JM FINN

No.23 *Summer 2018*

Prospects

The JM Finn Quarterly Periodical

The Artisanal Revolution
The challenge of progress

North Korea
Isolated, brutal, secretive

In conversation with:
The nation's favourite gardener

No.23
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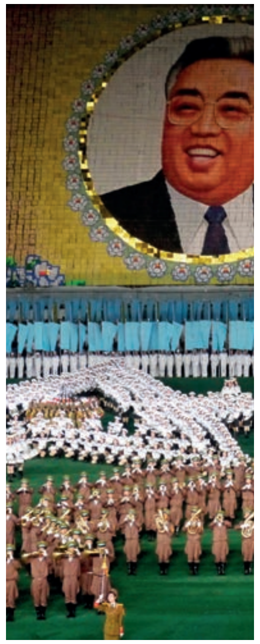

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Welcome

As I write, the headlines are being dominated by President Trump's non-conformist approach to foreign policy, which, whatever we may think of it, seems to be working.

Both previous incumbents of the White House pushed the North Korean issue aside, but Mr Trump has made this a key issue and it will be interesting to see if anything comes of it.

With all the attention on the Democratic People's Republic of Korea, we asked investigative photo-journalist, Jeremy Hunter to give us an inside view of the Hermit Kingdom. Having first entered the country just before the death of Kim Jong-Il to attend and photograph the Arirang spectacular (see page 8), he reveals a regime where the only expectation in life is a good supply of tap water, round-the-clock electricity and unlimited amounts of white rice.

From a fairly primitive existence to AI and automation; in our editorial feature, James Godrich explores how the latest technological advancements might affect productivity for future generations. For many automation is seen as the biggest threat to non-creative jobs, but James argues that, whilst challenges are presented, these are outweighed by the opportunities that exist to benefit society in the future.

Technology also featured as a theme in our investor conference in May at the Kia Oval. Revolving around global structural change, one of the keynote speakers, Tom Slater from Scottish Mortgage Investment Trust, one of the oldest Investment Trusts, discussed the broadening impact of the technological progress we are witnessing today. The conference is summarised on page 28 and videos of the speakers can be found on our website at www.jmfinn.com/conference.

We continue to place a focus within this periodical on underlying investments and as ever have covered a series of stocks. One of these in this issue is Tencent, the Chinese social media and gaming company which is looking to overtake Amazon in terms of market capitalisation. These stocks are those that are covered by our in-house research team and increasingly coverage will extend to global companies that are considered the leaders in their fields, as we look to offer a more global outlook to our investment process.

Markets have recovered from the first quarter and we now seem to be bumping along the highs reached at the end of last year. The fundamentals of most companies seem to be intact, so we hope we can continue in this vein and any shocks can be absorbed. I maintain my concerns about the political situation at home but my suspicion is that the rhetoric one is hearing about the unrest within the Labour party allays my fears for the economy of a change in government in the short term.

So with the world economy growing by 3.9%, our economy at under 2%, and similarly the United States and emerging economies growing by significantly more, I am generally looking to invest globally to achieve a diversified portfolio.

To close, I'd like to make all clients and readers aware of our client portal, which we feel is an appropriate solution to several of our current challenges. Firstly, the portal can reduce the amount of paper we send, as all formal portfolio paperwork can be sent electronically; it can mitigate some of the risks that are imposed by the rise of cyber-crime, as messages and attachments can be sent securely via our portal; and finally it allows clients to view their portfolio on a regular basis.

As ever, I would encourage you to feed back any comments and wishes you may have for both the portal and how we can continue to enhance it, and likewise for this periodical.

James Edgedale

James Edgedale
Chairman

Editorial

The Artisanal Revolution?

By James Godrich
Research Analyst

Illustration by Matt Glasby

In 1910 one-third of the American workforce was employed on farms across the country. By 2010 that number was 10% and today it stands at more like 2%. Horses, followed by tractors and more recently robots have changed processes and productivity across the agricultural industry dramatically. At the same time, unemployment in the US fell from an estimated 6% in 1910 to 4% in 2018. Workers have re-trained, re-skilled and improvements in productivity, alongside growth in GDP, over that time would suggest that the population today are better for it.

Creative destruction, defined as the reallocation of any of the factors of production – in this example, labour – to more productive prospects, was allowed to take its course.

In March 2018 PwC produced a report which suggested that 30% of British jobs could be under threat today from improved productivity driven by artificial intelligence (AI) and automation across a number of industries[1]. This looks remarkably like America in 1910 so the question that stands out is, if this is to be believed, how will the British workforce look in 2118?

In layman's terms AI works by using complex algorithms to understand, interpret, store and ultimately repeat data and processes that any given machine has been exposed to.

In 2017 Google's DeepMind AI venture managed to use this process to beat the world's leading chess software with just four hours of learning. In this example, the machine took those four hours to play any number of games and each time it lost, it would store and learn from its mistakes. This task was repeated over that time until the machine had 'learnt' virtually every way that a game could be lost.

Now imagine a DeepMind style administrator that was able to complete the role of a normal worker by understanding the task, learning from its mistakes and repeating any given process. From this we can see that, even in its current state, AI threatens any jobs that are repetitive and non-creative in nature.

> *AI threatens any jobs that are repetitive and non-creative in nature.*

This leads me to think that the workforce of the future will be both non-repetitive and creative if we allow it to be so. I believe that this process is already in motion; would I have bought an artisanal rye sourdough loaf for £6 or paid top-dollar for a coffee served where the milk is poured such that it reveals the shape of a swan ten years ago? Probably not – I didn't have the discretionary income that has since been driven by technological advancements driving down prices in things like estate agent fees (think Purplebricks), overseas currency payment options (think Revolut) or utility bills (think Moneysupermarket).

Bakers and baristas might be the first examples of an artisanal revolution but they aren't the only ones. In the last year I have had one friend leave his job as a marketing executive to set up a craft brewery, another leave her job as an executive assistant to train as a patisserie chef and a third leave a job in insurance to become a yoga instructor, you only have to look at the cost of yoga sessions in South West London and you might consider retraining yourself!

Whilst these examples show how creative destruction is working at the micro level, economic theory can explain the moving parts in terms of the macro economy.

As AI and automation offers a more productive alternative to traditional workers, we can expect corporations to choose the most efficient method to drive margins higher; improved margins should attract competition and drive down prices.

Increased competition and lower prices for existing goods and services would mean greater discretionary spend available to consumers whose employment is unaffected by automation. This in turn would drive increased spending and higher prices within non-discretionary, mostly creative, goods and services. Higher prices, increased margins and ultimately greater salaries for yoga instructors, patisserie chefs and craft brewers would then act as a signal for more workers to retrain and reskill into similar creative, non-repetitive industries.

Whilst economics doesn't always work in practice, which is why the field of behavioural economics was created, the blue-print is clearly there for how the labour force could look in 100 years' time.

But that path may not necessarily be a smooth one. If we look again at 1910 America, productivity has improved remarkably, GDP has grown significantly and unemployment stands lower today than it did then – but this ignores, amongst other things, the 1930's Great Depression, which may have in part been caused by this creative destruction, where unemployment rose to nearly 25%.

> *As AI and automation offers a more productive alternative to traditional workers, we can expect corporations to choose the most efficient method to drive margins higher.*

And that leads me to my second question – will we allow this creative destruction to take place this time around?

This is a question much harder to answer and I think it is likely to be addressed in the coming years by the 'median voter', given the ability of political interference to slow the rate of change through things like taxes on AI machines to moderate adoption by corporates, or universal benefit payments which would discourage reskilling of workers.

On the one hand, short term unemployment amongst those unproductive industries would force workers to retrain and allow Adam Smith's 'invisible hand' to reallocate resources efficiently; short term pain for long term gain as such.

However, on the other hand the result of AI and automation may well turn out to be a rapid and seismic shift in the skill requirements of the labour force. If this is the case, it is clearly an issue which must be managed carefully so as to allow individuals, on a micro level, the time, ability and financial freedom to choose to retrain should they wish without driving increasing wealth and income inequality in what already seems to me at times to be a precarious social infrastructure.

AI and automation offer undoubtable progress in many fields and industries. Whilst they present a number of challenges, I believe they also present opportunities in as many forms and the question now is how society should manage these in tandem for the benefit of both our own and future generations.

[1] www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook

Understanding Finance

PROFITS WARNINGS

Theo Wyld
Research Analyst

There is much speculation surrounding the 'science' of profit warnings, their predictability and recurrence in particular. The best publicised being the fabled wisdom that they come in threes. However, on closer inspection this statement, and many others that seem widely accepted amongst investors, does not appear to be the case.

The first piece of research on this subject I encountered was a webinar by Ed Croft, one of the co-founders of Stockopedia. This study looked at circa 250 stocks who had warned on profits in the last decade or so and looked carefully at their performance in the run up to and following their warnings.

A particular result that caught my attention was that in 63.7% of cases there were no subsequent warnings in the 18 months following the original warning. In only 4.9% of cases did the warnings come in threes – a far cry from the touted 'fact'.

This was just one of a number of interesting conclusions from the study, but I wanted to see these results for myself. So, myself and a colleague dug up the names of a selection of large UK Plc's whose profit warnings had made the tabloid headlines since 2007, totalling roughly 140. Having cleaned the data, we performed our own analysis on the performance. Our findings were remarkably consistent to that of Ed Croft; in 73% of cases there were no subsequent warnings in the following 18 months.

A second notable finding was that an overwhelming majority of stocks that warn underperform the market for the 18 months following. This, too, resembled the Stockopedia data closely. Leading on from this, we found that the odds of the company going bust was twice as high as that of being bought out in the same period.

My three main takeaways, which may not match those of all investment managers, are summarised below:

- Profit warnings do not often come in threes (it is much more likely to be the only warning in an 18 month period)
- Sell immediately following a warning (they tend to underperform the wider market for at least 18 months)
- Do not wait for a bid (it is more likely the company will go into administration)

There will of course be exceptions, but our study is just one of many that have reached similar conclusions. But, most importantly, don't take market myths as any more than just that; myths.

INMARSAT

Theo Wyld
Research Analyst

PRICE
£3.61

52 WEEK HIGH-LOW
£8.65—£3.34

NET YIELD
4.0%

HIST/PROS PER
9.8—14.9

EQUITY MARKET CAP (M)
£1,837

During the 1990's, WiFi was invented and began to be commercialised. Those that made the WiFi transmitters were tipped to be the companies through which to play this leap forward in technology. Investment flooded into these manufacturers, however the real beneficiaries were elsewhere; the coffee industry.

