JM FINN

No.21 *Winter 2017*

Prospects

The JM Finn Quarterly Periodical

No.21
Winter 2017

Contents

Important notice
Please note that the value of securities and their income can fall as well as rise. Past performance should not be seen as an indication of future performance. Any views expressed are those of the author. You should contact the person at JM Finn with whom you usually deal if you wish to discuss the suitability of any securities mentioned. Prices quoted are as at close of business on 24th November 2017.

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Cover Illustration:
Adam Mallett/Graphic Alliance

Welcome

The last few years have been good for financial markets as a result of low interest rates, the benign economic environment and growing economies in the Far East and the United States.

My current thoughts are that this environment will continue, however, one must be wary of markets running away; but with stockmarket valuations about 10% above long term averages, I do not believe we are heading into a danger zone yet. If one bears in mind that the FANG stocks in the US (Facebook, Amazon, Netflix and Google) have led the way forward, the market is somewhat more reasonably priced than it first appears, which allows for a slightly more rosy view on markets generally.

Regular readers of Prospects will know I am concerned about the political situation in this country and what the effect a change of government could have on domestic companies, the value of the pound and the level of our own gilt market. Therefore, we are increasingly taking a more global stance in the way that we look at investments which I believe is sensible today and in the longer term, both from a political point of view but also in the context of the modern globalised world.

Therefore, you will increasingly see from our research department global stocks being written about, as we adopt a more sector based approach to research that encompasses the global universe of companies, rather than a bias towards the UK. For example, rather than doing the analysis on just Lloyds and HSBC in the UK, we might now look at Bank of America, BNP or Svenska Handelsbanken in a bid to determine the optimal way to access the banking sector.

This more global approach is one that we'll be talking about more in the future, but in light of the aforementioned concerns about the political situation at home, is an important change to our approach. Obviously I hope my doom-mongering about the UK is overplayed, but one must be realistic about the way things stand today.

You will notice the various developments we are making to the services we provide, including the Client Portal and I do hope that as many people as possible will take advantage of the information and technology improvements. If you feel we could improve anything in relation to the services we provide please do not hesitate to let us know as it can only help improve the services clients receive.

At the same time, as all of our clients are aware, we are an independent company dedicated to looking after private clients and if you want to recommend us to your friends and family, there will always be a friendly face at JM Finn who would be delighted to look after them.

James Edgedale

James Edgedale
Chairman

Editorial

Heroes or villians

James Godrich
Research Assistant

Illustration by Matt Glasby

In 2002, the then Chancellor, Gordon Brown famously said that, "with Bank of England independence, tough decisions on inflation, new fiscal rules, and hard public spending controls, we have economic stability not boom and bust."

15 years on from that speech, 20 years on from the introduction of central bank independence in the UK and shortly after the first rate hike in ten years, I thought it important to revisit this topic and ask ourselves, 'has independent monetary policy really been as successful as central bankers might have us believe?'

In 1997 the Bank of England, under the Monetary Policy Framework, were given the task of delivering price stability – defined as a 2% inflation target – in order to provide the 'right conditions for sustainable growth in output and employment'. To achieve this the Monetary Policy Committee (MPC) were given the tools of setting interest rates and latterly assumed control of the money supply, through quantitative easing.

Whilst this may seem like insignificant financial jargon, particularly to a generation of millennials who have seen little volatility in interest rates, the impact to our everyday lives is tremendous. Interest rates in essence determine the value of money. If rates go up, money becomes more expensive so you can expect to pay more on your mortgage, but at the same time earn more on your savings. And vice versa if rates go down.

Within this context it is important to note that in 20 years of independence, the Bank of England have met 241 times where they have held interest rates steady 195 times, cut interest rates 27 times and raised interest rates just 19 times. When the Bank of England was given independence, base rates were set at 6.25%, today they stand at just 0.5%. Whilst one may wish to blame this long term decline in interest rates on low inflation, ageing populations and slower productivity growth, empirical evidence tells us that central bank independence has acted mostly to make money cheaper.

> **When the Bank of England was given independence, base rates were set at**
> **6.25%**
> **today they stand at just**
> **0.5%**

At risk of this becoming a history lesson on monetary policy, the obvious question that we must answer is why did the responsibility for setting monetary policy get moved from Whitehall to Threadneedle Street in the first place? The theory goes that the main reasons were that setting rates is a highly skilled, time sensitive job that requires coherent communication with the financial markets which politicians may not necessarily be capable of.

> *The more cynical amongst us however may argue that it is simpler than this. Low interest rates, set by government officials, means cheap money, resulting in a greater incentive to spend rather than save.*

The more cynical amongst us however may argue that it is simpler than this. Low interest rates, set by government officials, means cheap money, resulting in a greater incentive to spend rather than save. This in turn leads to growth in output and employment, which means a more prosperous economy and a greater chance of re-election for politicians. The downside comes from the high inflation that follows as the purchasing power of money begins to dramatically reduce. To see this sequence in action in the UK, we only need to look back to the mid-1960s.

So with the support of both of these theories, and the number of highly skilled, highly qualified and highly educated economists who presented positively on central bank independence during the Bank of England's recent "20 Years On" conference, who are we to even question its efficacy?

Well, I have two unanswered concerns; the first of which looks at fiscal and monetary co-ordination and the second at whether monetary policy is impacting socioeconomics beyond the Bank of England's current remit.

The period since the global financial crisis has been a prime example of a lack of fiscal and monetary co-ordination; by that I mean that we have seen a sustained period of fiscal austerity, through public sector pay caps and limited government spending, alongside an historic period of ultra-loose monetary policy through zero rates and quantitative easing. If I were to ask two people stood side-by-side to move a sofa and one of them chose to push whilst the other chose to pull, how much progress would be made? None.

Ironically, now that we are finally seeing a loosening of the Government's purse strings as the Conservatives look to lift pay-caps and increase infrastructure spending, it has come at the same time as monetary tightening.

Whilst the risks associated with too much Government intervention are clear to see, it appears that too little could also be an imperfect solution.

A second consideration is around the socioeconomic impact of the cheap money that has been a feature of the 20 years of central bank independence, and the profound impact that it has had on asset prices and wealth inequality. In his book, The Only Game in Town, former PIMCO CEO and co-CIO Mohamed A. El-Erian argues that a return to global growth requires, amongst other things, prosperity across the social spectrum. With zero rates driving stock markets, house prices and debt instruments ever higher it must be asked whether the existing structure will ever allow for one of El-Erian's key conditions to be met.

> *I believe that monetary policy, in its current existence, is heading slowly towards an abrupt T-junction*

As the risks from widening inequality and little policy co-ordination begin to outweigh the benefits of stable prices in providing the 'right conditions for sustainable growth in output and employment', I believe that monetary policy, in its current existence, is heading slowly towards an abrupt T-junction. One turning sees central banks raise rates to normalise monetary policy, whilst maintaining steady global growth. The other sees dwindling credibility, the proliferation of the phrase 'central bankers bubble' and all the macroeconomic risks that come with this loss of confidence.

Successful navigation I believe, requires constant monitoring not only of the central bankers sat in the driving seat but of the machinery and infrastructure that they are being given to drive, and 20 years on, what better time than now?

JOHNSON & JOHNSON

John Royden CFA
Head of Research

PRICE
$1.38

52 WEEK HIGH-LOW
$1.44— £1.09

NET YIELD
2.38%

HIST/PROS PER
21.5 — 19.0

EQUITY MARKET CAP (M)
$370,874

Warren Buffet once said "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." As one of very few pharmaceutical companies with AAA rated corporate balance sheets and an impressive record of steady earnings progression, Buffet could well have been talking about Johnson & Johnson.

It is therefore no surprise that they are in the line-up of potential suiters as Pfizer considers selling or spinning off their Consumer Healthcare business. Management have bolstered rumours of a potential acquisition by stating that the consumer unit of a large corporation would be a "logical choice".

