JM FINN

No.20 *Autumn 2017*

Prospects

The JM Finn Quarterly Periodical

Stress in the modern day
Does bad news increase angst?

Fact or fiction
Does politics blur the boundaries?

Property Pearls
Off-market transactions on trend

No.20
Autumn 2017

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Important notice
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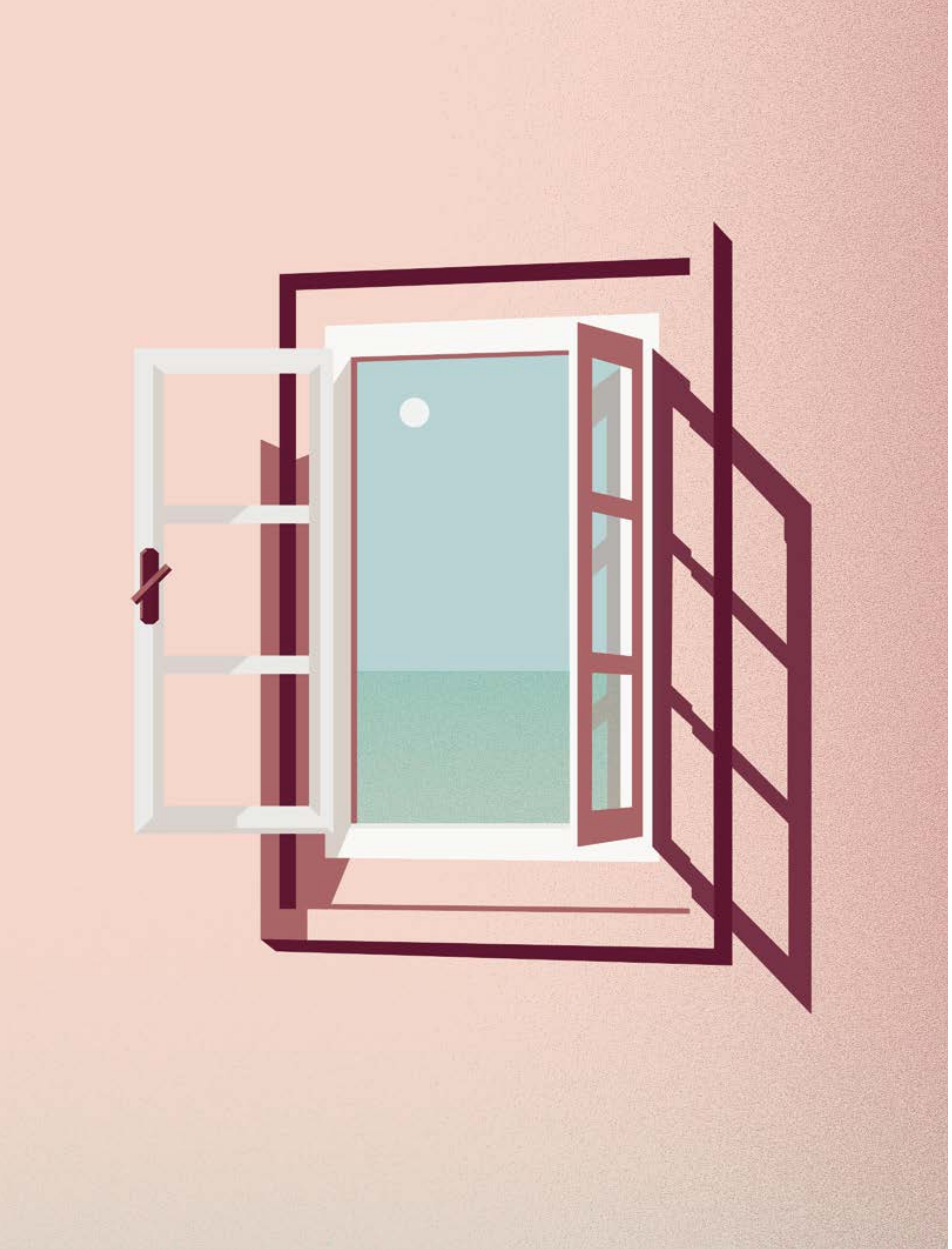


Welcome

I would say that it is a strange world when the political situation is so turbulent in so many places, there are threats of war, interest rates are running at record lows and stock markets on both sides of the Atlantic are close to all-time highs.

It would have been difficult to imagine two years ago that we would now have the real threat of a socialist government in this country should Mrs May slip up, and we have voted to leave the European Union. The threat we are seeing from North Korea and Mr Trump's answers to it, and the real possibility of limited growth on both sides of the Atlantic, we would have believed it unlikely to have expected that stock market indices would be where they are today.

One fundamental factor behind it is the low level of interest rates. This is a function of Western governments' and consumers' heavy indebtedness. The level of UK debt is at a record high and the government is paying interest of roughly 1.65%, being the yield on 10 year gilts. Should we have a change in government and Mr Corbyn was in power, one has to ask one's self what rate of interest might we get from Mr Corbyn, as John Royden discusses in his bond focus.

We live in a world today where I think technology is developing at a very fast pace in many different directions, whether it be in terms of electric cars, health care or appliances. We can only guess at the effect of these changes and even those at the top of technology companies could only guess as well. As the Chairman of IBM, Thomas Watson said in 1943 "I think there is a world market for maybe five computers". He had no better idea than we do today.

Electrification of cars will have a massive effect on all of us and where we choose to invest, particularly with regards to the energy sector. Fundamentally the electricity that goes into the grid which will have to power our cars will have to come from somewhere and those power stations will be fuelled by the cheapest and most efficient alternatives, whether it be gas, oil, nuclear or coal. I think the future is difficult to read but all we can say is that we are bound to see change and there will be winners and losers in the stock market.

At JM Finn our job is to invest on behalf of our clients, looking after their needs and trying to have some views about the future, but also fundamentally protecting capital at the same time. The performance of portfolios is extremely important to us but so is the service and advice we offer and the longevity of our friendships and relationships with our clients. We very much recognise that financial planning generally is becoming a very important factor of what we do and what our clients seek and hence we have built up our financial planning business. It is for this reason that you will note we have changed our logo – to recognise that we are no longer purely an investment firm, but we offer broader wealth management services; more detail on this can be found on page 24.

The Autumn has often been a tricky time for markets. Whether it proves to be this year or not, it is the job of all of us to lead our clients through any short term volatility.

James Edgedale

James Edgedale
Chairman

Honey, I stressed the kids

Theo Wyld
Research Anaylist

It is often said that bad news sells better than good news. I am inclined to agree and therefore I do not begrudge the papers or other news sources for leaning slightly towards the pessimistic side – after all, their business is to sell stories to the public. However, from my perspective 2017 has felt overwhelmingly negative.

Unfortunately, we have had a number of horrific events over the last six months or so which have rightfully featured centre stage; be they terrorist attacks or tragic incidents such as Grenfell Tower. But, even outside of these events, which deserved all the coverage they got (and still get), I feel we have been pummelled with overly-negative news flow. Each day we are reminded of the next sector or part of the UK economy which is sure to get a bad deal from Brexit. Or that we're all going to be shipped off to Frankfurt. This chipper rhetoric is then punctuated by headlines of our 'weak and wobbly' leader, with perhaps a side-column on childhood obesity to whet the pessimist's appetite.

It got me thinking about how this may affect us, the public. More specifically, does this relentless pessimism and fear-mongering elevate our stress levels?

