JM FINN

Prospects

Bond investing
Exploring retail investor access

Long term care
Insurance for a simpler future

Succession planning
Channelling the emotion

The JM Finn Quarterly Periodical

No.39 *Summer 2022*

No.39
Summer 2022

Equity prospects
JM Finn's insights into companies 07, 11,15, 35.

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Cover Illustration:
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Published by JM Finn on
17th June 2022

Welcome

At the time of writing, the FTSE 100 sits marginally higher than it was at the last edition of Prospects. This, however, belies a story of difficult investment conditions and in particular some sharp drawdowns across growth asset groups.

These falls, coupled with weaker markets elsewhere around the globe, particularly for the three major US indices, has made troublesome reading for many clients. Drawing on a number of years at the coal face of investing, I continue to feel that whilst some of last year's gains have been eroded, the setbacks are obstacles that a long term investor should be able to ride through.

The current challenges are faced by investment managers across the whole industry and many readers will know of the Scottish Mortgage Investment Trust, one of the largest and best known investment trusts. In the words of Tom Slater, the lead manager, writing in these pages about the tough times we're facing from an investment perspective, "resilience during drawdowns is necessary to generate long-term returns."

Amidst the gloom, we continue to think about our place in society and the communities in which our staff are based. Fund raising is very much part of the fabric at JM Finn, both for the fun and camaraderie it creates, but also for keeping us focused on the wider challenges that exist. Periodically, we change our corporate charities, those causes which our fund raising across various events will support and, following a poll across the firm, we have selected two new charities, in the Brain Tumour Charity and YoungMinds, to accompany existing partner RDA. Read more about these causes on page 26.

Succession planning is one area of managing wealth that can be particularly tricky, especially when it comes to handing over a family business to the next generation. Our wealth planning team regularly speak to clients about their plans for passing on their wealth and how to make it as seamless as possible. In times of transition everything is uncertain; so says Jess Mayhew on page 9 as she explains how channelling the emotional aspect can be the key to a sensible hand over.

How the country property market is faring is another issue tackled in this edition alongside a look, by regular contributor Brian Tora, at the likelihood of stagflation, a situation where there is high inflation but a contracting economy.

No doubt it will be the rise in the cost of living that will continue to dominate the news headlines and investor sentiment as we march towards the summer. Despite the current pressures on global economic growth, central banks seem set to raise interest rates further to try to contain price rises. This can only add to the pain being felt by consumers - a challenging summer lies ahead in this respect.

The great investor Benjamin Graham said: 'In the short run, the market is a voting machine but in the long run, it is a weighing machine.' We do not profess to be able to predict the direction of voting but we remain comfortable about the prospects of the businesses that we hold on the scales.

Hugo

Hugo Bedford
CEO

Editorial

Bonds for all

Sir John Royden, CFA
Head of Research

Illustration by Matt Glasby

Have you ever wondered why bond exposure is so often achieved via bond funds and not through direct investment? It's because direct access by private or retail clients to most bonds is limited due to a minimum ticket size of £/$/€ 100,000. These are institutional bonds that trade in the so called wholesale market.

Private clients can trade government bonds such as gilts and US treasuries in small "retail" sizes of £/$ 100 or more and corporate bonds on the ORB ("Order Book for Retail Bonds") in small sizes from £/$/€ 100 and upwards.

There are other bonds in retail sizes but they are few and far between and tend to be issued by supranationals like the European Bank for Reconstruction and Development ("EBRD").

It has been a personal ambition of mine to expand the retail bond market, not least because it gives us the opportunity to avoid funds' management fees.

The first problem is that fewer than 60 issues are listed on the ORB and that is an un-investably small universe, despite many household names like Vodafone, SSE, Barclays, Lloyds, Legal & General and Severn Trent having bonds listed there. Second, there tend to be uncomfortably large bid / offer spreads averaging 4.7% vs 1% in the wholesale market. Traded volumes are low as well. This is due to some issues being small; a third of the 60 issues on ORB are sub-£100 million in size. Added to which many retail investors on ORB tend to fall into the "buy and hold" category which limits volumes that get naturally traded.

> Some of the ORB's issuing companies are un-rated, possibly due to the £100,000+ cost of a rating.

The depth of the ORB market could be improved. The size you can deal in on the price shown is called a clip and on ORB, £25,000 clips seem to be quoted. Contrast this with clips of £ hundreds of thousands to £ millions in the wholesale market.

Some of the ORB's issuing companies are un-rated, possibly due to the £100,000+ cost of a rating. This adds work, time and cost in assessing the suitability of the investment decision. Many bonds are from un-quoted companies which increases the cost of ownership (time spent learning about the company). Standardisation of prospectuses is improving. ORB, along with the wholesale market, has had its fair share of awkward and time-consuming corporate actions and maturity extensions.

Why does all this matter? Exposure to bonds via funds misses the qualifying corporate bond capital gain tax exemption. Direct holdings allow investors to implement their investment strategy as well as avoiding a 0.6% fund management fee. Direct holdings also allow you to match maturing bonds with liabilities and avoids you being tied to a bond fund manager. Conversely bond Exchange Traded Funds (ETFs) tend to have a costly and performance eroding high churn rate with lots of bid / offer spread being paid as bonds move out of the ETF's maturity profile.

As far as issuing companies are concerned, a retail bond market theoretically opens up a new pool of liquidity as well as publicising its equity which is good for listed companies and companies considering a listing. ORB is good for small deal sizes (below the institutional minimum of £250 million for investment grade bonds) and can allow the issuer to spread out the maturity profile of its debt over time.

Some argue that ORB issues need higher interest rates to attract retail investors but I think this is probably attributable to the illiquidity premium. Some corporates also think that there is a higher standard of care for retail investors and extra cost of preparing retail bond prospectuses for regulatory approval but I disagree with this.

> Many bonds are from un-quoted companies which increases the cost of ownership.

Some companies remember Aviva's attempt to cancel its irredeemable preference shares and Lloyds Bank's attempt to force investors to sell their ECNs (a type of bond) and ask if the greater retail ownership of the Aviva preference shares was why the court decided against Aviva but for Lloyds Bank with its greater institutional ownership. Irritatingly, investment bankers articulate a frustration with retail investors and tell corporates that retail bonds are hard and more expensive to get placed.

It is true that institutional bonds are easy to place with institutional investors where bankers can achieve a high speed of execution. It is also probably true that retail issues increase the work and time needed to contact more investors and then to gather their responses. Institutional bond issues may require just 30 phone calls / road show meetings per issue. Indicative soft demand from institutional investors is reliable whereas wealth managers are not so good at living up to their indications.

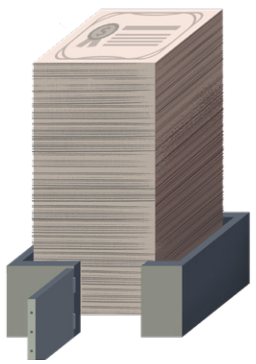
> It is true that institutional bonds are easy to place with institutional investors where bankers can achieve a high speed of execution.

Bankers also mention that complex corporate actions might increase the risk that retail investors say that they have not been treated fairly. But to date, there have been no such instances. In fact, several corporate actions have occurred that included both retail and wholesale investors such as Land Securities, Ladbrokes and Nationwide Building Society.

In the old days of mostly phone based trading, market makers liked the larger size of institutional orders but now that bond trading is becoming more electronic, on Tradeweb, this should enable smaller deal sizes.

ORB's advantage is that it has market makers (Winterflood, Canaccord and Peel Hunt) making two way prices in contrast to the wholesale dealing which is more a mixture of agency (a broker bringing together buyers and sellers) mixed with market makers.

So, there are multiple hurdles to cross in order to grow retail access to corporate bonds and, wherever the opportunity presents itself I do my best to enhance the investment universe available to our clients. The first step would be to lower the minimum denomination size for electronically traded bonds.



ACCENTURE

Michael Bray, CFA
Research Analyst

PRICE
$298.46

52 WEEK HIGH-LOW
$417.37—$268.17

NET YIELD
1.27%

HIST/PROS PER
32/28

EQUITY MARKET CAP (M)
$197,996

Accenture is a professional services firm which focuses on strategic and IT consulting, technology integration services and management of IT operations. It is the leading global IT Services provider: customer churn is very low and Accenture count over 90 of the Fortune Global 100 and over three quarters of the Fortune Global 500 companies as clients. By focusing on new areas of technology, such as cloud services, and keeping low exposure to more mature areas, such as IT infrastructure, Accenture has been able to consistently grow organic revenue at a faster pace than peers. Core to Accenture's success is its ability to efficiently train its employees on a mass scale. Additionally, when pitching for work, Accenture can call on a catalogue of case studies which demonstrate their ability to carry out large IT transformation projects. Many corporates, therefore, find Accenture an indispensable partner in helping them achieve their goal of digitising their workflows. Yet, demand for consulting has historically had a high correlation to GDP growth. If the global macroeconomic backdrop continues to deteriorate then this will eventually feed through to Accenture, despite its current large order backdrop, as corporates cut discretionary expenditure.