Consumer Products is quite possibly the first thing that springs to mind when we think of Johnson & Johnson, but happens to be the smallest of their three main divisions. Baby Care and Band-Aid are but two of their recognisable products.

The Medical Devices division focuses on Surgery, Cardiovascular and Specialty solutions, and Orthopaedics and accounts for roughly one third of sales.

The largest division is Pharmaceuticals, which accounts for nearly a half of sales. Johnson & Johnson are global leaders in a large array of categories including Immunology, Infectious Diseases, Neuroscience, Oncology, and Cardiovascular and Metabolic Diseases. Aided by their Janssen Pharmaceuticals acquisition back in the 1960's, they produce a number of blockbuster drugs which have sales well in excess of $1 billion a year.

Please read the important notice on page 1

Guest editorial

Turbulent times ahead

By Conal Gregory
Illustration by Elliot Elam

The UK is in the midst of a troubled, even disorderly time in its economic and political history. Uncertainty is the name of the game as the deadline for Brexit approaches. Whilst the guillotine for the UK's exit from the EU goes down on March 29 2019, few believe that a competent deal will be struck by then.

Investors and electors alike should be concerned. There are several players in this field following Cameron's insistence on a referendum and the less than helpful approach from the European Commission.

Theresa May was wrongly advised to call a general election and proved inadequate to a presidential style of campaigning. Few cabinets have been formed of such a lacklustre group of MPs, several of whom apparently see no reason for acting like Henry VIII in creating law without Parliamentary approval.

Labour is not covered in glory either; it pledged to accept the referendum result but contradicted itself by voting against the EU Withdrawal Bill.

Referenda results can be interpreted and acted upon in different ways. A higher percentage of the electorate voted for Scottish independence in 2004 than for Brexit two years later. However, Scotland remains very much an integral part of the UK and yet the UK is set to leave the EU. Just as in a card game, players on one side are not showing their cards to their opponents but few on this side of the Channel believe realistic business assessments have been made of the consequences of withdrawal. This is economic self-harm spearheaded by a dogmatic clique who have jumped on the tiny recorded majority.

Currency fluctuations and disinvestment in the UK will follow the official termination of EU membership. Our current trading partners are unlikely to view Great Britain as a bright new lion whose doors are now open to win global trade. The proponents speak eloquently of a fog lifting and our kingdom becoming glorious again. The truth is that this island nation will look closer to an amateur production of a Gilbert and Sullivan opera. Even close allies like the US will see that London has lost its diplomatic clout in Europe and Washington and seek alternative routes for influence.

An historical analogy is apposite. In the early 1950s when Europe was coming out of its war-torn past, the UK was the economic powerhouse of the continent. That position has been reversed. Today France and Germany show that leadership and further afield, the US is still dominant in key sectors but under President Trump has entered a period of introspection.

No fewer than 66 countries have negotiated trade agreements with the EU. There is no mechanism for just switching these across to the UK upon departure from continental Europe. It will require fresh talks with each such state with no promise that trade will continue on the same favourable terms.

> *This island nation will look closer to an amateur production of a Gilbert and Sullivan opera.*

To date, the Cabinet minister responsible has seen just three of these countries, which suggests either little energy is being expended or that our trading partners regard the UK as a low priority. For those who favour a Canada-style free trade agreement, they need to remember just how long such a pact with the EU took to negotiate: seven years.

Ulster and the Irish Republic are particularly difficult to reconcile, despite the years of progress in fields like tourism. The border between the two is impossible to make secure and both sides depend upon each other and do not wish to return to the dark days of conflict. Ireland's commerce is intrinsically linked with the UK and Dublin does not want this disrupted but Brexit is likely to again bring turbulence.

For the thousands of UK firms whose trade is solely with the EU, burning the European regulations will bring a massive headache not least because each will need to become Customs-compliant. One wonders just how far the Government department negotiating departure has really analysed the options of remaining part of the Customs union, reverting to World Trade Organisation rules or striking a free-trade pact.

The globe's trading giants are China and India. The former's confidence under President Xi Jinping is in keeping with his country's success, notably in technology. Companies like Alibaba, Baidu and Tencent would grace any country's economy even if its growth statistics are sometimes questionable.

Many wish to use post-Brexit as an opportunity to increase the Commonwealth into a far stronger trading network. India, the world's largest democracy, could be the key. One million young people – more highly educated than in any generation before - join India's labour force each month. This largely agrarian country is clearly moving into manufacturing and Narendra Modi may be open to more British overtures.

For a demoralised Conservative party, it may be time to seek a leader who has shown their mettle, is not afraid to debate, is clear and convincing and has already won a respected seat. Step forward, Ruth Davidson. Although young at 39, this ex-journalist who has served in the TA, has shown true leadership of the Scottish Conservatives. She would be more than a match for the neo-Maoist duo of Corbyn and McDonnell and could restore confidence again in our nation.

•

Conal Gregory is a financial journalist and former Conservative MP for York. In his two terms (1983-1992), he secured more Bills onto the statute book than any other MP including the Cheques Act 1992. He has been Personal Finance Editor of the Yorkshire Post for 11 years and has been awarded Regional Journalist of the Year by the Association of Investment Companies, Bradford & Bingley, British Insurance Brokers' Association and Headline Money. Conal is a Master of Wine and was Chairman of The International Wine & Spirit Competition and Panel Chair of the International Wine Challenge.

Conal recently compered the JM Finn investment conference held at Rudding Park, near Harrogate.

Understanding Finance

RIGHTS ISSUES

Theo Wyld
Research Analyst

When a company requires external financing there are three main options;

- **Borrow from a bank (usually from pre-existing bank facilities)**
- **Borrow from investors (issue corporate bonds)**
- **A rights issue**

The above are listed in order of preference for the company given their relative costs. Rights issues are perceived to be the most expensive given the cost of equity. This begs the question; why use this form of financing? The answer is often; as a last resort.

Struggling businesses who are strapped for cash will dip into bank facilities and issue debt as first and second attempts to dig themselves out of their predicament. However, if this fails there comes a point at which either there is no-one left to lend them money via debt, or the resulting interest payments would become too large such that the profitability of the company may not recover. It is at this point when the debt-to-equity ratio, or 'gearing', needs to be addressed.

There are some occasions when rights issues are used by healthier businesses to fund acquisitions where circumstances preclude them to use other sources, such as debt. However, one should be mindful of those that do this too often. By and large, rights issues are seen as a last resort and any decision as to whether to participate should not be taken lightly.

During a rights issue, existing shareholders are offered additional shares, in proportion to how many they hold already, in exchange for handing over more money. The offer is usually priced at a discount to the current share price in order to incentivise investors to participate, or 'take up the rights'. In theory, if every shareholder agrees then the company raises its target amount, thereby bolstering its equity reserves and reducing gearing, whilst each shareholder's proportional interest in the company is maintained.

However, if you decide not to take up the rights, because you disagree with the proposed use of capital or you simply do not have the cash available, your shares will be worth proportionally less after the issuance; your interest will be diluted.

VODAFONE

Theo Wyld
Research Analyst

PRICE
£2.26

52 WEEK HIGH-LOW
£2.34— £1.87

NET YIELD
5.92%

HIST/PROS PER
26.8 — 26.7

EQUITY MARKET CAP (M)
£59,936

Vodafone has been through a lot of change over the last few years. Most of this is thanks to a huge investment programme in Europe called Project Spring. The result of which is that Vodafone is now the third largest owner of infrastructure in Europe, alongside being the leading 4G provider.

For some time the increased investment put pressure on the balance sheet, occasionally bringing into question the security of the large and somewhat defining dividend. However, the cash profile of the business has improved no end since the fruits of Project Spring have been brought to bear. Analyst consensus has this year's dividend comfortably covered by free cash flow.

