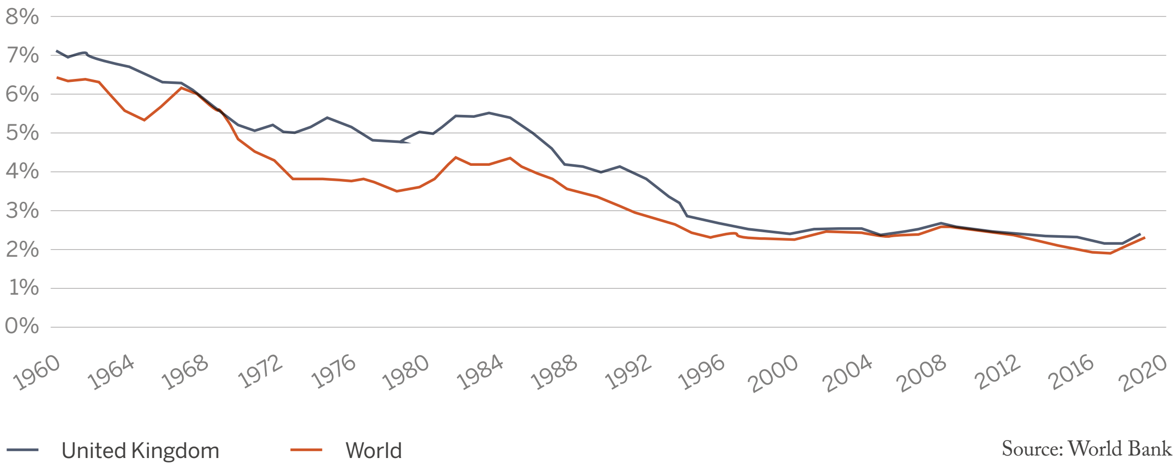
After Rome, the next big European inflection point was the Gunpowder revolution in the 15th century. In the 1530s and 40s, under the bellicose Henry VIII, military spending made up c.30% of England's government expenditures. This jumped further to average an eye watering 75% between 1685 and 1813, largely a reflection of the increasing scale and complexity of warfare, with the British army growing from 57,000 men strong in 1783 to 255,000 just 30 years later.

Defence spending is a product of not just military need, but also of economic strength. Funding armies tends to be less contentious during times of prosperity. From 1870 up until the First World War, Britain's military burden actually fell to 2.6% of GDP, whilst increasingly significantly in absolute terms. By 1914 though, this had jumped to an average of 22% for the four years of the First World War. This number jumped to a staggering average of 45% for the tenure of the Second World War.

Defence spending is a product of not just military need, but also of economic strength.

After 1945 the green shoots of European détente emerged and since then defence spending has fallen. By 1952 the UK military burden stood at 11%; 70 years later this number now stands at around 2.2%. In this respect though, the UK is not unique.

Defence spending as a % of GDP



Source: World Bank

The UK is arguably more distinct in its seemingly paradoxical wants of reducing military spending whilst retaining a significant world role. For example, following 'Sandy's' UK defence review of 1957, the amount being spent on defence was peeled back but the UK continued to maintain substantial forces in the Far East, the Persian Gulf, Africa and the Mediterranean. Financial stress also engendered spending caution under the Wilson administration, with defence programmes axed or reduced, in spite of the UK's presence in the Far East, the Gulf and Mediterranean persisting.

Connected to this is another theme which resonates acutely today: that defence reviews focusing solely on spending have failed to prepare the UK adequately for its challenges and commitments. Defence spending is invariably much easier to justify in times of perceived threat, yet history would show that defence spending myopia can be very costly. The UK learned this when the Argentinian invasion of the Falkland Islands highlighted the vulnerabilities that had developed as a result of cuts. Irrespective of this, following the UK's exit from Afghanistan the UK's military burden fell. Since then though, the rightful rise of ESG has also put defence out of favour in the Square Mile.

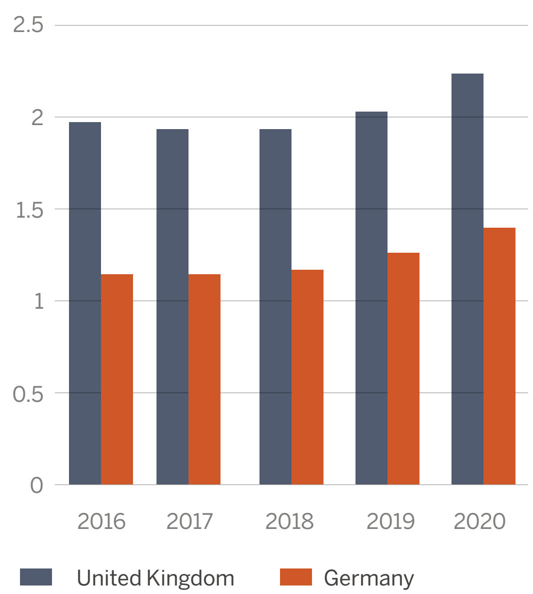
Whilst the City and the government distanced themselves from defence, this actually seemed increasingly at odds with public opinion. In a YouGov poll prior to the Ukraine war, UK citizens voted the sectors of tobacco, gambling, media, oil & gas and banking as all more unfavourable than defence. However, defence companies often achieve worse ESG scores on ratings platforms.

Turning again to YouGov polling, it seems the invasion further improved the perception of defence. Prior to the invasion of Ukraine, 23% of UK adults believed the UK should reduce defence spending. That number has now fallen to 16% and is interestingly now below the 18% who think climate change spending should reduce. Further polling shows that those strongly supporting NATO has jumped from 33% to 50% following the invasion.

The invasion of a democratic European nation has, it seems, strengthened the UK's resolve and demonstrates a want to play an active role in world affairs. Importantly, the invasion seems to have also been enough to move the Square Mile and Westminster in line with public opinion. The objection to defence in the City stemmed predominantly from a view that investors shouldn't fund weapons that are used in wars. Many investors now argue that spending is going forward is for defence and not offense, and so can be justified from an ESG perspective.

It is worth noting however that, at least in terms of government spending, Ukraine has catalysed rather than initiated this trend. The UK military burden had been rising for a few years preceding the Ukraine war and the invasion moved not only the UK but also wider Europe. The reversal of decades of cautious German foreign policy with a move to spend at least 2% of GDP on defence is indicative of this.

Defence spending as a % of GDP



Source: World Bank

The appetite for UK defence spending then, seems to have changed materially amongst investors, governments and the public alike. This is not hugely surprising though, given the Russian invasion, and follows patterns seen since the Roman occupation. The invasion has also illustrated the UK public's desire to retain a significant world role. In response to these obligations and desires, I hope that when the guns eventually quiet in Ukraine, the UK can learn from its recent history and find a space for defence alongside the butter.

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FRASERS

James Ayling CFA
Research Analyst

PRICE
£8.05

52 WEEK HIGH-LOW
£10.02—£5.24

NET YIELD
N/A

HIST/PROS PER
13/11

EQUITY MARKET CAP (M)
£3,563

Mainstream consumer fashion has appeared a relatively out of favour investment segment. It's a consumer discretionary sub-segment with low barriers to entry. Pricing power is limited as brand strength, outside of a few notable exceptions, appears weak. Competition is rife both offline and increasingly online where margins are continuously undermined by product returns. Intellectual property protections help the few quality brands versus the masses and, some firms do appear to gain some scale advantage, though I see this scale advantage fading over time.

With significant energy price rises contributing to an obvious consumer income squeeze it might seem sensible to avoid mainstream clothing fashion businesses altogether. But, I think there are few diamonds in the rough. In this context, Frasers Group, the renamed SportsDirect.com outfit, maybe controversial. Whilst politicians may dislike Mike Ashley, I think he's an incredibly astute entrepreneur who propelled Sports Direct with well-placed physical locations and advanced logistics capabilities. Mike no longer heads-up Frasers. Instead, Michael Murray succeeded as CEO, venturing on a new strategic direction: brand elevation. Time will tell if the strategy has diamond potential.

Please read the important notice on page 1.

Guest Editorial

Is the glass half full or half empty for investors?

Lawrence Gosling

Illustration by Adam Mallett

To be an investor I think you've always got to be optimistic that over the long term the value of your investments will rise, but there are always challenging periods.

Now is one of those periods because almost everywhere you look there would appear to be bad news. As UK investors we saw in early August one measure of inflation – the Consumer Prices Index (CPI) - rise above 10% for the first time since 1980 with the Bank of England predicting it would peak at over 13%.

Not to be outdone the US investment bank Citi raised its estimate for UK inflation to somewhere between 15% and 18% but we will not reach this level until well into next year, and technically both here and in America, the economies are in recession. Technically the UK economy did shrink, but that's largely on the basis we all pulled back from spending quite so much, and the UK economy relies heavily on consumer spending to grow.

For those of us who can remember back to the 1980s, unemployment peaked at over 10% and interest rates were regularly in double digits. Fast forward 40 years and while inflation is high again, unemployment is less than 4%, house prices in many parts of the country continue to increase and there are very few big name companies going bust.