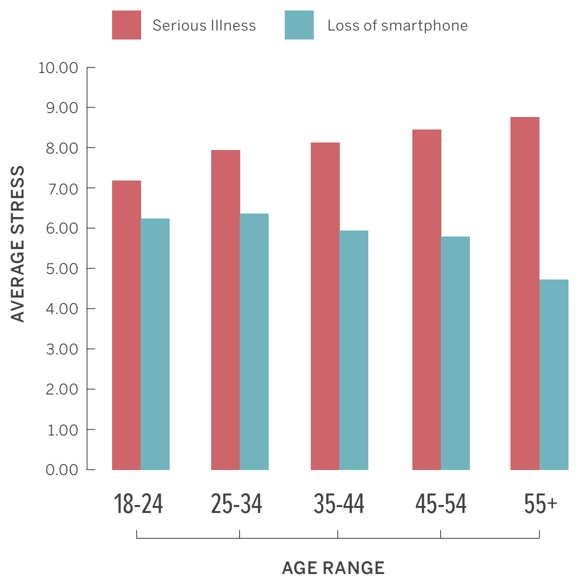
Aptly, the theme chosen by The Physiological Society for 2017 is entitled *Making Sense of Stress*. This report marks the 50 year anniversary of a survey conducted by psychiatrists, Holmes and Rahe, in which they asked a cross-section of the public to rate how stressful they find (or would find) 43 chosen events. This year's version polled 2,000 British adults on a trimmed down list of the original questions. A few modern ones were added and some near-duplicate instances were removed, as were those that harped back to a very different era, such as 'Wife beginning or ceasing work outside the home"...

> *The idea that a 20 year old would be almost as stressed losing their iPhone as contracting cancer is nonsensical.*

There were some similarities between the two sets of results, such as the death of a spouse which occupied both top spots, i.e. ranked the most stressful. But also some interesting differences. Where 2nd and 3rd places in 1967 were divorce and marital separation, divorce slipped to 6th in 2017. This perhaps reflects the rise in social acceptance of divorce in the modern world. Others that have notably climbed the leader board over time include being fired and going on holiday.

Although interesting to compare the two reports, the result that caught my eye most pertains specifically to the 2017 survey and is shown below in graphic form. For reference, the participants were asked to rate how stressed they would be from 1-10, 10 being most stressed.

Age affects some stressors differently



I would have expected the shapes of the graphs to evolve in the way they do, but it is the proximity of the two scores for the 18-24 year olds that I find astounding. The idea that a 20 year old, say, would be almost as stressed losing their iPhone as contracting cancer is nonsensical.

It is widely accepted that the younger generation are more dependent on their smartphones than their elders. Moore's law marches relentlessly on, bringing with it mobile functionality that benefits all age groups – be it a high quality camera, or simply the ability to access emails on the move. But I believe it has been the explosion of social media, and the youth's subsequent addiction to it, that has contributed to the perceived need to have your phone accessible at all times. After all, if you lost your phone you may miss out on a third-cousin's friend's new Instagram photo of a bowl of pasta – now, wouldn't that be stressful?

But, all that aside, I still struggle to account for the similarity in stress level scores. Is there something else going on, biologically?

Let's examine stress itself. There are two types; acute and chronic. The former is a short sharp reaction brought on by being jumped out at, for example. The latter is prolonged stress such as that brought on by being stalked by a hungry pack of wolves for days on end. Chronic stress is much more damaging to the body, predominantly thanks to elevated cortisol levels for extended periods of time.

Cortisol is relied upon when other shorter-term chemical reserves that we use to ready our bodies for attack, such as adrenalin, are depleted. So those with larger reserves often do not rely on cortisol at all for acute stress, or as heavily for chronic. These people are better at dealing with stress, by and large.

What's the significance of this? Well, it has been shown that you can train your body to better manage stress, bolstering your other chemical reserves. And a way to do this is through acute stress exposure, both through physical and emotional stimuli. Exercise is one efficient way and the other is stressing your internal temperature gauge. Who knew plunging yourself into cold water with regularity could improve your road rage?

> “*It has been shown that you can train your body to better manage stress.*”

The great physiologist Walter Cannon talked to this in the 1920s, postulating that the advent of air conditioning, central heating, hot running water, and other home comforts could deprive us of 'important protective advantages'.

Could this go part of the way to explaining why the younger generation are seemingly less able to deal with such a menial inconvenience as losing their Samsung? Has the prevalence of technology had the double edged effect of discouraging physical exercise and minimising thermoregulatory stress, and thus our ability to deal with what were once insignificant stresses?

Clearly, I am in no position to answer that question definitively. Even armed as I am with one physiological study and a primitive knowledge of the chemical reactions governing stress gleaned from a single short book (but, a fantastic book at that).

But, perhaps if we all exercised a touch more, turned off our heating, had the odd cold shower, and ignored the bulk of the newspaper headlines, we might just all lead more relaxed lives.

Understanding Finance

COMPOUND INTEREST

James Godrich
Research Assistant

Albert Einstein is reported to have called compound interest the eighth wonder of the world, famously remarking, "He who understands it, earns it…he who doesn't, pays it."

Compound interest is, simply put, the addition of interest upon interest. For example, if in year one I was to place £10 on deposit, on which I were to receive 10% interest, at the end of year one my total capital would be £11 (£10 principal + £1 interest).

During year two if I were to continue to receive interest at 10%, I would again be paid out £1 in interest from my initial £10 principal, but now also £0.10 as a result of the £1 interest payment made in year one. My total at the end of year two would be £12.10 (£11 principal + £1.10 interest).

In order to understand this in practice let's consider two investors, Plutus and Comus. Both investors plan to retire aged 65 with a £1m pension pot.

Comus, as the Greek god of merrymaking and festivity, only began saving for this aged 45. In order to achieve the £1m pension pot, assuming interest at 5% paid annually, Comus calculated that he must make annual savings of £30,200 (roughly £2,520 per month).

Plutus, however, lived up to his name as the Greek god of wealth and started saving for his pension aged 25. Assuming the same interest rate and the same £1m target, he calculated that he must make savings of just £8,280 per year (roughly £690 per month).

In order to reach the £1m aged 65, Comus was required to make payments totalling £605,000. Thanks to compound interest however, Plutus managed to achieve the same £1m figure by making total payments of just £331,000.

LLOYDS BANKING GROUP

John Royden
Head of Research

PRICE
£0.64

52 WEEK HIGH-LOW
£0.74— £0.50

NET YIELD
4.3%

HIST/PROS PER
24.9 — 8.5

EQUITY MARKET CAP (M)
£45,645

Lloyds Banking Group (Lloyds) is now free of Government ownership. This UK focussed bank mostly targets retail which generates 60% of revenues. Lloyds are the market leader in UK current accounts (25% market share) and mortgages (20%) through the Halifax, Lloyds and Bank of Scotland brands.

Lloyds is the strongest name within the UK banking sector. It has a secure and improving capital position and a notable cost advantage with an industry leading cost / income ratio of just 46%.

Progress from here relies on conduct fines and reparations declining and so freeing up both financial resource and managerial time. We also look for firmer interest rates to expand the bank's net interest margin or the difference between their lending and deposit rates. Net interest margins of 2.5% are the average these days, although Lloyds guides to 2.85% for 2017. As base rates increase, so the net interest margin should expand.

Shareholders are being told that the tier 1 capital target is around 13% and that capital above this can either go back as dividends or, possibly, more MBNA-like deals. That said, I am wary that Lloyds' exposure to car finance could fall behind expectations in terms of both growth and recovery rates.

Please read the important information on page 2.

Separating fact from fiction

By Stanley Johnson
Illustration by Rebecca Sadie May

Isn't it extra-ordinary how America (the United States of) seems to dominate our every waking moment? If you measured the amount of air-time given this summer to reports from the US, particularly reports from Washington about President Donald Trump and his close circle, I am sure that we would find that events in the US are top of the list, with Brexit-related stories a close second.

The two phenomena are of course deeply intertwined. As we cast off from the European Union (it's going to happen, make no mistake; the question is 'how?') the relationship with the US is going to be of central importance. In spite of Liam Fox's brave talk about striking 'bold and ambitious' trade deals around the world, the bedrock of Britain's future in the post-Brexit world is bound to be the Trans-atlantic partnership.

Do the Americans care about us as much as we care about them? Almost certainly not. This is an asymmetrical relationship. When President Obama said that we would find ourselves 'at the back of the queue' he almost certainly wasn't joking.

Will President Trump pull our chestnuts out of the fire? Winston Churchill's single greatest achievement in his long life was the way in which, grimly and with, yes, bull-dog determination, he wheedled and cajoled President Roosevelt and the US Administration into, at last, entering the war on our side. Can we rely on President Trump as Churchill was eventually able to rely on Roosevelt?