India has been another source of uncertainty. Reliance Jio entered the market, backed by one of the richest men in the world. Their tactic was to severely drive down pricing in order to establish market share. Vodafone India was amongst the casualties forcing the parent company to take a €5bn impairment. However, it has since been announced that the subsidiary will be deconsolidated from the Group and merge with another large Indian player; 'Idea'. Vodafone has emerged from a difficult few years a stronger and more streamlined entity.

Please read the important notice on page 1

Bond Focus

A new face at the Fed

by John Royden, CFA
Head of Research

Illustration by Adi Kuznicki/Graphic Alliance

Janet Yellen is currently the Fed Chair, or to give her the full accolade, Chair of the Board of Governors of the Federal Reserve System. Her term ends on February 3rd 2018 and President Trump has just announced his intended successor: Jerome Powell. However, the appointment is not purely in Trump's gift; the Senate needs to confirm his appointment.

The Fed is responsible for setting monetary policy in the US in line with its mandate of maximizing employment, stabilising prices, and moderating long-term interest rates.

Prior to announcing his decision, Trump would have been looking for a dovish Chair who would not firm up interest rates too aggressively. The President wants to get the economy running at full speed in the approach to his possible re-election in 2020 and he thinks that Jerome Powell is his best bet. Powell is on record as saying that although the economy is on the up, the time is not yet right for strong interest rate hikes. Trump does not want a hawkish Fed that ramps up interest rates on the first signs of economic acceleration, kills the recovery and with it his dreams of American greatness.

US GDP is on an upward trajectory driven by low interest rates, low inflation and the possibility of loose fiscal policy, itself driven by possible tax cuts. I think that the low 4.4% unemployment means that economic strength will drive up wages according to what is called the Phillips Curve.

> *Low unemployment means that economic strength will drive up wages according to what is called the Phillips Curve.*

The Phillips Curve plots the relationship between inflation and unemployment and the empirical evidence suggests the rule that when unemployment is high, inflation is low and vice versa. When unemployment is low, wage inflation is the solution to recruitment problems and that feeds through to general inflation or CPI, which goes higher. The relationship is thought to be acute when unemployment is low and when unemployment is high, the connection to inflation is weak. If unemployment is 10% and drops to 9% then there are still lots of people looking for work and employers still find it easy to recruit without wage increases.

This matters because my central economic thesis is that the current conditions are driving strong US growth and gradual rate rises until inflation starts to look as if it is getting out of control, perhaps in mid-2019, and that in turn prompts panicky rate hikes by the Fed, which then kills the party and tips the US into recession. The appointment of Jerome Powell would fit neatly with these expectations going forward.

What happens in the US will affect us here in the UK and there is a strong visual correlation between the UK and US ten year interest rates. The UK bond markets need to take into account the slowing effect of Brexit concerns and that leads us to the view that whilst UK rate rises will not be so strong as in the US, they are now confirmed to be on an upward trajectory. No doubt the resurgent economic growth that we are starting to see in Europe will help support the positive momentum in UK rates as well.

So I remain wary of any long dated bond exposure and urge investors to think about FRNs or floating rate notes instead; short dated bonds are another alternative. And for preference, in light of what we expect to be a weak Central Bank response to signs of inflation, I prefer index-linked over conventional government debt.

Please read the important notice on page 1

Charity focus

They think it's all over. It's not.

Sam Barty-King, Senior Investment Manager and member of the charities team looks at the implications of the recent rate rise on charities and their trustees.

The Bank of England (BofE) has raised interest rates with the official bank rate increasing from 0.25% to 0.5%, the first increase since July 2007. For savers this will be a welcome rise, but what does this mean for charities, their investment portfolios and in particular their search for income?

On the 5th March 2009, following some of the more turbulent times in our economic history, the BofE cut our base rate to 0.5% and announced that it was to start the process of pumping tens of billions of pounds of newly created money into Britain's troubled economy. Whilst this day was significant for not just the actions of the BofE, it also started a frenzied search for income.

Raising funds has always been at the heart of charities' activities but sometimes fundraising, in isolation, is not sufficient to meet objectives. Over the past 8 years, with the 10 year Gilt yield averaging close to 1% and returns on cash deposits negligible, generating income has been somewhat challenging. Dynamic asset allocation has been central to our approach as historically low bond allocations have had to be offset elsewhere in portfolios to generate this much needed income. Income levels have generally been maintained, albeit with a perceived increase in risk as equity allocations have increased and other asset classes have been introduced. Although we as a charities team have discussed these regularly over the last 10 years we thought it might be helpful to outline our current positioning and why we feel this perception of increased risk is somewhat misplaced.

Investments in certain infrastructure projects have been central to our approach in maintaining income levels for our charity clients. Given the long term nature of the underlying contracts with the public sector the dividends have been sustainable and remain so.

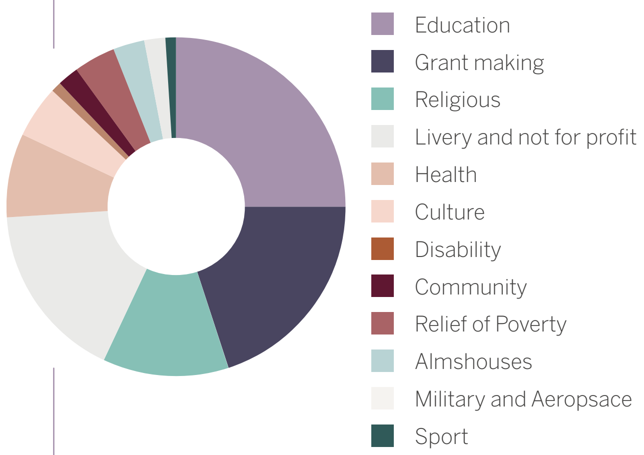
The dividends are fully covered by cash flows and the majority are index linked, providing inflation protection, whilst the asset class also has a low historic correlation to equities. Valuations of some infrastructure assets might appear stretched at present but with low yields on offer elsewhere and good asset management we continue to see its relative attractions.

> *Investments in certain infrastructure projects have been central to our approach in maintaining income levels for our charity clients.*

Property has also played an integral role in generating an income whilst rising capital values have added a welcome boost to portfolios. When committing money to property we invest through closed ended structures which we feel is more suited to investing in an illiquid asset class. We have identified some excellent managers who, whilst they invest in different areas of the property market, they all have one thing in common in that highly desirable assets, whether they be industrial, office, residential or retail, remain central to their approach; this has served portfolios well. Yields have been squeezed but, like infrastructure assets, property continues to offer value when compared to cash and bonds.

Who we work with

We are privileged to work with a broad variety of charities thanks, in part, to our client-driven approach. Our focus on a high quality service along with a deep understanding of a charity's requirements, has engendered long term relationships with charities throughout the UK including Livery, Educational, Religious, Children's, Military, Hospice, Housing, Health, Disability and Animal, as well as grant making charities.



We have discussed and debated at length with many trustees the need for Charities to allocate a higher proportion of capital to equities in order to help maintain income levels. This can be perfectly highlighted by the recent debt issue by Unilever who raised EUR350mn at 1.125% (fixed rate) due in February 2022. With the equity yielding nearly 3x more and well covered, over the next 5 years the relative attractions are clear. Where we do hold fixed income, outside a few individual issues, we remain invested with highly experienced managers that adopt a more active approach. Whilst the income and capital returns have not been spectacular they continue to provide portfolios with a steady return and some uncorrelated exposure.

The key question is whether or not we need to change tack and we think not. Despite this recent interest rate increase, the bank rate remains near all-time lows and, although sterling made up a lot of ground just on talks of a rate rise, interestingly it fell immediately following the announcement suggesting the current outlook for monetary policy is more dovish than many anticipated. We certainly feel that our Charity portfolios are well positioned to meet their current and, maybe more importantly, future income expectations but the challenge to generate income certainly looks set to continue for a while longer.