> **Stockmarkets in general are like irrational teenagers.**

For our closest investment neighbour – the US – the outlook is much the same, if not a little better, with inflation lower and the performance of major companies such as Amazon or Microsoft remaining very good.

So why so much doom and gloom? Two points to remember I always think. A stockmarket is not the same as an economy. A stockmarket is just a collection of companies whose shares are traded on that stock exchange. It is not the economic activity in a country. The second point is stockmarkets in general are like irrational teenagers – they get very caught up in waves of optimism and pessimism where as investors (like parents), we have to step back, remain calm and see the longer term perspective.

When inflation in the US dropped to 8.6% recently the market went up because it was not as bad as expected. Go figure, as the Americans might say.

But what does it mean for us as investors? I would say the same as it always does – if you are invested in a portfolio of good quality companies – or an investment fund like an investment trust or open-ended fund which invests in these types of businesses – you should be fine in the long term.

It's always a good idea to be sure why and where you are invested, and importantly over what time frame you hope to make a return and what you might need that money for.

It's very difficult to predict when inflation may drop back permanently.

But will any investment keep pace with inflation if it remains at these levels beyond the next year or so? Realistically the answer is 'no' and the danger is investors go chasing yield – in other words they try and find investments which claim to keep pace with inflation.

There are a few areas where there is some inflation protection such as infrastructure or property-based assets because some of them have revenues which rise in line with any increases in inflation.

But there are relatively few of these – an area to look for these in my opinion, are within investment trusts – but a word of caution many of these trusts now have shares which trade at a premium, so in other words the shares are worth more than the value of the underlying investments, because professional investors moved into these areas earlier this year with the first signs of a pick-up in inflation. I would suggest that investment trusts to focus on are those that have consistently raised their dividends every year over at least the last 20 years.

Good companies will remain good companies.

It's very difficult to predict when inflation may drop back permanently and to what level – my educated guess will be that it starts to fall by the spring of next year and may stay around 4-5% for most of next year. The days of 2% inflation – which is what the Bank of England targets – I would say are gone, for the next five years at least.

But good companies will remain good companies, whatever the level of inflation; the trick is to find them or find an investment manager who is good at finding them, and then stick with them. But be realistic; you are not going to be able to generate a level of annual return that will keep pace with inflation at these levels, so you may need to eat into some of your capital.

But I remain an optimist and on a five year view, I think the UK and US markets will be higher than they are currently, but it won't be a smooth ride, but then again when is it ever? If all of this doesn't fill you with comfort or hope, spare a thought for the people of Turkey with its inflation rate running at 79.5% in August!

Lawrence Gosling, is the former editor of What Investment magazine, who has been a financial journalist for nearly 40 years.

Please read the important notice on page 1.

Understanding Finance

OWNER'S EARNINGS

James Ayling CFA
Research Analyst

The legendary investor and 'Sage of Omaha', Warren Buffet, CEO/Chairman of Berkshire Hathaway wrote, in 1986, about the important concept of "owner earnings". Buffet was seeking to compute a more realistic cash based earnings figure from a company's income statement. It is important to note that a company's income statement doesn't provide actual cash movements into and out of a business because accountants use, amongst other things, the concept of accruals; matching invoiced income and expenses within the accounting period as opposed to when cash actually changes hands.

You can read Buffet's original "owner earnings" approach in Berkshire Hathaway's 1986 chairman's letter where he begins his insight by delving into 'purchase-price accounting adjustments and the "cash flow" fallacy'. It's certainly a worthy read for any aspiring investor.

Investors, over time, have taken differing routes to modernise owner's earnings for today's investment world. My take is that owner's earnings is a method to approximate the true cash earnings potential of a company that seeks to maintain constant production output. This fixed volume interpretation is important because it suggests we should only deduct a company's maintenance capital expenditure (capex) to arrive at an adjusted free cash flow figure; not growth capex. By only deducting maintenance capex, we must acknowledge we aren't fully reflecting the costs a company faces to run and improve its core operating business. Yet excluding growth capex provides us with a more valuable comparison tool for normalised free cash flow generation of a company versus its peers, because, we are stripping out the volatile timing of growth capex spend between company A and company B.

GLOBANT

James Ayling CFA
Research Analyst

PRICE
$210.77

52 WEEK HIGH-LOW
$354.62—$159.56

NET YIELD
N/A

HIST/PROS PER
90/42

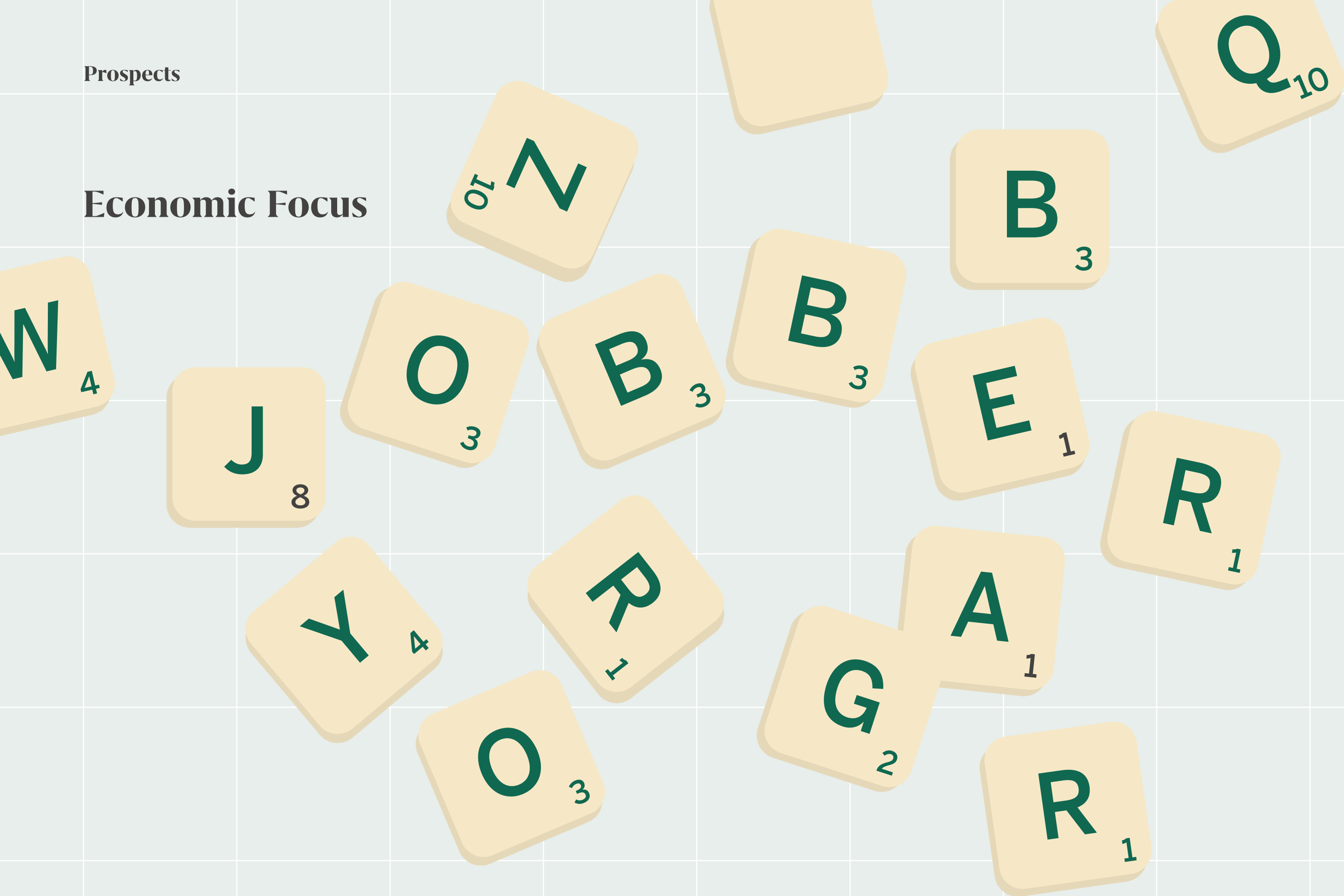
EQUITY MARKET CAP (M)
$8,830

Globant is a 19 year old tech stock listed on the New York Stock Exchange which might suggest it's become 'old hat' but, I'd caution such a view. I think of Globant as an IT consultancy and software development business, helping its customers digitise. This isn't an easy task when you consider the internet has proliferated business and consumer usage since Sir Tim Berners-Lee invented the World Wide Web that became publically accessible back in 1993. That user proliferation has continuously and, indirectly, driven up digital complexity and, concurrently, heightened ease-of-use expectations by end consumers.

Herein lies one of the internet's fundamental paradoxes – a growing mesh of ever more complex software engineering code that seeks to, somewhat ironically, simplify the user experience to: increase user adoption and time spent online. Hence, Globant may seem relatively well positioned for the ongoing structural growth opportunity presented by increased digitisation of businesses and consumers by helping businesses shift or re-engineer their systems and processes for the online world. Yet, consultancy style spending might be more at risk into a recession. So, think carefully about valuation.