Please read the important notice on page 1.

Guest Editorial

Succession

Jess Mayhew
Alembic Strategy

Illustration by Asa Taulbut

Jess Mayhew of change management strategists, Alembic Strategy, discusses how and why strategic thinking can lead to transformational growth when succession planning for your business.

Take a step into the world of a bus driver. You get up and drive the bus from stop one to stop nine, and the next day you get up and do it all over again. You have conversations with people all day long about being the bus driver. Your self-concept is I am the bus driver. But then, you enter this weird space one day where you realise you're not going to drive the bus anymore.

One of the passengers is your child. They say, "I need to get into the driver's seat! Get in the back of the bus!" You think, for my whole life this has been my seat. You want to show them what to do and how to do it. You can see all the potential mistakes. But they don't want you to do that, they just want to get in the seat and drive.

At the same time, you know that they are going to work it out, perhaps stumbling along the way a little, just like you did. There is a part of you that wants to get off the bus. There might be a passenger on board who you've identified as the best potential new driver... and they might not be your child. Or, the next in line to the bus driver's seat could say no to the takeover, causing a row. Who is going to drive the bus? These are some of the challenges that succession can bring.

> **Strategic thinking is the difference between chaos and fear or efficiency and momentum.**

We all shift between periods of stability and transitional phases in our lives. In times of transition, everything is uncertain. Ambiguity makes people reactive because they don't know what the outcome will be. There is only so much you can do to calm and comfort people who simply must move through this time of growth. Yet, with the right type of guidance, people can get through it successfully so that what has been built doesn't get broken. Without training around succession, the uncertainties can lead to big mistakes. These can be incredibly painful. Training brings more certainty into a space where there is naturally a lot of ambiguity.

We look to guide people through this time with different types of structured conversation. Succession is inevitably an emotional conversation. It's important to accept this rather than suppressing emotion, whether positive, negative, or a mix of many feelings along the spectrum. When people are talking emotionally, distortion gets introduced into the mix. Unique perspectives and histories create new meanings from words that had different intentions. Emotional conversations can cause people to lose their temper or feel frightened, so people sense them as dangerous and avoid them. Because they avoid them, they never gain the skills to navigate them safely and effectively.

Common advice around emotional intelligence involves managing your mindset. This is referred to as a "top-down approach," using your mind to control your feelings. Most people struggle to do that. There is another methodology called a "bottom-up" approach. You can learn to reduce the intensity of your feelings by using your body. We use embodied work to teach people how to master their emotions. Simple examples include Qi Gong, mindful breathing exercises, or walking in a beautiful space... We move flexibly between strategic thinking and embodied work depending on clients' current needs. Using your body reduces the intensity of feelings in an accessible way. These exercises, within a structured environment, facilitate the conversation – it can be emotional without it being overwhelming; people can have the conversation without flipping out.

This could be considered a missing piece from strategic thinking within consultancy: building on people's conversational competency. Once they have these skills, we have something to build upon. We can begin to ask, where are we going with succession? Where is the business now? What could it do next, considering what's happening in the current market? It's about bringing together everyone's knowledge, and asking, what's our strategy going to be? We are figuring out whether the current business model can make that journey, or if it needs to be changed.

> Ambiguity makes people reactive because they don't know what the outcome will be.

CASE STUDY

A client came to us asking for director training. They'd been stuck in toxic rows around succession for three years. Siblings were arguing over the position of CEO.

We asked the team to envision what they wanted using a simple tool called Magic Wand. We strategically ranked options and gathered them onto a shared whiteboard.

The small shift towards strategic thinking enabled them to prioritise three things, which they had not been able to do for three years. It's a strategic way of thinking about a relational problem, which wouldn't come naturally to people. It doesn't make it unemotional, but it does take the feelings down to a level where they're not overwhelming. They were talking to us, rather than each other. We provided the structured, neutral environment they needed.

Next, we engaged with the father and siblings together. We'd opened things up: they weren't stuck in a paradigm where one person had to be CEO, which was just a fight. The concept of shared leadership led to them working out the roles and how they would work together. These were approved by the father, and they took over. The entire transformation took a year and a half.

It's an honest discussion from everybody exploring the strengths and weaknesses and thinking about risks. We move the team to a place where they all share the same view of the current model. We bring everyone's understanding of what's possible in the current market together. Finally, we identify the gap between where they are now and where they want to be, which gives them their strategic possibilities.

So, the next question is, are you going to put energy into it? The whole team needs to be committed to delivering on that pathway together. Everyone needs to have an aligned view about where they're all going. At this point, there will be another set of difficult conversations. It's high stakes, there are lots of different opinions, there are inevitably high emotions in the air. People are asking, why me and you? How are we going to make sure that we're together on this? Do I want that? How will we work together? Do we want to be on the bus? These questions are emotional; they're about being in a relationship with someone else and in a relationship with a shared task. Balancing the emotional and human side with a depth and wealth in experience around strategy facilitates transformation.

When you get this wrong, all of that emotional energy is channelled into frustration and arguments and you feel it. It's stasis, you're stuck. If you get it right, then all that emotion gets channelled into making the change happen. Everyone leans into it together. It's a return-on-investment question with succession - a shared investment. People have to decide to invest in it together. Picture a sparking cable flapping about. If you can plug it in, suddenly all that energy is going down the channel. Typically, when you get that plug into the socket, the business zips off. That's why strategic thinking is transformational: it's the difference between chaos and fear or efficiency and momentum.

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www.alembicstrategy.com

ADOBE

Michael Bray, CFA
Research Analyst

PRICE
$416.48

52 WEEK HIGH-LOW
$699.54—$370.27

NET YIELD
0.00%

HIST/PROS PER
41/30

EQUITY MARKET CAP (M)
$196,786

Rarely do software companies have the longevity of Adobe. Established in the 1980s, Adobe has grown by developing its own applications (e.g. Acrobat, PDF manager) and through acquisitions (e.g. Magento, an e-commerce platform). Key to Adobe's staying power is how crucial it is to the operations of many enterprises, particularly those within the creative industries, with brands such as Photoshop synonymous with digital creation. Adobe was one of the first software companies to transition from a perpetual software model (i.e software licenses that authorise an individual to use a program indefinitely) to a cloud subscription model (i.e. software-as-a-service), improving their earnings visibility and addressable market. They have become the standard to which other business cloud transitions are measured against, with revenue growth compounding at >20% p.a. between FY16 -21. Adobe is now focusing on digital marketing, a growing area, driven by a usage shift towards web, mobile and social. However, digital marketing is still relatively nascent for Adobe where it does not enjoy the same status as in its traditional creative markets; competition is more intense against several thousand providers. Although digital marketing offers growth potential for Adobe, it is likely to be more challenging to realise.

Please read the important notice on page 1.

Beware the S Word

Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Jordan Atkinson

It is hard to escape from media coverage of the devastating impact inflation is having on our society as commentators point to the dangers we are facing from a rapidly rising cost of living.

The after effects of the pandemic and the war in Ukraine have combined to place upward pressure on a wide range of goods, most notably in fuel, energy and agricultural products – areas where there is little discretion available as to whether or not we choose to maintain consumption.

Already we are seeing calls for greater support for beleaguered families faced with higher living costs outstripping any rise in their income. Pressure is mounting for the government to introduce measures to help mitigate these rising costs, but it is difficult to see anything other than token assistance being made available. Wage inflation could be just around the corner, though this would only exacerbate the situation. But it won't stop unions threatening strike action if wages are not raised.

> **Recessions and stagflation do not happen that frequently.**

Clearly the preferred solution is for governments and central banks to introduce measures to rein in the rise in the cost of living. The big concern that many economists have is whether such action taken to calm inflationary pressures will tip the global economy into recession. Traditionally the main weapon to be employed against a rising cost of living is higher interest rates. Already we are seeing rate rises here and in the United States, while the European Central Bank has indicated that they will also be raising the cost of money.

This can only add to the pressures being felt by many consumers, with mortgage costs likely to rise. Interest rates have been so low for a lengthy period that many homeowners have much larger borrowings in relation to their incomes and the value of their property than once used to be the case. The natural consequence of such a squeeze on incomes would be for spending to be diverted away from discretionary areas, which is likely to impinge on economic growth.

In the past such a contraction of spending and economic activity has placed a cap on inflation, but these are not usual times. While the disruption of supply chains that resulted from the pandemic can be expected to be ironed out, continuing hostilities in Ukraine look likely to prolong the period during which food and fuel costs can be expected to rise. The initial hit to our cost of living may have been higher gas and oil prices, but it is now foodstuffs and related agricultural products that are taking up the running.

This widens considerably the effects of this crisis, with food shortages now expected around the world and an almost inevitable reduction in spending as a result. Yet central banks feel they must act, even if the rate rises will still leave the cost of money way below the prevailing inflation rate. The worst case scenario is a stagnant or contracting economy and high inflation, known as stagflation. The effect of this is to intensify the squeeze on disposable income, thus reducing the spending power of the average consumer – something that is already taking place.