SMURFIT KAPPA

James Godrich
Research Assistant

PRICE
£23.67

52 WEEK HIGH-LOW
£24.41 — £17.42

NET YIELD
2.56%

HIST/PROS PER
21.7 — 13.5

EQUITY MARKET CAP (M)
£5,629

A deep knowledge and understanding of Smurfit Kappa means a quite surprising increase in one's vocabulary; OCC, kraftliner, testliner, recycled containerboard, virgin containerboard and corrugated board are all phrases that were previously unknown to me. In simple terms though, Smurfit Kappa are one of the largest global players in the paper and packaging sector.

Their integrated offering means taking virgin fibres, which they use to create paper and subsequently cardboard, to make, often bespoke, packaging products for mostly FMCG (fast moving consumer goods) companies. Their fully integrated solution then acts to collect used cardboard, which they recycle to create recovered fibres, and the process starts all over again.

For a company that is highly exposed to commoditised markets, Smurfit Kappa have a very impressive historic margin and returns profile. Industry standard is for input cost rises to be passed on with around a six month time lag, with Smurfit often then benefiting from the upside of stable prices against a backdrop of falling input costs.

Recent results have seen short term profits impacted by record input cost rises. However, with stability returning to their cost base, Smurfit will hope to prove their pricing power with top line growth and steady margin progression under their customary time lag.

Please read the important notice on page 1

Company Meetings

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

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

John Royden
Head of Research

James Godrich
Research Assistant

BASIC MATERIALS
Polymetal International, Central African Gold, Croda International, Elementis

HEALTH CARE
Mediclinic International, Smith & Nephew, Astrazeneca, Genus

CONSUMER GOODS
GKN, Persimmon

INDUSTRIALS
Spectris, Ricardo, Kier Group, Intertek Group, Halma, BAE Systems, Rotork, Experian, Smurfit Kappa Group, Equiniti Group, Bunzl, RPC Group, Electrocomponents, Polypipe Group

CONSUMER SERVICES
Whitbread, RELX, N Brown Group, Moneysuperket.com, Saga, The Fulham Shore, Pearson, Young & Co's Brewery, Signet Jewelers, Mitchells & Butlers

TELECOMMUNICATIONS
Vodafone Group

FINANCIALS
Royal Bank of Scotland Group, Lloyds Banking Group, Big Yellow Group, Close Brothers Group, Grainger, Londonmetric Property, Prudential, Hastings Group

UTILITIES
SSE

1.

Intertek

Price **£51.50**
52 week high-low **£54.70–£31.61**
Net Yield **1.27%**
Hist/Pros PER **30.6–27.8**
Equity Market Cap **£8,448m**

INDUSTRIALS
Josh Egan, Director IR

Intertek is one of those companies that piggybacks on global trade. Technically the company is a global leader in testing, inspecting and certifying products, commodities and services. For a practical example consider a Chinese manufacturer of toy cars wanting somebody to (a) advise them on European toy safety legislation and then (b) certify to the UK customer like Toys R Us, that the toy cars are compliant - Intertek does the job. Alternatively, if you are delivering a shipment of soybeans and you need moisture and fungus-free certification then Intertek is who you call.

Intertek last featured as an "Equity Prospect" in the summer edition of this publication when shares cost just under £43; they are now at £54.

Our recent meeting with Josh Egan focussed on the way that Intertek have created a supply chain audit service, called Business Assurance, which covers everything from fire risks in emerging markets factories, to working conditions and the potential for brand damage associated with adverse environmental impacts. They see strong growth here by going beyond pure statutory compliance and in terms of cross selling opportunity. Intertek think they have a competitive advantage in this respect.

Intertek's aspiration to GDP plus growth is driven by e-commerce which allows retailers to produce more and more varieties of SKUs (stock keeping units) in an effort to differentiate and create barriers. Each SKU probably uses different chemicals which need testing and that helps Intertek.

New CEO, Andre Lacroix has given strong thought into how to run a matrix organisation with overlapping country and business units. I think Intertek appear to be confident that they have cracked this one, whereas competitors SGS and Bureau Veritas have not.

Intertek have also invested heavily in evolving lab technicians into strong business managers and these managers get rewarded on margin accretive growth.

2.

Prudential

Price **£18.83**
52 week high-low **£19.34–£15.24**
Net Yield **2.09%**
Hist/Pros PER **17.7–13.4**
Equity Market Cap **£49,002m**

FINANCIALS
Richard Gradidge, Director of Capital Market Relations

Prudential ("The Pru") is mostly a life and health insurer that offers a range of financial products such as annuities, asset management and related services. The Pru owns M&G and now plans to merge M&G with its own fund management operations.

The Pru is unique amongst the UK-listed life insurers in that the majority of its value lies in the US and in emerging markets.

There are regulatory risks with the Pru's emerging markets but for the time being, this risk looks relatively long dated as they welcome the concepts of health and life insurance; and so we are not overly concerned. The Chinese Government wants to see life insurance penetration rise from 1.9% (2014) to 5% by 2020. This highlights some of the opportunity for the Pru as their distribution reaches 60% of the population and 70% of GDP via their joint venture with Citic Bank.

In the US the issues at hand revolve around the basis upon which the agents selling the Pru's variable annuities get remunerated.

The Pru is confident that its formidable relative performance will enable it to continue to take market share with its strong links to the distribution network. They also think that they can develop new channels to market.

In the UK, merging M&G with the Pru's fund management now looks sensible; there are considerable cost savings that should arise from shared services and systems. The Pru is moving away from the capital intensive annuities market and more towards its with-profits PruFund with cashflow benefits. Speculation abounds that consolidating the UK business into one unit could facilitate a breakup of the group.

3.

Whitbread

Price **£35.76**
52 week high-low **£43.33–£33.65**
Net Yield **2.78%**
Hist/Pros PER **13.8–13.8**
Equity Market Cap **£6,502m**

CONSUMER SERVICES
Alison Brittain, CEO & Nicholas Cadbury, FD

When Alison Brittain joined Whitbread as CEO in January 2016 she came with the reputation of being a fearsome cost cutter, so it was no surprise to us that just ten months into the job she had announced a five year, £150m cost efficiency programme.

One year on from that and the effects appear to be being felt just in time to offset cost pressures from the national living wage, increasing business rates and input cost inflation. It is alongside these pressures that declining like-for-like revenue trends, particularly within Costa Coffee, add to concerns for the group.

Whitbread is made up mostly of two household brands in Premier Inn and Costa Coffee.

Costa has been a beneficiary of the coffee revolution over the last decade and management now see the next leg of growth from what they call their 'growth formats' which include Costa Express machines, Drive-Thru stores and their international expansion. Whilst these growth opportunities offer exciting prospects for the business, they come against a backdrop of risks around market saturation and declining real wages likely to impact discretionary consumer spending.

Premier Inn has been much less of a cause for concern of late. Like-for-like growth has been steady, if unexciting, with growth opportunities from alternative formats such as Premier Inn Hub and their expansion into Germany providing continued optimism for shareholders.

Whitbread's growth strategy means spending all of their available cash flow on capex to drive future growth. Valuing Whitbread therefore revolves around understanding if and when the company goes cash flow positive and to what extent. Distant expectations are not without risk; but with risk can sometimes come reward.

Please read the important notice on page 1.

Into the upswing

Economic Focus

Brian Tora
Chartered Fellow, CISI

Remarkably, I realise that it was almost exactly eleven years ago when, having recently retired from Barclays Wealth, I came upon a piece of research that had been previously denied me in my most recent corporate existence and which was to change my attitude to investing. Within a few weeks I had joined the ranks of JM Finn, but I was able to retain access to the clever Australian technical analyst that worked for one of the major Swiss investment banks.