Frankly, I doubt it. The USA today is a very different country from what it was seventy or eighty years ago. The demographic shift is tremendous. Though white Americans may still be the largest ethnic group, it may not be the case for much longer. There are parts of America, such as some districts of Florida, Texas, Arizona and California, where English is very definitely not the first language.

This may or may not be a good thing in American terms. That depends on where you are coming from, but it will certainly be significant in terms of 'realpolitik'. Why should President Trump bust a gut to help Britain out of a hole of our own making when, for many if not most of the people who voted for him, Britain, to quote Neville Chamberlain, is "a small country, far away, of which we know little?"

Ah, the optimists may say. Trump's mother, Mary, came from the Isle of Lewis in the Hebrides. He has golf courses in Scotland. He held Mrs May's hand when she visited the White House!

But if President Trump throws Britain a life-belt to help us survive stormy seas, he will not do so out of sentimental reasons. Frankly, the Americans have never been sentimental in their dealing with the 'mother country.' I believe we have only just paid the last instalments on Lend-Lease! How long did President Eisenhower wait before he and John Foster Dulles pulled the plug over Suez? Did President Reagan give Mrs Thatcher any advance notice when the US invaded Granada? Trump has just pulled out of the Trans-Pacific Partnership and intends to give the Transatlantic Trade and Investment Partnership (TTIP) the same treatment. Why should the UK be singled out for special preferential status?

Is there a 'dark' side, I wonder, to the so-called US-UK special relationship?

I willingly admit that over these last few months the boundaries between fact and fiction seem increasingly blurred. Is there a 'dark' side, I wonder, to the so-called US-UK special relationship?

My new novel, KOMPROMAT, focusses on the electoral skulduggery that may have extended to both sides of the Atlantic. In several of his speeches Candidate Trump cited the Brexit campaign as his inspiration. The links between the Referendum campaign over here, and the US election, seemed to me to be both strong and continuing. And, in my novel, as some of the key building blocks of the western world come tumbling down, the man in the Kremlin - I call him President Popov – rubs his hands in satisfaction.

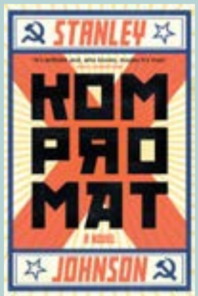
Of course, KOMPROMAT is fiction. I hope people enjoy reading it as much as I enjoyed writing it. Amusing as it may be to imagine that President Trump owes his election to the Brexiteers and their mysterious backers, I doubt very much that the life-saving US-UK trade deal that Mr Liam Fox dreams of is actually in the offing and certainly not as some kind of IOU for past favours.

So where do we stand now that the summer holidays are over? Looking on the bright side, we must be pleased that nuclear war didn't break out over Korea. But that's about it. I can't see a re-elected Mrs Merkel going out of her way to pull the UK's chestnuts out of the fire. Ironically, even though Mrs May is Prime Minister, the critical power of decision surely rests at the moment with Mr Corbyn. In voting terms, Labour has the power to apply the brakes as we hurtle towards the cliff's edge: in other words, to ensure a soft landing.

But will Mr Corbyn, by all accounts a dyed-in-the-wool Eurosceptic, actually use that power?

WILL PRESIDENT TRUMP PULL OUR CHESTNUTS OUT OF THE FIRE?

Stanley Johnson



Stanley Johnson, a former Conservative MEP, is an author, journalist and environmental campaigner. His new novel, KOMPROMAT, is published by Oneworld-publications. He served as co-chairman of Environmentalists for Europe in the Referendum Campaign.

We have 25 copies of Stanley's book, KOMPROMAT, for the first 25 readers to send us their name and address to marketing@jmfinn.com.

RIO TINTO

John Royden
Head of Research

PRICE
£37.60

52 WEEK HIGH-LOW
£37.85— £22.54

NET YIELD
4.86%

HIST/PROS PER
14.0 — 11.1

EQUITY MARKET CAP (M)
£68,722

Rio Tinto (Rio) is an international miner. Iron ore accounts for circa 75% of their operating profit and of that, about 95% comes from their Pilbara mine in Australia.

Other products are aluminium, copper, diamonds, gold, industrial minerals, coal and uranium. Aluminium is the second most important asset representing close to 16% of operating profits. Their minority 34% stake in the Mongolian Oyu Tolgoi mine will raise the profile of copper in the company over time.

Not surprisingly, if you overlay the iron ore and Rio share price on a chart, the high level of correlation is more than clear.

In 2015, fears of a Chinese slow down pushed the iron ore price to a trough of c$40 per ton. Since then, the price rallied to a March 2017 high of $90. It is now trading at $75 and appears to have upward momentum as Chinese steel production recently surprised on the upside in terms of both volume and margins. That was in conjunction with weak supply and weak guidance from many of the miners.

Please read the important information on page 2.

Bond Focus

The Corbyn Rate

by John Royden
Head of Research

Illustration by Adi Kuznicki/Graphic Alliance

What interest rate would you charge to lend money to Corbyn? Imagine that Jeremy Corbyn managed to push Labour and its allies past the parliamentary majority of 321. What would happen to the UK gilt market?

Well, let's step back and ask if it could happen? The Tories and the DUP hold a thin five seat majority driven by their combined 326 seats, over the key pivot point of 321 seats.

In the 2010 to 2015 Parliament there were 21 by-elections due to six deaths and 14 resignations and one re-run. That's a rate of approximately four by-elections per annum.

If Labour won all four of the expected by-elections each year, Labour could climb from 262 seats to 282 over the next five years. At that point a Labour + SNP (35 seats) + Plaid Cymru (4 seats) coalition could perhaps get them across the 321 line by the time of the next election. That assumes that all by-elections are caused by Tory deaths and resignations with Labour wins; which is unrealistic.

But at that rate of four by-elections per annum, in just over one year, the Tory / DUP alliance could fall to a hung parliament if opposition parties won all the by-elections; with the Lib Dems and their twelve seats then being in the position of king maker. The question then would be, at what point the hung parliament drives another general election?

A general election driven by a mid-term hung parliament looks like being Corbyn's best chance. Would he win? Corbyn appears to have Momentum (capital "M" intended) on his side. He surprised everybody with a result that was, in my opinion, partly driven by Momentum's clever use of soft social media posts. These emphasised the softer side of Labour's policies and ignored the economic impact: for example, free university education without working out who was going to pay for it.

> *"The question then would be, at what point the hung parliament drives another general election?*

The next step in this process is to work out what the effect of Labour policies would be. My reading of others' assessments of the impact of Labour's unfunded electoral promises seems to point to the national debt rising from c£1.75 trillion to c£2 trillion. I am uncertain of Labour's own funding calculations given that in a meeting between a CEO of one of our preferred major utility companies and a prominent Labour politician, the Labour man said that they could nationalise the utility company without the use of debt. When pushed on the matter by the CEO, the Labour man said that they would use bonds. It appears that Labour do not consider bonds to be debt. Perhaps if they were irredeemable, zero interest rate bonds, he might have a case.

I have distant childhood memories of the previous hard-left socialist government of Harold Wilson. The internet tells me that the top rate of income tax was 83% on income above £20,000, but I recall my parents' friends complaining that the unearned income tax surcharge took the rate to 101%. From what I remember, the tax and spend policies alienated investors who then found themselves unable to take their money out of the country due to tighter capital controls; the foreign currency allowance for my 1976 holiday in France was only £15. Attempts to transfer assets were also thwarted by the wide scope of the Capital Transfer Tax (basically a tax on gifts) with a top rate of 75%.

The foreign currency allowance for my
1976
holiday in France was only
£15

I conclude that a Corbynist government's higher taxes, and the more likely threats of inflation and capital controls, would raise the returns demanded by investors. So interest rates would rise and gilts would fall. Whilst the probability of this is less than likely, it encourages us to stay with our current call of short dated bonds.