Please read the important notice on page 1.

Economic Focus



What's in a name?

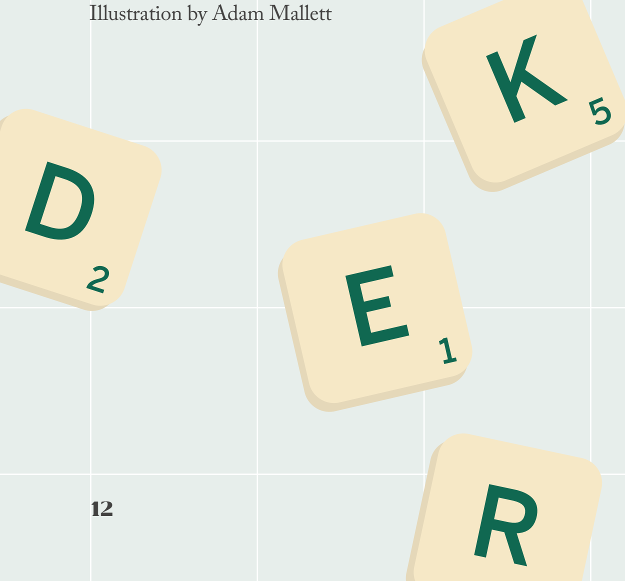
Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Adam Mallett

One of my first jobs in the investment world was as an unauthorised clerk on the floor of the London Stock Exchange.

We were known as "Bluebuttons", because that was the colour of the badge we wore denoting the name of the firm for which we worked and which we needed in order to gain access to the market floor. And we were termed "unauthorised" because we were not permitted to deal in stocks and shares ourselves. That privilege was confined to authorised dealers and Stock Exchange members, but we were allowed to check the prices of shares.

Back then, the market had its own special terminology. I well remember asking for the price of a textile machinery manufacturing company called Klinger Manufacturing when I was still a relative new boy. In those far off days, the Stock Exchange operated what was known as a dual capacity system, with trading taking place between the wholesalers of shares, known as "Jobbers", who were not permitted to deal with the general public, and those bought and sold shares on behalf of clients, known as "Brokers".



The jobber who I asked for the price of Klinger's shares replied "Figure to over". I thanked him and walked away, having not a clue what he meant. He called me back, chided me for not having the guts to request an explanation, and told me the price was 20 shillings to 21 shillings and 3 pence. He had been having fun at my expense, using terminology peculiar to the Government Securities market to express an equity price. It all made me conscious that understanding terminology was crucial to knowing what is going on in the investment and finance world.

Take the term "Bear Market" as an example. We all believe we know what constitutes a bear market, but it does have a very specific definition, which is a fall from peak to trough of 20% or more. Thus, we have seen a bear market in the US and China in recent months, but not here in the UK, which some might find quite confusing. Periods of high inflation, such as that which we are experiencing at present, have a nasty habit of engendering bear markets, despite the fact that they can favour real assets over time.

When inflation places severe pressure on living standards, spending patterns can be disrupted and recessionary conditions develop. But a recession is similarly clearly defined as two consecutive quarters in which economic output shrinks. We already know that our economy contracted modestly in the second quarter of this year and soon we will have the Gross Domestic Product numbers for the third quarter, which finishes at the end of September. Many expect a recession then to be formally declared.

There are, of course, recessions and recessions. The contraction of our economy brought about by the pandemic was swift and severe, but the bounce back was also quick. This recession, assuming we are indeed in the grip of one, is likely to be a more difficult beast to tackle altogether. Already our finances are weakened by the measures needed to combat the economic disruption wrought by Covid, while the conflict that engendered the energy crisis that is at the core of our inflationary worries shows no sign of ending.

Understanding terminology was crucial to knowing what is going on in the investment and finance world.

The situation here in the UK is not made any easier by the political vacuum created by the resignation of Boris Johnson. By the time you read this, we should know who is leading the country and what, if any, measures are to be put in place to combat the energy crisis, but such knowledge is denied to me as I write. I do find it inconceivable, though, that some sort of support will be ignored by the incoming Premier, at a cost to the taxpayer, naturally.

Will this be viewed as a form of socialism – another term bandied around as defining how governments might behave? Rishi Sunak has certainly been tarred with the socialist brush, which might inhibit his chances of success. In the end, the leader of our great nation will be confined to acting within whatever possible constraints exist, with the Treasury doubtless demanding caution and those charged with securing a victory at the next election exhorting a populist approach.

However things pan out, words will be bandied around ceaselessly, so it is well to understand just what they mean. Recession means less revenue from tax and thus greater pressure on public services. A bear market – if it continues – means less wealth overall, including in our pension pots. But even difficult periods come to an end. By the end of 1974 – a year I remember all too well – our benchmark index in the UK had lost 70% of its value. By the end of the first quarter of 1975 it had risen by 150% from its nadir. I doubt – and indeed hope – we are not in as dire a set of circumstances. But only time will tell.

Company Meetings

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

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

Sir John Royden
Head of Research

Michael Bray, CFA
Research Analyst

James Ayling, CFA
Research Analyst

CONSUMER DISCRETIONARY
Hugo Boss, JD Sports Fashion, Frasers Group, Starbucks, WH Smith

INFORMATION TECHNOLOGY
Globant, Microsoft, Sage Group

CONSUMER STAPLES
Haleon, Imperial Brands, McCormick & Company, Tesco

MATERIALS
Croda International, Hill & Smith Holdings, Johnson Matthey

FINANCIALS
Barclays, CarMax, Chesnara, Lloyds Banking Group London Stock Exchange Group, Prudential

UTILITIES
Severn Trent

INDUSTRIALS
BAE Systems, Experian, GXO Logistics, Halma, Smiths Group

1.

Hugo Boss

Price **€54.04**
52 week high-low **€59.98 – €42.05**
Net Yield **1.30%**
Hist/Pros PER **27/19**
Equity Market Cap (M) **€3,754**

Consumer Discretionary
Yves Müller, CFO/COO and Christian Stoehr, Head of Investor Relations

Hugo Boss aims to be a 'premium mainstream' luxury fashion brand and lifestyle business. In itself, this may seem somewhat challenged; luxury analysts talk of a dichotomy presented by seeking to be 'premium but mainstream' in fashion. However, that doesn't mean it's impossible – it's just hard! Brand image needs careful nurturing to be viewed as aspirational yet, affordable. I think Nike has evidenced this status amongst Millennials.

Hugo Boss, the fashion house, is made up of two brands; Hugo and Boss. Hugo aims to be the consumer entry point brand offering bold styles that are more on-trend with a wide product offering to suit male and female consumers. Boss is the lifestyle brand with a more defined product DNA for those more committed consumers. Today, group sales are driven by menswear. In womenswear, Hugo Boss is weaker. I wonder if Hugo Boss may struggle to grow its existing brands organically with female consumers. Herein lies a challenge and/or opportunity for management. I think acquiring a premium womenswear brand may offer a better growth avenue than seeking to re-mould existing brand perceptions.

In August, I spoke with CFO Yves Müller who emphasised the company is focused heavily on building Hugo Boss' brand appeal amongst Millennial and Gen-Z consumers. Their critical focus is a rejuvenated digital marketing strategy. Digital engagement seems key and Hugo Boss appear, rightfully, to be focused on key interactive social media platforms TikTok and Instagram. Unlike some peers, management are expanding digital marketing spend as a proportion of sales despite the weakening macroeconomic backdrop. Becoming emboldened at a time of economic weakness could help drive long term success but heightens short term risks.

2.

Halma

Price **£20.75**
52 week high-low **£32.70 – £18.55**
Net Yield **0.91%**
Hist/Pros PER **32/30**
Equity Market Cap (M) **£7,877**

Industrials
Charles King, Head of Investor Relations

Halma is an industrial holding company which owns c.45 underlying operating businesses, producing an array of products and services linked to the broad themes of "safer, cleaner and healthier" such as fire detection, water analysis and treatment and, blood pressure monitoring. Despite deteriorating macroeconomics, Halma continues to see strong customer demand. Lead times for Halma's order book are short, so any impact from a slowing economic backdrop should be seen quickly but this hasn't been the case so far. Charles reiterated that Halma's businesses typically have limited economic cycle sensitivity due to their non-discretionary nature. The two typical areas of cyclicality in the business are oil & gas and the UK water business which collectively represent less than five percent of revenue. Halma provides safety services to the oil & gas industry; its demand is exposed to the macro cycle but is much less volatile than swings in energy prices. Whilst in their UK water business, demand is not linked to the macroeconomic cycle but to the UK water regulatory cycle.