His insight into what was going on around the world and how it might impact on markets was useful to me, now that I no longer could ask the in-house research team what was likely to happen. Better still, he had a more independent view of events and their likely consequences – one that proved more prescient than those of my erstwhile colleagues. Amongst the gems that emerged from his daily email alerts was the news that two sub-prime mortgage lenders had gone into administration.

To be truthful, I didn't know what sub-prime mortgages were then, though I took the trouble to find out as he had indicated this was a more significant development than the muted market response warranted. These mortgages, in a nutshell, were made to those who could not really afford them and probably had little, if any, prospect of paying them back. How on earth could lenders embark on such a risky strategy, I thought. By packaging up these mortgages into products known as Collateralised Debt Obligations (CDOs) and selling them on – easy to do as the yields were high, reflecting the riskier nature of the debt.

The collapse of the CDO market brought about the demise of Lehman Brothers, which in turn brought the burgeoning financial crisis to a head. With banks already in trouble through riskier lending strategies and insufficient capital, it felt in the autumn of 2008 that the world was coming to an end. The recession that followed was sharp and only the action of central banks, which pumped money into major economies through so-called quantitative easing, prevented an economic rout on the scale of the Great Depression of some 60 years earlier. A brilliant explanation of these events can be found in Mervyn King's recent book *"The End of Alchemy"* which he wrote after stepping down as Governor of the Bank of England.

We know now that QE is coming to an end. Has it worked? Markets certainly seem to think so, with several major bourses close to all time highs. The US and UK pulled out of recession some time ago and at one stage our own economy was leading the pack of developed countries in terms of growth, though the uncertainty created by Brexit has somewhat undermined confidence. China, no small player in economic terms, escaped the worst of the downturn by switching to infrastructure spending and still enjoys remarkable growth. Now Europe seems to be catching up.

A recent report from the IMF said that all Eurozone countries were in positive economic territory and that Europe had become the engine of world growth. Germany is in the vanguard of this revival. The economy there grew by 0.8% in the third quarter of this year, when compared with the previous quarter. Much of the improvement appears driven by capital investment, which is, perhaps, why we lag Germany in productivity here. However, a positive outlook for consumption, helped by strong employment growth and modest tax cuts which have created increases in disposable income, confidence and spending, undeniably helps.

Germany is in the vanguard of this revival. The economy there grew by year

0.8%

in the third quarter of this year, when compared with the previous quarter.

Even Italy seems to be pulling itself round, recording the strongest economic growth for seven years. Portugal, an economic tiddler in Europe, has revived remarkably, as my frequent visits there can bear witness. And it doesn't just end at Europe. Japan is seeing positive growth and a recent Purchasing Managers Index for the services sector recorded a useful rise. Corporate profitability in the US is rising sharply and is helping to underpin a market close to an all time high. China, where economic growth is expected to slow following the Party Congress, did see retail sales rise by 10% recently, confirming the shift towards a more consumer led economy.

There are clouds on the horizon. Geo-political events could upset sentiment, though investor confidence has been remarkably robust throughout recent travails. Oil, which has recovered due to tensions in the Middle East, might well settle back as demand is expected to decline, while US potential production is likely to put a cap on any further increase. The default of Venezuela serves as a reminder that not everywhere is enjoying the same level of progress. But overall we seem to have emerged from the post financial crisis more or less intact. This may not prove enough to sustain the current bull run, but it sure helps.

Stock in focus

Reckitt Benckiser

Theo Wyld
Research Analyst

Reckitt Benckiser (Reckitts) is a branded products group specialising in household, health and personal care, and selling into nearly 200 countries. You may recognise their brands such as Durex, Gaviscon, Dettol, and Finish, to name a few. The last 18 months has been plagued by a number of mishaps, some attributable to dumb luck but others down to mismanagement.

First, came a resurgence in the press relating to the sale of humidifier sterilizers that reportedly were linked to deadly lung injuries in South Korea. This occurred in 2011, but Reckitts has come under fire again as claimants get closer to settlement. They have set aside £300m which covered their first two tranches of claims, plus their forecast for tranche three. For a claim to be successful the Korean government has to decide whether or not it is valid. The probability of a claim being verified has dropped significantly from tranche to tranche, but we have seen how easy it is for these types of issues to drag on past forecast deadlines – just look at the PPI issues in this country.

Next, came the disappointment of branded pedicure product Scholl. They had a highly successful model which they decided to upgrade. Where they fell down was by not testing the more expensive model in a few markets on a small scale before launching globally. The upgrade has ended up flopping which has contributed to the declining trend in like-for-like sales over the past year or so. We are assured they have learned from this and in addition we should begin to lap the poor performance which will help like-for-likes going forward.

> *It has not been all bad news, however. Reckitts recently completed the acquisition of infant nutrition giant Mead Johnson.*

To add insult to injury they were slapped with a misrepresentation fine in Australia and New Zealand. The trouble stemmed from packaging which was found to not make clear that seemingly specific formulations of pain relief (i.e. period pain relief) did in fact work for other forms. Reckitts were forced to take their medicine here.

PRICE
£64.70

52 WEEK HIGH-LOW
£81.08 — £63.24

NET YIELD
2.51%

HIST/PROS PER
21.7 — 19.6

EQUITY MARKET CAP (M)
£45,232

It has not been all bad news, however. Reckitts recently completed the acquisition of infant nutrition giant Mead Johnson (MJ). Management have been interested in getting into infant nutrition for a few years now. They see this as a long-term 3-5% growth category, driven by population growth, increasing education around infant nutrition, and premiumisation in the developing markets.

Mead Johnson had been in their sights in particular, but until recently they could not justify the rating to make a bid. So, what was it that caused the de-rating of MJ and presented Reckitts with their opportunity to pounce?

> *There is a system whereby you can bid to be the brand that hospitals recommend to parents on a state-wide basis.*

Essentially, it was poor management. They missed several important trends that were occurring in their main market, China (c.30% of revenues). These included channel shift, premiumisation, and the distaste for a Western product that outsources any part of its manufacturing/supply to Chinese third parties. They were also too aggressive on milk pricing relative to peers, and therefore lost considerable share.

In the US (c.28% of revenue), infant nutrition is essentially a duopoly between Abbott and MJ. There is a system whereby you can bid to be the brand that hospitals recommend to parents on a state-wide basis. This is extremely valuable as parents tend to be particularly brand loyal when it comes to their new-borns. MJ had made the decision to pull back on spend in this area and as such they lost a noticeable amount of share to Abbott.

The effect of these poor strategic decisions was that Reckitts launched what turned out to be a successful opportunistic bid, financed through debt.

There are four key reasons why Reckitts believes this acquisition to be fruitful:

1. They think they can run the business better than MJ.
2. MJ don't have much of a presence in developed baby markets. For example, Reckitts can push MJ's products through their strong European distribution network.
3. India is Reckitts' third largest market and MJ have no presence there.
4. MJ do not have a full range of products that cater to the child as they grow out of infancy.

The proposed acquisition of MJ originally split the market. The argument against was that this is a new market for them and therefore they are being foolish attempting to enter a world they don't understand. We believe this to be short-sighted; our stance has always been to trust the experienced management team. If they never expanded into new markets they would miss out on valuable opportunities – sexual health and the success of Durex being a prime example.

As far as the core business goes, they made mistakes with Scholl and Nurofen, but were unlucky with Korea. The declining trend in like-for-like growth rates needs addressing to give investors comfort that we are back to business as usual. That said, we look forward to seeing what Reckitts can make of MJ.

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Please read the important notice on page 1.

Collectives Commentary

Investing in Biotechnology's Growth Story

David Pinniger
Manager of the Polar Capital Technology Fund

Investors are being rewarded for their faith in the global biotechnology industry's promise to deliver breakthrough medical innovation, says David Pinniger.