Company Meetings

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

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

John Royden
Head of Research

James Godrich
Research Analyst

BASIC MATERIALS
Victrex, Rio Tinto, Johnson Matthey

CONSUMER GOODS
Coca-Cola Hellenic Bottling, Victoria

CONSUMER SERVICES
Intercontinental Hotels Group, Moneysupermarket.com, Marston's, Wizz Air Holdings, EI Group, RELX, ZPG

FINANCIALS
London Metric Property, Standard Life PLC, HSBC Holdings, Assura, Purplebricks Group, Provident Financial, Workspace Group, Prudential

HEALTH CARE
Dechra Pharmaceuticals

INDUSTRIALS
Gooch & Housego, Cobham, Experian, G4S Security Services, Smurfkit Kappa Group, Equiniti Group, Halma, Intertek Group

TECHNOLOGY
Sophos Group

TELECOMMUNICATIONS
BT Group

UTILITIES
National Grid, Severn Trent

1. Severn Trent

Price **£22.54**
52 week high-low **£25.75–£20.47**
Net Yield **3.60%**
Hist/Pros PER **16.2–19.5**
Equity Market Cap **£5,355m**

CONSUMER SERVICES
Liv Garfield, CEO and James Bowling, CFO

Liv Garfield ("Liv") is an inspiring CEO. Aged 41, she does a day a week in a high vis jacket on the front line and makes a point of getting a lift to the depot with the manager to get an understanding of what is actually going on.

Ofwat have just published Water 2020 which sets out their thinking for the next five year regulatory period. Liv Garfield explained that the regulator is pressing for there to be water companies that win and water companies that lose. Why should a customer's bill be larger by £10 because the water company is relatively poor at dealing with their sewage? Efficiency and innovation is the name of the game.

Ofwat want companies that take risks to improve customer service and Liv sees lots of opportunity here. She has people working on getting the water content of sludge down (so that it costs less to move around) and scouts water constrained places such as Tel Aviv, Australia and Tokyo in an effort to learn the secrets of minimising leakage. Severn Trent want to be using telemetrics to give them better insights into how their assets are working and being one jump ahead of a potential leak or problem.

The move to indexing water bills to CPI from RPI is balanced, in the case of Severn Trent, by allowing revenue increases in other areas so overall effect is value neutral for shareholders. Liv thinks that nationalisation by a Labour party is less of a risk than some think as there appears to be weak political grass roots support from Labour MPs. She is enthusiastic about the business and its ability to thrive in the new regulatory environment and that is possibly why she pushed the uplift in the dividend from RPI to RPI +4%.

2. Experian

Price **£15.50**
52 week high-low **£17.08–£13.80**
Net Yield **2.09%**
Hist/Pros PER **23.0–20.9**
Equity Market Cap **£14,317m**

CONSUMER SERVICES
Brian Cassin, CEO and Lloyd Pitchford CFO

Experian is one of just three credit bureaus in the UK and one of four that compete nationally in the US. The company collects, stores and resells data and analytical tools that are used to manage credit risk, prevent fraud, target marketing offers, and automate processes.

The business splits broadly into two segments; business-to-business (B2B) and business-to-consumer (B2C) - albeit financial reports are separated into four divisions.

B2B sales have seen strong organic growth within the group in recent years, driven mainly by their 'ONE Experian' strategy. As part of this, Experian have been able to use their range of services and depth of data to drive cross-selling opportunities and to take a greater share of revenue across the value chain.

B2C however, has seen more issues of late with management having to reposition the business as a result of innovative disruptors entering the market.

Where Experian had generated revenue by offering a single subscription-based product to customers, new entrants began to buy data from bureaus, provide a similar service for free to consumers and monetise the offering through referral fees.

In order to counter these disruptors, Experian have set about growing their membership base by providing credit scores for free to new and existing members. The medium term intention here is to drive revenues by selling additional products and services into their membership base, which is now 1.7 million strong in the UK and 9 million strong in the US.

The bureau market, in which Experian competes, remains a highly concentrated one with strong and defensible barriers to entry. With two-thirds of the business growing organically at over 5%, a return to growth in the not too distant future from the consumer side is feasible.

3. Equiniti

Price **£2.69**
52 week high-low **£2.85–£1.66**
Net Yield **1.74%**
Hist/Pros PER **27.7–17.6**
Equity Market Cap **£838m**

INDUSTRIALS
Guy Wakely, CEO and John Stier, CFO

In the Summer 2016 edition of Prospects we wrote on Equiniti where we described the group as a share registration, pension payment and administration services business. We highlighted their remarkable level of stickiness, high percentage of recurring revenues and average contract length of 27 years.
So stable and predictable is their business model, that were it not for a recently announced foray into North America, we would have little to add.

In July 2017 management announced the acquisition of Wells Fargo's Share Registration & Services business (WFSS). The £176m acquisition combines the number one player in the UK with the number three player in the US to create a global share registration business.

WFSS holds a leading market position with a growing market share. Over the previous three years the business has grown revenue by 6% on average each year and in 2016 posted revenues of £81m and adjusted profits of £14m; this compares with Equiniti as a whole in the same time period with £383m and £41m in revenue and profit respectively.

The strategic rationale for the acquisition comes mainly from integrating Equiniti's market leading IT platform into Wells Fargo's existing business, alongside cost synergies, estimated to be around £8m per annum. On this basis alone the acquisition is expected to be double digit earnings accretive to shareholders by the end of year two.

So whilst the deal looks good on paper we now hope for management to execute successfully on the integration of the near 1,200 public and private US companies, alongside 9,200 shareholder records in their typically unexciting but predictable manner.

Please read the important notice on page 2.

Economic Focus

Life after Brexit

Brian Tora
Chartered Fellow, CISI

Despite studying economics at school and later as part of a business studies course, I remain uncertain as to whether this discipline is more science or art. True, governments and consultancies run computer models designed to predict likely outcomes as a result of policy decisions, but we can never be certain to any reasonable degree what the future might have in store. An understanding of economics might make it easier to fully appreciate why a government's particular course of action produced the results it did, but as forecasters, economists are a mixed blessing at best.

"We are heading into unchartered waters which, at the very least, makes forward planning that much more difficult.

Take the reaction of the central banks to the financial crisis of a decade ago. To head off a downward economic spiral, these banks started buying in corporate debt to release bank funds for more lending. In effect they were printing money by making credit more readily available. It was called Quantitative Easing and most economic forecasters said that inflation would rise as a consequence. Probably the central banks expected the same as it would devalue debt, but in the end it didn't happen.

The forecasts for how Brexit is likely to impact our domestic economic performance have been generally gloomy. In a way this is to be expected. We are heading into unchartered waters which, at the very least, makes forward planning that much more difficult. Indeed, a recent survey from the Recruitment & Employment Confederation found that the balance of employers expecting the economy to worsen had risen dramatically, despite a buoyant jobs market.

This was supported by the GfK consumer confidence, which has fallen to -12, a post EU referendum low. With signs that the rate of growth in our economy is slowing, a more negative take on how we might fare once we are outside of the European Union seems natural. The main concern appears to be that wages are rising more slowly than inflation, potentially putting pressure on consumers' pockets, but I question whether we are right to be so pessimistic.

For a start, the fall in the value of the pound since the referendum result should give a welcome boost to our export industries and to inward bound tourism, not to mention encouraging more Brits to holiday at home. Those travelling to the European single currency zone are likely to find that their euros are costing pretty much a pound a piece – quite a disadvantage to those on a limited budget.

Then there is the oft raised spectre of higher tariffs if we leave the single market. When we first joined what is now known as the European Union, tariffs were indeed an issue, but in a global market place, the imposition of punitive tariffs must be considered carefully before implementing. We import more from the EU than they sell to us and can you really see Germany wanting to start a trade war, given the number of Mercedes, BMWs and Audis we buy from them?

Of course there are economic risks. Frankfurt and Paris look greedily across the Channel at the power of London as a financial centre and hatch plans to capture as much of this trade as they can manage. Some business may migrate, it is true, though my guess is that New York is more likely to benefit than any European centre. Technology, too, could be vulnerable, but with many of the skills in all these industries firmly embedded at home, it seems unlikely that there could be a swift transition of economic power from Great Britain to Europe.