The proliferation of WiFi turned coffee shops into destinations. Customers would spend considerably more time surfing the web in these shops, and subsequently spend more than their 'to-go' former selves, on a second cup or a bite to eat.

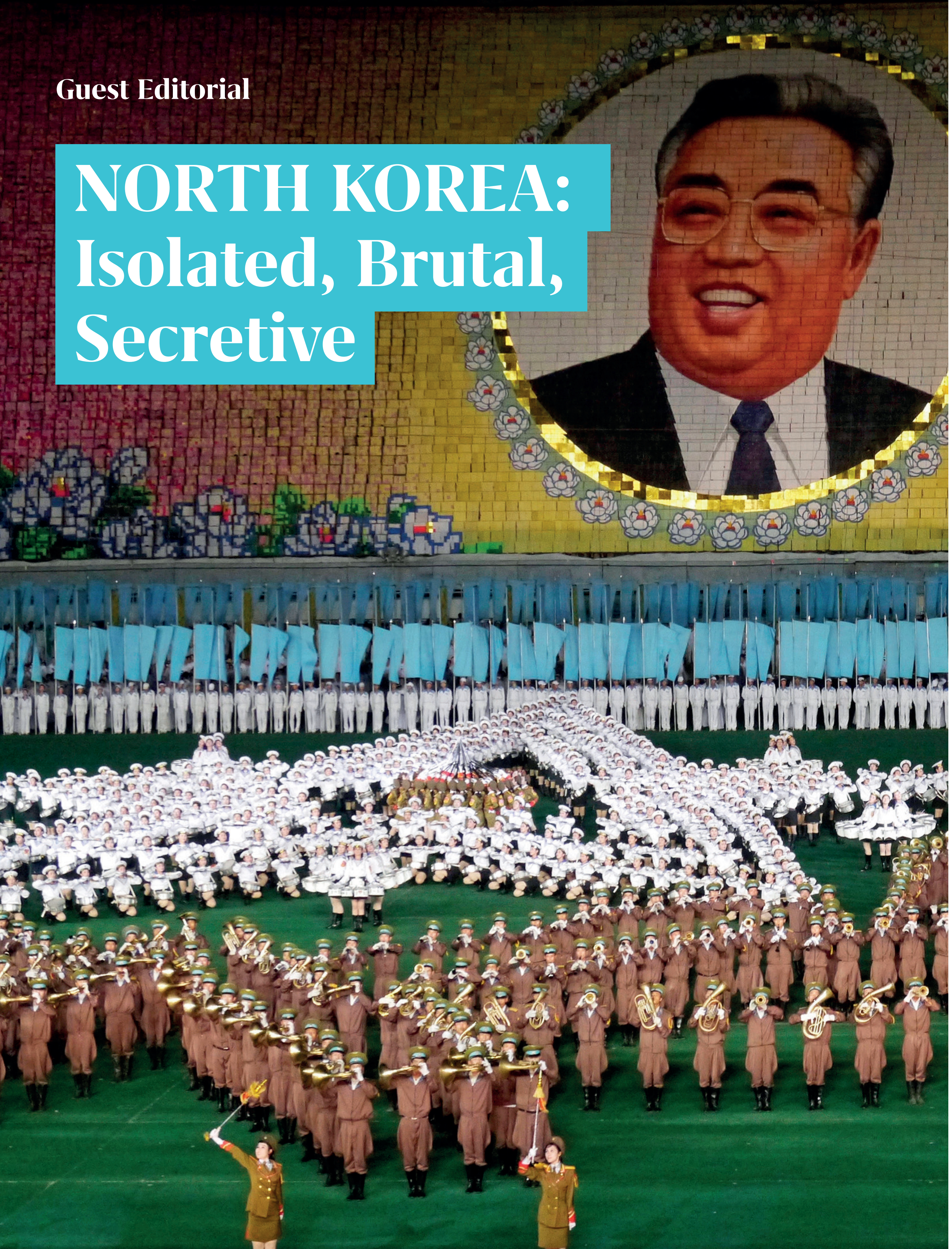
Inmarsat are one of the largest global players in satellite communications and their main growth area of late is in providing both bandwidth and the kit which enables planes to offer an in-flight WiFi service. The demand from consumers is clearly there, but both Inmarsat and the airlines have to be careful how they charge out this service, given the budget-focussed attitude of flyers.

Will the providers of the kit be the eventual winners? Or will we see a repeat of the 1990's and commoditisation of the product as others move into the market? Perhaps the content providers such as Amazon and Netflix are the 'coffee shops' of this new technological advancement.

Please read the important notice on page 1.

Guest Editorial

NORTH KOREA: Isolated, Brutal, Secretive



By Jeremy Hunter
Photography by Jeremy Hunter

The Democratic People's Republic of North Korea is once again in the international spotlight, as the turbulent relationship between the Hermit Kingdom and the rest of the world continues to dominate the headlines. We asked investigative photo-journalist Jeremy Hunter to paint a picture of real life in North Korea, beyond the pontifications of the Supreme Leader.

North Korea is the most isolated, probably the most brutal and certainly the most secretive country in the world. When Kim Jong Il, the Dear Leader, was in power he said "we must envelope our environment in a dense fog to prevent our enemies from learning anything about us". In 1987 when Robert Gates was Head of the CIA, he said North Korea is "the toughest intelligence target in the world", not least because no statistics have been published about the country since the 1960s.

For 70 years propaganda has pervaded every single aspect of life in North Korea, all to promote North Korea as "a Land of Perfect Bliss", and in doing so three generations of the Kim Dynasty have created the most powerful propaganda machine in the world. So let me paint a brief picture of some aspects of daily life in "the Most Perfect Place on Earth".

Any visit to the country usually begins in Pyongyang. The population in the capital is controlled at 2 million (only the Elite Class may live there) and the disabled are banned because they are considered to be impure. When I came back from North Korea, I did some research on disability around the world. In a city like New York, 11.7% are disabled; and in the UK 18% are disabled. Throughout North Korea it's only 3% and to me that indicates that any child born with any kind of disability is disposed of at birth.

My hotel room in Pyongyang overlooked a square, and every morning I would be woken up by music being played outside through giant loudspeakers. It was the most unearthly, almost supernatural sound, more reminiscent of the theme from Doctor Who. Research indicated that it was in the key of E major, and anyone who has a modicum of musical knowledge will know that E major is a very positive and uplifting key, but here the sound was just so sinister. All cultural life is determined by the Regime, and when Kim Il-sung was seventeen he played the organ in his local church as his father was a Presbyterian minister. In later life Kim decreed that all music composed should be in this same key of E major as "it builds community spirit."

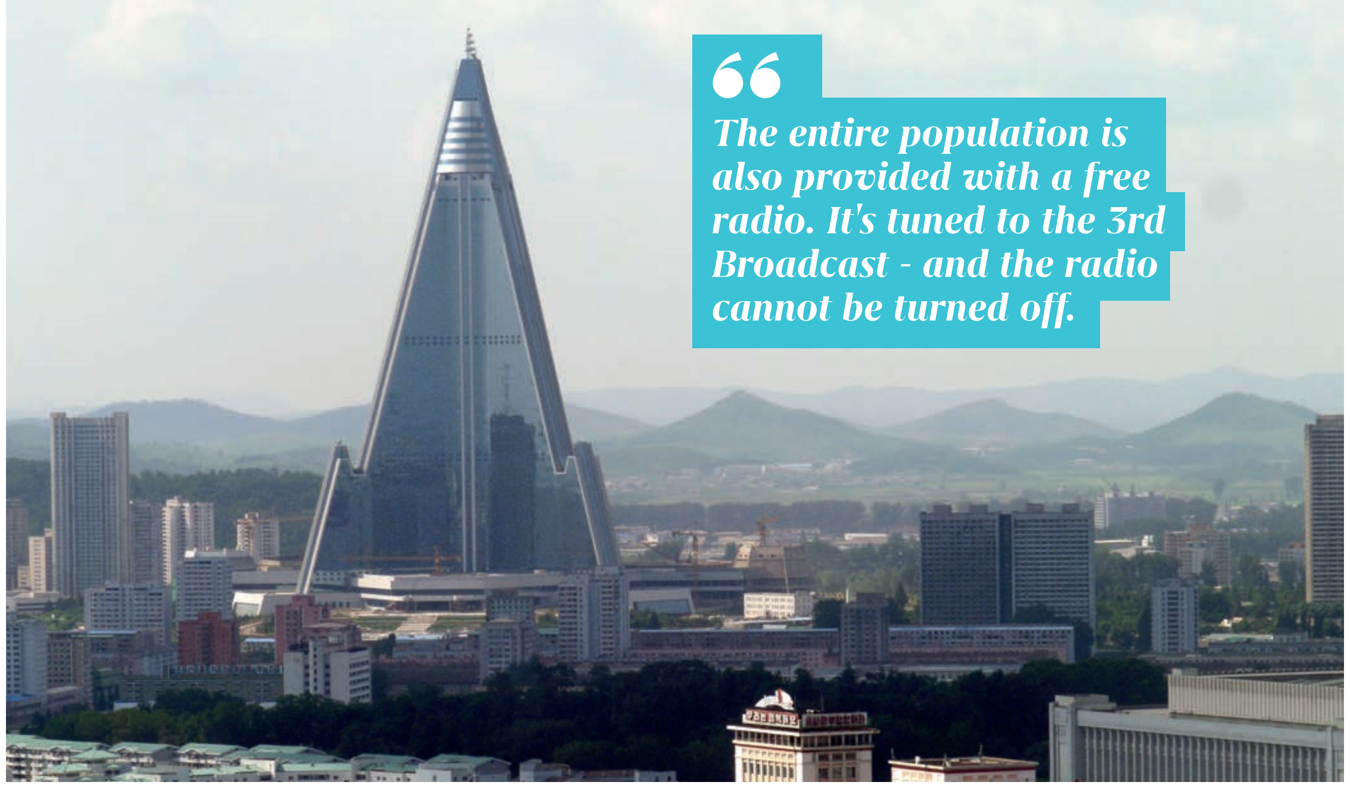
In 1910, the Korean peninsula was annexed by the Japanese and they occupied it until 1945. At that point the northern part of Korea was occupied by the Soviet Union, the south by the USA. For three years they tried to unify the country. That failed and then it was at that point that Stalin appointed a young guerrilla leader, Kim Il-sung to become the first President of the country. Today the Regime promotes Kim as "the greatest man who ever lived, leader of the most glorious people on earth."