Breaking out of such a cycle will not be easy, but it will be high on the agenda for those governments faced with this problem. What is more difficult to judge is the extent to which what is taking place now is a natural consequence of recent events with a finite life, or a major shift in expectations of how inflation should be viewed for the future. If the former, central banks will doubtless be more moderate in their actions and may even manage to avoid recessionary conditions. It is the latter scenario that will be giving those tasked with managing the economy sleepless nights.

Here in the UK we have the problems created by Brexit to factor in to our calculations. This has resulted in a tight labour market, particularly in certain areas, like agriculture. This may embolden workers to demand higher wages to compensate for their rising living costs, which would simply add to the spiral. And the only way out of such a dilemma is to tighten monetary policy to the extent that recessionary conditions become unavoidable.

Recessions and stagflation – the S word – do not happen that frequently. Economic management has improved massively in recent years, so we must hope a way may be found to avoid the worst case scenario. An early resolution to the conflict in Ukraine would undoubtedly help, though this is looking far from likely. Resolving supplies of energy and fuel is probably easier to achieve than replacing the lost foodstuffs from Russia and Ukraine. Messrs Johnson and Sunak may have rather more to worry about than parties at No 10 in the months ahead.

JM Finn News

Getting out and about

It has been with a sense of relief that we have been able to see our clients in person again, some having not been met physically for over two years. To help continue developing the relationships we have also been delighted to resume our program of events and we hope to see as many clients as possible during the course of the year. We would particularly welcome the opportunity to showcase our new headquarters to any client who might find themselves in London.




JM Finn wins awards

We are proud to announce that JM Finn has won several important industry awards in 2022, providing an important testament to the hard work of our staff over the last few years. Whilst we will never rest on our laurels, receiving endorsements from fellow professionals across the industry is a good leveller when it comes to measuring our success versus our peers.

PAM Awards – Winner, Client Service Quality High Net Worth

Good Money Guide – Best Wealth Manager 2022

City of London Wealth Management Awards – Best Charity Investment Service

Magic Circle Awards – Silver, Private Client Asset Manager of the Year

Yorkshire Financial Awards 2022 – Wealth Manager of the Year

Understanding Finance

QUALITY, GROWTH AND VALUE

Michael Bray, CFA
Research Analyst

A question I am frequently asked is how do we analyse stocks? How much emphasis do we place on valuation? And how much do we place on company analysis, in terms of assessing quality and growth potential? In truth, we consider all of these aspects within our Quality, Growth and Value framework.

Starting with quality, a key facet being competitive advantage; we cannot have confidence in a company's ability to at least maintain its market share if it does not have an enduring competitive advantage. Companies with the most powerful competitive advantage typically combine scale with some form of 'customer captivity' (e.g. premium brand), which presents high competitive barriers to entry. Growth must be considered, as share prices typically follow a company's earnings growth over the long-term. There are many dimensions to growth: is the business exposed to structurally growing or cyclical end-markets? How much of its revenue growth comes organically (via reinvestment) or, from acquisitions? Can the business raise margins? And, what is its 'runway potential' in terms of penetration rates by products/services and by geography etc.? On valuation, we look at how shares trade on a relative basis versus peers and versus the company's own historical multiples. Additionally, valuation needs to be considered on an absolute basis to assess intrinsic value.

There is no merit to owning a high quality business that isn't growing. Equally, it's unwise to hold a high growth company if it possess little quality - as competitive pressures will intensify. Even if a company meets our quality and growth criteria, its valuation can still be excessive, deterring investment. Therefore our holistic approach of assessing quality, growth and value is critical in providing a measured framework for stock analysis. The hard part comes in weighing it all up!

THALES

James Ayling, CFA
Research Analyst

PRICE
€113.60

52 WEEK HIGH-LOW
€131.15—€70.54

NET YIELD
2.23%

HIST/PROS PER
22/17

EQUITY MARKET CAP (M)
€24,499

Ukraine's conflict has created wide-ranging ripples through global markets. Near term, inflationary pressures have been exacerbated by the rise in energy related commodities as Russian oil and gas has become increasingly sanctioned in Western economies. Similarly, food inflation looks stickier as Ukrainian grain production is forecast to drop at least 50% next year. Most apparent, though, are heightened tensions between Russia and NATO. Relations have soured and thawing looks unlikely. Several NATO countries, after years of cutting their defence budgets are reversing course; now, targeting at least the proposed 2% of GDP spend. Western defence spending across research and development, procurement and maintenance may, therefore, see a historic resurgence.

Thales, a French diversified aerospace and defence company could be a beneficiary. The business has three core divisions and is skewed to military end markets. Defence & Security accounts for over half of revenues and provides broad hardware and software exposure across sensing technologies, communication networks and cybersecurity applications. However, recent acquisitions and proposed divestitures may distract management at an opportune time.

Please read the important notice on page 1.

Independent View

Country living

James MacLeod of property search firm, JM Chase, gives his views on the country house market.

The Country House market has continued in the first quarter of 2022 much as it left off from the end of 2021: significant demand chasing a limited amount of supply of good houses. At least that has been the perception of the market. The reality being a little different.

Current demand is being joined by a new wave of buyers achieving successful sales in London (following a strong revival of the SW London market), so demand is high. However there has actually been a relatively healthy supply of good country houses coming for sale. Many selling agents have reported a record year of sales through 2021, a record that could be beaten should the supply continue to improve in 2022.

The problem being that the better country houses sell so quickly that the agents don't have much time (or cause) for openly listing houses online; hence the Rightmove searches seem to yield few results. This is because the best houses are selling prior to an open market phase. Indeed in some instances an openly marketed house can trigger so many phone calls and viewings for the selling agents to deal with, that the logistics of doing so can be overwhelming. If they can achieve the same outcome with 10 to 15 viewings, as they can with 50, the obvious choice for selling is to fast-track the route to the best buyers.

In the late summer of 2021 a Country House came for sale in the Meon Valley in Hampshire with an asking price of £2m with heaps of charm and potential. The selling agent launched the house fully on Rightmove and then fielded 60 viewings from separate buyers. 12 offers later, the house sold for more than 30% above its asking price. In the early part of 2022 another rare gem came to the market in West Sussex for £1.5m and also fielded about 50 viewings. The outcome was a more subdued 12% over asking price. Another house has just been launched more quietly and we predict an outcome of around 5% over the asking price in competition.

We are certainly on the cusp of a shift in market sentiment in the face of headwinds such as inflation, interest rate rises, cost of living crises and wider geopolitical issues. The financial markets are causing a lot of buyers to pause and pushing more sellers to come to the market, in order to catch the tail end of the country house gold rush. The supply / demand imbalance is therefore improving as more caution comes to the broader country house market.

Currently this market shift is pure sentiment as opposed to being a problem of affordability, or for maintaining mortgage repayments for example. In the wealthy and equity rich demographic of country house owners, there won't be any distressed sales anytime soon. But the sentiment shift is one to keep a close eye on.

Despite this, the drivers for demand and supply will, in our view, remain the same. The need to downsize from a large house and potentially release equity to be repurposed for children or grandchildren, a family separating or joining together, or indeed a deceased estate selling a family asset, will remain. On the demand side, it's also "life-stage" driven with factors such as upsizing a growing family or moving further from the city for flexible working (regional flexible work-spaces are booming with a surge of "work near home" as opposed to "work from home") and to a large extent the great schooling the regions offer. Markets might shift, but the children keep growing and the school year still starts in September. Nearly all of the private schools in the country areas that we cover through the southern counties are reporting growing demand and longer waiting lists.

> **Many selling agents have reported a record year of sales through 2021, a record that could be beaten should the supply continue to improve in 2022.**

In a more cautious marketplace, there will be less heat around the bidding on the best houses and we hope buyers can have a healthier negotiation with a seller to keep pricing sensible, but the overall outcome is that buyers will remain competitive until they have bought their new home and sellers won't sell unless they get a reasonable price for their house.

In summary, increased caution will be a welcome shift to the country house market, but we can't see prices changing significantly over the course of the next 12 months. If Savills launch a good house at £2.5m within 20 minutes of a good Prep school, and the house is without any major issues, is attractive, perhaps has an annexe, pool or tennis court in a couple of acres of gardens, there will be a queue of buyers ready to grab it, with cash readily available to proceed. When this changes we will let buyers know.

James MacLeod
Owner, JM Chase Property Search
jmacleod@jmchase.co.uk

Illustration by Simon Ansell

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.

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

COMMUNICATION SERVICES
Tencent Holdings, Vodafone

CONSUMER DISCRETIONARY
Nike, LVMH, Starbucks

ENERGY
BP, Shell

FINANCIALS
Barclays, Schroders, HSBC

HEALTH CARE
Dechra Pharmaceuticals, Genus, AstraZeneca, Sonova

INDUSTRIALS
Experian, BAE Systems, Ceres Power

INFORMATION TECHNOLOGY
PayPal, ASML, Apple

MATERIALS
Givaudan, American Airlines, DS Smith, Croda

REAL ESTATE
British Land, Home REIT

1.