Immigration, which many saw as the main reason for voting to leave, might also be a problem. Already the number coming to Britain from the EU is dropping, while those returning home are also on the rise. The oft quoted reason is that they no longer feel welcome in a country that has voted to leave, but I suspect we no longer look quite so attractive in salary terms, now that the pound is so much lower. Some industries, agriculture, building and hospitality in particular, may find recruitment more of an issue in the post Brexit world.

The world is very different today to how it was 44 years ago when Edward Heath took us in. While the uncertainty that seems inevitable as the negotiations grind on will affect sentiment, my bet would be that once all the dust has settled we will be hard pushed to detect much of a change in our economic stature. I'm far more worried about a financial meltdown in China, given the overstretched condition of their banking system and inflated asset prices, but that's another story altogether.

Collectives Commentary

Investing for income: Data-dependent

Jacob De Tusch Lec, manager of the Artemis Global Income Fund, outlines his current investment views within the context of his investment process.

> *“We recognise that no company exists in a vacuum: many of the factors that determine movements in its share price are beyond its control.*

Stock selection – analysing financial statements, meeting companies and understanding their markets and industries – is central to the Artemis Global Income Fund. At the same time, however, we recognise that no company exists in a vacuum: many of the factors that determine movements in its share price are beyond its control.

Changes in expectations for interest rates, for instance, have a huge impact on the relative performance of different regions and sectors of the global market. In the short-to-medium term, macroeconomic factors – and the way in which other investors respond to them – can overshadow an individual company's financial characteristics.

So the way in which we select stocks and assemble them into a portfolio takes place within a framework we build through analysing macroeconomic conditions and investor positioning. The US Federal Reserve likes to say that its decisions on monetary policy are 'data-dependent'; the shape of our fund is too.

Building a macro framework

Because we run an income fund with a focus on companies who can pay a high and sustainable income to their shareholders, we must pay particularly close attention to changing views on interest rates and inflation. Risk-free rates (such as the 10-year US government bond yield) act as the benchmark discount rates for the global financial system, influencing the valuation of almost every tradable asset in the world. They have particular relevance for 'bond proxies' – equities whose reliable dividend yields make them act like bonds, such as tobacco and utility stocks. Like bonds, their fortunes are closely intertwined with expectations for interest rates. If long-term interest rates are expected to fall, their dividends become more precious and their share prices appreciate. This process, of course, can also work the other way. We have long believed that, by keeping bond yields artificially low, central banks have driven prices of some types of equities to a point where they trade on extremely high multiples of their earnings. That could make them vulnerable as interest rates rise. So our fund has less exposure to bond proxies, particularly in the US, than many of its peers. Instead, we tend to prefer cheaper equities whose share prices should, in theory, benefit from a higher interest-rate environment.

Economic expectations also influence the performance of 'growth' stocks (companies whose earnings can grow independently of the wider economy) relative to 'value' (cheaper stocks with slower growth in sales and earnings whose fortunes are more attuned to the performance of the economic cycle – such as car manufacturers). When investors are worried about slow growth and deflation they will pay a premium for companies whose earnings can continue to grow in a hostile environment. But when the economy as a whole is growing, inflation expectations and growth is less scarce, it helps value stocks. So, in seeking to determine the balance of different types of equities that the fund holds, we look at the macroeconomic picture.

What next?

If growth slows and inflation continues to disappoint, the fund's 'core' (which consists of stable, higher yielding bond-like investments) will benefit and we will allocate more capital to it. But that is not our central expectation.

Today, we are seeing synchronised growth in every region of the global economy and liquidity remains abundant. After a slow start to the year, the US economy is reaccelerating and jobs are still being created. If this growth continues, inflation will return to the system and, as the market anticipates tighter monetary policy, bond yields should start to move higher. So although our portfolio is not positioned for one narrow outcome, at the time of writing its largest holdings are beneficiaries of continued growth, rising inflation expectations and higher bond yields: cyclical stocks (such as miners) and financials.

Yet although we have a view on the way in which the economic environment is most likely to develop, we are not complacent. It is difficult to predict how markets might react once the Fed begins to shrink its $4.5 trillion balance sheet, draining liquidity from the global financial system. No central bank has ever tried to reverse a quantitative easing programme of this size before. Should the Fed make a policy mistake, we would hope to find some protection in valuation: the portfolio trades at a 20% discount to the global market (in price-to-earnings terms) with similar earnings growth and a higher yield (around 3.5%).

In the first half of 2016, 'growth' stocks did well; in the second, 'value' outperformed. In the first half of this year, 'growth' outperformed again. It is tiring that the market has become a fairground ride whose direction changes every six months. But in a world with a muted business cycle and stop-go patterns in both fiscal and monetary policy, such reversals may be inevitable. By keeping an eye on the data, however, our aim is to be ready for them.

Please read the important notice on page 2.

Stock in focus

Intercontinental Hotels Group

James Godrich
Research Assistant

PRICE
£38.67

52 WEEK HIGH-LOW
£44.92 — £29.84

NET YIELD
1.94%

HIST/PROS PER
22.6 — 21.1

EQUITY MARKET CAP (M)
£7,331

With more than 750,000 hotel rooms in 100 countries, Intercontinental Hotels Group is one of the largest global franchises today.

In 2007 Warren Buffet wrote in his annual shareholder letter that, "a truly great business must have an enduring 'moat' that protects excellent returns on invested capital." 53 years earlier Intercontinental Hotels Group (IHG) began their quest for those same excellent returns on capital when they introduced Holiday Inn as the first hotel brand to franchise. Today they are joined by the likes of McDonald's, KFC, Pizza Hut and Hertz as one of the biggest global franchise businesses.

The Group owns and operates various brands including Intercontinental, Crowne Plaza, Holiday Inn, Holiday Inn Express, Candlewood Suites, and HUALUXE Hotels and Resorts, amongst others. Roughly 50% of their revenue comes out of North America with the UK making up less than 5%. In total they cover nearly 100 countries with 5,200 hotels and 770,000 rooms.

IHG run an asset light model with the majority of their top line being driven by taking a percentage share of revenue from a mix of both franchised and managed hotels. To this end, group revenue is driven in the most part, by a formula that comprises of number of rooms, multiplied by revenue per available room (RevPAR), multiplied by the royalty rate charged.

Taking each of these in turn, IHG have looked to drive RevPAR in recent years through a strategy of consistent technology investment, creating customer loyalty through their IHG Rewards Club and delivering revenue and customers through low cost marketing channels. Through this strategy IHG allow their franchisees to drive RevPAR via a combination of both increased room rates and improved occupancy.

As part of the formula for driving Group revenue, IHG have seen a 3.1% compound annual growth rate in room signings between 2011 and 2016; versus industry growth of around 2%. This being mainly the result of their strong portfolio of both new and existing brands from which management continue to invest.

> *IHG have reinvested cashflows in both data and technology through marketing, pricing and innovative systems.*

Royalty rate, the final part of the equation, varies between the roughly 550,000 franchised and the 220,000 managed rooms. Franchise owners are required to pay 5% of room revenues with no incentive fees and a mostly fixed overhead base. This compares with managed properties where, more typically institutional owners pay 1-3% of total revenues alongside 5-7% of gross operating profit.

Further benefits of their franchise model are seen in optimising central costs. To this end IHG have reinvested cashflows in both data and technology through marketing, pricing and innovative systems to allow their franchisees a well invested competitive advantage. As an example IHG are able to boast a history which includes the first computerised reservation system, the first and largest hotel rewards programme as well as being the first hotelier to allow online bookings and host apps on all mobile platforms.

One of their more recent investments has come in the form of a cloud-based Guest Reservation System allowing IHG to utilise data from internal systems to optimise and personalise pricing, availability and marketing.

In recent years shareholder returns have not only come from strong operational performance but also from selling down their hotel real estate and returning cash to shareholders as they continue to drive their asset light, high return on capital model. It is interesting to note that whilst people often cite Airbnb as one of the largest hoteliers with zero physical assets, IHG are not far behind with only eight of their more than 5,000 hotels currently on their balance sheet.