> *"Three generations of the Kim Dynasty have created the most powerful propaganda machine in the world.*

One of the first things he did was to ban all religion in the country, and today the most heinous crime that can be committed is owning a bible or taking part in a Christian service. The people were told "Kim Il-sung is this world's God. Why would this country need the Holy Bible?". Ownership or participation is a crime that can warrant arrest and execution.

Christianity is a serious threat to the regime, because the gospel challenges the official personality cult. There is only one God in North Korea and that is Kim Il-sung. Children are taught their hands will drop off if they touch a bible. Yet the people are still told: "every citizen in the country enjoys full religious freedom", but the reality is completely different. In 2005 the United States Commission on International Religious Freedom stated that "five Christians found secretly worshipping were arrested, bound, laid out on a road and run over by a steam roller".

Today everyone in North Korea wears a badge which depicts Kim Il-sung "the Supreme Leader", because "the Supreme Leader is alive and with us forever". The badge needs to be considered as a holy object to be worn on the left breast so it's closest to the heart. The entire population is also provided with a free radio. It's tuned to the 3rd Broadcast and the radio cannot be turned off. If the country needed to be mobilized due to, say, a pre-emptive strike from the South, the Regime would immediately be able to contact the entire population through the radio system.



> **The entire population is also provided with a free radio. It's tuned to the 3rd Broadcast - and the radio cannot be turned off.**

Everybody is also provided with a portrait of Kim Il-sung. If you walk past a portrait of him, to demonstrate your loyalty to the Regime, you must be seen to murmur: "Thanks to you, Dear Father, we have such a good life".

At home, the portrait must be kept pristinely clean, dusted every day and treated like the Holy Scripture. Households are told "people must place the safety of portraits before their own family". The Inminban, a Neighbourhood Watch-like group of women who monitor criminal activity and political disobedience have the authority to carry out random checks on this.

North Korea lacks both power and water. It's not that they don't have power, or they don't have water, but water requires oil to power the system, to actually pump it around. Electricity goes off in Pyongyang at midnight. At 3.00 am one night I was looking out of my hotel window; it was pitch dark and I saw one person walking around the street, which was like Regent Street, with a torch trying to find his way!

So what do all North Koreans aspire to? For a privileged life they want constant tap water, round-the-clock supply of electricity - and unlimited amounts of white rice. For most people that is quite beyond them.

Jeremy Hunter

Jeremy Hunter's approach to North Korea is from a journalistic perspective. He is an investigative photo-journalist and former TV News/Current Affairs Reporter. He entered North Korea just before the death of Kim Jong-Il to attend and photograph the socio-realist spectacular 'Arirang' employing 150,000 performers - but now unlikely to be seen again.

Jeremy began his career in advertising - as a television creative, winning a number of international awards in Cannes, Venice, New York and Los Angeles. During this time he worked with some of Britain's most iconic film directors - John Schlesinger, Ken Russell, Tony Scott, Dick Lester, Nic Roeg, and photographer Terence Donovan. Over the past thirty years he has divided his time between television reportage and photojournalism. He was a foreign correspondent for NIR-TV based in Tehran, reporting extensively from around the world. This was followed by a period as On-Screen News/Current Affairs Reporter/Producer for Granada TV from where he went to the BBC as writer/producer and then to Channel 4 "Cutting Edge".

As an investigative photo-journalist he specialises in reportage from some of the darkest corners of the world and contributes to The Sunday Times, The Telegraph Magazine, The Sunday Telegraph Magazine, The Guardian, Mail on Sunday, Bunte, Conde Nast Traveller, GEO, Stern, Epoca, Wanderlust and many other travel-related magazines. His reportages have been recognised with three UNESCO awards.

Bond Focus

MORE EXCITEMENT THAN YOU BARGAINED FOR?

By John Royden
Head of Research

Bonds are often described as safe investments. "Safe" here relates to the probability of you getting your money back. Government bonds, or Gilts, are seen as being very safe because the UK Government can always print money; so the risk of default is low.

But "safe" should not be taken out of context. In mid-2013 the 3.5% of 2068 were trading at close to £100. As interest rates fell, the gilt rallied to a peak of just under £200 by August 2016; within six months the gilt was down at £164. So here is an example of a "safe" investment which doubled in price in three years and then fell 15% in quick succession. "Safe" does not mean "lacking in volatility" due to interest rate risk.

More recently we have seen other risks in the retail bond market and by "retail" we mean bonds with small minimum denomination sizes. The minimum deal size in many so called "institutional" bonds is £100,000 nominal which takes the market out of the reach of many private clients. Retail bonds have a minimum trade size of c£1,000 but with many having minimums of £100. Many of these bonds are traded on the ORB, a market run by the London Stock Exchange.

Most recently we have seen the family of four Provident Financial bonds see-saw in value. A year ago, the Provident Financial PLC 5.125% 09-OCT-2023 was trading at £110. After the firm's profit warning in September 2017 the bonds collapsed to £86 as investors fretted over default risk. Following a low of £65 the bonds then bounced back to trade at £97 after the announcement of the March rights issue.

Other examples of volatile bond behaviour of late include the Premier Oil plc 6.5% 31-MAY-2021 and the EnQuest PLC 7.0% 15-FEB-2022. The Premiers fell from £97 in May 2015 down to £38 by February 2016, whilst the EnQuests fell from £87 down to £31. But the good news is that they have both since recovered on the back of stronger oil prices and, in the case of Premier Oil, a renegotiation of the covenant and an extra year to maturity, enticed with a higher coupon. EnQuest had to reset its notes to PIK (Payment In Kind). The Wasps Finance Plc 6.5% 13-MAY-2022 also breached their covenant which had to be reset, however, the Wasp bonds are under pressure again from interest cover worries and a late filing of their accounts.

Other kinds of risks that have driven volatility have included rating risk, which is the fall or rise in value when a credit rating agency down- or up-grades a bond's credit rating. We have seen this with the Paragon Group of Companies PLC 6.0% 28-AUG-2024 PAG3 which rose into a new Fitch BBB rating.

Prospectus risk has recently manifested itself in the Aviva PLC 8 3/4% Cumulative Irredeemable Pref Shares (Aviva As). Back in March, Aviva offered the opinion that they were legally entitled to cancel these "irredeemable" shares. The Aviva A prefs collapsed in price from £175 down to £103 in short order and took much of the irredeemable preference share universe with them. Luckily some political pressure on morality as well as the dubious legal standing of the proposal has driven Aviva to retract their stated intention and the Aviva As are back at £158, with the company offering compensation to those who sold into the false market.

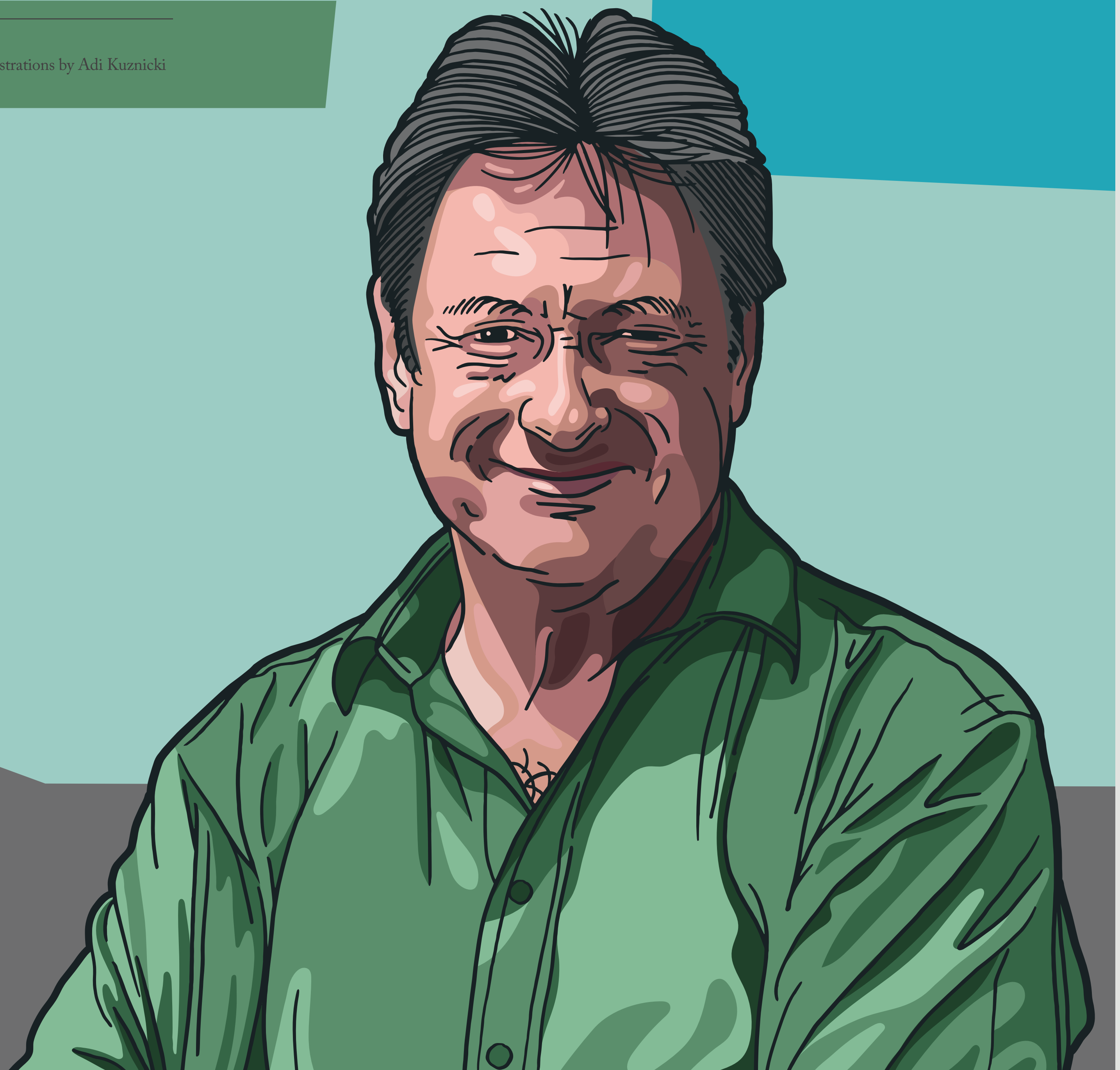
So recent volatility is a reminder that bonds are not always as "safe" as you might imagine and of course, it is important to remember that past performance is not a guide to future performance. But given that the ORB has been running for eight years without any interest or capital default, I don't think that is too bad a record. The vast majority of retail bonds have generally behaved in line with "what it says on the tin". And the moral of the story ... run a diversified portfolio or look for bond funds.