Amazon

Price **$2,404.19**
52 week high-low **$3,773.08 – $2,025.20**
Net Yield **0.00%**
Hist/Pros PER **36/60**
Equity Market Cap (M) **$1,223,060**

Consumer Discretionary
Dave Fildes, Head of Investor Relations

There seems little doubt that the pandemic proved to be a boon for Amazon's retail business as new and existing consumers flocked online to purchase all manner of goods whilst stuck at home. But that growth hasn't come without growing pains. During the pandemic, Amazon reached capacity constraints within their warehousing and delivery networks. This drove up the retail business' profitability as asset utilisation reached peak levels. Yet, facing high levels of retail revenue growth, Amazon consciously sought to invest ahead of longer term ecommerce growth. For context, Amazon's fulfilment capacity doubled from 2019 to 2021, an impressive feat for a company that already offered a market leading delivery proposition for customers pre-pandemic.

However, fundamentally this space growth has added higher fixed costs to operating expenses at a time when consumers are easing back on purchases of goods vs. services. Near term operating results have taken the brunt of this dynamic; the retail business has shifted back into an operating loss position.

A potential risk for investors is whether Amazon miss-stepped and over expanded based upon forecasting forward from an unsustainable point of peak goods demand. Equally, herein may rest an opportunity for longer term patient investors. Amazon now has space from which to grow as others are scrambling to build warehouse space; they can reduce reliance on more costly external delivery providers and rebuild their operating margin if they can find efficiency gains across their enlarged distribution asset base.

2.

ASML

Price **€536.00**
52 week high-low **€777.50 – €486.30**
Net Yield **1.03%**
Hist/Pros PER **37/33**
Equity Market Cap (M) **€216,732**

Information Technology
Peter Wennink, CEO and Roger Dassen, CFO

ASML is a leading manufacturer of lithography tools which are crucial to the production of semiconductor chips and therefore all electronic devices. We attended a meeting with CEO Peter Wennink and CFO Roger Dassen where the tone was positive with management's commentary pointing to upside for 2023 market expectations and beyond. The majority of questions were around assessing the sustainability of demand, both near and medium term, in the context of cyclicality of the semiconductor industry and the structural outlook for lithography.

They maintained they are on track to deliver c.20% revenue growth in 2022. They reiterated that they are not seeing demand slow down and stated that demand does indeed exist for greater shipments of lithography tools. ASML is however constrained by capacity and supply chain issues, meaning that the order backlog in 2023 continues to grow. Management demonstrated confidence in the outlook for 2025 and beyond, citing increased demand for their leading technology (e.g. high performance computing) and mature technologies (e.g. automotive and internet-of-things). Additionally, with Moore's Law (the observation that the number of transistors per silicon chip doubles every two years) continuing, but at a slower pace, chip sizes are having to become bigger, which is increasing lithography intensity.

ASML has not escaped the effects of cost inflation. 2022 gross margin is now expected to be 52%, down from the previously expected 53%. Yet, management say they are engaged with customers on how to pass on certain cost items, meaning some costs may be recovered over time.

3.

BT Group

Price **£1.87**
52 week high-low **£2.07 – £1.35**
Net Yield **1.22%**
Hist/Pros PER **14/9**
Equity Market Cap (M) **£18,832**

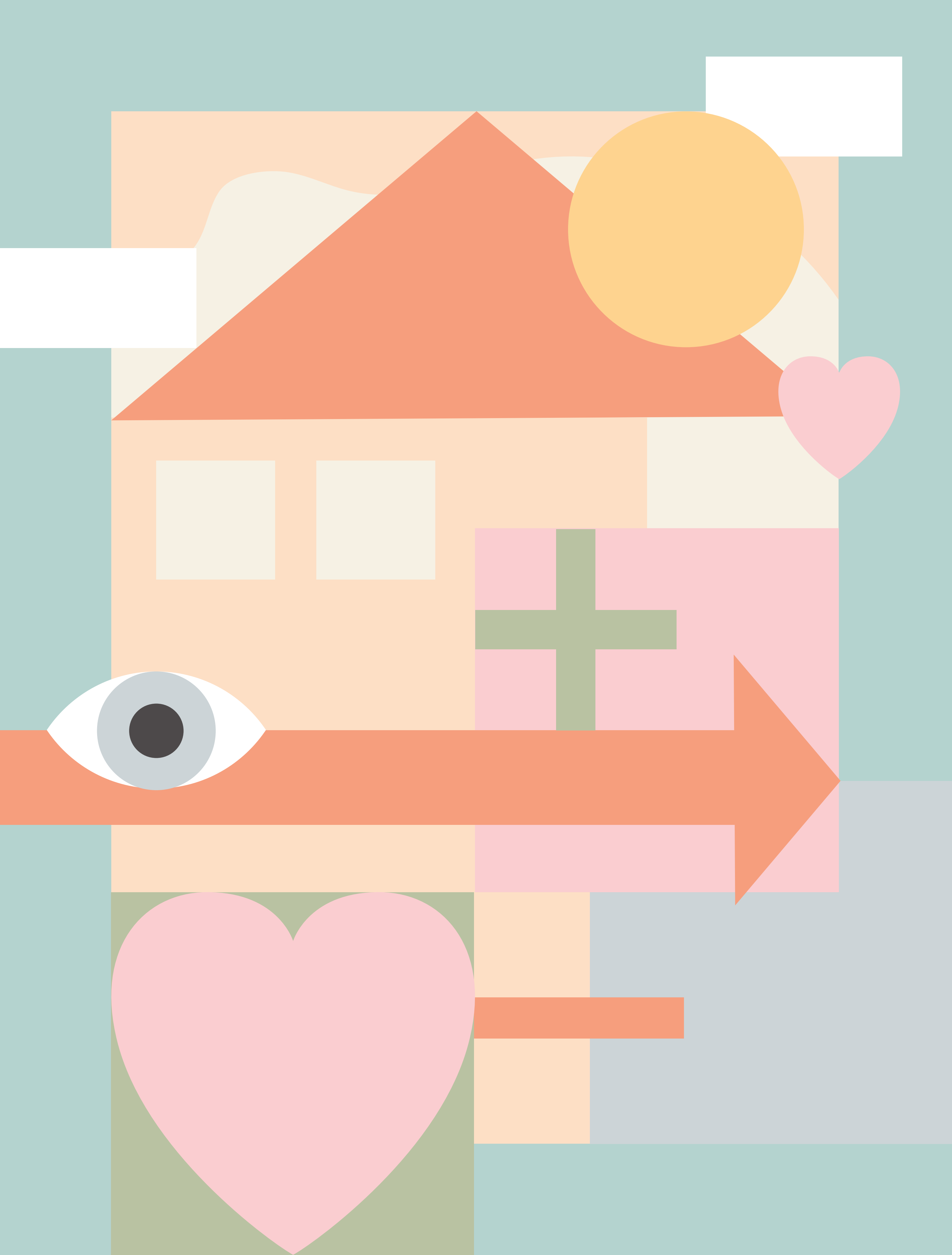
Communication Services
Mark Lidliard, Director of Investor Relations

We met with Mark Lidliard, Director of Investor Relations at BT. The focus of much of the meeting was on Openreach, an underappreciated part of BT's business which accounts for c.40% of group adjusted operating profit before depreciation and amortisation (EBITDA). Openreach is a separate, but wholly-owned customer facing unit which is operationally independent.

The big near term story is the roll out of fibre optic cable. For Openreach this means elevated short term capital expenditure. However, Mark ran us through how capex spend will peak in FY24 and trend down to much lower levels in FY31 as the fibre roll out completes. This, BT hope, will be combined with increased average revenue per user (ARPU) growth as customers transition onto fibre and away from their legacy copper cable. ARPU has historically grown as fibre penetration in their customer base has increased and BT expect this to continue. The final piece in the puzzle is operational expenditure which should trend downwards as fibre optic cable is less expensive to run due to lower fault rates. This means the margin is expected to expand. All of the above factors, Mark explained, should feed through to solid free cash flow growth out to FY28 and beyond.

Competition does however present headwinds. The other big fibre player is Virgin, but there are also a host of smaller so called 'over-builders' trying to roll out fibre networks which add competitive pressure. Mark argued that these loss making over-builders will soon see cheap funding dry up, resulting in consolidation, which should benefit Openreach. The competitive outlook remains uncertain but Openreach is likely to see more investor focus in coming years.

Please read the important notice on page 1.



Wealth Planning in focus

Looking at Long-Term Care

Atticus Kidd
Wealth Planner, JM Finn

There are a variety of options when it comes to funding long-term care and they are often far from straightforward. Wealth planner, Atticus Kidd, explains this specialised area of insurance that could be of significant benefit to some.

We have known about the ageing population in the UK for many decades. As families have spread geographically, and community and state support has reduced, more responsibility is being placed on the individual to look after themselves in later life.

The average weekly cost of living in a residential care home is £704 a week, rising to £888 a week[1] if nursing care is required, depending on the region. And while many people think they will qualify for state support, most do not; over 50% of people going into a care home are paying some or all of the fees.