The biotechnology sector continues to deliver market-beating returns for risk-tolerant investors with long-term investment horizons. Since its inception in late 1993, the NASDAQ Biotechnology Index has returned an annualised 12.5% versus the S&P 500's 9.5% (US$ total return). Recent years have seen significant volatility for the sector – a surge of enthusiasm driven by the emergence of exciting new medicines with huge commercial potential, followed by controversy over the price of these new medicines that caused widespread concern over the ability of the global pharmaceutical industry to continue to price these new products to maintain the kind of growth and profitability that investors have recently become accustomed to.

But over the course of 2017, those concerns have ebbed away, in part due to political deadlock in the United States where politicians across the spectrum appear to have little appetite to directly interfere with one of the country's most complicated industrial systems, but also perhaps more positively because the industry continues to deliver on R&D productivity, bringing exciting new medicines to both patients and healthcare systems in desperate need of innovation. The convergence of ever better understanding of complex human biology and the emergence of sophisticated new drug discovery and development technologies is powering a phenomenal innovation cycle in biomedical research, and driving strong growth in an era where many global industries are struggling to deliver just that.

In 2017, year-to-date, investors have seen more than 30 new medicines approved in the United States, which is on track to be one of the strongest years ever in terms of new drug approvals. But it's not just the number that's important – new medicines are getting better. Much better. For example drugs have recently been developed that intelligently harness the body's own powerful immune system to drive late-stage cancer patients into durable remission, and gene therapy approaches have succeeded in fixing inherited genetic deficiencies to, for example, restore vision or overcome blood disorders such as haemophilia. At the same time the regulatory environment is adjusting to support and encourage this innovation, making breakthrough therapies available to patients faster than ever before.

As the industry's renaissance has unfolded the character of the global biotechnology industry has evolved. Driving the strong momentum of the sector through the years of 2013 -15 were the larger well-established commercial-stage biotech companies that have since become well-known among the broader investment community as their rejuvenated growth rates and profitability captured the attention and collective imagination of investors starved of growth. But with success, these companies have now largely become the image of their more traditional pharmaceutical company peers. The rapid commercial launches of the exciting new medicines that drove their renaissance are now moderating to a steadier pace of growth. The tricky reality for investors is that the most attractive opportunities to allocate capital to the sector are perhaps now to be found further down the market capitalisation spectrum.

> ***The tricky reality for investors is that the most attractive opportunities to allocate capital to the sector are perhaps now to be found further down the market capitalisation spectrum.***

We believe better opportunities are now to be found amongst those mid-cap and small-cap companies that are either making the transformation to revenue and cash flow generating businesses, or those still unprofitable and pursuing the development of drug candidates that could one day offer significant medical breakthroughs. Yet for many investors, attempting to pick the winners in this part of the sector is just too daunting – the science and technology involved is difficult to understand and fraught with risk, the commercial opportunity often intangible, the competitive landscape complex to analyse, and the shares of the companies concerned often illiquid and share prices volatile. But the way to access the return potential offered by investment in these smaller companies is through actively-managed funds run by experienced specialist teams who are constantly evaluating investment opportunities in the sector on daily basis.

David is lead manager of the Polar Capital Biotechnology Fund, a US$258.2m (as at 31 October 2017) UCITS fund investing in between 40-60 companies that he and his team believe to offer the best risk-reward opportunities currently available in the sector. The Fund is actively risk-managed reflecting the fundamentally high-risk nature of the industry.

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Please read the important notice on page 1.

Independent view

Trusts must register their beneficial owners

New regulations impose on trustees an obligation to maintain a register of beneficial owners and to report additional information to HM Revenue & Customs (HMRC) where they have a UK tax liability.

From 26 June 2017, the Money Laundering Regulations 2017 (MLR 2017) require UK resident trusts, and non-UK resident trusts which are liable to UK tax, to maintain a register of beneficial owners and provide HMRC with specified information in relation to every UK tax year in which they are liable to pay UK tax.

Such registers are not open to public inspection, but trustees must, on request, provide information about the beneficial owners of their trust to the law enforcement agencies specified in MLR 2017. These agencies include HMRC, the Financial Conduct Authority, the National Crime Agency, the police and the Serious Fraud Office.

Beneficial owners

The following are regarded as beneficial owners in relation to a trust:

- **Settlor**
- **Named beneficiaries**
- **Any individual who has control over a trust – which is the power to add or remove beneficiaries, appoint or remove trustees, or veto trust distributions**
- **Potential beneficiaries named in a letter of wishes or similar document**

The following information must be recorded and kept up-to-date for every beneficial owner:

- **Full name and date of birth**
- **National Insurance number or unique tax reference (UTR), or usual residential address if the individual does not have a UTR or National Insurance number**
- **Nature of the individual's relationship to the trust – eg settlor, named beneficiary, trustee**

If a trust has a class of beneficiaries, not all of whom have been determined, the register should include a description of the class of persons who are entitled to benefit from the trust, rather than individual names and addresses.

The information for the register must be input directly onto the HMRC portal. The portal for trustees is active, but agents could not access the system until late October.

Further requirement when a trust has a UK tax liability

In any tax year in which the trustees are liable to pay UK tax, HMRC must be provided with the following:

- **Full name**
- **Date it was established**
- **Description of trust assets and the value of each category of assets at the time HMRC was first notified of the trust**
- **The address of any property assets**
- **Where the trust is treated as tax resident and where it is administered**
- **Contact address for the trustees**

UK tax includes income tax, capital gains tax, inheritance tax, Stamp Duty Land Tax, Land & Buildings Transaction Tax and Stamp Duty Reserve Tax payable by the trustees in relation to assets or income of the trust.

Trustees are required to provide this information by 31 January 2018 or 31 January after the tax year in which they are liable to first pay any of the taxes referred to above. However, new trusts which have to file a tax return annually will have a deadline of 5 October after the end of the tax year to register the trust (but for 2016-17 tax returns, the deadline has been extended to 5 December 2017).

Penalties

The failure by trustees to provide HMRC with the required information will be a criminal offence punishable by imprisonment for up to two years or a fine (or both).