Please read the important notice on page 1.

General Interest

Alan Titchmarsh in conversation

Illustrations by Adi Kuznicki



Alan Titchmarsh is a man of many passions. He's a communicator who simply wants to share those passions and he did just that at a gala evening at the Hampshire Country & Garden Festival, where he discussed, amongst others, being put on the road to success by a teacher whose mantra was "yes you can."

Sitting alongside the banks of the river Test, in the glorious gardens of Bere Mill, in Whitchurch, Hampshire, seemed an appropriate setting to be addressed by the face of British gardening. However, despite the tranquil environment, the opening remarks which highlighted many of Alan's achievements left the audience exhausted. We heard about his forty gardening books, nine novels, fifty charities of which he is a patron, occasional bell ringer, radio host for Classic FM and renowned presenter of TV shows from Ground Force to Songs of Praise. It left us wondering how we'd ever allowed ourselves to feel busy.

But how did the boy from Ilkley who left school with just one O-level reach the dizzy heights of having a waxwork of himself in Madame Tussauds – where we're told staff have to wipe off the lipstick more often than not!

It seems it was in the blood. He wittily gave us a potted history of his route to perpetually mucky hands. He was a sensitive flower, no pun intended apparently, who didn't love school, but coped. This is where he met one of his main architects, a teacher called Harry Rhodes who sold succulents in church bazaars. Young Titchmarsh had the over-enthusiasm of a puppy as a child, whom most teachers crushed with the yell "Titchmarsh sit down." But Harry was the one who said, "Yes you can" long before it became a US presidential slogan.

The strength that Harry gave the eight year old Titchmarsh saw him survive secondary school despite being bullied for being weedy, and then grab the first opportunity to leave. So at 15 he told his parents he wanted to start as an apprentice at the local nursery.

He'd always loved gardening. Although not a complete loner, he felt most comfortable growing things from the greenhouse he'd built in the back garden and it is this feeling of being able to do something well that Titchmarsh attributes to his second key motivating factor. He could actually, aged nine, take cuttings which he then rooted. This became his first passion and his favourite memory is of trips to Woolworths on Saturday mornings to buy seeds from R&G Cuthberts.

He made his way to a three year diploma at Kew, for which his parents bought him a transistor radio as a congratulatory present and an alarm clock. But it wasn't for five years after he began gardening that his father, who had been a plumber, confessed that both his father, and his grandfather before him had been jobbing gardeners, earning very little and making his father weed for a penny a bucket.

This discovery that gardening was in the blood was reinforced when Alan did a programme about one of his heroes: Capability Brown, with whom he had often felt some common touchpoints. During filming for the programme, Titchmarsh was sent to visit a small piece of land that Brown had owned in a village called Fenstanton, in what was then Huntingdonshire. Whilst poring over the map, Titchmarsh realised that the village next door, Hemingford Grey, was where all his father's ancestors were from and they all worked the land. It seemed inconceivable that they didn't do some landscaping work for Capability Brown.

> *He felt most comfortable growing things from the greenhouse he'd built in the back garden.*

Staying with Brown, Titchmarsh regaled how he had recently written to the Dean at Westminster to highlight that there was no memorial to the man who created most people's vision of England and, wouldn't it be appropriate to have at least a tile in Poet's Corner? His enthusiasm was palpable as he described the octagonal lead cistern with a fountain that now sits in the Garden Cloister of the Abbey, commemorating Brown and inscribed with quotes from Horace Walpole and how he had, only the day before, showed it to Her Majesty The Queen.

Another person who could be described as one of his heroes is Nelson Mandela. Many readers will remember the episode of Ground Force when he was secretly making over Mandela's garden in KwaZulu Natal. Mandela's famous "gee whizz" response upon seeing the garden was then followed by a twenty minute interview, making Titchmarsh the hate object of all British journalists who had tried in vain for such an opportunity. During the interview, Mandela explained how the garden would be more important than anyone realised, because, when he was in prison the only thing he had any control of in his life were two tomato plants. When one of them died, he'd given it a full burial, so he'd turned to Titchmarsh and told him he'd look after the new garden for as long as he possibly could.

The boy from Ilkley, Yorkshire, got his break in broadcasting when he was asked to do a piece to camera about greenfly, which had invaded Margate, followed soon after by a report of a roof terrace that had collapsed into the room below. This, along with the advent of daytime television, led to the commission of Ground Force, which in its heyday had 12 million viewers.

Titchmarsh's early career thoughts had been to be a teacher, but he soon realised that this meant teaching the same thing year in, year out and that not all people actually wanted to learn. As it is, he has ended up a teacher but the advantage of doing it on the "telly" is that he can't see when his pupils fall asleep.

Not that it seems likely any of his viewers ever fall asleep. When the programme moved to BBC1 the challenge became the exposure, he couldn't walk down the street without being asked a question. But as a true, old fashioned gentleman determined to live according to the motto "it's nice to be important but it's more important to be nice," he always replied and acquiesced, which might explain why he's patron of so many charities.

This brought him on to the selfie generation and his concerns for the effect on today's world of global news dissemination. Not quite a rant, but one of Britain's most famous gardeners is very concerned about the lack of care for the community today and places the blame squarely at the door of news editors. Our focus on bad news across the world is not something we as a race are mentally equipped to deal with and he doesn't think it makes us better people.

Local causes, such as fund raising for the North Hampshire Medical Fund, is according to Titchmarsh what matters and where we can make a difference. His sense of purpose and passion was meaningful as he closed this insightful interview with some advice: keep a sense of perspective and proportion as to how you can make a difference and then you've paid your rent for your time on earth. Few in the audience had any doubt as to the contribution and passion of one of the nation's favourite gardeners and as we strolled round the beautiful gardens of Bere Mill in the twilight, we all felt a collective call of, yes we can.

HAMPSHIRE
COUNTRY & GARDEN
FESTIVAL

Alan Titchmarsh was in conversation with journalist and editor, Philip Geddes as the entertainment for the gala evening of the Hampshire Country & Garden Festival which took place on Saturday 9th June.

The Hampshire Country & Garden Festival, which is sponsored by JM Finn, is dedicated to promoting the fun of the great outdoors and all it has to offer. It is a celebration of the benefits to our health and wellbeing of gardening for all ages, healthy eating, inspiring speakers, learning new creative skills, enjoying music plus a wonderful array of children's' activities – in the most welcoming environment, the grounds of beautiful Bere Mill on the River Test. The Festival promotes all that is great about Hampshire, from food and drink suppliers to music, workshops and demonstrations, plant experts and nurseries.

As well as a truly memorable, fun and informative experience, all the money raised is going to the North Hampshire Medical Fund which supports local hospitals and patients in Winchester, Andover and Basingstoke. The goal is to raise £18,923 for a State-of-the-art Laparoscopic Simulator and Mobile Camera/Monitor System for Gynaecology, General Surgery and Urology at Basingstoke Hospital.

North Hampshire Medical Fund

Equity Prospects 2

PZ CUSSONS

Theo Wyld
Research Analyst

PRICE
£2.40

52 WEEK HIGH-LOW
£3.68—£2.00

NET YIELD
3.5%

HIST/PROS PER
15.1—16.6

EQUITY MARKET CAP (M)
£1,020

PZ Cussons (PZ) is a global FMCG company, owning well-known brands such as Imperial Leather, Carex, and Original Source, to name a few. PZ holds a unique distribution franchise across its territories and is highly accomplished at operating under awkward local conditions.

PZ has long set a record of successfully distributing personal goods in business conditions where other larger operators encounter logistical and operational difficulties. The prime example of this is Nigeria, which is their largest market.

Another method they use to take on those with larger marketing and R&D budgets, such as Unilever, is constant product innovation. The constant flow of new aromas and flavours developed in their in-house perfumery keep customers interested.

The experienced management team are deft at navigating the choppy waters of troublesome emerging markets. However, there is only so much they can do in extreme economic conditions. In just the last two years the Nigerian Naira has lost almost half of its value versus the USD as political instability has been rife. Adding the fact that the devaluation is markedly worse for the unofficial exchange rate (a better proxy for what PZ and their customers actually pay/receive), it is no wonder PZ had to warn on profits in March this year.

Please read the important notice on page 1.

Company Meetings

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

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

Theo Wyld
Research Analyst

John Royden
Head of Research

BASIC MATERIALS
Phoenix Global Mining, Rio Tinto, Victrex

HEALTH CARE
Dechra Pharmaceuticals, Genus, NMC Health

CONSUMER GOODS
Cranswick, Diageo, Hotel Chocolat Group, Imperial Brands

INDUSTRIALS
Breedon Group, DS Smith, Electrocomponents, Equiniti Group, Experian, Grafton Group, Hill & Smith Holdings , Polypipe Group, Renishaw, Ricardo, RPC Group, RWS Holdings, Smiths Group, Smurfit Kappa Group, Spectris, Xeros Technology Group

CONSUMER SERVICES
Compass Group, Entertainment One, Fuller Smith & Turner, The Gym Group, Intercontinental Hotels Group, Manchester United, Marston's, Moneysupermarket.com, RELX, Saga, Tesco, Whitbread

OIL AND GAS
Hunting

FINANCIALS
Ashmore Group, Big Yellow Group, Close Brothers Group, Legal & General Group, Lloyds Banking Group, Mortgage Advice Bureau Holdings, Phoenix Group Holdings, Safestore Holdings, St. Modwen Properties, Standard Life Aberdeen

TELECOMMUNICATIONS
Inmarsat , Vodafone Group

UTILITIES
National Grid, Pennon Group, SSE

1. Ashmore Group

Price **£3.79**
52 week high-low **£4.47 – £3.19**
Net Yield **4.4%**
Hist/Pros PER **16.5 – 17.6**
Equity Market Cap **£2,675m**

Financials
Paul Measday, Head of Investor Relations

Ashmore is a FTSE250 company and possibly new to many of our readers. They mostly manage emerging markets debt and have grown assets under management at an impressive rate since their Management Buy Out out of ANZ Bank in the 1990s. Paul started by pointing out that most institutional investors are 10% in emerging markets debt which is under the 20% benchmark. So he expects a move to neutral weighting to drive in-flows into Ashmore.