With care costs continuing to increase, a persistent concern amongst the elderly is the potential cost of care were they to lose the ability to look after themselves and how this would impact their finances.

There are a variety of ways in which care costs can be met. This article focuses on one of the lesser known methods, termed 'long-term care insurance'. Long-term care insurance aims to help directly with concerns surrounding meeting the ongoing costs of care and can be adjusted to meet an individual's circumstances or desires. It does this by providing a regular income to pay fees for a nursing home or for home care where clients can no longer look after themselves due to old age or long-term disability.

By providing financial certainty, and coupled with the right advice, care funding plans can have a major role to play in allaying the worries that older people and their families may face. In exchange for a one-off payment, care plans provide an income for life. This can help safeguard against running out of money and, importantly, not being able to afford to pay for their care needs in the future.

[1] Source www.carehome.co.uk

There are two solutions to funding long-term care which are designed for people aged 60 or over, already receiving care (or will be within the next 12 months), and want to pay for it without any investment risk or threat to their eventual legacy.

1. Immediate Care Plans
For those who need funding to start immediately, and want the certainty of a regular, guaranteed income for their lifetime. The provider will then make a monthly payment to the client's UK registered care provider for the rest of their life.

2. Deferred Care Plans
For those who can afford to cover their own care fees for up to five years, but would like the certainty of an income for life that starts at the end of the selected deferred period.

Any income paid from care plans to a UK registered care provider in respect of care for the annuitant is made tax-free. Care fees can increase over time due to inflation. To help reduce the risk of a shortfall, clients can choose at outset for the income payable from a Care Plan to increase each year by a fixed percentage or by the Retail Price Index (RPI).

The average weekly cost of living in a residential care home is £704 a week, rising to £888 a week

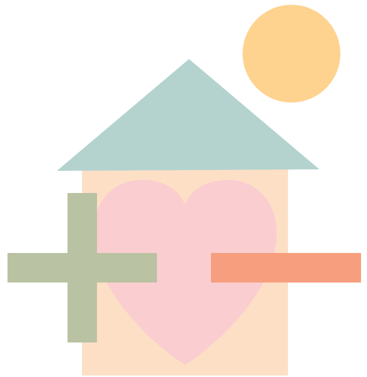
Care plans are individually underwritten, and based on the personal circumstances of each applicant. This means that the cost of the plan may vary considerably from person to person. For this reason, we would ensure a fully underwritten quote is obtained for each client we provide a proposal for.

One care insurance provider[2] has calculated the average cost of providing an initial income of £20,000 pa at various ages. This has been based on the average health condition of a person entering either a Residential or Nursing care home purchasing their care plan, in which conditions such as dementia, heart disease and stroke commonly feature.

How much will an annual income of £20,000 cost to buy?
For illustrative purposes only

	Escalation 0% pa		Escalation 5% pa	
Age	Residential	Nursing	Residential	Nursing
75	£115,326	£100,293	£137,648	£117,846
80	£108,640	£100,937	£127,286	£117,310
85	£94,396	£87,325	£107,601	£98,793
90	£80,549	£71,430	£89,155	£78,541
95	£65,438	£63,002	£70,880	£68,049
100	£63,227	£54,016	£68,435	£57,464

[2] Source: Just Retirement



As with all financial decisions there are various pros and cons:

Benefits

- Peace of mind that a guaranteed payment will be paid for life towards care costs.
- Under current legislation there is no tax to pay on the payments if they are paid to a UK registered care provider.
- Ring-fences a portion of assets so that the remaining wealth is protected.
- Payments can be index linked.
- Can include protections for repayment of part of premium if early death occurs.

Risks

- Flexibility in care providers selected to receive payments whether this be in a home or residential setting.
- May get back less than paid in.
- If no longer require care or become eligible for NHS funding, the client would be unable to cancel the income but, payments can be paid directly to the individual subject to income tax.
- Receiving payments may affect the ability to claim for means-tested state benefits.

"If funding your own care, or that of a family member, is a concern then long-term care insurance should be an area that you make yourself familiar with.

Overall, long-term care insurance can prove to be of significant benefit to certain individuals. In particular, it can help to simplify a matter that is a regular cause of stress and/or anxiety to both care receivers and their loved ones.

If funding your own care, or that of a family member, is a concern then long-term care insurance should be an area that you make yourself familiar with. With long-term care being a highly specialised area it may be appropriate to consider a conversation with a suitably qualified adviser who can guide you through the options available and, where appropriate, provide advice.

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

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. Any figures quoted are accurate at the time of publication.

Collectives Commentary

Tough times

Tom Slater
Baillie Gifford

Illustration by Adam Mallett

Tom Slater, of Baillie Gifford, managers of Scottish Mortgage Investment Trust review one of the trust's most challenging periods.

It has been a tough year. Markets have been driven by macroeconomic concerns, geopolitics and the ongoing shockwaves from Covid-19. Investing in this environment requires resilience and clarity of purpose. Our purpose is to provide long-term funding and support for Growth companies and the entrepreneurs building the future of our economy. This approach will sometimes be popular and sometimes, as now, be out of favour. While we do not enjoy discomfiting our fellow shareholders, we believe resilience during drawdowns is necessary for generating long-term returns.

It is more useful to observe and analyse geopolitical and macroeconomic developments than to engage in futile attempts at prediction. A standout lesson from the past two years is that our world is, in Sir John Kay's terms, radically uncertain. We must be wary of those making confident assertions about the future. Instead, our job is to acknowledge the limits of prediction, build a portfolio that is robust to changing conditions and focus on answering the question, "What is going on here?"

We think many of the challenges the world faces today are the negative consequences of two contentions that have driven our portfolio construction over the last decade. Firstly, China's economic development is disrupting the established world order. Secondly, technological progress has created companies of increasing geopolitical importance and a complex network of global interconnection. China's rise has brought a vast swathe of humanity out of poverty and created opportunities for workers and investors alike. However, this success has fuelled greater geopolitical ambition and a challenge to US hegemony. Online network companies have built an infrastructure that creates economic opportunity for millions, but the scale of their impact raises questions of governance and trade-offs to limit the influence of bad actors. It will not be possible to resolve these issues quickly or easily.

Diverse processes of significant change underpin the growth of our companies. We believe that a greater understanding of disease's genomic and molecular causes will result in targeted and personalised healthcare. People's attention is shifting from traditional forms of media to online. The retail business is going mobile and payments companies are becoming aggregators of information and services. Enterprises are increasingly turning to the Cloud for the provision of IT services.

We are moving away from a world of carbon-based energy generation and transport. It is helpful to measure recent events and stock prices against these contentions. Has healthcare become less likely to personalise? Will people go back to offline forms of media and commerce? Are we more likely to be using fossil fuels ten years from now?

For us, the answer to these questions is "No!" Indeed, recent events are likely to have accelerated some of these processes. Consequently, we have not made meaningful changes to the portfolio. We still own all the top 30 stocks we owned a year ago. Moderna, the mRNA company responsible for one of the key Covid vaccines, is now our largest holding, partly because of additions. It is the only company in our top ten held for less than five years. We think the approach that led to its Covid vaccine will offer critical medical breakthroughs in the years to come. Tesla, the electric car producer, is our second-largest holding despite further reductions. Demand for its products far outstrips supply, and its operational execution has been remarkable.

> **A standout lesson from the past two years is that our world is, in Sir John Kay's terms, radically uncertain.**

The most significant reduction has been Amazon, our largest holding for many years. We still have enormous respect for the company and believe it has a substantial opportunity ahead of it, particularly in providing Cloud infrastructure through Amazon Web Services. However, founder Jeff Bezos stepping back from the CEO role is a source of concern given how central he has been to the corporate culture. At the same time, the maths of future growth is more challenging. E-commerce has grown from 5% to 15% of the US retail market over the past ten years, tripling the market for online retailers. Suppose e-commerce takes another ten percentage points of market share over the next decade. In that case, the opportunity will only have grown by two thirds. Given our focus on Growth, it now makes sense for us to redeploy capital in other areas.

Most companies in the portfolio have delivered exceptional levels of growth over the past two years in a challenging operating environment. Despite geopolitical uncertainty, significant increases in the cost of living and rapidly rising interest rate expectations in many parts of the world, we are still expecting most to deliver high levels of growth this year. These companies are well capitalised, led by exceptional leaders and have already demonstrated high levels of adaptability and resilience. A small number of companies create the majority of stock market returns regardless of the prevailing economic conditions. We aim to identify companies with that potential and, where we find them, to support them for as long as possible.

Scottish Mortgage Annual Past Performance
To 31 March each year (net %)

2018	2019	2020	2021	2022
21.6	16.5	12.7	99.0	-9.5

Source: Morningstar, share price, total return.

Past performance is not a guide to future returns. As with any investment, capital is at risk.

JM Finn *News*

Charity partnerships

We encourage our staff to engage in their communities and actively seek to support organisations in our local community. We recognise that choosing to give a charitable donation of any size to any cause is a very personal decision and we respect that at JM Finn, however, we also believe that a firm of our size, reputation and standing should pool its resources to help where it can.