Whilst IHG have driven operational outperformance from a low capital base, their investment does not come without risk from both macroeconomic and competitive threats. Despite their significant technological investment it is these same advances that are providing not only an opportunity but also a threat to their very existence.

We would note two major concerns as the growth of Airbnb and Online Travel Agents (OTAs) which risk threatening IHG's pricing power as well as their 'direct to market' strategy. Whilst Airbnb are not seen as a direct competitor, they have had the effect of limiting price increases during peak periods as supply comes on stream. Similarly OTAs have impacted IHG by increasing price visibility, whilst reducing profitability to franchisees who are required to pay an additional fee to drive customers from secondary sites; the impact to IHG is indirect though as fees are paid by franchisees mostly as a percentage of revenue rather than profits.

As competition increases, it is here that we hope IHG are able to leverage their Rewards Club and proprietary tech investment to encourage customer stickiness. This, when added to increased brand awareness, should help to maintain pricing power.

It is clear that their asset light model has driven impressive returns on capital and strong shareholder returns in recent years. As competition grows and the potential for macroeconomic risk heightens though, we now look to their portfolio of brands and recent investment as Buffett's 'economic moat' to protect these 'excellent returns on invested capital' in all weathers.

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Please read the important information on page 2.

General interest

Property pearls

Mark Lawson
The Buying Solution

Mark Lawson from The Buying Solution takes a look at the property market and highlights the trend for off-market transactions.

In the recent past, the well-trodden property path of a successful London-based professional would follow a fairly predictable route. A first-time flat in central London, upgrading to a larger first-marital home typically just outside Zone 1, before moving out of the capital to something larger in the country. That final move would be driven, more often than not, by the prospect of good schools. While children grow up, there is a period of property stability during which there might be a pied-a-terre investment back in London, until it comes to downsizing later in life.

This pattern, which has served to deliver regular stock to the marketplace both in London and the country, largely held its shape until London property values began to grow vastly out of line with the country following the financial crash of 2008. Many of those Londoners who otherwise would have moved out, clung on to their properties and watched, in some cases, double digit price inflation.

The rug was pulled from underneath the London market when, in December 2014, the former Chancellor George Osborne introduced radical changes to Stamp Duty Land Taxes (SDLT). Overnight the long-standing system, where buyers were charged a percentage of the full purchase price as soon as it hit certain thresholds, was scrapped. Instead, new levies were created with, for the first time in this country, buyers having to pay a tapered 10% tax on the property value up to £1.5m, and 12 % above that. This was followed in April 2016 by an additional 3% surcharge if the property purchased was a second home. Understandably, it made a lot of would-be buyers take stock and re-think their investments and property transactions.

On top of this substantial increase in taxation, the market then had to cope with the knock-on effects of the uncertainty generated by the Brexit vote last June and the ensuing devaluing of the sterling. Given that a substantial amount of prime central London is owned by those who operate in Euros or dollars, factoring in the steam that has come off the market as well as the drop in the value of the sterling, property values have come down by as much as 30% in some cases. Unless vendors really have to sell, they are holding back.

The result of this wariness and lack of stock is a flight to quality across the board. Those that are buying in this market want to make absolutely sure that what they are securing is best-in-class. Pockets of activity flair up: the north Cotswolds, for example, where there is particular interest in the area between Oxford, Burford, Stow and Banbury, is proving popular – especially with the improved communications to London Marylebone. Patches of perceived value

> “
> ***A lot of business is being conducted off-market whereby the house is shown to a select few and there is no marketing.***

in the Home Counties – currently that's around Haslemere – is also generating interest. In London, when something does come to the market that has serious stand-out value – a house overlooking a park for example, or a lateral apartment on a prime street in Kensington – it's often the case that there is competition. The result is an uneven market: considerable premiums are being paid for the very best properties, while those which are thought to be blighted remain stuck and over-valued.

Looking at our figures for the past five years illustrates the divergences in the top-end property market: numbers of clients looking to spend over £5m on their purchase are down by more than 50% due to SDLT increases while those operating in the super-prime market, that is to say, with budgets over £20m are up by over 60% as these clients are taking advantage of the weak pound. Meanwhile, those clients who are reliant on the sale of one property in order to purchase another has risen from 10% to 40% during that same period – not being able to sell the London property has been a recent stumbling block.

Future-proofing an investment isn't easy in any market but when it comes to property, there are ways of getting ahead of the game; chief amongst them is seeing the 'whole market' when initially purchasing. With increasing numbers of vendors unwilling to risk exposing their properties to the unknown appetite of the open market (lest they fail to sell and become stale), a lot of business is being conducted off-market whereby the house is shown to a select few and there is no marketing, no website listing and certainly no advert in Country Life, or the London magazines. Typically around 45% of The Buying Solution purchases are made off-market; so far in 2017, 71% of our country purchases have been conducted privately. This becomes even more evident the higher up the market you go: of the 20 or so country houses we recently viewed with a Russian client above £15m, only four are known about publicly.

It's also more important than ever to analyse every feature of the purchase to understand its positives and its pitfalls. A buying agent might typically preview as many as 130 houses on behalf of clients before distilling a shortlist of possibilities. Of course, there's an element of compromise in every property purchase but what's important to understand is where those compromises should be made and what aspects are likely to affect its value long term – regardless of what the future political or economic climate might have in store. What we do know is 'Best in Class', like most other assets, remains a saleable product in a good or bad market; the critical thing is to be able to identify 'the best' it if it appears (which they very rarely do).

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ROYAL DUTCH SHELL

John Royden
Head of Research

PRICE
£21.53

52 WEEK HIGH-LOW
£23.91 — £18.70

NET YIELD
6.71%

HIST/PROS PER
28.6 — 16.2

EQUITY MARKET CAP (M)
£177,466

Royal Dutch Shell (Shell) took on more leverage when it bought BG back in early 2016. The aspiration was that the deal was being done at the bottom of the oil price cycle and that an oil price recovery, plus asset sales, would enable Shell to move its balance sheet back to a stable gearing or debt to equity ratio of 20%.

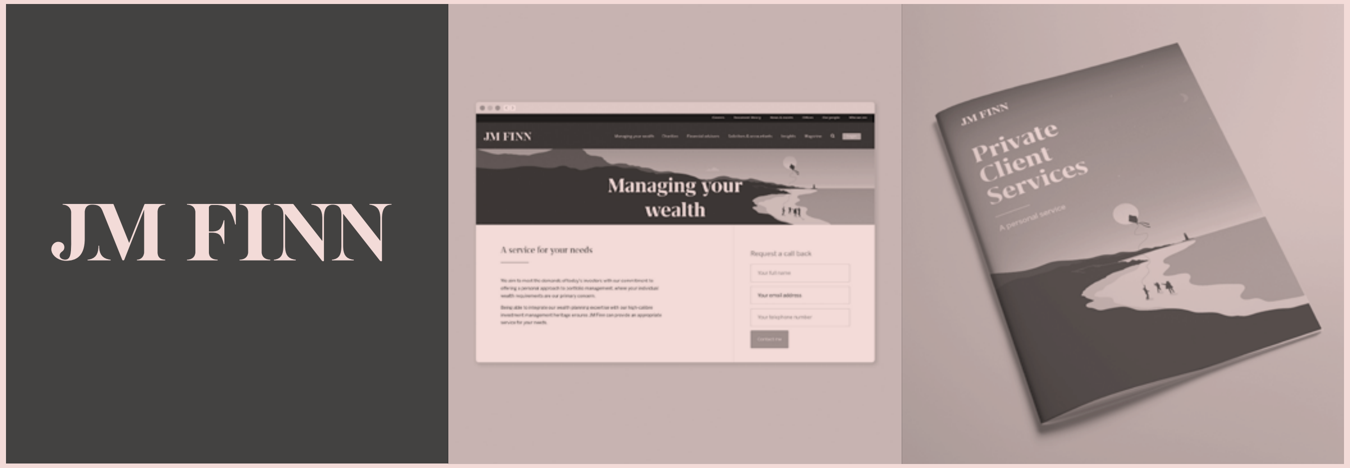
The balance sheet at the July First Half Results sat with a gearing of 25%, down from 28%.