Ashmore favour countries like Brazil, Venezuela, Russia, Mexico, India and Indonesia where they think there is scope for strong economic growth and improvement in corporate governance. They are keen on China but hindered by the capital markets not being so easily accessible, something that is expected to change as the government pursues important reforms to attract international investors.

Ashmore has a network of local teams who manage the local funds and they think this gives them an advantage.
I was interested to hear that they receive strong investment from state entities. 16% of their assets under management ("AUM") comes from Central Banks and 9% from sovereign wealth funds. 15% is from government-related pension funds.

Ashmore has an innovative salary cap at £120,000 and they don't pay commission to salespeople. Bonuses get paid as 60% in cash and 40% in five year shares with the ability to up the shares and take less in cash. The result is that close to 50% of the shares are owned by staff.

The risks with Ashmore include a strong USD pushing up the value of local companies' USD debt, a failure to maintain their positions in the performance tables and a departure of key individuals.

2. Diageo

Price **£27.63**
52 week high-low **£ 27.77 – £22.34**
Net Yield **2.3%**
Hist/Pros PER **21.3 – 23.6**
Equity Market Cap **£67,131m**

Consumer Goods
Pier Falcione, IR

It has been almost five years since Ivan Menezes was appointed as CEO of the global beverages behemoth, Diageo. One of the main aims for his tenure is to improve the Group's operating margin not just to that of the global peers in beverages, but to challenge the best of the Consumer Staples sector.
Menezes has made progress in this regard, not through the commonly used method of cost-cutting but rather through a cultural change within the business to focus on efficiency. A typical example of this being the changes in accountability of the regional managers. They have been given much more power but also much more responsibility for their areas. Initially, however, there was an increase in turnover as some of the managers did not relish the new limelight.

Another well-publicised aim is to turn Diageo into a 'much more boring mid-single-digit top line growth compounder'. Menezes believes that the sustainable growth model is based on 1/3rd price growth, 1/3rd mix effect, and 1/3rd volume growth. The previous Diageo attitude had been to focus on the needs of the distributors and trust that they would in turn create the best consumer offering. This focus has reversed as it has become evident that the sales don't matter until the consumer picks a bottle off the shelf.

A function of the old attitude was that distributors were able to buy any amount of volume from Diageo with the promise that they could return the stock should they not shift the product. Given the large Emerging Market presence, many local distributors took advantage of this to hedge their currency by loading up on inventory which held its dollar value. The result was lumpy and unpredictable revenues for Diageo. Today, Diageo limits this activity through working to help optimise each distributor's inventory levels which is one of the ways Diageo hopes to smooth its returns and become 'more boring', as desired.

3. Imperial Brands

Price **£27.55**
52 week high-low **£36.90 – £22.98**
Net Yield **6.5%**
Hist/Pros PER **21.1 – 10.4**
Equity Market Cap **£25,932m**

Consumer Goods
Peter Durman, IR

Imperial Brands is the smallest of the global tobacco majors and runs brands like Davidoff, Gauloises, John Player Special, Golden Virginia and Rizla. In the USA they own Winston and Kool.
The affable Peter Durman allowed the meeting to head straight to the NGP or "Next Generation Products" debate. NGPs include vaping or e-cigarettes and heated tobacco (ie heated not burned). Imperial Brands' "Myblu" is their challenge to the vaping market.

The heated tobacco market is driven by Japan's ban on vaping. Imperial Brands has not gone for this market which is dominated with British American Tobacco's (BATS) Glo, Japan Tobacco's Ploom and Philip Morris' IQOS. Heated tobacco is still thought to have fewer damaging chemicals compared to burnt tobacco.

The advantage of vaping is that you get your nicotine hit and that nicotine, on its own, is not carcinogenic. Imperial Brands like the financial profile as well. Vaping is half the cost of smoking but still gives Imperial Brands a better gross margin; which should improve as costs come down according to Imperial Brands.

The challenge for Imperial Brands is the extent to which its marketing budget, which we think is in the £300 million area, can compete against the greater firepower of BATS and Philip Morris.

Please read the important notice on page 1.

Economic Focus

By Brian Tora, Chartered Fellow, CISI
Consultant

If I were to point out that oil had all but doubled in price in less than a year, you might be a little surprised. Yet in June last year it had fallen to within a whisker of $40 a barrel, while last May it flirted – admittedly briefly – with $80. True, you may well have noticed that the price of fuel at the pump has been steadily rising in recent months, but often this is blamed on the weakness of sterling. With the US dollar rebounding of late, petrol is bound to cost us more, regardless of what the oil price is doing on world markets.

Oil has, though, enjoyed something of a resurgence in recent months. In part this can be attributed to continuing buoyancy in the global economy, but supply restrictions have also played their part. The Venezuelan oil production industry, once a serious contributor to global consumption, is in disarray, while a shadow has been cast over Iran's likely output with America withdrawing from the international nuclear deal and threatening fresh sanctions.

In the shorter term the price shied away from recent peaks as belief grew that both Russia and the OPEC producers might lift the caps on supply presently imposed. Generally this was greeted favourably as it eased some of the inflationary pressures that had been building and thus should be good for economic growth as costs potentially reduced. But is oil still the crucial element in economic wellbeing that once it was, given the move towards cleaner energy sources that seems to be gaining momentum amongst important consumers like China?

There is nothing straightforward about the oil market. It is estimated that for every barrel of oil actually consumed, ten barrels change hands on the various exchanges that exist to facilitate trading. Oil is such an important component in so many industries that many companies buy and sell their anticipated needs simply to allow a degree of certainty in their pricing policies. Airlines are a case in point, with forward purchasing a regular method of establishing likely fuel costs. Because the oil price is sensitive to geo-political risk, as well as simple supply and demand, trying to take the guess work out of a major cost element is no more than prudent.

With greater fuel efficiency and increasing concern over the negative effect fossil fuels have on our environment, you might consider demand for this commodity to be falling. Make no mistake, though, the rate of consumption of oil and oil based products may not be growing as fast as it once did, but grow it does. Unsurprisingly, the United States is the largest single user of the black stuff, consuming an estimated 19 million barrels of crude oil a day. China fills the second slot, though its total consumption is only around 60% of that of the US. And Japan, which lies third, consumes less than half that of China.

This says a great deal about why demand for oil is unlikely to fall, despite government initiatives to find greener solutions for transportation and heating problems. India consumes just a fifth of what America gets through, despite having a population more than three times greater. As so-called developing nations increase their prosperity, so their demand for oil seems set to rise. A decline in demand from the developed world will almost certainly be outweighed by more consumption from emerging countries.

As to what this might mean for the oil price going forward, this is altogether a more difficult call. Ten years ago, in the summer of 2008, the oil price seemed set to reach $150. The financial crisis that developed in the early autumn triggered a global recession and within six months of the peak, the price had collapsed to little more than $30. It did recover subsequently, but bear in mind that early in 2016, not much more than two years ago, the price actually fell below $30 a barrel. A robust global economy (the OECD recently reviewed its economic forecasts and concluded that world growth should "hover" around 4% for the current year, though this might mark the peak of the cycle) should keep demand high, but if OPEC steps up production, this would sort out current supply problems.

> **“ *United States is the largest single user of the black stuff, consuming an estimated 19 million barrels of crude oil a day.***

There have been many occasions in the past when attention has been drawn to the finite nature of our oil reserves, yet new discoveries and, indeed, new methods of extracting oil have proved that we are unlikely to run out any time soon. Oil still dominates energy production and in the end it seems more likely that it will be environmental concerns that drive efforts to find new energy sources rather than fears of dwindling stocks. Expect the price of oil to continue to play a major part in how we expect inflation and economic growth to develop for the foreseeable future.

Collectives Commentary

CHINA: A LONG WAY TO GROW

By Stephen Corbett
Partner, Liontrust

Illustration by Andrew Rees

Conversations about investing in Asia often start with China. There is good reason for this. It already has the largest economy in the world.

This is certainly true when measured in purchasing power parity (PPP) GDP terms, ahead of the US and greater than the combined EU members.

Its ascent to this position has led it to be the regional growth engine for a number of years. Forecasts in the IMF's April edition of its World Economic Outlook show that China is this year expected to be responsible for over half of Asia's growth. In fact, it alone is expected to contribute almost a third of the expansion in the world economy in 2018.

And China's economic power is only going to get bigger. On a per capita basis, its GDP is only just over a quarter that of the US. If it follows any previously observed development curve, then this per capita wealth will increase substantially in the coming years and as a result there will be massive growth in China's middle class.

So although China is already huge, we all need to get used to the idea that the bulk of its growth is still to come. This means there is massive investment opportunity in the country. We run a portfolio which invests throughout Asia (excluding Japan). Our approach to stock selection in the region is to target those providing a combination of growth in both earnings and dividends, whose shares are available on an attractive valuation. By applying these criteria to identify the very best companies in Asia, we have found that 40% of our selections come from China – a testament to the strength and depth of the Chinese equity investment universe.

By looking for stocks that are not only generating earnings growth but which are also increasing dividends, we are automatically looking at more conservative, well managed companies that generate strong cash flows.

One might think an income requirement would be restrictive when investing in Asia. This is simply not the case. We have screened the global equity universe for companies which are delivering attractive combinations of earnings growth and dividend yield and we have discovered that around 40% of these stocks are to be found in Asia Pacific ex-Japan, with 17% in China and Hong Kong.

This pool of potential investments is growing due to improvements in the dividend culture in Asia. While attitudes to paying dividends – and to the interests of minority shareholders in general – have historically been less progressive than those we are used to in the UK, they are maturing rapidly. We believe that companies in Asia will begin to show more inclination to return excess cash to shareholders.

One area that we see a long-term sustainable investment trend is in the expansion of personal consumption in China. In the decade, since 2007 Beijing's minimum wages have almost trebled, and other parts of the country have matched the pace, stimulating enormous demand for discretionary goods. There are lots of ways for investors to access this trend. We have been able to invest in Anta Sports Products, the largest domestic sports brand in China in terms of market capitalisation and sales. With a market share of around 12%, Anta is a key beneficiary of aspirational discretionary consumption.