Our charitable objective is to raise funds for three chosen charities per annum and in order to provide meaningful funds and to make a difference, we typically look to support each of our chosen charities for a three year period.

We look to raise funds via a variety of efforts organised by our CSR committee, including quiz nights and cake sales. The largest source of annual funds comes from the silent auction and raffle held at the staff Christmas party each year. All funds raised across these events are split 3-ways between the chosen charities.

Following a poll across our staff, we have recently engaged with two new charities: the Brain Tumour Charity and YoungMinds, alongside our existing partnership with RDA. We look forward to supporting all three in their endeavours to enhance the lives of others and have some fun in raising much needed funds.

To learn more about the work these charities do or to donate or organise a fundraising event, please visit their websites or send an email to us at marketing@jmfinn.com.

THE BRAIN TUMOUR CHARITY

The Brain Tumour Charity is the UK's largest dedicated brain tumour charity, committed to fighting brain tumours on all fronts.

They fund pioneering research to increase survival and improve treatment options and raise awareness of the symptoms and effects of brain tumours to get earlier diagnosis and to help families cope with everything that the diagnosis of a brain tumour brings. They also provide support for everyone affected so that they can live as full a life as possible, with the best quality of life.

Brain tumours are the biggest cancer killer of children and adults under 40.

Over 88,000 children and adults are estimated to be living with a brain tumour in the UK currently and most are coping with a reduced quality of life.

Over 5,000 of whom lose this battle each year.

The Charity funds and promotes the UK-wide HeadSmart campaign, raising awareness of the signs and symptoms of brain tumours in children and young people to make earlier diagnosis a reality. Earlier diagnosis will reduce long term disabilities and save lives. In just three years, HeadSmart has reduced average diagnosis time from 9.1 weeks to 6.5 weeks.

www.thebraintumourcharity.org

YOUNGMINDS
fighting for young people's mental health

YoungMinds are the UK's leading charity fighting for children and young people's mental health.

They want to see a world where no young person feels alone with their mental health, and all young people get the mental health support they need, when they need it, no matter what.

1 in 6 children aged five to 16 were identified as having a probable mental health problem in July 2020.

Less than 1 in 3 young people with a mental health condition get access to NHS care and treatment.

80% of young people with mental health needs agree that the Covid-19 pandemic has made their mental health worse.

Every young person whose mental health ends up in crisis is a young person who has been failed. YoungMinds know that the earlier young people can access the right help, the more likely it is that they can avoid these crises. The charity want to see a world where every young person who is struggling feels able to reach out, and has people and services around them who can really help.

www.youngminds.org.uk

RDA
Riding for the Disabled Association
Incorporating Carriage Driving

At Riding for the Disabled Association (RDA), their horses benefit the lives of over 25,000 disabled children and adults.

With fun activities like riding and carriage driving, they provide therapy, fitness, skills development and opportunities for achievement – all supported by 18,000 amazing volunteers and qualified coaches at nearly 500 RDA centres all over the UK.

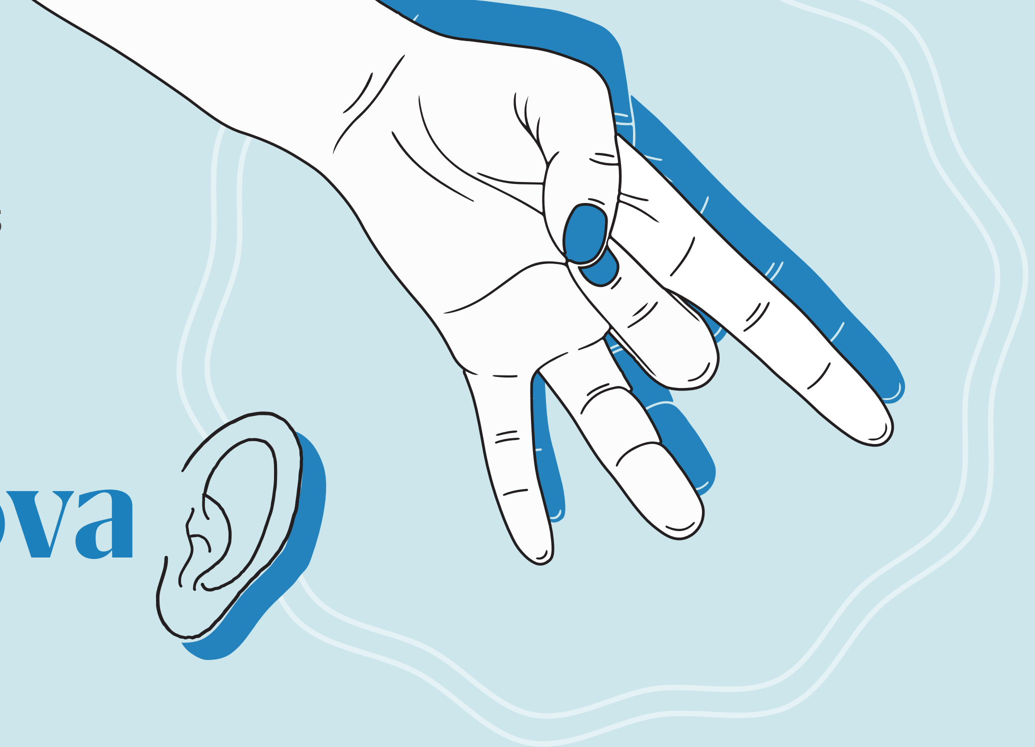
Supporting 25,000 disabled children and adults across the UK

Aiming to increase this number by an extra 10,000 by 2025

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

RDA is the only major UK charity whose focus is squarely on the therapeutic and health benefits of bringing people and horses together. Activities are recommended by Physiotherapists and Occupational Therapists, and the majority of participants are referred to RDA by a medical professional. Regular riding improves core strength, balance and coordination and the welcoming groups help to combat isolation and loneliness and boost wellbeing and happiness.

www.rda.org.uk



Stock in focus

Sonova

Henry Birt
Assistant Research Analyst

Illustration by Isabelle Bamburg

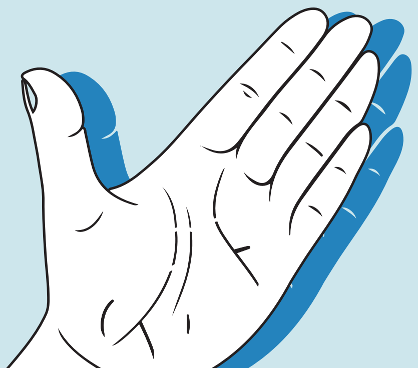
Sonova is a Swiss hearing aid manufacturer, founded in 1947. Up until recently, the group was broken into three hearing related segments with Hearing Instruments the largest, containing the core hearing aid business. Sonova sells a range of in-ear and behind-the-ear hearing instruments, many of which are sold under the Phonak brand.

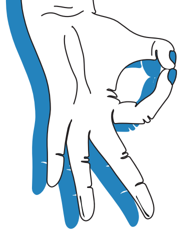
The second business manufacturers Cochlear Implants: devices made for those whose hearing loss is too bad for hearing aids. Finally, they also have an Audiological Care business which provides hearing assessments and maintenance services to tie in with their other product offerings.

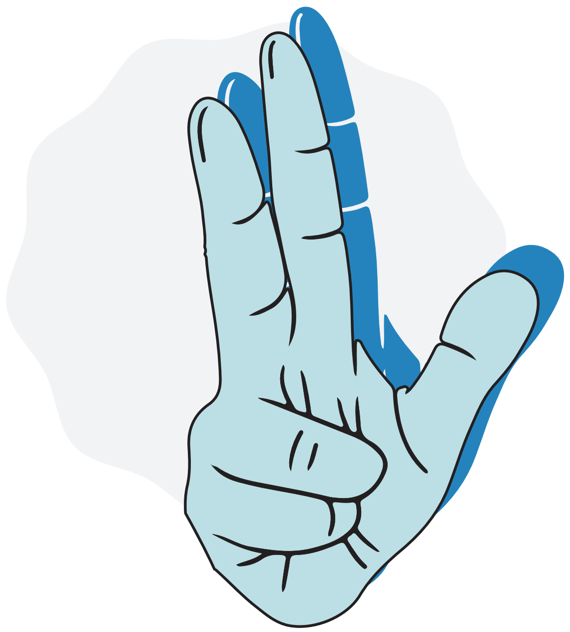
More recently, Sonova added a fourth string to their bow when they acquired the consumer division of Sennheiser, a producer of high end earbuds and headphones. This acquisition marks a shift outside of Sonova's previous area of expertise, although management argue there are various synergy benefits, given the similarities in product.

Sonova has delivered 4.4% organic growth over the last ten years (5.7% for the 9 years prior to the pandemic). They saw sales turn negative in 2021 as pandemic restrictions limited their ability to retail their products and reduced the number of hearing check-ups being conducted. Importantly though, Sonova still outperformed the wider hearing aid market, plus many of its peers, with revenue growth in constant currency declining -6.7%, compared to the global hearing aid market's estimated -15% decline. Historically the group's growth has been largely organic, however the Sennheiser consumer division will add an extra 10% to group revenue and is thus material inorganic growth.