Halma regularly purchase businesses via small bolt-on acquisitions and have an excellent track record in executing and integrating acquisitions. Management have a longstanding key performance indicator (KPI) of +5% p.a. profit contribution from acquisitions. However, this hasn't always been met. Additionally, as the business grows, the law of large numbers means any bolt-on acquisition will have less impact on group profit growth; meaning more acquisitions are typically needed to match historical growth rates. Following a recent restructuring, each reporting division now has its own dedicated M&A team; management hopes this will help them meet their KPI on a more regular basis, but we withhold optimism from our forecasts until we see sustained proof.

3.

Prudential

Price **£9.04**
52 week high-low **£15.66 – £8.77**
Net Yield **1.7%**
Hist/Pros PER **N/A / 11**
Equity Market Cap (M) **£25,643**

Financials
Patrick Bowes, Head of IR and Ming Hau, IR Manager

In recent years the Pru has spun off its UK operations (M&G) and its US operations (Jackson) and is now fully focussed on Asia. The new CEO, Anil Wadhwani was CEO of Manulife Asia and arrived with 30 years of Asian experience; they did stress that Anil brought a proven track record of strategic vision and execution in some of the world's biggest financial services companies. He also has significant and proven digital experience, having driven the modernisation of technology platforms across 13 markets in Asia. Having an Asian person at the helm should help integrate the politics of business with its Asian focus and dampen the perception of a Western company capturing ground in Asia. I sense this will help if trade wars kick off again. They did not have an opinion on when the Hong Kong border will open and speculated that nothing will happen until Xi Jinping gets re-elected in September. The border is important for sales of Hong Kong based policies to Chinese residents as it requires a face to face meeting. They did remind us of the strength of Prudential's distribution model in COVID China, noticing that banks stay open during COVID whereas their agents do not.

Many of the shareholders thought that the company's shares were cheap but that the Prudential was reluctant to implement a share buy-back having just had a rights issue to raise more cash. He also pointed out that the finance director had recently been buying shares. Risks are that China persists with its sales-hampering zero tolerance COVID policy and that Prudential is discriminated against by local regulators because of its historic ties with the West.

Please read the important notice on page 1.

Wealth Planning in focus

Pound-cost averaging

Michael Law
Paraplanner, JM Finn

Illustration by Jordan Atkinson

Michael Law explains how investors could mitigate the challenge of today's bumpy markets by investing on a regular basis.

It has been a volatile few years for financial markets, firstly the Covid-19 pandemic caused a multinational global shut down and now the war in Ukraine, which is again causing more global pressures.

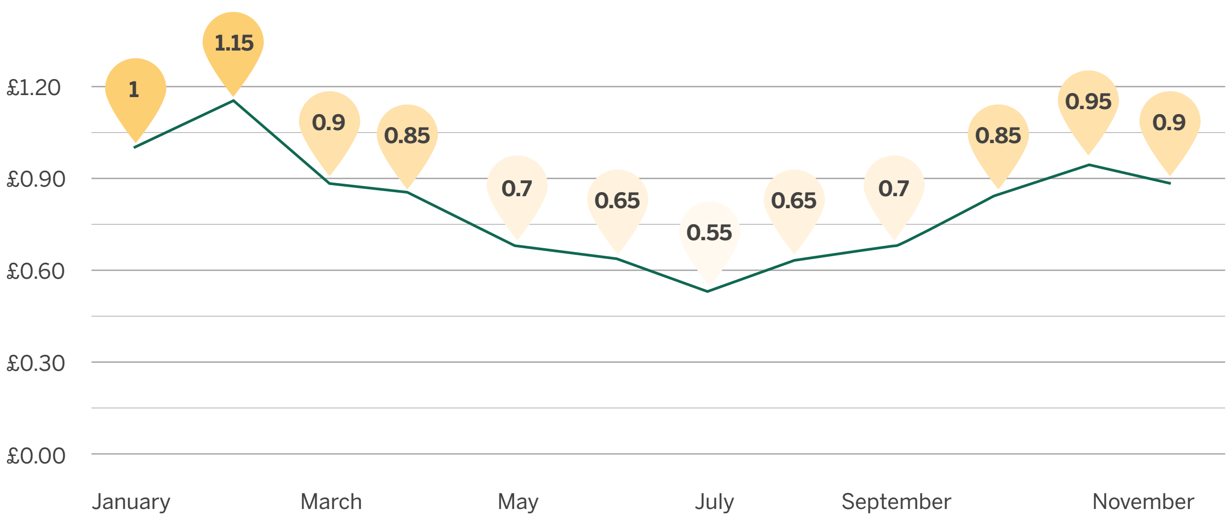
Inflation has been a significant factor in battering economies around the world, with prices rising, consumers are spending less, causing a reduction in economic growth. Unfortunately, it is very difficult for the average investor to take advantage of such volatility, as with imperfect knowledge and limited time, it can prove difficult to make informed decisions. What an investor can do however is try to take advantage of pound-cost averaging.

Essentially, pound-cost averaging involves purchasing investments on a regular basis to take advantage of troughs in the market. Pound-cost averaging might sound complicated, but it simply means investing into the market at regular intervals, also known as 'drip-feeding'. When you decide to invest, you can either invest all at once and hope that the market performs consistently well so your investment increases month on month, or you can drip feed that lump sum into your investment pot with regular payments over the course of a few weeks, months or years.

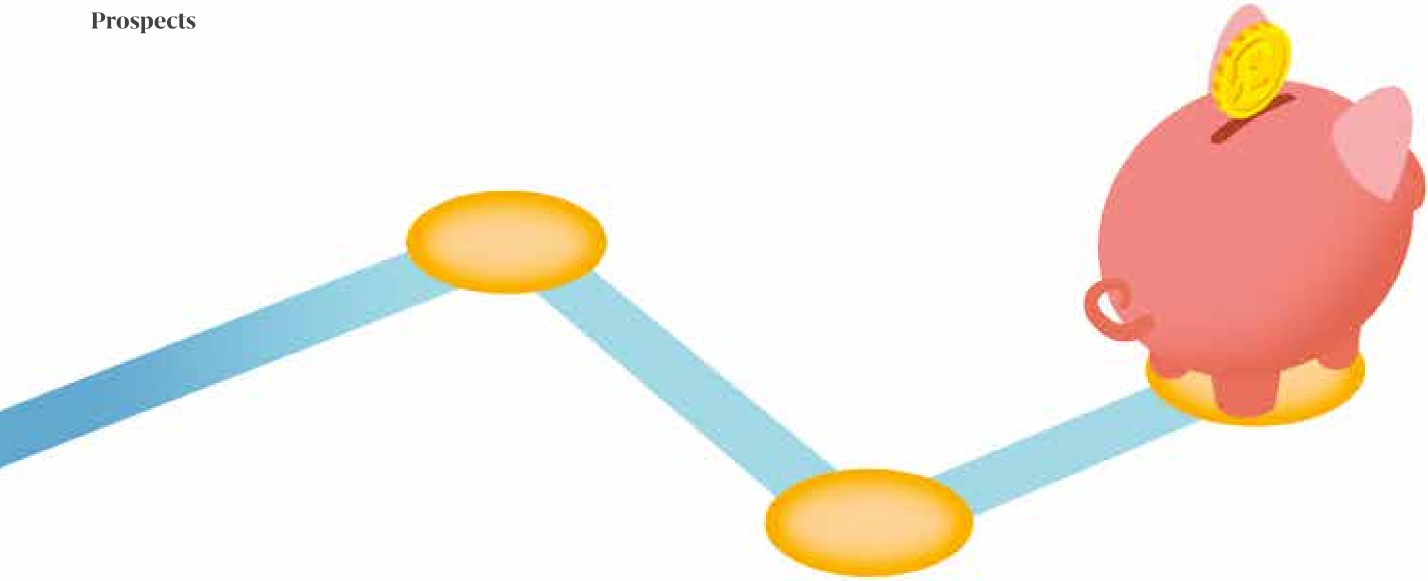
The idea of pound-cost averaging is to make regular contributions instead of a lump sum to try and smooth out the ups and downs of the market. This method can reduce the risk – and pain – of buying just before the market drops.

In the example below, an investor has invested £1,000 each month for a year, investing in the prices marked. The average price held by the investor having completed the investment timeframe is £0.7869, having invested at every point on this chart. Clearly, the investor has taken advantage of the dips and has obtained a price which is currently below the current share price of £0.90. On the £12,000 invested, the investor is profiting circa 14% (£1,724) from the units and average price they hold. Comparatively, if they had invested the lump sum of £12,000 in January, they would currently be losing 10% (£1,200), with the portfolio value being £10,800.

£1000 pm regular investment



Source: JM Finn



Benefits of pound-cost averaging

Discipline in volatile times

When the stock market turns from upturn to downturn, it is usually a very stressful time for investors and can cause irrational and erratic behaviour. Investors may make hasty decisions, such as making lump sum withdrawals or investments to try and catch "the dip". If these strategies do not work, the situation can become very difficult, especially for those who perhaps can't afford the losses from the decisions they have made. Having pound-cost averaging as a strategy in place means regular investments, without the issue of needing to make decisions. Investors will be disciplined in that they will not invest on their emotions, as investments will be made automatically.