The potential for China's longer-term consumption growth is easily illustrated by its penchant for internet shopping. Asia as a whole already has more internet users than Europe and North America combined, and Chinese e-retailing giant Alibaba has created the juggernaut of online consumerism known as 'Singles Day', which now dwarfs the sales seen in the US on 'Cyber Monday' or 'Black Friday'. Despite already having reached such mammoth scale, we still believe that there is a long way to go before individuals in China are spending anything like their international peers. China's current internet penetration rate is only 46.7%, compared with 80% in Europe and 88% in North America, and as it catches up, internet shopping will only increase. Goldman Sachs estimate that online sales will rise from 17% of the total in 2018 to 25% by 2020.

> ***"90% of China's population still don't own a passport.***

It is clear that the growth of the Chinese middle class is generating significant opportunities for the companies which have been able to tap into the associated spending. But what is perhaps underappreciated is the extent to which this consumption growth story is in its infancy. For example, we are already seeing Chinese consumption power have a huge impact globally through the 122 million Chinese who travelled overseas (in 2016), but 90% of China's population still don't own a passport. Similarly, China is the world's largest auto market, with car sales exceeding both Europe and the US, but there are still only estimated to be around 21 motor vehicles for every 100 people, compared to almost 80 in the US. As far as Chinese economic growth and the investment opportunity are concerned, we have only scratched the surface.

> ***"There are only around 21 motor vehicles for every 100 people, compared to almost 80 in the US.***

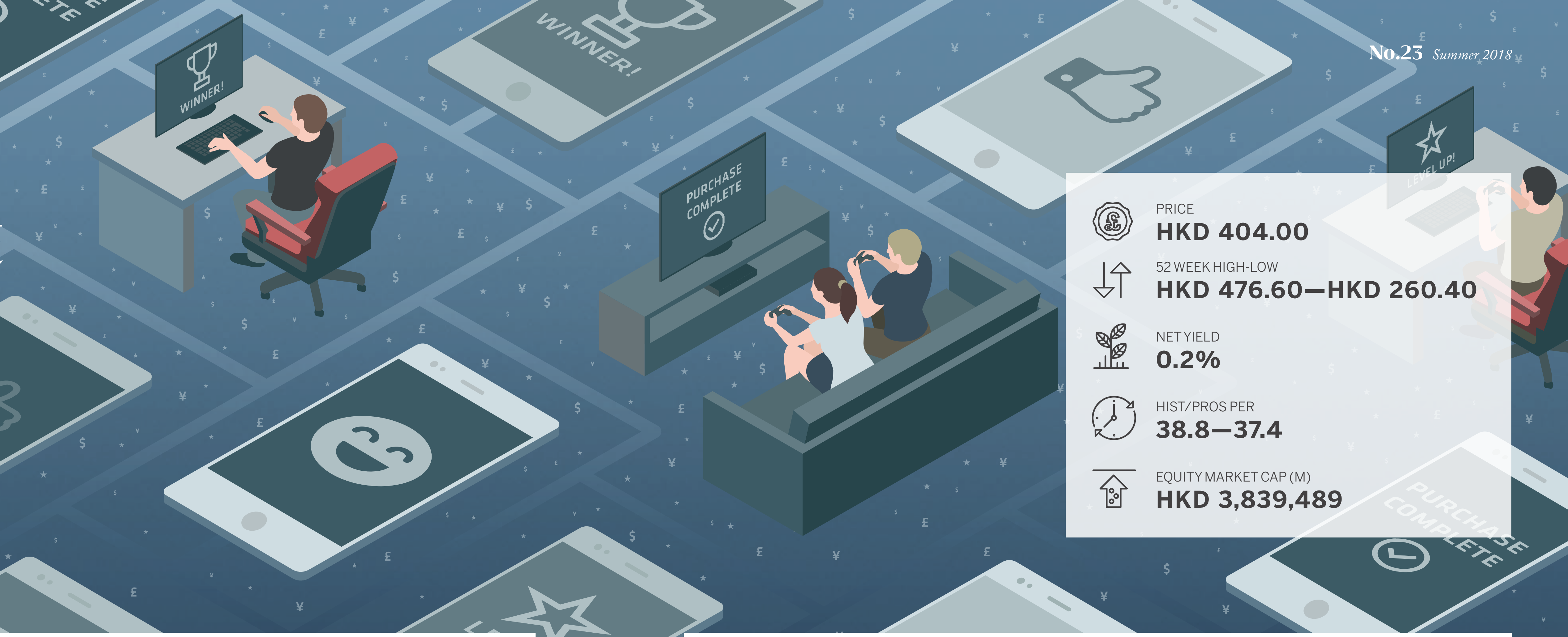
While we have invested in a number of consumer stocks directly, the delivery and transportation of these goods naturally creates logistical demand. We have bought into this demand growth through Shanghai-based SITC online logistics, an Asia-focused provider of integrated logistics solutions which uses shipping and land freight forwarding services.

Sustainable growth in China also requires improving infrastructure. This is a need which has been identified by the Chinese government, resulting in investment on a grand scale. The 'One Belt One Road' project involves around US$900bn of infrastructure investment improving connections both within China and between China and the rest of Asia through the land-based 'Silk Road Economic Belt' and a sea route termed the '21st Century Maritime Silk Road'. Again, there are ways to access this spending. China Machinery Engineering Corporation (CMEC), for example, should be a key beneficiary of the programme. It focuses on engineering, procurement and construction contracts.

> ***"In order to reap the best returns from the substantial economic forces at work in China, investors need to look beyond a buy the market approach.***

In order to reap the best returns from the substantial economic forces at work in China, investors need to look beyond a 'buy the market' approach. There are a number of reasons to be very selective within China's equity markets. One of the most compelling is the variation in prospects for different sectors of its economy. At the risk of over-simplification, the 'old economy' sectors are on the way out as the country develops, while a new age is dawning for those specialising in consumption and the service economy.

By maintaining a simple focus – selecting the areas which benefit from economic development and transition to a more sustainable long-term path, while avoiding those that suffer – we are confident of participating in China's economic development for years to come.



Stocks in Focus

Tencent

Sam Statham
Research Assistant

Illustration by Jordan Atkinson

PRICE	**HKD 404.00**
52 WEEK HIGH-LOW	**HKD 476.60—HKD 260.40**
NET YIELD	**0.2%**
HIST/PROS PER	**38.8—37.4**
EQUITY MARKET CAP (M)	**HKD 3,839,489**

Many of you may never have heard of Tencent. It might therefore surprise you to read that they are the fifth largest company by market capitalisation globally, recently overtaking Facebook and nipping at the heels of Amazon.

Tencent began life in 1998 as an instant messaging service and later, when they listed in 2004, began their expansion outside of social media platforms into online gaming. It was in 2008 when they took a stake in Riot Games that they cemented their future as the global leader in gaming. It appears that the aim now is to become the destination for the majority of users' digital lives.

Describing exactly what the company does is no easy feat. What we have found when looking into Tencent is it's rather too easy to be led down a rabbit hole, as interesting as some of those rabbit holes can be.

Essentially, Tencent own the three largest Asian social media sites (QQ, WeChat and Qzone) as well as a plethora of gaming development and streaming companies. They also have other services akin to Google (Tencent maps, mail and news) as well as cloud based solutions and payment services closer to the likes of PayPal. However, as I write this article and as you read it, it is likely they will have added further to this offering. They have made over 600 deals in the past six years, casting an ever widening net across over 20 sectors.

The bulk of Tencent's business comes through gaming still, driven increasingly by the popularity of online competitive gaming aka 'E-sports'. New games are relentlessly developed and viewer numbers have been increasing at a compounded annual growth rate of 24% for online games and 26% for mobile gaming (in which Tencent rules the roost) since 2014.

When looking at the increasingly urbanised world, it's fairly obvious why people in cities are switching from playing standard sports to E-sports. Space constraints and improving broadband speeds are two main factors and in mobile gaming specifically it's a popular time killer for commuters.

E-sports tournaments often have prize pay-outs into six figures, and major stadiums get packed to the rafters with people watching the action. The 2017 World Championship in Katowice, Poland set a new record for live attendance; more than 173,000 attendees. As far as live online viewers is concerned, that figure stood at 46 million. To put that into context, the Trump inauguration attracted just 30 million viewers.

China is where the real viewing numbers are widely predicted to come from going forward. All the top players are situated there and that's exactly where Tencent have positioned themselves with their streaming services Huya, Douyu and Penguin E-sports. For now, the West is still the top dog in streaming, Twitch (Amazon owned), Youtube and Facebook lead the way, but for how long?

The vast majority of games Tencent develop are 'freemium games', they are free to play but players have the option to purchase in game virtual goods. These in game purchases are extremely low cost for Tencent to produce and it incentivises players to be loyal to developers. Users are also able to earn rewards and collect virtual goods from streaming live games.

> *"The 2017 World Championship in Katowice, Poland set a new record for live attendance; more than 173,000 attendees. As far as live online viewers is concerned, that figure stood at 46 million.*

If you're thinking that this sounds a little bit too all-encompassing and addictive for users then you are not alone, it has been proposed that a classification system for video games should be put into effect. Gaming has been likened to opium because of it's obsessive characteristics and the manner in which it can incapacitate the younger generation. The risk of a regulation clamp down is a hot topic amongst the sector.

Tencent plans to introduce 'digital contracts' that would allow parents and children to negotiate time limits for playing its largest mobile game 'Honour of Kings'. The terms in the contracts can be written to link playing time to tasks such as completing housework and studies, encouraging positive behaviour from children by rewarding them.

Chinese gaming companies are free to launch games in the U.S. and sell directly to consumers. But in China, U.S. companies have to establish joint ventures with Chinese companies first and share revenues with them. This access to the Global market puts Tencent in a very strong position, I wonder how long the U.S. will allow this to happen given the rapid expansion of the industry.

In China, the games utilise chat services like QQ and WeChat so players can invite friends and see who is online. The result appears to be a game with a surprisingly diverse audience, the average gamer is now 33 years old and 54% are female.

In a few years time it could well be that Chinese giants overtaking the likes of Apple and Amazon may not be just a pipe dream after all.

Please read the important notice on page 1.

The Potting Shed

No.1

With over 150,000 new private businesses started in 2017 it seems that everywhere we look there's a start-up. In this new series we asked friends of JM Finn to describe the challenges entrepreneurs face as they look to change the world, make a fortune or simply earn a living.