Management argue that with the acquisition they have gained access to consumers earlier in their hearing journey. Sonova previously tried to enter this market through their own organically developed products, however they soon realised brand recognition was lacking. They argue that headphone usage can be a gateway into using medical devices, however the brands are to remain separate. Therefore, it is difficult to see how this transition will take place in reality.







PRICE
CHF 339.00

52 WEEK HIGH-LOW
CHF 402.00—CHF 301.00

NET YIELD
0.95%

HIST/PROS PER
33/26

EQUITY MARKET CAP (M)
CHF 21,206

In the core business, Sonova distributes its hearing aids through both retail (40% of revenue) and wholesale channels (60%). Through the wholesale business, Sonova sells hearing aids to discerning audiologists who then recommend these products to their patients. This vindication of their products by professionals is encouraging and these relationships should help to make demand stickier: once an audiologist becomes comfortable with a particular product they are likely to continue using it.

The hearing aid market is dominated by a few large players, with Demant and WS Audiology notable competitors. Sonova's exact market share is hard to determine precisely but it claims to be the #1 in hearing instrument manufacturing and #2 in hearing aid retail. Sonova also claims #2/3 in the cochlear implants segment.

Sonova's margins have historically been impressively stable with the adjusted cash profit margin hovering around 25% since 2011 and trending upwards in the last three years to reach 30%. Importantly, a large amount of this then gets converted into cash, with a cash conversion ratio of 90%+ in recent years. Sonova exhibits a strong balance sheet with net debt representing only a 0.3x multiple of EBITDA.

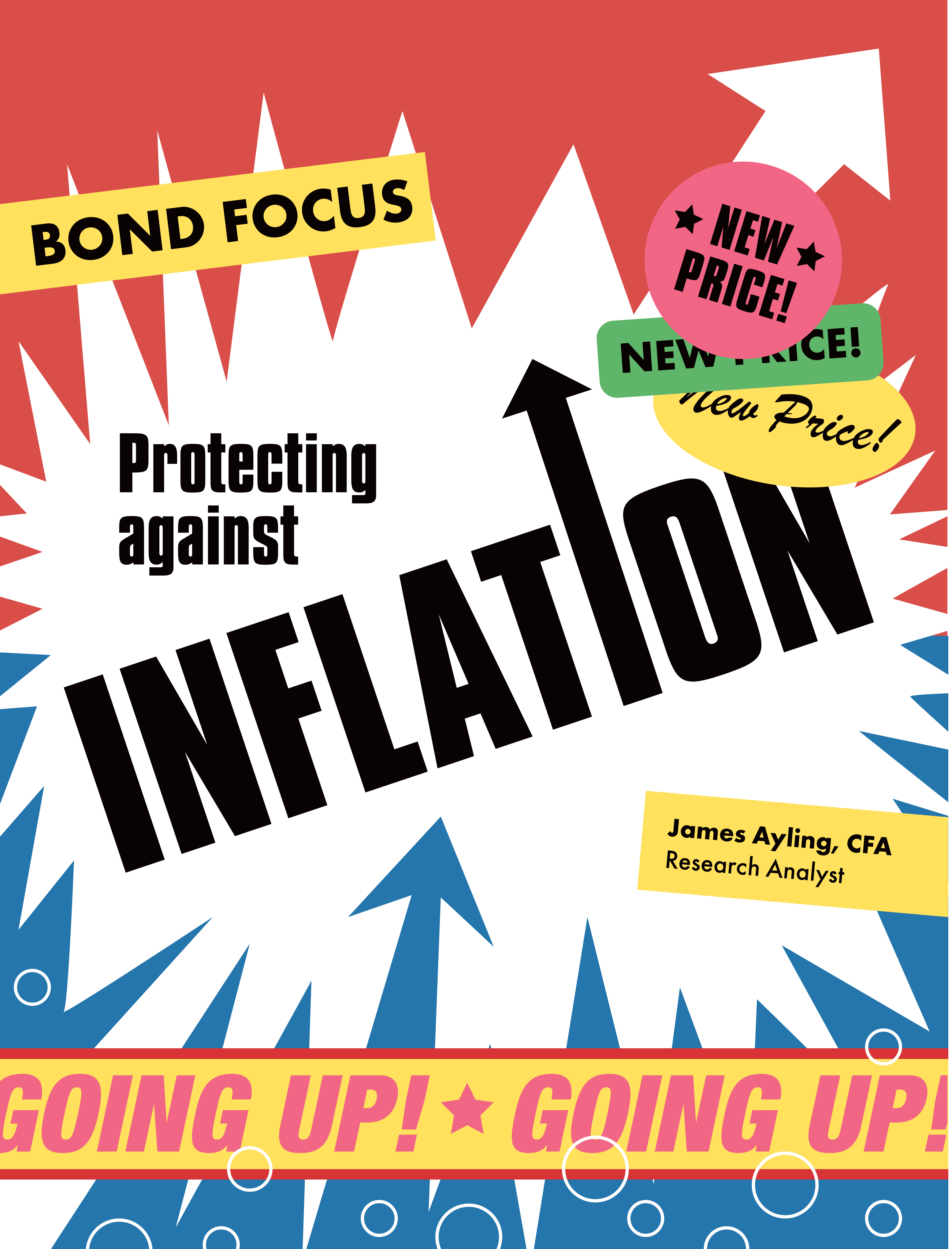
Evidently Sonova's prospects will be governed by the growth of the hearing aid market; a key driver here is demographics. As populations age, the occurrence of hearing loss increases and therefore the demand for hearing aids should increase in addition to the natural growth in population size. This, in conjunction with greater testing and penetration of hearing aids, should drive growth in the market.

The caveat is that hearing aids are arguably a discretionary spend. Customers could forgo spending on hearing aids if incomes are squeezed, as hearing loss is something that people often bear without seeking treatment. This exposure makes the demand for Sonova's products less certain than say for a heart valve.

Forecasts for the hearing aid market vary widely however many are expecting a mid-single digit annual growth rate, with Sonova forecasting c.3-5% growth for the hearing instruments market. Management expect to outgrow this as they have done historically and forecast 6-9% growth per annum in the mid-term.

The key question that hangs around the stock will be the integration of Sennheiser's consumer division. The business is not an obvious fit for Sonova and investors will be watching closely for the realisation of the ostensible synergy benefits. The jury remains out on whether this acquisition was wise although the core business seems steady and well underpinned by structural growth drivers, albeit potentially exposed to a consumer slowdown.

Please read the important notice on page 1.



Media headlines are heating up with references to the current cost of living squeeze which is and will become an increasing economic reality.

Consumers are seeing energy price hikes feeding through into higher household heating bills and, we expect the UK's energy price cap to rise further in October from Ofgem's +54% April price cap increase. Ofgem's April reaction reflects the significant rise in wholesale gas and electricity prices as demand has recovered as the pandemic has eased, whilst the supply recovery has been weaker.

However, that is but part of the cost of living squeeze. Firms are facing higher costs of production from a wider array of factors such as: costs for raw material, energy, labour and freight and logistics. Productivity gains can and do absorb some proportion of these inflationary forces but, the stark reality is that consumers are going to indirectly absorb the remainder through higher prices of goods and services.

The UK's Consumer Price Index (CPI) rose to 9% in April, its highest level in forty years and Chancellor, Rishi Sunak, warned the electorate of 'tough months ahead' as the somewhat transitory inflation narrative appears to be becoming a little stickier across Western economies.

Over the past few decades, we as investors have grown more accustomed to looking at investments in nominal terms i.e. without taking explicit account of inflation. This has been somewhat accepted with the implicit knowledge of relatively low levels of inflation. But, if inflation becomes a structurally higher phenomenon, we may have to shift our thinking towards real returns i.e. nominal returns less inflation.

To protect against inflation, investors should seek out investments that have real return potential. After years of low interest rates and quantitative easing the outlook for nominal government bonds looks challenged: today's UK 1Y Gilt yields 1.4% if held to maturity but, the current 1Y forward inflation expectation is 6%. So the real return on that bond would be -4.6% if inflation expectations prove accurate; better than cash returning -6% but less than ideal.

"To protect against inflation, investors should seek out investments that have real return potential.

As a predominant equity investor I thought I should educate myself more on the workings of inflation-linked bonds to assess their inflation protection potential. Like all bonds, inflation-linked bonds have a principal value. This is the amount of money the issuer agrees to pay the lender at bond maturity i.e. the borrowed amount. For a government bond this is a nominal amount say £100 (regardless of what inflation occurs). However, for inflation-linked bonds it's a real £100 because an inflation-linked bond's principal value at maturity is adjusted upward in nominal terms to account for the inflation that occurs through the bond's life. Inflation-linked bond coupons are paid semi-annually and also offer a real return as the nominal coupon payment rises with inflation.