The WTI oil price has recovered since the February 2016 low of $29 and is now trading at $49 which is close to the post-dividend cashflow breakeven, estimated at $50 per barrel. We see supply / demand / inventory dynamics as well as firmer fourth quarter global growth, taking the oil price higher in the near future.

Shell's share price is highly correlated to the oil price but if Shell manages to lower the breakeven to $40 by 2020 in addition to enjoying higher oil and gas revenues then the 6.5% dividend yield that you now get would start to look like an, ex post, wise holding for income portfolios.

Please read the important information on page 2.

JM Finn News



New branding

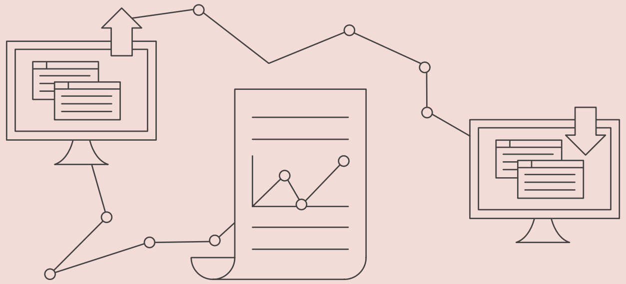
Regular readers of Prospects will have noticed a change to our branding, which incorporates a brand new logo.

The decision to update the look and feel of the firm has been taken to acknowledge the broader range of services that we offer our clients. No longer purely an investment firm, we now offer wider wealth management services so it seemed appropriate to amend the presentation of our brand. The new look is being rolled out in September and will be visible across all our reporting, marketing literature, web site and client portal.

This rebranding exercise, whilst not too significant a change, does give us an opportunity to make the point that we are evolving in line with our clients' needs. With new digital services and a specific advice function for aspects of personal finance, such as inheritance and pensions, moving the brand forward was inevitable.

> *“This new look is designed to underline the importance of the personal service which is the hallmark of our success.*

This new look, which makes more use of illustrative graphics, is designed to underline the importance of the personal service which is the hallmark of our success. We will endeavour to continue to offer our clients individual portfolio management services, where applicable, alongside complementary wealth planning services, if required. In the meantime, we hope you like the new look of Prospects, where we have ensured we retain the same level of investment content as previous editions, as investment management will always remain the backbone of our client proposition.



Electronic reporting

We announced our new portal in the Spring edition of Prospects and the launch of the new app last issue.

As part of our continuing development of the digital services we offer our clients, we have now completed the development to allow us to offer electronic reporting to those clients who would like to reduce the amount of paper we send.

To take advantage of this you will need an online account, which can be set up by contacting your investment manager, who can also arrange for you to go paperless. The documentation will remain on the online account for three years and therefore, to access it indefinitely, we recommend you download and save documents securely.

Please note, if you currently receive contract notes by email, this will continue at present, however, we will be changing this in 2018 at which point contract notes will be posted to the client portal.

Award-winning portal

We are delighted that our new portal, launched in the Spring of this year, has been named the Best Online Development at the Systems in the City 2017 Awards earning the developers, Crealogix, a prestigious accolade.

As a reminder, our portal, available on a desktop or a smartphone app which can be downloaded from Google Play or the App Store, has the following features:

- Send and receive secure messages to your investment manager
- View the current value of your portfolio
- Access the transaction history and cash statement
- View a consolidated holdings report, by family group or by individual portfolio
- View, download and print all your account documentation for the last 3 years from your personal library
- Access historical price movement charts for FTSE 350 equities
- Keep updated with the latest JM Finn news and market commentary
- One-touch dialling from your smart phone to your investment manager
- Secure log-in from your smart phone or tablet (if available) via biometric identity check

Exam success

Two of our in-house research team, and regular contributors to Prospects, have recently completed the CFA® exams.

Both John Royden, Head of Research and Theo Wyld, Research Analyst successfully passed all three of the arduous levels.

The CFA® exams are generally considered one of the hardest professional qualifications in the industry.

The CFA® program connects academic theory and international accounting knowledge with some of the highest ethical and professional standards.

To succeed candidates must pass over 18 hours of exams taken over a minimum of two and half years.

Congratulations to both John and Theo for their success.

Wealth Planning Focus

Should I Stay, or should I go?

Simon Wong FPFS
Wealth Planner

There are around

11 million

people who have built up benefits in private sector defined benefit pensions and its seems that higher transfer values are increasingly tempting people to leave these so called "gold-plated" schemes.

> *According to The Pensions Regulator, 67,700 people transferred out of defined benefit pension schemes in the last year alone.*

There has been a huge increase in interest in defined benefit (aka Final Salary) pension scheme transfer values since new pension freedoms legislation was introduced by Chancellor George Osbourne in 2015. According to The Pensions Regulator, 67,700 people transferred out of defined benefit pension schemes in the last year alone.

The BBC reported on this hot topic in December 2016 under the headline ''Defined benefit pension transfer values shooting up''. According to the insurance company Royal London, six million people with defined benefit pensions have seen their transfer values increase significantly in the last year. The insurer suggests some members are being offered "eye-watering" sums, often tens of thousands of pounds more than a year ago. For an individual with a pension income worth £20,000, it is not uncommon to be offered 30 times that amount, in other words, £600,000 in cash.

Royal London's survey of more than 800 financial advisers found a growth of more than 50% in the volume of transfers out of defined benefit pensions taking place in the last year, with the most common transfer value lying in the £250,000 - £500,000 range. The vast majority of clients transferring were in their 50s, and the typical cash sum offered is between 25 and 30 times the value of the annual pension given up.

So why are so many people transferring out of these schemes that offer a guaranteed payment for life? The answer is twofold: Transfer values for defined benefit schemes have been at inflated levels recently and secondly, the recently introduced pension freedoms that provide for vastly improved flexibility in how a pension can be taken applies to Defined Contribution (DC schemes) only.

Inflated transfer values

Transfer values are the sums paid from a pension scheme when a member chooses to withdraw their entitlement. In the past, lack of knowledge and lethargy meant many people kept pensions in previous employers' schemes until they came to retirement.

The level of a transfer value from a defined benefit scheme is not specified in the scheme's rules, unlike other benefits. The terms used are set by the trustees, on the advice of the scheme actuary, at the time of the transaction. Transfer values paid from defined benefit schemes are the only ones that require assumptions about the future. Also, due to the pooling of risk between members, the level of transfer payment can also affect other people's entitlements. The scheme actuary's aim is to calculate the "best estimate" of the amount needed to buy the equivalent to the scheme entitlement. The actuary has to tread a careful line to be fair to both sides, ensuring any transferring member and those remaining in the scheme are not left worse off. He also has to be mindful that schemes have to guarantee their transfer value quotations for a period of at least three months to give members time to make arrangements with an insurer.

So let's briefly look at the reasons for the increased transfer values in the last couple of years which has sparked increased interest from members.

Transfer value calculations require assumptions about discount rates, inflation rates and demographic assumptions, all of which apply many years into the future and so there is considerable uncertainty over how these factors will play out. Discount rates are often based on long-dated bonds adjusted for the scheme's actual asset mix. Currently gilt yields are at low levels, which results in lower discount rates and higher transfer values. At the same time, the long-term inflation rate outlook has risen, which also tends to increase transfer values in many defined benefit schemes.

There was a large fall in gilt yields over the period just after the Brexit vote. Although the fall reversed towards the end of 2016, it looks to be slowly falling again in 2017. Transfer values are likely to have followed an inverse path depending on the scheme's rules.

These higher transfer values attract more members to transfer out as they might expect that such a relatively high transfer value can be invested to provide a higher return and result in a greater pension than the more prudent assumptions used by the scheme actuary.

Members requesting transfer values last autumn are likely to have done well. Experience suggests they may also have told their friends and families about the relative size of their transfer values, encouraging more people to consider transferring.