Tailwise, a platform which helps would-be dog owners to find the right dog from responsible breeders, is the brainchild of Sam Worthy, who founded the business in 2017 following six years of hard graft and much soul searching. Here he offers some practical advice to taking the plunge and abandoning a regular salary to pursue one's dream.

The sparks of Tailwise

The period post the 2009 recession was tumultuous for me, with some major life events which culminated in deciding to leave my job in property. I took some roles at startups which were all stepping stones to the ultimate goal of launching my own startup, and see me become a fully-fledged entrepreneur.

With limited technical experience my mission, having resigned, was all about doubling down on my experience of sales, fundraising and extending specific web domain knowledge. If you're at this early point as an aspiring entrepreneur I would urge you to consider which skill set you will provide at your company; software developer, user experience (UX) designer, user interface (UI) expert, product designer, sales or hustle?

Of course, the real key to success is finding a business opportunity where you are:

1. Solving a real problem
2. In a niche you are passionate about
3. Where the business economics stack up (and you can generate revenue)

> I've always been a 'dog-person', so for me doing something in the world of dogs was a logical step. I realised that the dog buying process was completely outdated and fraught with risks and it soon became clear during the research process, that there's a stark split between breeders who care and want the very best for their litters and, those unscrupulous people who exploit the emotive nature of buying a puppy to make a quick buck.

Finding a Cofounder

In my opinion if you want to build something successful you need support, which for me meant partnering with a developer or designer who had domain experience and shared my vision. So for three years I spent a lot of time meeting as many people as I could who I felt had complementary skills to my own.

After much 'stalking', I was introduced to Dan Baird (the best designer I know and someone who had a background at a dog startup) who would eventually become my co-founder. He had the skill set, our personalities matched and, most importantly, he had the passion for the opportunity. Together we spoke further with people in the dog world and confirmed that the problem we had set out to solve really was a problem, and so we set about creating the solution.

Side Hustle and Pulling the Ripcord

Dan and I worked during our spare time and at weekends for close to a year before finally leaving our full time jobs. By 'side hustling' (i.e. testing and researching the opportunity), we were able to de-risk the business before ultimately both taking the plunge and leaving to work on Tailwise full time.

Raising Funds

In October 2016 I started working full time on Tailwise. As CEO a key role of mine was to raise funds for the business, which thanks to (Seed) Enterprise Investment Scheme (SEIS / EIS) tax breaks and supportive friends and family should have been easy, but in reality it wasn't.

Any aspiring entrepreneur needs to be prepared for almost everyone to say no and have some investors literally laugh in your face and offer you Dragon's Den type deals. My advice would be to hold firm and believe in what you're doing and take comfort in the fact that at this point investors are betting on the team and your vision.

Here are some quick suggestions which I won't claim as my own but I absorbed by speaking with others within the tech industry:

- Be highly self-aware and allow yourself enough runway to raise funds (4-6 months is optimum 3 months is cutting it too fine)
- Remember that you don't want to be closing a round of fund raising in August or early January when people tend to take holidays
- Make sure you have the following checked off:
  - Employment agreements
  - Intellectual Property agreements
  - Legal team in place
  - A presentation that succinctly describes your idea and business plan

We wanted to raise a pre-seed round as we'd been running on fumes for 6 months and it was beginning to become tough for us to get by. We decided that £200,000 (SEIS £150k and EIS £50K) would give us enough runway to validate our business. It then becomes a process of chipping away at your target investors and quickly establishing a lead investor. For every investor you meet you need to understand:

- How much they normally invest
- Any conditions attached to their investments
- Make sure you have a firm commitment (we had a few investors walk away after waiting for other investors' opinions)
- Get an agreement in writing confirmed as soon as possible (there is a massive difference between a soft yes and a hard yes)
- Remember at the end of the day funding is a facilitator which gives you the opportunity to prove your business works. It 100% does not mean success

The future

At Tailwise we're working with great breeders, using technology to radically improve animal welfare and provide transparency for the most important moment in a dog owner's life – finding the right dog. Thankfully now having raised our funding from angels and early stage fund, Jensons Solutions, we're now very excited about building our team out and gaining traction.

We have huge ambitions to build the most compelling pet company of the 21st century and to play a key role in ending puppy farming. Our goal now is focused on execution. •

Wealth planning

"To have and to hold..."

By Simon Wong FPFS
Wealth Planner

After the pomp and ceremony of the Royal Wedding, Simon Wong, reflects on how a flaw in the Individual Savings Accounts (ISA) rules that prevented surviving partners from inheriting the full amount of their deceased partner's ISA tax-free was closed by the government on 6th April 2018.

Since April 2015, ISA investors have been able to pass on the value of their tax-free ISA to a spouse or civil partner on death through an 'additional permitted subscription' (APS). However, an anomaly in the original legislation meant that any investment growth of the ISA between death and the additional ISA subscription by the surviving partner was not taken into account.

Additional permitted subscriptions are available in respect of deaths on or after 3 December 2014. The deceased and the surviving spouse must have been living together at the date of death so not separated under a court order, under a deed of separation, or in circumstances where the marriage or civil partnership has broken down.

On the death of an ISA investor on or after 6 April 2018, the ISA becomes a 'continuing account of a deceased investor' and can continue to benefit from the ISA tax advantages.

In general, additional permitted subscriptions:

- can be made with the manager who held the deceased's ISA or another manager who agrees to accept the subscriptions
- are limited to the value of the deceased's ISA at their date of death if the investor died on or before 5 April 2018
- can be either the value of the deceased's ISA at their date of death or the point the ISA ceased to be a continuing account of a deceased investor if the investor died on or after 6 April 2018
- can be made to a cash, stocks and shares, or an innovative finance ISA
- can be made into a Lifetime ISA if the investor is resident in the UK and will count towards the Lifetime ISA payment limit but not the annual overall ISA subscription limit
- can be made if a surviving spouse is 16 or 17, but only into an 'adult' cash ISA
- can be made in cash or inherited non-cash ISA assets
- are available whether or not the surviving spouse inherited the deceased's ISA assets
- can be made by non-residents
- cannot be made to (or from) a Junior ISA
- count as previous year subscriptions for all other ISA purposes

It is important to note that once an additional permitted subscription has been made with an ISA manager, any further additional permitted subscriptions up to the limit must be made with the same manager.

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

WALT DISNEY

Sam Statham
Research Assistant

PRICE
$102.2

52 WEEK HIGH-LOW
$113.19—$96.2

NET YIELD
1.6%

HIST/PROS PER
15.5—13.6

EQUITY MARKET CAP (M)
$148,571

In 1928 the first Micky Mouse cartoon '*Steamboat Willie*' appeared in theatres. 90 years later, Walt Disney looks like a very different beast. Media Networks now makes up roughly half of the company and includes channels such as ESPN, the Disney Channel and ABC Family. ESPN commands the highest ad pricing rate across all networks but has been plagued by a reduction in the number of subscribers over the past couple of years.

Theme Parks and Hotels, Disney Studios and Consumer Products makes up the remaining half of Disney and performance here is somewhat correlated to individual movie success. The biggest opening weekend in US box office history has just been set by the latest Avengers film, leapfrogging Star Wars. Both of which fall under Disney's umbrella.

It is widely believed that what Disney lack is a well-developed and widely used platform that they could plug into, enabling them to maximise the value of their existing content. Netflix and Amazon currently have excellent platforms but have been paying handsomely for the content. Is it therefore any surprise that in December 2017 Disney began negotiations to acquire Sky from Fox? Recent interest from Comcast may prove to be a fly in the ointment though.

Please read the important notice on page 1.

JM Finn News

JM Finn conference: change is the new norm

An investment manager's job is to keep on top of the companies in which they invest on behalf of their clients.

This involves more than just following the individual stock, but also keeping tabs on the sector, seeing how it is evolving, what the competition are doing and putting it all into context of the global macroeconomic situation.

To give our clients some insight into the kind of research that our investment managers and research analysts do on a daily basis, we gathered a range of speakers to share this type of knowledge with the aim of giving our clients the additional comfort that, not only do we provide a top quality service, but our investment knowledge is second to none.

Change is taking place all around us; a lot as a result of new technologies as discussed by our expert speakers at our last investment conference. Following the hugely positive feedback from that event in November 2017, we followed this with another conference focusing on the change that is taking place across the world.

The five speakers are all experts in their fields, which are all undergoing fundamental structural change. The first speaker is an expert on 'The Donald'. As deputy editor of the Spectator magazine since 2014, and editor of Spectator USA, Freddy Gray followed Donald Trump on his campaign trail and suggests that those tacky Make America great baseball caps he sports are a PR masterstroke and that he's the greatest political entrepreneur of our time.

Freddy gave a fascinating insight into reasons why Trump will likely serve another term, as long as exhaustion doesn't get the better of him, and reasons why this might be a concern. He suggested that Trump has the same dirty dog appeal that Clinton did and discussed how vital rolling news, or social media, was to his presidency.

Natalie Berg then moved on to discuss the retail sector. With the death knell of the high street seemingly being sounded in the UK, with some large well-known names recently going into administration, Natalie used her deep industry expertise to reassure the audience that the high street will survive as long as retailers start thinking like consumers.

This was followed by Tom Slater who discussed the broadening impact of the exponential technological progress we are witnessing today, focusing on the media, China, healthcare and beyond.

As the joint manager of the Scottish Mortgage Investment Trust, which, founded in 1909 is one of the oldest Investment trusts, Tom's focus is on high growth companies both in listed equity markets and as an investor in private companies.

The penultimate slot was a Parkinson style discussion between one of our own staff and Ed Butler CBE, DSO. Ed has extensive counter terrorism, intelligence and security expertise, most of which was gained during a 24-year career in front line service in the British Army. He commanded the SAS during the period in which 9/11 happened and was commander of the British forces in Afghanistan in 2006 before retiring in 2008. He currently heads up risk analysis at Pool Re, the government backed terrorism reinsurance scheme, sits on the board at EDF energy, the operating company for the UK's nuclear industry and is a trustee of the Airey Neave trust.

Ed was in conversation with Mike Mount who is Director of Intermediary Solutions at JM Finn. Mike was himself a former officer with the Ghurkhas, where he commanded a reconnaissance unit of Ghurkha paratroopers for two years and served mostly in Asia.

Finally, we introduced Dr Morgaine Gaye, a food futurologist who uses science and art to forecast lifestyle trends based around food.