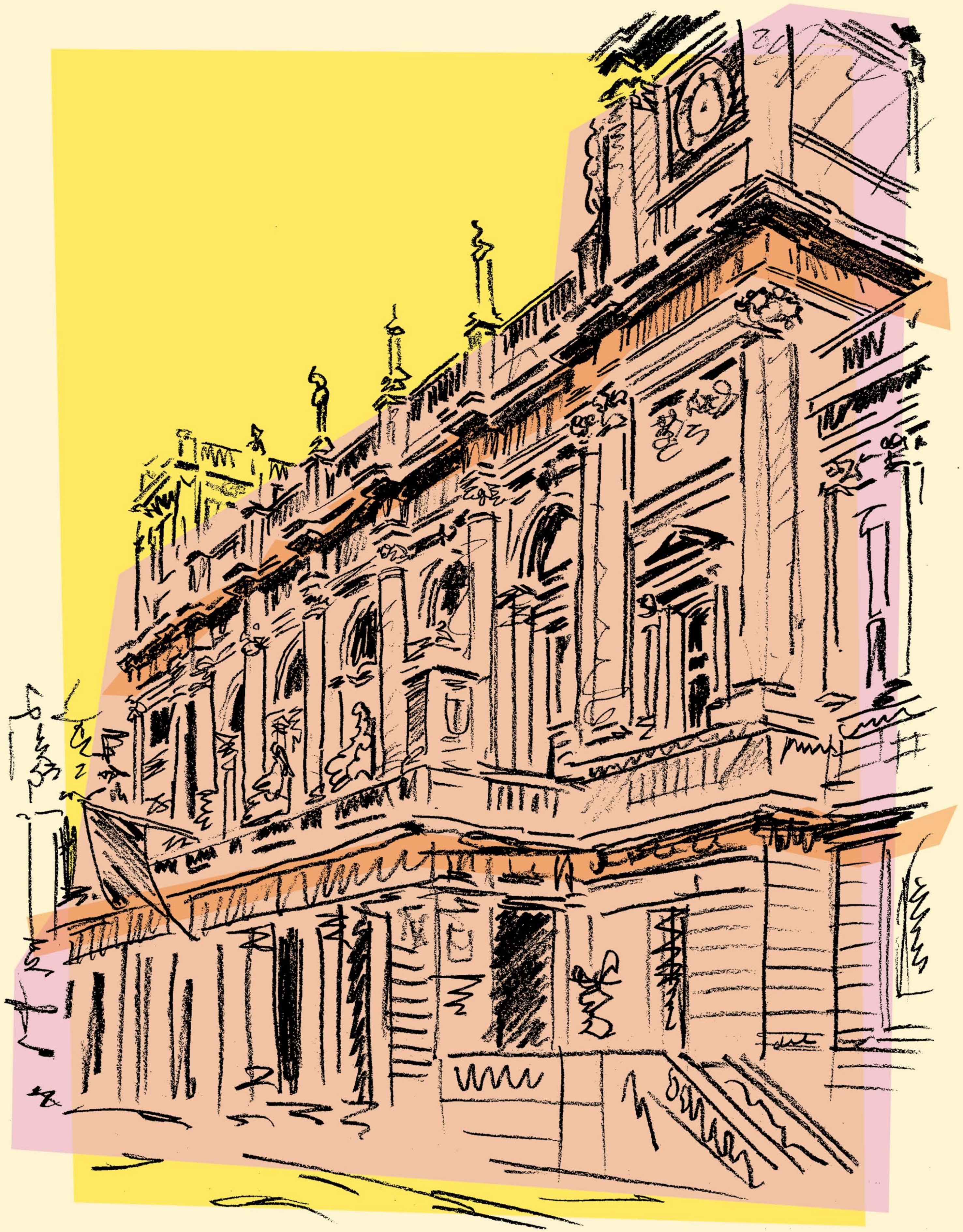
Trustees should be aware that these new obligations do require a large amount of work to be undertaken. We are recommending that the information is gathered early, before the rush starts in January.

The trust register is another weapon in HMRC's armoury for hunting down people it perceives as not paying their tax. Trustees will need to be scrupulous in their record keeping.

This article was first published in Saffery Champness' Private Client newsletter.

For further information, please contact james.hender@saffery.com or visit www.saffery.com

JM Finn is not able to give individual advice of this nature. Clients who wish to explore the points that this article refers to should seek advice from a specialist in relation to their own personal circumstances.



General Interest

Royal Academy

Charles Saumarez Smith
Secretary and Chief Executive of the Royal Academy of Arts

As the end of 2017 approaches, so too does the completion of the Royal Academy's project to renovate the old Museum of Mankind Building in Burlington Gardens.

This has been a project which has preoccupied the Royal Academy ever since it first became aware that the big building in Burlington Gardens, immediately north of the existing Academy, was going to be vacated by the British Museum in the late 1980s. The first architectural competition was held in 1998 and a second in 2002. And the third for the renovation of the building, which was won by David Chipperfield RA, in 2008.

The scheme is straightforward: to restore the existing building, which was designed by James Pennethorne as an examination building for the University of London; reinstate a modern version of the original lecture theatre; put in new exhibition galleries in the space originally occupied by laboratories at the back of the building; open up a gallery on the west side to show the Royal Academy's collection; retain the integrity of the original building, but where necessary put in rigorously modern elements. After a year in the planning, Chipperfield realised that the only way that the building could work effectively as a part of the Royal Academy as a whole was to provide a connection to our existing main building. This led to the proposal for a connecting bridge which links the two buildings on axis front door to front door.

Although the plans were simple, the construction has not been. A simple decision to drop the level of the floor in Burlington House by three feet in order to improve disabled access led to months of construction workers removing the earth in wheelbarrows. But, as the months go by towards the completion of the project, the main façade has now been revealed in its original nineteenth-century glory, the lecture theatre is taking shape, the concrete bridge has been completed, and we are making plans for the opening of the building in early summer 2018.

Next year will be an exciting one for the Royal Academy; it is our 250th anniversary, celebrating our survival through two centuries of changing fortunes — sometimes in the vanguard of fashion, sometimes reactionary, representing the leading artists and architects of the day, and teaching the next generation in the Royal Academy Schools.

We begin the year with the opening of our exhibition *Charles I: King and Collector,* which reconstructs as far as is possible, the extraordinary collection of pictures assembled by Charles I, which was largely dispersed following his execution and only partially reassembled following the Restoration. The exhibition celebrates, and is made possible, by our close connection to the Royal Collection Trust.

In June, we will be celebrating 250 years of the annual Summer Exhibition with a bumper edition, co-ordinated by Grayson Perry, and with an accompanying exhibition entitled *The Great Spectacle: 250 Years of the Summer Exhibition*, which will explore the highs, and occasional lows, of its history, beginning in 1769 when it was nearly the only exhibition in town, showing work from floor to ceiling in a gallery on Pall Mall.

In the autumn, we are going global, with an exhibition on the arts of Oceania, celebrating the fact that 1768 was not only the year of the foundation of the Royal Academy, but also the year that Captain Cook set off on the first of his voyages to the South Seas.

66 *The point of the new building project is to demonstrate that the Royal Academy is not just a venue for exhibitions.*

But the point of the new building project is to demonstrate that the Royal Academy is not just a venue for exhibitions. The new collections gallery will show off the amazing collection of works which have been assembled by the donation of so-called diploma works by each of the Royal Academicians: there will be Self-Portraits by Reynolds and Gainsborough; the early copy of Leonardo's Last Supper which was acquired by the Academy in 1821; Michelangelo's great Tondo, which was given in 1830; and Constable's Leaping Horse, as well as some of his oil sketches, demonstrating the move from history painting, using the bible or antiquity for inspiration, to going outdoors and being inspired by landscape and the countryside.

And for the first time, the general public, as they walk through the building, will be able to see and appreciate the work done by the students of the Royal Academy Schools, which will be shown off in a dedicated gallery space at the bottom of the bridge.

It will be the biggest set of architectural and institutional changes that the Royal Academy has experienced since its foundation in 1768.

JM Finn has been a corporate partner of the RA since 2012.