Smoothed Returns

As the stock market rises and falls, pound-cost averaging will purchase at differing prices and will smooth out returns. This is because investments made are at both highs and lows, therefore the average could be somewhere in-between the high and low price range.

Planned investments

The regular investments will be made out of surplus affordable income, therefore the investments should not impact an investor's lifestyle if there were to be a downturn, limiting the emotional stress of the stock market.

Drawbacks of pound-cost averaging

The impact of inflation

Pound-cost averaging requires a regular investment of cash. Over time cash that is held un-invested can have its value eroded by inflation, as the cash balances are not benefiting from the potential growth of the stock market.

Purchasing when the market is rising

Pound-cost averaging works both ways in that it will purchase highs and lows of the market, therefore it is not so beneficial if the regular investments are purchasing at perceived markets highs, which will cause the average price held on an account to increase. In a rising market, you end up buying shares at increasing prices. In this case, investing a lump sum from the start of a rising market would mean you bought all your shares at the lower price, which could potentially mean a higher return.

To learn more about how we invest, please contact your investment manager.

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

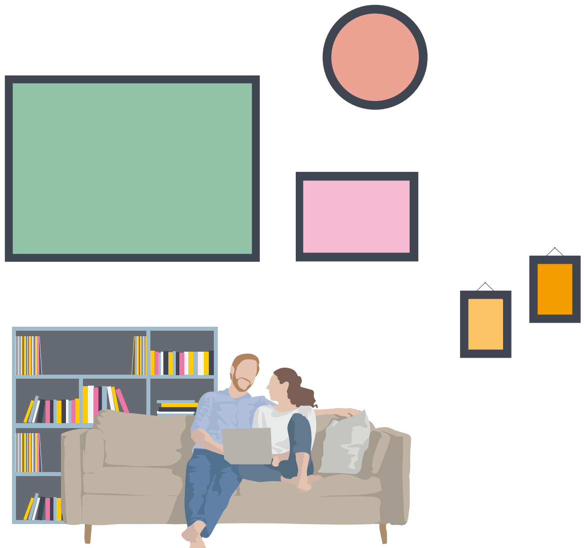
Please read the important notice on page 1.

The Affordable Art Fair

The Affordable Art Fair roared back to life earlier this year with JM Finn partnering a new fair in Hampstead.

With 1000s of artworks from over 90 UK and international galleries, visitors to the autumn fair back at Battersea, London will be spoiled for choice, whether looking for the perfect accent piece for your home, a bold new talking point, or daily inspiration for your workspace.

The first edition of the Affordable Art Fair took place in October 1999, when ten thousand art lovers descended upon the fair to browse and buy thousands of original contemporary paintings, sculptures, photographs and prints in a relaxed and friendly environment. Each year the team welcome over 185,000 art enthusiasts to their fairs globally, where they can discover a mix of local, national and international galleries showcasing a wide array of affordable artworks by established artists and rising stars.



The Affordable Art Fair's mantra is to help people learn about and fall in love with art, so each of the fairs are filled with a creative smorgasbord of artist performances, innovative talks and tours, hands-on workshops, kid's activities, live music and irresistible restaurants and bars; making them an ideal day out with family and friends.

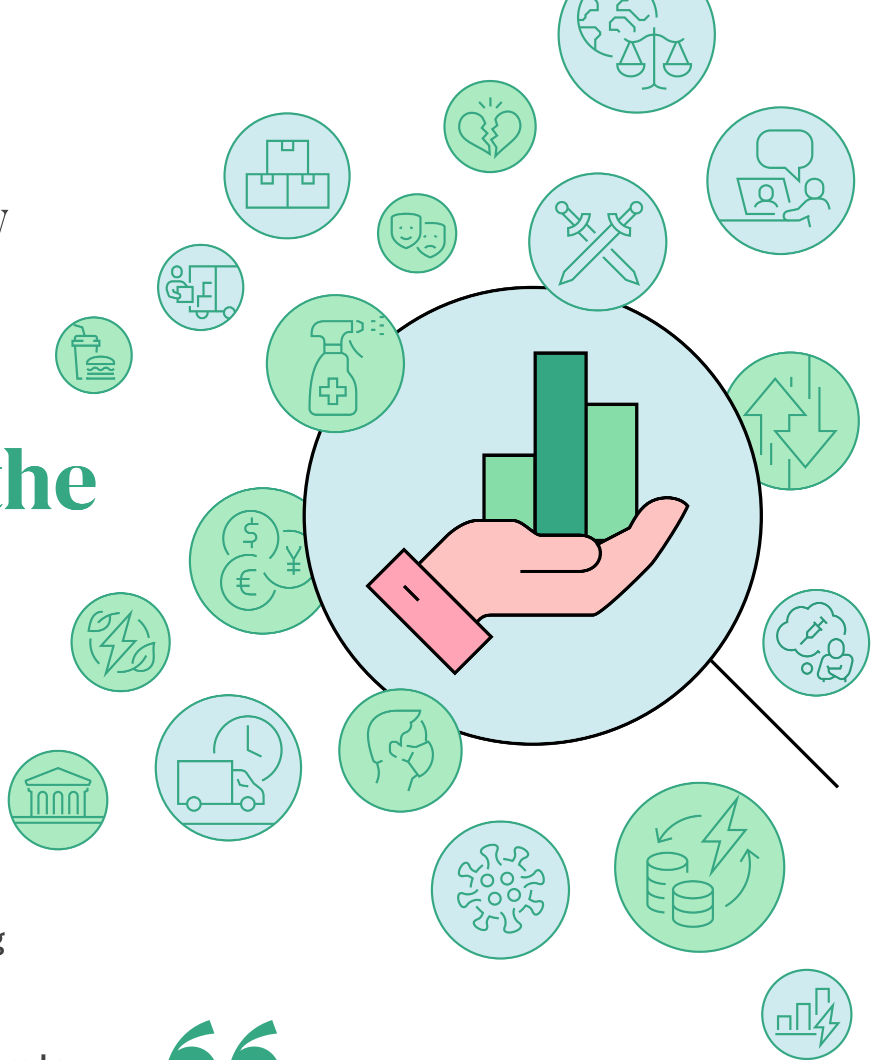
Come and visit JM Finn at the Affordable Art Fair

Battersea, London
20th – 23rd Oct, 2022

Join us for the autumn edition of the Affordable Art Fair, Battersea and discover the joy of collecting art with 1,000s of original artworks, all priced between £50 – £7,500.

As part of our exclusive partnership with the fair, we have negotiated a two-for-one ticket deal. To take advantage of this and learn more, please email us at events@jmfinn.com.

Collectives Commentary



Focusing on the known risks

John Warren
Fund Manager at Tellworth Investments

Illustration by Emily Nault

With absolute return funds gaining more traction in recent months, we asked our friends at Tellworth Investments to explain how they aim to protect capital.

Pick your risk .... pandemic, lockdown, recession, supply chain crisis, war in Europe, energy crisis, inflation, cost of living crisis.... we have had all the above and more impacting markets since December 2019; quite a test for a strategy looking to generate absolute returns and to be "uncorrelated" to markets and have low volatility.

To assist us in navigating these challenges, we have developed some proprietary tools, with UK Thermostat model at the core. We start by looking at long-lead indicators such as liquidity and money supply, to get an insight into where the overall economy is headed. We then look at specific drivers: the labour market, housing, consumers, and businesses, by analysing coincident and leading indicators, surveys, proprietary models, and alternative data. Unfortunately, the UK and Global outlooks are still grim and show little signs of improvements. It's safe to say that the "temperature" of our Thermostat – unlike the weather – is quite cold.

> **Market neutral means being able to perform in all market conditions.**

Against this backdrop how do we aim to generate absolute returns? When starting out, we designed a fundamental stock-picking product that we thought could be genuinely market neutral. This doesn't mean 'zero net cash' or contorting the portfolio into an arrangement of stocks to arithmetically produce a zero 'beta' (the sensitivity to the stock market). It means being able to perform in all market conditions: up, down and sideways markets and importantly protecting capital during equity market 'rotations', where headline index levels are not necessarily volatile, but sectors and other stock groupings can disperse wildly.

Outlooks are still grim and show little sign of improvements. It's safe to say that the temperature is quite cold.

With so many macro risks around that it is seemingly impossible to predict, the key is to focus on the risk that we do want to take – which in our case is stock-picking. We are big believers in active stock selection and having a real fundamental knowledge of the stocks in the UK Mid & Large Cap universe in which we invest. We need to find longs and shorts, i.e. buys and sells, that are 'loose pairs'. This means they are unlikely to be perfect pairs in the same sub-sector – this is not possible in a relatively small equity market like the UK – but we make sure that all of our stock 'clusters', whether it's Travel, RMI (renovation, maintenance and improvement), Banking or Growth TMT (technology, media and telecoms) etc have no significant net exposure. This relies on our judgement of whether the market views certain stocks as being in the same 'category' – we think this is a good, common-sense starting point.