> ***The five speakers are all experts in their fields, fields which are all undergoing fundamental structural change.***

She discussed the seismic shift that we are to expect as we move towards 2020, as the pace of change quickens and we move away from decades of looking at our values system based on the economy and we see it being based on knowledge. Dr Gaye enlightened the audience on four key trends:

- **Texture:** the ability to offer crunchy avocados for example
- **Back to the land:** connecting to something more meaningful
- **Skin:** using it as a digital interface
- **Pause:** addressing the growing need for sanctuaries of peace and tranquillity
- **Disruption:** imperfect is the new beautiful

Judging from the enthusiastic questions and applause, the audience of over 250 enjoyed the day, with most commenting on the quality and range of topics covered by our five speakers. We will look to emulate this event again in 2019.

RENISHAW

James Godrich
Research Analyst

PRICE
£53.85

52 WEEK HIGH-LOW
£58.20—£35.36

NET YIELD
1.0%

HIST/PROS PER
30.3—32.2

EQUITY MARKET CAP (M)
£3,916

Renishaw aren't your average FTSE250 Industrial. In 2013, a decision was made that investors would only get to see management twice a year; once at the AGM and once at an investor day, which we recently attended. When asked how many of their Neuromate robots, designed to complete neurosurgical procedures, have been sold, they would not tell us. If we ask for the price of one of their additive manufacturing machines used for metal 3D printing, they won't tell us.

Whilst for some people this opacity would be a reason to sell their shares in Renishaw, it could very well be argued that it is precisely this structure that has helped Renishaw to become the c. £3.5bn market cap global leader that it is today.

Renishaw is managed for the long term interests of its patient shareholders, not the short term whims of some parts of the capital markets.

The driver of this has been 78 year old founder and Executive Chairman, Sir David McMurtry, who still owns 36% of the share capital. Although McMurtry has recently handed over the role of Chief Executive to William Lee, his core beliefs for long term investment and passion for invention we hope will endure.

Research & Development at a greater rate than any of their listed peers has been a key feature of this long term strategy and whilst McMurtry is no longer officially at the helm, he appeared quick to interject when the question was asked at the investor day about R&D spend going forward; "I'd hate to see it drop off", he told William Lee.

Please read the important notice on page 1.

JM Finn News

More awards at JM Finn

Our success at JM Finn has been recognised by the fact that our growth since our founding has been due to client referrals. In recent years, however, we have also been delighted to have received external recognition for the services that we offer both at the personal and company level. 2018 has been a particularly busy year:

Kim Woolmer, an investment director at JM Finn, won the award for Best Female Wealth Manager at the City of London Wealth Management Awards 2018. Kim, who started her investment career nearly 40 years ago, received the award from Lisa Snowden at a ceremony at London's Guildhall. (You can read more about Kim's career in the Meet the Manager feature).

Fred Mahon, fund manager of JM Finn's Coleman Street Investment Service has been included in the Citywire Wealth Manager's Top 30 under 30 rising stars in wealth management. Citywire is a financial publishing and information group, which specialises in monitoring the performance of fund managers and runs this annual search for the up and coming talent across the industry.

Chris Barrett, an investment director at JM Finn, has been included in this year's PAM Top 40 Under 40. PAM Insight, a leading independent provider of specialist news, analysis and comparative data for the industry, has released the latest list of the PAM Top 40 Under 40 which comprises the leading private client investment managers under the age of 40.

Steven Sussman, CEO was named in PAM's list of Most Influential in the industry. This is the definitive list of those that are at the forefront of shaping private client work in the UK.

The Firm was named as Finance Monthly's Wealth Management Advisory firm of the year at the 2018 Fintech awards.

We're also excited that Isobel Kwok, Lucy Coutts, Sarah Soar and Kim Woolmer have all been nominated for awards at this year's Women in Investment awards.

How we handle your personal data

There are many different ways you may interact with JM Finn and our goal is that you are clear on how we are using your information and the ways in which you can protect your privacy. As a result, we have published a new Privacy Notice to make it easier for you to find out how we use and protect your information.

We have not changed the ways we use your personal information, but the new notice will provide you with additional details such as:

- The information we collect
- How and why we use your information
- Who we share your information with
- How we protect your information
- Our rights in relation to the information we hold about you

The Privacy Notice is available to view at **www.jmfinn.com/privacy** or if you wish, you can request your Investment Manager to send a copy to you.

The Privacy Notice makes sure we continue to comply with privacy law and regulation. There are no changes to our terms and conditions with you however if you have any questions please contact your Investment Manager.

Young women at work day

Last year, JM Finn held its inaugural "Bring your Daughter to Work" day, with the goal of introducing more young women to wealth management as a potential career choice. A day was spent with 20 young women introducing them to the industry and the markets. As well as gleaning their perceptions of wealth management we discussed the financial services industry in a focus group. We finished with a CV and interview workshop and some excellent feedback.

This year we've expanded the remit to include daughters of our clients. So if our readers know of anyone who might benefit from this event please do contact us at marketing@jmfinn.com

Date: Wednesday 22nd August 2018
Time: 9.30am – 4.30pm
Venue: JM Finn, 4 Coleman Street, London, EC2R 5TA
Age range: 16-19

Asset Allocation Focus

As part of our focus on providing a high quality, personalised investment service, we look to support our investment managers in their decision making when it comes to constructing client portfolios. Our asset allocation committee is one example of this, via their monthly output showcasing their views on a global sectorial basis.

The asset allocation committee, which consists of the research team and a number of investment managers, aims to provide a view on the asset allocation that seems most suitable in current macro conditions. The output of the monthly meetings remains a suggested stance and it is important to note, that the views expressed are not those of the firm but rather those of the committee and that the views expressed may not necessarily be those of your individual investment manager.

Here we present a snapshot of the current views.

Positive | Neutral | Negative

FIXED INCOME		
UK Government Bonds – conventional gilts	Neutral	Inflation as a threat has re-emerged whilst expectations for rate rises are moderating.
UK Corporate Bonds	Neutral	Investment grade bonds with the shortest maturities are preferred, within the constraints of income requirements.
UK Government Bonds – index linked gilts	Neutral	The re-emergence of inflation is supportive but current values anticipate higher inflation.
EQUITIES		
Materials	Positive	Supply/demand dynamics improving. Macro data favourable.
Consumer Staples	Neutral	We like this sector for its defensive qualities, recent weakness offers buying opportunities.
Consumer Discretionary	Neutral	Incumbents continue to be challenged by disruptive technology and changing consumer behaviour. Selective opportunities are on offer however.
Financials – ex Banks, Insurance & Property	Neutral	Heterogeneous sector. Asset managers often geared plays on underlying assets.
Financials – Banks	Neutral	Prefer globally exposed banks to domestic, look for beneficiaries of rising rates.
Financials – Life Insurance	Positive	Supportive demographics and asset prices should underpin demand for products.
Real Estate	Neutral	Some discounts in the UK are at historically wide levels however caution on rising interest rates and Brexit uncertainty on asset values. Global real estate may offer better value but again caution on bond proxy status.
Health Care	Positive	Growth and defensive attributes and global demographic tailwind. Distinguish between pharma/healthcare/biotech sub sectors.
Industrials	Positive	Wage inflation should drive a capex cycle. Some excellent opportunities in the UK.
Energy	Neutral	Inventories should fall in the USA helping underpin prices. Dividends looking more secure with oil at $65-$75.
Information technology	Neutral	Prefer both funds and international blue chips for exposure to specific tech themes. Long term attractions of the sector are clear.
Telecommunications	Neutral	Sector looks attractive on yield and valuation grounds, whilst capital expenditure and competition remain an issue.
Utilities	Negative	Bond proxy. Political risk. High gearing.
ALTERNATIVES		
Absolute Return	Neutral	Exposure might be appropriate given current market conditions. We suggest caution on the "yield hunt" and are wary of lower quality products.
Infrastructure	Neutral	Investors should be cautious when looking for yield and pay close scrutiny to the quality of the investment product and premiums.

Meet the manager

Kim Woolmer

Investment Director, London

Lives Near Chelmsford, Essex

Family Two lovely boys and my Partner

Education Dartford West School for Girls and North West Kent Technical College

Started at JM Finn October 2006

First Job Statistical Clerk, Phillips & Drew Stockbrokers

Guilty pleasure West Ham United Supporter

Ambition To live a full life and have no regrets

Hobbies Passion for travel

Congratulations on being named Best Female Investment Manager at the City of London Wealth Management Awards – how do you feel about this?

I am naturally honoured and pleased to receive this accolade, not least because it recognises the growing role women have in finance. I think it reflects particularly well on JM Finn who are proactive in progressing women and young people.

How important are awards to the business?

Like all industries there are multiple awards across various sectors so it's important not to be too distracted by them. That said, the most significant awards that we as a firm have won are those voted on by the public and to get a stamp of approval from our clients is not only gratifying, but recognises our strong relationships and promotes our brand in the most positive way.

Over your 39 year long career do you sense that the industry has become more attractive as a work place for women?

First and foremost, we need to meet the needs of our client base and hire on merit. Phillips & Drew were ahead of their time and broke down many social barriers during their existence.

For most of my career men have dominated the investment world but I personally have never felt disadvantaged - although employment laws were not so supportive when I brought my children into the world. Thankfully, much progress has been made over the last decade with flexible working arrangements and I think this has helped tremendously along with a more open policy to attract women into the financial arena. It is a good career for us girls but, like most careers, it does need commitment, grit and determination and of course the ambition to succeed in a competitive environment, whether man or woman!

It is fair to say I have had quite a journey but look at where I am. Apart from my day job, being asked to join the Court of my Livery Company was particularly pleasing, the first woman in 650 years, and I hope this will encourage other young women to get involved. Clearly still more work to be done but the opportunity is there.

As someone who gets involved in many facets of the changing shape of today's wealth management industry, what areas are you most interested in?

What I love most about the job is the direct contact with clients, often spanning several generations. They put their trust in you and the individual accountability for their investment portfolios in my opinion keeps it real. Knowing you can make a difference to someone's welfare is very rewarding. Thanks to JM Finn being a very client-centric organisation, we as investment managers are instrumental in shaping the services we offer our clients.

Technology is moving apace and we are embracing change. Apart from being much involved with MiFID II development work, we have also been developing our website and our award winning client portal which is key in delivering important information in a secure way. Compliance with the new regulatory framework has inevitably led to more communications but we are now able to deliver information electronically to cut down on paperwork. I have been keen to promote this and find many of my clients are much relieved not to have so much filing! And for those regularly using their phones for such things, the portal can also be viewed via the JM Finn app.

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