Pension freedom

Members transfer for different reasons. They might feel more secure with a policy in their own name, in case anything happened to the scheme; the recent BHS debacle is an example of this. Or perhaps they want to have all their pensions in one place. It also allows defined benefit members to tailor their pension to suit their own needs, where these differ from those in the scheme's rules, for example by:

- **Taking pension earlier or later than the scheme rules offer**
- **Allowing for different levels of inflation protection**
- **Altering the level of dependents' pensions to provide more or less for a spouse, or to remove them completely if they have no dependents**

Pension freedoms introduced in 2015 changed this in a big way, encouraging more members to transfer. Since 2015 holders of defined contribution plans:

- **Do not have to buy an annuity**
- **Can draw their pension flexibly**
- **Can even take the whole pot as cash, although this would be subject to tax**

The important point is that these freedoms only apply to members of defined contribution schemes, so if defined benefit scheme members wish to take advantage of the flexibilities, they must transfer. Publicity over the new legislation also seems to have spurred people into considering their own pension and taking action.

It must be noted however, that if a scheme is underfunded, paying out a full transfer value could mean remaining members are left worse off. Underfunded schemes, those with a poor outlook for returning to full funding, may reduce transfer values (an "actuarial reduction") so as not to disadvantage those left behind even further.

Transfer incentives

Over the past few years, more defined benefit schemes have closed and sought to reduce the risk in their scheme. Royal Mail confirmed earlier this year that it will close its defined benefit pension scheme to future accrual and retail giant Marks & Spencer told its active defined benefit members that they will no longer be able to accrue additional benefits from April 2017.

One way to further reduce risk for the scheme trustees is to reduce the number of members and the size of the scheme's liabilities, which means the members who transfer out are helping the de-risking process. This has led some schemes to offer incentives, by increasing transfer values, as an inducement to transfer away.

Should you stay?

While obtaining the cash value of a defined benefit pension may be beneficial for some people, there can be significant disadvantages. Keeping a defined benefit pension is sensible for many people, as they offer:

- **Certainty: such pensions pay an income for life**
- **Inflation protection**
- **Risk-free income, which does not depend on the ups and downs of the stock market**

It is a regulatory requirement that anyone seeking a transfer over £30,000 must seek advice from a suitably qualified financial planner and the trustees of the ceding defined benefit scheme must ascertain that this has been done. Otherwise, the transfer is not permitted.

We would encourage members of defined benefit schemes to seek advice to review their situation and their entitlement from the scheme, including the benefits at retirement and the relative transfer value offered. The advice process can often be complex and a member should consider carefully their options with their adviser. Giving up a guaranteed payment for life is a big decision so any action should not be taken without due consideration.

The points made in this article are for illustrative purposes only and if you require any assistance with any of the above opportunities in relation to your personal circumstances, contact your investment manager who can make an introduction to our specialist wealth planning team.

It is important to note that JM Finn is not a tax adviser and where tax advice is required, we would look to work with your existing advisers or refer you to a trusted external tax specialist.

VICTREX

John Royden
Head of Research

PRICE
£20.45

52 WEEK HIGH-LOW
£22.64 — £14.73

NET YIELD
2.10%

HIST/PROS PER
23.1 — 20.4

EQUITY MARKET CAP (M)
£1,935

In 1993, Victrex was formed following a management buyout from Imperial Chemical Industries (ICI). They took with them their then patented product Polyaryletheretherketone (PEEK), a polymer that forms the basis of all their products. Today you will find PEEK in a wide variety of industries and forms; from the diaphragm in the speaker of a smartphone just microns thick, to an entire gear system in a luxury car.

PEEK has many attractive attributes which underpin the demand. Firstly, it is lighter, more heat resistant, and more durable than metal. Secondly, it can be injection moulded into bespoke forms, making it much faster to process than metal. These attributes make it ideal for both industrial (80% of revenue) and medical (20% of revenue) applications.

Victrex often approach their customers, creating bespoke solutions and proving concepts that deliver both manufacturing efficiencies and relative outperformance over metal alternatives. The products are often low cost but safety and/or performance critical. This ties in the customer and protects Victrex from being displaced by a lower quality, but cheaper, competitor.

Victrex produce consistently high returns on capital, boast EBITDA margins of over 40%, have no debt on their balance sheet and are highly cash generative.

Please read the important information on page 2.

Asset Allocation Focus

Research

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.

The Asset Allocation Committee, which consists of three members of our 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 EQUITIES		
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 beware higher coupon issues.
UK EQUITIES		
UK Financials	Neutral	Cautious on the UK economy and interest rate expectations.
Consumer Goods	Neutral	We like this sector for its defensive qualities but are cautious following recent strength.
Oil and Gas	Negative	Given the unfavourable supply/demand dynamics we do not expect any improvement until we see concrete production cuts announced.
Consumer Services	Neutral	Some interesting opportunities in Media and Leisure exist.
Industrials	Neutral	Selective opportunities still remain in the sector that should benefit from weaker sterling.
OTHER EQUITIES		
US	Neutral	Stocks are hitting highs but we are cautious on valuation grounds and slightly weaker economic data.
Europe	Neutral	Recent re-rating and the strength of the euro suggest caution.
Japan	Neutral	We have little conviction as to Japan's economic outlook and subsequent policy response.
Asia/China	Positive	We see continued evidence of a stabilising China benefitting the region. We will continue to monitor the impact of tighter credit.
Emerging Markets	Positive	We remain generally positive on emerging markets but some caution required due to recent strength.
ALTERNATIVES		
Property	Neutral	The preference remains property companies rather than open-ended funds, but caution on liquidity.
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 to NAV.

Meet the manager

Edward Furness-Smith

Senior Investment Manager, London

Lives London
Family Single
Education Radley College and Durham University
Started at JM Finn January 2017
Alternative career if needed Cricket commentator
First Job Graduate trainee accountant at PWC
Summer holiday The Isle of Lewis

How do you describe your job to friends outside the industry?

Most of my conversations tend to avoid my day job, partly, I imagine because many of my contemporaries who are not engaged in financial services don't always understand what we do. If asked, I am of course only too happy to explain. In a nutshell, we look after the financial affairs of individuals, but the real purpose of what we do is to give our clients some peace of mind that someone is looking after their wealth in line with their stated investment objectives. Knowing that someone is thinking about your wealth day in day out allows my clients to get on with their day job, be that enjoying their retirement, focusing on their careers or bringing up their children.

What was the main attraction for joining the firm?

There were a number of key factors for moving to JM Finn, but possibly the most important one was the business model by which the firm operates. What appealed to us was the degree of autonomy afforded to the investment managers. Many of the institutions we have come across recently were increasingly centralising their investment decision-making process in the name of efficiency. We felt this compromises the personal nature of an investment service; after all each client is different and therefore having the flexibility to tailor portfolios was critical to our thinking.

As our newest investment manager, what strikes you most about JM Finn?

Coming to JM Finn was a big move for us as one thing clients do not like, in my experience, is upheaval. We felt that JM Finn was an organisation that mirrors our high standards of service thanks to their big focus on putting clients first. I know that many firms, not just in financial services state this, but here it is evident across all aspects of the business. I think this stems from having senior investment managers on the management committee which means that each and every decision is considered from a client perspective.

One area of our industry that causes most gripes with investors is the administrative side. Clients always view the amount of paperwork as excessive but of course this is industry wide. One of the real positives that I have found in the six months of being here, is that thanks to having an in-house administration function, should there be a problem we can resolve it quickly and efficiently without having to liaise with a third party, or talk to a department in a far flung region.

Finally, the collegiate and friendly approach from other like-minded investment managers is a hugely positive environment to work in and I have no doubt this will translate into providing a service for our clients that is second to none.

Your colleague, John Eastgate joined us on the 7th September – have you missed him?

Of course – we have been a close-knit team for a number of years now and have always enjoyed working together. So not having John has not helped our Herculean challenge of onboarding so many clients in such a short period of time. But I know he's raring to go and thanks to the generosity of friendship from our new colleagues I have no doubt he'll settle in in no time at all.

In light of the current market conditions, how are you positioning client portfolios at present?

We have been fortunate that the period during which our clients have moved over to JM Finn has been a period of upwards momentum for the market. This has meant that we have done little in terms of investment activity as our clients' portfolios have, in my view, been appropriately positioned in the context of their individual investment objectives.

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