We then need to make sure that the portfolio does not have any significant exposure to any of these large macro risks and factors that are so dominant in the market. The obvious ones being 'market direction', 'value/quality', 'cyclical/defensive' and we would also add the 'domestic' factor. But it's also important to check in on thematic risks like 'oil price sensitivity' or 'lockdown/re-opening' when appropriate. In doing this we need to be totally objective – we use regressions on all stocks in the universe to determine the key 'factors' driving the share prices. When we aggregate these scores up to our portfolio, we can make sure our fund is not particularly biased to any one factor, insulating our investors from macro risks and these 'rotations' we mentioned.

The proof of the pudding, in terms of a strategy that claims to be neutral or 'all-weather', can only be in the eating. Whilst there is much further to go for us in terms of proving the model, we are happy with how the fund has handled some very left-field events, to put it mildly, over the past two and half years. We've been forced to rule nothing out in future – and the best way to approach this is to magnify the portfolio towards risks we actually want to take and not those we don't. For us – that will always be the stock-picking, not the macro.

Tellworth Investments LLP ("Tellworth") is a UK equity investment management boutique which launched with BennBridge Ltd ("BennBridge"), based at Eagle House, 108-110 Jermyn Street, London SW1Y 6EE. BennBridge is a limited company registered in England with registered number 10480050. The registered office is Windsor House, Station Court, Station Road, Great Shelford, Cambridge CB22 5NE. BennBridge is authorised and regulated by the Financial Conduct Authority (FRN: 769109). Tellworth provides investment services through BennBridge.

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Stock in focus

McCormick

Michael Bray CFA
Research Analyst

Illustration by Adam Mallett

In order to justify my rising grocery bill, I've found myself cooking more at home. This may also be the case for you, and unless you like bland food, or are on some kind of stoic dietary regime, you've probably used a blend of spices, seasonings and condiments to add flavour.

If so, as the global leader in 'flavour' manufacturing and distribution, the chances are that you've used a product from McCormick. McCormick produces a variety of spices, seasoning mixes, herbs, condiments and other cooking ingredients. It owns over 25 brands, including its namesake, Schwartz's, Lawry's, Frank's Hot Sauce and French's Mustard.

Although we may all be cooking more at home, the majority of McCormick's portfolio are exposed to product categories which benefit from two deep-seated structural trends: health-conscious consumers buying more fresh and non-prepared foods; and consumers eating more diverse food due to the increasing popularity of foreign cuisines. Fresh produce perimeter sales have grown at twice the rate of overall food and beverage sales over the past decade in the US. Additionally, US millennials account for about one-third of total food consumption, but around half of organic food sales.

These factors indicate that healthy living trends are likely to persist into the foreseeable future and have enabled McCormick to grow its organic sales at +3.9% p.a. versus a sector average of +2.1% p.a. over the past decade.

Another positive for McCormick's market exposure, particularly given current macroeconomic headwinds, is that demand for McCormick's markets are fairly noncyclical and are relatively inelastic to disposable income. During the global financial crisis years of 2008 and 2009, McCormick still achieved positive organic growth of +4.8% and +2.5% respectively.

The business is split into two segments: 'Consumer' and 'Flavour Solutions'. The Consumer segment is the largest and most profitable (62% of sales and 73% of operating profit), and sells directly to food retail channels, such as grocery and e-commerce. Meanwhile, the Flavour Solutions segment (38% of sales and 27% of operating profit) focuses on food service channels consisting of restaurants and Consumer Packaged Goods (CPG) companies. The Company's two largest customers are Walmart and PepsiCo, representing c.22% of revenue collectively.

PRICE
$84.07

52 WEEK HIGH-LOW
$107.35—$77.85

NET YIELD
1.80%

HIST/PROS PER
29/28

EQUITY MARKET CAP (M)
$22,558

As the global leader in 'flavour' manufacturing and distribution, the chances are that you've used a product from McCormick.

In Consumer, half of revenues come from spices and seasoning. McCormick has an enviable position within this category; it possess a global share of c.20%, larger than its nearest rival, in what is a largely fragmented and regional market. In McCormick's core spices and seasoning markets, its share is even higher, >40% in the US, UK and France. The company is also the single largest supplier of private label products to supermarkets, which includes the likes of Walmart. McCormick's unique position of: 1) owning a portfolio of leading brands; 2) being the largest supplier of private label products; and 3) operating in a market with few real competitors, has created meaningful stickiness with customers.

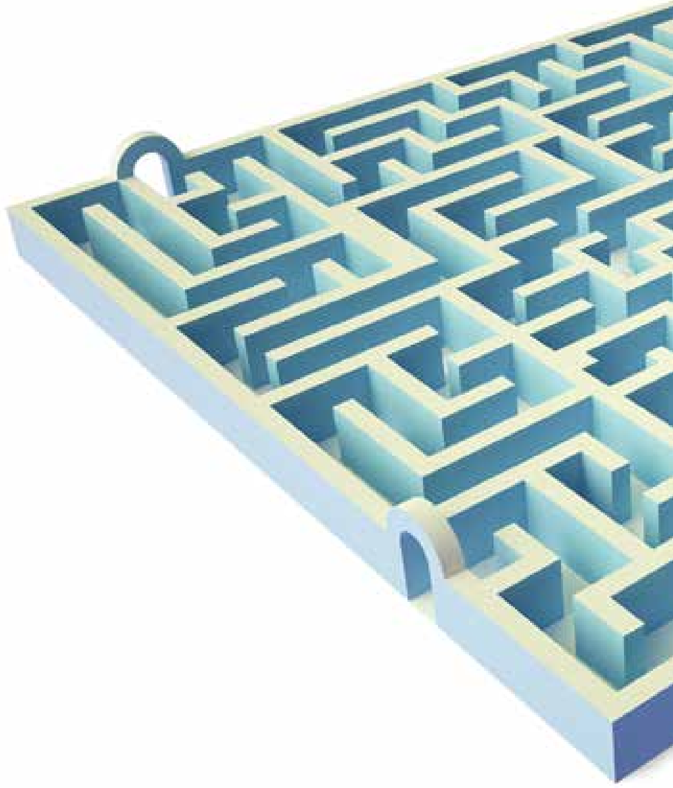
McCormick's scale, which is not just in spices and seasoning (over 60% of its brands are category leaders), gives it a cost advantage in purchasing, manufacturing and marketing; it can use its size to negotiate better prices on input costs and invest more into brands. It also enables the company to exert meaningful influence over category strategic direction at the retail level. For example, the company's sales executives will often work directly with retail category managers to develop strategies designed to increase sales per square footage within stores. This allows McCormick to tailor the company's product offering and pricing points to the specific needs of individual retailers. Such scale has enabled the company to exert pricing power over the past ten years: it has been able to put through an average annual increase of +1.6%, which is impressive when considering that prior to COVID, US food-at-home prices increased by just +0.5% p.a.

Although better positioned than many other consumer staples companies, McCormick has still struggled to increase pricing enough to offset significant commodity inflation: gross profit margin is expected to be 38.1% in the fiscal year ending 31 December 2022, down from 41.1% in FY20. This will weigh significantly on the company's profit this year, with adjusted earnings per share expected to decline by c.-2%, despite expected revenue growth of c.+4%. Management do expect to recover margin over time through increased pricing, but any further spikes in inflation will likely lead to additional downgrades in profitability. McCormick has historically benefitted from solid revenue growth and operating margin expansion, the latter will however remain on hold until cost inflation begins to subside.

Please read the important information on page 1.

Bond focus

Inside index-linked gilts



Sir John Royden
Head of Research

Illustration by Simon Ansell

Bonds have had a tumultuous, and for many, puzzling quarter. Head of Research, Sir John Royden tries to shed some light on this quandary for investors.

The puzzlement for many came from the fact that even though inflation continued to climb over the quarter, index-linked gilts fell in value relative to conventional gilts. Index-linked gilts underperformed conventional gilts by about 10% at the worst point in July.

From 1st May 2022 the conventional gilt index fell 6% at the worst point; driven by interest rates climbing in response to higher inflation over the quarter. However the index-linked index fell by a more worrying 16%.