Mechanically I'll receive a real return for holding inflation-linked bonds and overcome inflation. Except here comes a nasty catch; unless I hold the bonds to maturity I'm exposed to price fluctuations just like other assets. In fact, I'm exposed to real interest rate changes which reflect changes in nominal interest rates and inflation expectations. So, I need to think carefully about my inflation-linked bond's price sensitivity to real interest rates – that's real duration risk!

Meet the manager

Matthew McEneaney

Investment Director London

Lives Barbican, London

Family A son & daughter at University

Started at JM Finn 1991

Favourite Book *The Wind-Up Bird Chronicle,* Haruki Murakami

Hero Queen Elizabeth II

Passion Driving fast cars, quickly. Drinking good wine, slowly. Not at the same time.

Most proud achievement Maintaining my integrity

Favourite film *Volver,* Pedro Almodovar

Favourite artist Paul Cezanne

Favourite lockdown moment Connecting my first client zoom call to be rebuked for not wearing a tie!

Favourite restaurant C'as patro march, Deia, Mallorca

If I wasn't an investment manager, I'd be ..... An Investment manager. No regrets.

Most cherished possession A bottle of Chateau Petrus 1964

Most memorable moment Drinking the second bottle of the above

Pet hate The nanny state

Congratulations on your 30 year anniversary at JM Finn. Looking back over your career, what do you consider the most memorable moments?

Being invited into partnership in 1995 was memorable, particularly as it coincided with the rare event of a partner resigning and I was put in front of a barrister who explained very bluntly the potential risks. I never doubted the opportunity or my fellow partners.

More profoundly perhaps, for most of us in the City at the time, the 9th September 2001 will be indelibly etched in my memory as one which put our business-focussed lives into perspective. I was celebrating the birth of my first child at the time with colleagues in The Pavilion in Finsbury Circus and will never forget the disbelief in the room as the horror unfolded and we quickly returned to our desks.

> JM Finn is still very much the firm I joined over 30 years ago.

The firm has changed markedly during your career, not least its ownership structure. Which areas have you considered the most instrumental to you and your clients?

Yes we incorporated in 2006 and ownership passed to Delen in 2011 but great care and sensitivity has allowed some of the positive elements of the partnership ethos to thrive. The ongoing commitment to the dual-role of investment manager and client relationship manager is fundamental for my clients and for me. We have avoided the model portfolio, one-size fits-all route and maintained high levels of service to existing clients whilst also growing the business. JM Finn is still very much the firm I joined over 30 years ago and the scope for me to look after my clients remains uncompromised.

> I try to stay focussed on long-term fundamentals rather than short-term trends.

In 30 years you've witnessed some difficult periods for global stock markets. How has your approach to investing changed over the years, when it comes to guiding your clients through these periods?

Not much, I try to stay focussed on long-term fundamentals rather than short-term trends. Experience has also underlined the importance of managing expectations from the outset; that markets are cyclical and we generally stay invested particularly as down cycles tend to be shorter than the up cycles. In the run-up to the market corrections in '87 & '00 it was at least possible to generate a reasonable return in defensive areas such as cash and fixed income but low rates since have left few hiding places. The big losses in dotcom stocks in 2000 and financial stocks in 2008 served to underline the importance of not getting drawn too heavily into the hot sectors and in that regard it does help to have been through a few testing periods.

The last 6 months has been a particularly tricky time for investors; how does the current market volatility compare to previous episodes?

For 20 or so years, risk assets have performed in favourable interest rate conditions and now we have the challenge of assessing the impact of higher rates on the valuation and performance of these assets. We have long talked about the hangover from a party fuelled by the prolonged period of easy credit and the combination of pent up consumer demand with persistent supply chain disruption caused by COVID has called time on the fun. We have seen marked divergence in performance across sectors of the market purely on valuation grounds as we try to predict the extent of rate increases with growth stocks particularly hard hit against market levels which remain incongruously high. It is the first time for many investors and advisors that inflation is the main economic and market concern and the volatility reflects the scramble to position for it.

What do you see as your clients' primary challenges for their wealth and have these changed over the years?

There has been a fundamental change in the attention my clients give to passing down wealth in their life-times and finding the delicate balance between retaining enough for their own needs whilst supporting children or grandchildren in housing or schooling costs. This is a modern approach to family finances driven more by attitude than tax concerns. At the same time, the long-held belief that capital should remain untouched and only income spent has been challenged by the low interest rate environment. Spending capital on the assumption that growth will replenish it has been a necessary but difficult step for many clients which can also raise pressure in weak market conditions. These changes make the initial and ongoing assessment of risk, timing and flexibility of investing more important than ever and require us to keep quite a lot of balls in the air at the same time. Thankfully, for me and clients alike, after over 30 years in what has become a very professional industry there is still room in that process for individuality and some joie de vivre.

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 confidence is high and the jobs market appears robust but we are becoming increasingly worried about a turning tide. Rising energy and food prices may undermine consumer confidence and savings buffers.

Consumer Staples

The sector can be hurt by rising bond yields but given growing concerns of stagflation and geopolitical conflict we think the path of rising rates may have moderated recently.

Energy

Longer term aspirations for substituting hydrobarbons with renewables and energy storage will not stop the oil price rising to the benefit of the oil majors. Mutterings of windfall taxes are an obvious negative but undeveloped at this stage.

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 the relative resilence of global healthcare spend mean this is a sector with growth and defensive attributes. Valuations have become stretched in growth names however a greater weighting in the sector is to those which have been negatively effected by the pandemic.

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

We like the structural tailwinds that provides support for the sector, however we believe heightened valuations are susceptible to rising bond yields.

Materials

Drivers include sustained high commodity prices driven by supply disruptions. The risk is input cost inflation in the form of energy costs however this should be more than offset by higher realised prices for commodities.

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.

SHELL

Sir John Royden
Head of Research

PRICE
£23.77

52 WEEK HIGH-LOW
£24.21—£13.24

NET YIELD
3.08%

HIST/PROS PER
9/6

EQUITY MARKET CAP (M)
£176,104

Shell is in the midst of a corporate makeover. The company changed its name from Royal Dutch Shell to Shell and moved its HQ from Holland to London. The final stage of the process is a new CEO. We expect Ben van Beurden to retire as CEO in the autumn and to be replaced by Wael Sawan. Wael currently runs Integrated Gas and Renewables and Energy Solutions for Shell and is a man who articulates a strong sense of strategic purpose and vision.

Natural gas is the greenest of the hydrocarbon family. Until (and if) nuclear reaches its full capacity for reserve generating backup to renewables, probably in 2040, the world is going to be increasingly reliant on natural gas for backup power.

Shell has the strongest portfolio of integrated gas assets amongst the oil majors. They carry 20% of the world's LNG (liquid natural gas) flows via their 50 LNG bulk carriers and have a worldwide spread of ownership in and access rights to liquification plants, as well as regasification plants. This puts them in a unique position of market visibility and gives them an opportunity to arbitrage global price differences.

Please read the important notice on page 1.

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. Energy and materials sectors should provide better inflation protection and current geopolitical tensions are likely to keep oil prices elevated and financials should benefit from a rising interest rate environment. UK growth remains robust and unemployment is low but, the rising cost of living squeeze has increased growth risks ahead. Hence, our preference for consumer staples versus consumer discretionary.
INTERNATIONAL EQUITIES	
North America	Structurally, on a long term basis, we favour an overweight to US equities reflecting higher returns on capital and strong earnings growth potential, however, tactically we are neutral on US equities. UK investors have been somewhat cushioned by US dollar strength but we think US equities could experience further valuation de-ratings as the Fed hikes rates to tackle inflationary pressures. Recessionary fears are rising as the Fed seeks to soften demand amidst the global supply chain crisis.
Europe	Growth in the Eurozone has been strong and it is our expectation that the European Central Bank will follow a more gradual tightening regime. The Eurozone is exposed to the fall-out from the situation in Ukraine; energy and food related inflationary pressures are a near-term challenge but higher levels of unemployment suggests inflation stickiness from wage growth is less likely. A potential rebound in China's prospects later this year, could help Europe shine in 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 seems to be managing the property crisis although this episode probably has longer to run and we expect modest loosening to feed through to the economy. Australia should continue to benefit from elevated industrial metal prices and Korea and Taiwan should benefit from the global surplus semiconductor chip demand.
Emerging Markets	We prefer China within Emerging Markets; as lockdowns ease, we expect consumer pent-up demand to come through. We are more cautious on Emerging Markets outside China. Near term risk is focused on Latin America until China reflates. Central banks face a dilemma of whether to cut rates to boost their economies, or raise rates to protect their currencies in a stronger US dollar environment.
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	Hedge against inflation increasing and a compromised global supply chain however US inflation-linked bonds look relatively more attractive.
Corporate bonds	Given our overweight equity position, we would prefer to be underweight as spreads are tight and could widen if global recession risks rise from here.
CASH	
Cash	Tactically, we favour increasing cash but only as a short term measure, as 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. We prefer residential, industrial and warehouse exposures versus retail and office segments.
ALTERNATIVES	
Alternatives	Rising rates, low government bond yields and transitory inflation uncertainty leads us to like infrastructure and, to a lesser degree, gold as diversifiers.

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