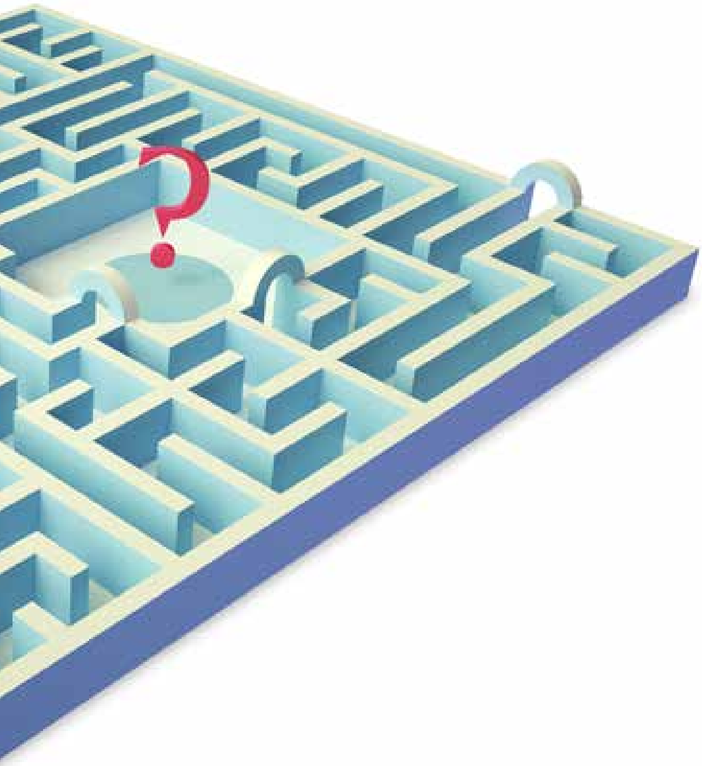
"How does that work?" you may ask yourself. Whilst the relative under-performance of index-linked gilts will be counter-intuitive for many, the key to understanding index-linked gilts is to grasp that you are probably buying a mixture of (a) exposure to inflation to a small degree but more importantly, and to a greater extent (b) an exposure to what the market thinks inflation is going to be.

An index-linked gilt includes an expectation for future inflation that is baked into the price. So if the market is expecting inflation to average 5% over the next five years, and you buy a five year index-linked gilt, and inflation does indeed come in at 5% on average; then you should earn very close to what you would have made by buying a conventional gilt.

And it goes to say that if you buy an index-linked gilt when the market is expecting 5% inflation over the next five years but then, after your purchase the market suddenly changes its mind and expects inflation to average 3%, then the price of index-linked gilts will fall, even if in the short term inflation continues to rise.

That is what happened to index-linked gilts in Q2. Softening economic data led the market to expect a recession and with it lower inflation. Indeed inflationary expectations for the next five years fell from 5.1% to 4.5% and that is why index-linked gilts did so badly.

I hope this explains the disconnect between higher inflation and poor performing index-linked gilts. Indeed, the disconnect is such that I have seen studies that suggest that the US equivalent to index-linked gilts, often called TIPS (Treasury Inflation Protected Securities), are negatively correlated with inflation.



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Softening economic data led the market to expect a recession and with it lower inflation.

Disconnects such as we have seen in Q2 are rare in my opinion. My memory has it that most of the time when inflation is high, it exceeds the market’s expectations of inflation and index-linked gilts end up being a good protection against inflation.

Looking forward, the market is expecting inflation over the next five years of 5.5%. So the question that you have to ask yourself is “Do I expect inflation to be more or less than this?”

SAGE

James Ayling, CFA
Research Analyst

PRICE
£7.15

52 WEEK HIGH-LOW
£8.62—£5.87

NET YIELD
2.51%

HIST/PROS PER
26/27

EQUITY MARKET CAP (M)
£7,287

Sage is a software company specialising in accounting, payroll and payment systems for small and medium sized businesses (SMBs). Recently, Sage begun a transition from providing traditional on-premise software solutions towards providing a cloud-based offering. Given Sage’s exposure to the SMB segment, its products are largely taking share from pen and paper or rudimentary computer-based methods common in SMBs. The Sage we see today is the result of over 100 acquisitions and as such Sage’s offering up until recently was very complex but they have since rationalised the offering. The suite of products are now organised under eight brands, both hybrid and pure-play cloud solutions, with the final aim to create a cloud-based software as a service (SaaS) provider.

In recent results this strategy looks to be working as the business has been able to increase its recurring revenue by transitioning existing customers onto the cloud and acquiring new customers. However, Sage still remains early in its transition to the cloud and is late to the SaaS party. We await further results for proof of the transition’s success.

Please read the important notice on page 1.

Asset allocation and sector focus

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

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

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

Here we present a snapshot of the current views.

Sector Views

Overweight   Neutral   Underweight

Communications

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

Consumer Discretionary

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

Consumer Staples

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

Energy

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

Financials - Banks

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

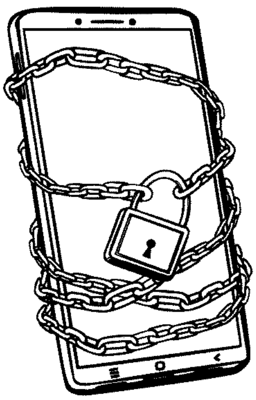
Diversified Financials
Many names are high quality but valuations are not at a level to turn more positive.
Insurance
Life insurance companies benefit from a steepening yield curve but with higher rate expectations softening, we think neutral remains the correct stance.
Health Care
Demographic tailwinds and relative resilence of global healthcare spend mean this is a sector with growth and defensive attributes. Valuations have become stretched in growth names and those which have benefitted from the pandemic. However, a greater weighting is to those negatively effected by the pandemic i.e. elective surgery names. Such companies still offer reasonable valuations, defensive earnings and enouraging long-term growth outlooks.
Industrials
Global industrial production forecasts, although still positive, have fallen in recent months as supply chain disruptions and heightened cost inflation pressures weigh on broader economic growth.
Information Technology
Valuations contracted over the past year but are now more reasonable. We take confidence from the resilience of technology names whose products are being classed as non-discretionary by consumers and businesses.
Materials
Majors with solid balance sheets should continue to pay strong dividends. The short term outlook is clouded by weakness in Chinese demand, driven by the property market crisis. Recession fears now cloud the outlook which historically led to reduced demand for commodities. The other big issue is input costs, although this problem is baked into consensus numbers. Longer term we remain bullish on energy transition metals e.g. copper.
Real Estate
Global real estate may offer better value than other fixed income instruments but rising rates can feed through to mortgage rates, with the subsequent fall in demand for real estate hitting property valuations.
Utilities
The sector has some safe haven support, however it is not immune from the slowdown as business customers suffer. Rising power prices are good for producers however the suggestion of windfall taxes to reduce the impact on consumers may keep a lid on this. There is some inflation protection in pricing however rising bond yields could provide a headwind to the sector which is viewed as a bond proxy.

Asset Allocation

Overweight Neutral Underweight

UK EQUITIES	
UK	UK equities appear to trade at a discount to global developed market equities and should hold up relatively better. The UK has relatively more exposure to the more defensive Consumer Staples sector; Financials which may benefit from rising interest rates, as this may increase bank net interest margins; and Energy & Materials sectors which may provide relatively better inflation protection potential. Plus, we expect ongoing geopolitical tensions to keep energy prices elevated.
INTERNATIONAL EQUITIES	
North America	Structurally we favour an overweight position reflecting higher returns on capital and strong earnings growth potential. Whilst the US tends to be overweight "long duration" tech and growth orientated sectors which resulted in more valuation de-rating at the start of 2022, we think the US economic growth picture remains more robust than continental Europe. The Federal Reserve continues to hike interest rates to try to tackle inflation but we should caution that economic storm clouds are building.
Europe	We are becoming increasingly cautious on the economic outlook for Continental Europe. The Eurozone energy crisis is a key risk for consumers and businesses and, in particular industrial output into the winter. European equity markets have de-rated through 2022 but we believe energy and food related inflation is likely to further undermine business and consumer confidence that had seen tentative signs of strength in the earlier parts of 2022.
Japan	Japan's economic recovery has been poor and inflation remains stubbornly low. The Japanese central bank remains highly accommodative as it seeks to break Japan's deflationary mind-set. Equities don't look sufficiently cheap given the economic backdrop but the yen could strengthen if US bond yields stabilise or move lower.
Asia Pacific	China's push for 'common prosperity' indicates that the real estate market slowdown is likely to be prolonged. The authorities are punishing the property financing sector whilst seeking to prevent a property crash; this could result in broader economic contagion. Outside of China, excess demand for semiconductor chips is gradually easing but supply chain challenges remain and geopolitical tensions between China and Taiwan could re-ignite problems for global semiconductors.
Emerging Markets	We are neutral overall on Emerging Markets; valuation remains supportive at the index level versus developed markets but, we believe a strong US dollar environment ultimately acts to tightens emerging market liquidity.
BONDS	
Conventional	Inflation, rising energy and food prices and sub-optimal supply chain efficiency suggests further upward pressure on interest rates so we prefer being underweight and in short dated government bonds.
Index Linked	Pricey but a potentially necessary inflation hedge however Inflation-linked bonds prices can fall by more than conventional bonds of the same maturity if interest rates rise.
Corporate bonds	Given our overweight equity position, we would prefer to be underweight as spreads are widening and should continue to do so, driven by investor sentiment.
CASH	
Cash	Tactically, we favour being overweight cash. Unlike fixed income it is less sensitive to rising interest rates and fairly uncorrelated to risk assets. This is a short term measure as high prevailing levels of inflation will erode the real value of cash over the medium term.
PROPERTY	
Property	Real estate lies somewhere between equity and bonds, offering up some level of natural inflation hedging.
ALTERNATIVES	
Alternatives	Equity earnings risk, rising central bank rates, low government bond yields and uncertainty over the 'transitory' nature of inflation mean we prefer infrastructure and gold as diversifiers.

Cyber Security: Best Practice



Online fraud and crime continues to rise rapidly, with 80% of businesses estimated to have come under attack at one time or another in the UK alone, and an estimated cost to the UK economy of £27 billion, according to UK government reports. This is not something that can be ignored.

According to JM Finn's Chief Information Security Officer (CISO), Jon Cosson, most cybercrime can be prevented by avoiding some elementary errors and taking some fairly basic precautionary steps.

Here, Jon highlights a few dos and don'ts surrounding passwords – the single most troublesome issue when it comes to hacking as well as some actions to take should you find yourself in the unfortunate situation where an online account has been breached.

Passwords

Weak passwords are arguably the main reason people get hacked. Passwords are stolen from websites every day, and whilst these are often encrypted, if the password is weak they can be attacked and the clear text codes revealed.

Consider following these simple Dos and Don'ts to minimise your risk:

Do

- Use strong passwords for all your online accounts
- Use different passwords for different accounts
- Use multi-factor authentication, such as the biometric login function available on most smartphones
- Mix Complexity with length: passwords should contain at least 12 characters and not use single dictionary names (or variants of those names)
- Make passwords that are hard to guess but easy to remember
- Use a Password Manager: the more complex the password the harder they are to remember so consider using either a web-based or standalone manager to help
- Change your password at least every 6 months
- Regularly check your passwords using 'Have I Been Pwned' Website
- Change your home Broadband Router/Hub default password
- Change all your home devices (that connect to the Internet) default login password i.e. devices such as CCTV Monitoring, video door-bells

Do Not

- Disclose your password to anyone under any circumstances
- Use the same password across multiple accounts

What to do if your account is hacked

Whether it's your email, social media or some other type of online account, there are numerous ways to alert you to the fact that someone else is accessing your account. Being locked out of the account is an obvious indication that something has gone wrong, but the signs can be more subtle. Things to look out for include logins or attempted logins from strange locations or at unusual times. Changes to your security settings and messages sent from your account that you don't recognise are clear indicators your account has been compromised.

However you discover the problem, once you know your account has been hacked, this is what you should do:

— 1

Update your device: the Operating Systems and apps on the devices you use should all be updated which will install the latest security fixes.

— 2

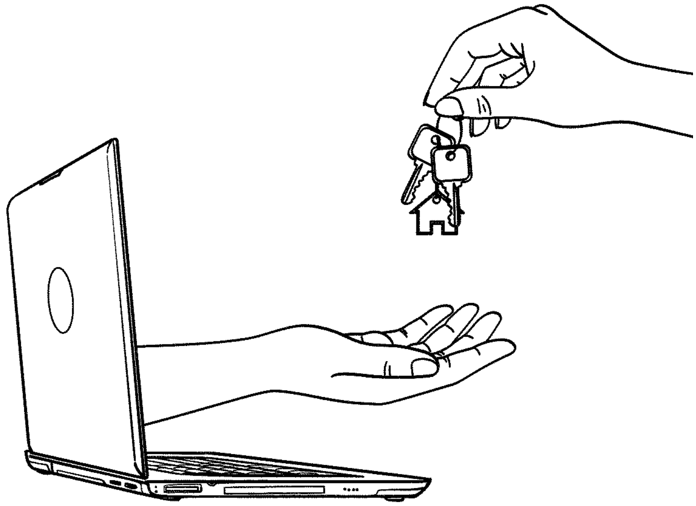
Contact your provider: if you can't access your account, go to the account provider homepage and find a link to their help or support pages which will detail the account recovery process.

— 3

If your email account was hacked: once you've regained control, check your email filters and forwarding rules. It is a common trick for the person hacking an account to set up an email forwarding rule that sends a copy of all your received emails to them.

— 4

Change passwords: once you have confirmed there are no unwanted email forwarding rules in place, change the passwords on all accounts which have the same password as the hacked account. Then change the passwords for all the other accounts that send password reminders/resets to the hacked account.



— 5

Notify your contacts: get in touch with your account contacts, friends or followers to let them know that you had been hacked. This will help them to avoid being hacked themselves.

— 6

If you can't recover your account: you may choose to create a new one. Once you've done this, it's important to notify your contacts that you are using a new account. Make sure to update any bank, utility services or shopping websites with your new details.

— 7

Contact Action Fraud: if you feel that you have been affected by an online crime you can report a cyber-incident to Action Fraud using their online fraud reporting tool.

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For further information about how to protect you and your families from cyber crime, please see our cyber crime awareness guide which can be downloaded at:

www.jmfinn.com/cyber-crime-awareness

CARMAX

Sir John Royden
Head of Research

PRICE
$88.34

52 WEEK HIGH-LOW
$155.98—$84.37

NET YIELD
N/A

HIST/PROS PER
13/16

EQUITY MARKET CAP (M)
$14,076

CarMax is America's largest second hand car dealer with 230 shops. Many of you will have heard how second hand cars were one of the great drivers behind the initial surge in inflation. At the time it was a lack of component parts that was restricting the production of new cars which in turn pushed up the value of second hand cars. This was particularly the case in USA.

It comes as no surprise that USA's largest second hand car dealer, CarMax, saw its sales jump 68% in the year to February 2022. Behind that growth lies a strategically organised sales process that combines direct and on-line sales aligned with a trusted brand of honest, no-nonsense fair pricing. As well as buying cars, CarMax will sell you a car and then service it as well as providing you with finance. Finance drives half of the company's profitability. This is a cyclical business. The main risk is interest rate policy error to the extent that higher rates deter spending and make car finance too expensive.

Please read the important notice on page 1.

Meet the manager

Bill Tibbits

Investment Director, Winchester

Lives In a little village, six miles north of Winchester

Family Wife, son (6) and daughter (7 months)

Started at JM Finn Originally in 2004 but re-joined in June 2021

Hobbies I love nothing more than an afternoon or evening by the water; often, if the fish aren't rising, I'll not get my rod out and just watch the river. It's very therapeutic; I think my blood pressure falls substantially after an hour or two there.

Favourite song I don't have a favourite as such – what I listen to depends on time of day, what I'm doing, who I'm with etc. I'm an enthusiastic but ungifted musician, and enjoy crashing along to various songs on the piano, guitar or drums (whilst singing along of course!).

You've now been at JM Finn for a year. What strikes you most about the firm's culture that allows you to serve your clients?

Having come from a much larger firm, I'm struck by the more dynamic approach to decision making, and the collaborative, friendly approach of everyone. Having worked here before, it's great seeing so many friendly faces still here. Crucially, the firm has always comprised of interesting characters with diverse viewpoints, which I think is one of the key reasons we punch above our weight in terms of investment performance.

Many might not be aware that you started your career at JM Finn. How do you think the firm has changed in the last 15 years?

The firm has evolved rather than changed. We have a tightrope to walk – on one hand, we must retain all that it so good about the firm; the investment process generated by unique, familial-yet-professional culture and the highly personal client focus which has given us industry-leading levels of client satisfaction.

On the other hand, the firm must 'automate' to some extent as well – specifically, invest in new technology to continue to meet clients' expectations on the administrative side, and contend with the headwind of an ever-more-complex regulatory environment.

Many of your clients, some of whom have worked with you for many years, have followed you to JM Finn. Other than their relationship with you, what were the relevant factors that persuaded them to move?

My previous employer is moving away from bespoke investment management towards centralised investment management. Clients sensed a more aggressive sales culture there which made them uncomfortable. I think they were reassured by JM Finn's 75 year history, excellent reputation, and that we're committed to bespoke investment management. I think that on the basis that I worked here before, and wanted to come back - and knew so many people here, that I would be well placed to judge whether or not JM Finn was right for them.

With inflation and recession concerns looming large over markets, what's your thinking in terms of portfolio positioning?

With all assets classes falling, there's really nowhere to hide – traditionally defensive assets such as gilts and gold aren't performing as they have in previous downturns. Even after the terrible start to 2022, I remain committed to high quality equities and real assets - I believe that inflation will be more persistent than many commentators believe, so focussing on companies who have true pricing power, or inflation-proofed earnings should perform best in this environment. Finally, if central banks raise interest rates higher than currently expected, corporate debt levels will be much more significant to investment returns than they have been over the past decade.

Our Offices

London

25 Copthall Avenue

London. EC2R 7AH

020 7600 1660

Bury St Edmunds

60 Abbeygate St.

Bury St Edmunds

Suffolk. IP33 1LB

01284 770700

Leeds

33 Park Place

Leeds. LS1 2RY

0113 220 6240

Bristol

22-24 Queen Square

Bristol. BS1 4ND

0117 921 0550

Winchester

4 Walcote Place. High Street

Winchester. SO23 9AP

01962 392 130

Follow us on:

info@jmfinn.com
www.jmfinn.com

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+44 (0)20 7600 1660
info@jmfinn.com
www.jmfinn.com

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