NMC HEALTH PLC

John Royden CFA
Head of Research

PRICE
£28.60

52 WEEK HIGH-LOW
£32.11 — £13.13

NET YIELD
0.28%

HIST/PROS PER
47.6 — 39.0

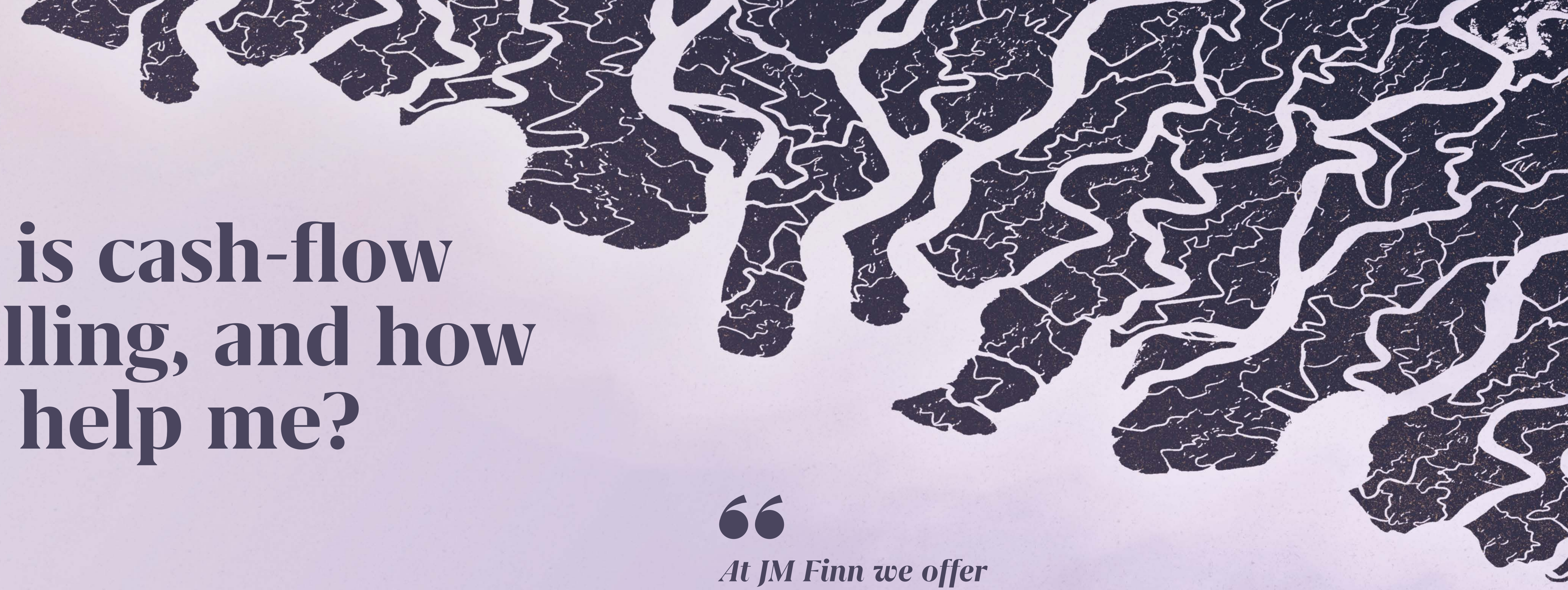
EQUITY MARKET CAP (M)
£5,863

We first mentioned NMC when the shares were reaching up to the £18 level. Each share now costs you close to £32 and the company is a proud new member of the FTSE100.

To recap, NMC runs hospitals and chemist shops in the United Arab Emirates (UAE) with a 25% market share in a population that has grown from 200,000 in the 1960s, to over ten million today. Health insurance is being mandated by legislation and their fertility clinics are growing sales at 20% per annum on a $8k per cycle price point. Their long term care beds for Arabia's population of severely handicapped cost $500k per annum compared to $1 million in USA. NMC also has a Distribution division that trades in pharmaceutical products and equipment.

NMC's strong management and local connections have proved to be a powerful competitive force in the UAE. As they branch out into Saudi Arabia, I watch with interest to see if they can replicate the same levels of growth in the new territory. If things progress according to plan and the UAE assets are also brought up to full capacity, the business should continue to grow in an attractive macro environment.

Please read the important notice on page 1



Wealth planning

What is cash-flow modelling, and how can it help me?

Anna Murdock
Head of Wealth Planning

The last few years have shown us that forecasts and predictions tend to be wrong; who expected Brexit or a Trump victory? Despite 'experts' being unable to predict the short-term future, one thing that we can, sort of, predict is the lifecycle of our finances. This is what cash flow modelling is all about. How our income and expenditure will change over time – when to get a house, start having children and finally retire. Cash flow modelling allows you to plan ahead, and make appropriate steps now in the hope that your life-time consumption is as smooth as possible.

Cash flow modelling works by predicting what your future income and expenditure will be, based on numerous assumptions. In making these future predictions, we can consider what measures you should be taking now, in order to ensure that by the time you retire you are safe in the knowledge your desired lifestyle can be supported. Although, as we have seen in recent times, future predictions are never 100% accurate, we can use regular cash flow modelling to influence the actions we need to make now.

There are many reasons why cash flow modelling is useful for financial planning. For example, it enables effective estate planning. Parents are able to gift away assets when their children require additional funding, such as their first property deposit, and know that they can do this without affecting their overall lifecycle consumption. Efficient estate planning is knowing when you are able to pass on your wealth at the best possible time, whilst maintaining your own current and future living standard. This is why cash flow analysis can be helpful, as it gives a rough idea as to when is best to begin the unwinding process.

Another reason as to why life time cash flow modelling can be useful, is that it provides an indication of what size pension pot an individual needs to accumulate before they can retire. By taking into account what size pot you need to have the desired level of income when you retire, you can work out when you can afford to retire and maintain your standard of living.

If you wished to have an income of £25,000 pa in retirement, and presuming there is no inflation and an average income yield of 4% pa, you would have to accumulate a pot size of £625,000 which would be the minimum needed to maintain this level of income. Clearly this is a very simple example, however cash flow forecasting can go into much greater detail, giving a greater foresight as to what you need to work towards when you retire. The financial planning insight as well as the investment insight complement each other to aim to reach the target.

> **“***At JM Finn we offer not just a bespoke discretionary service, but also personal wealth planning too.*

At JM Finn we offer not just a bespoke discretionary investment service, but also personal wealth planning. These two offerings in combination allow one to make the most efficient use of your wealth. For example, as one gets older and starts to have children, you may need to supplement your income. In such a case their investment objectives change from growth to income and growth. This can be forecast using the cash flow model, and the easy communication between the wealth planners and investment managers makes this a seamless transition. Clearly we cannot predict the future however, what we can do is put in precautionary measures as to what we expect to happen at any given stage of one's life. Cash flow modelling may seem a dry topic, however it is a powerful tool to assist in getting the most out of your capital. It has the ability to tailor your investments to your current and future needs. But what is key, is it can adapt as your life adapts, and still aim to make the best use of your capital.

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If you wished to have an income of

£25K pa

in retirement, and presuming there is no inflation and an average income yield of 4% pa you would have to accumulate a pot size of

£625K

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.

JM Finn News

Half an hour with Tammy Beaumont

An ongoing initiative for the firm has been to position ourselves as an attractive place to work so that we can continue to attract the top talent. An area of particular focus is to appeal to young women of school and university age to encourage them to consider the wealth management industry as a career choice. In light of this, we are proud to say that we have signed Tammy Beaumont, the player of the year at 2017's Women's Cricket World Cup, as an ambassador for the firm. Here, Tammy discusses her route to the top of her game.

How did you get into cricket and at what age?

My older brother and Dad were both keen cricketers when I was younger and as a 6 year old I idolised my brother and copied most things he did. So when the coach asked me if I wanted to stay and join in with the summer cricket camp I had no reservations in saying yes; and getting to play cricket with my big bro! I don't think I played my first hard ball game until I was 8 years old, when my Dad who ran the local boys Under 11 team, which my brother played in, was struggling to get a team out. I sat down next to him and saw the boys he had left to ask if they could play and said, "But Dad, I can bat better than that one, and field better than him, why can't I play!?" My mum was there and said "she's right, you know!" And as they say the rest is history!

What was it that made you pursue a sport that has typically been the preserve of men?

I just fell in love with the game of cricket. It's such an emotional rollercoaster, one game you could get out first ball, but take the important catch that wins the game, or you could get a 100 and your team lose. The high points often leave you wanting more. As a youngster I don't think I realised it was a male dominated sport, although it did take me three years of playing in the boys' team to learn that there were such things as girls'-only teams. I was just playing the game I loved, regardless of gender.

Did you come across some old-fashioned views when it came to dedicating your life to the game?

As a kid occasionally I'd be told cricket wasn't for girls but on the whole I was very lucky to be supported by the people who mattered, like family, school teachers and coaches. I do still get asked if I can make a living out of being a professional female cricketer, or if I need a 'real job' alongside it.

Are your brothers jealous of your sporting success?

No, completely the opposite, they are incredibly proud and supportive and always have been. I do feel a little bad for my brother as he used to get a lot of sledging telling him his younger sister was better than him (which in my opinion was completely incorrect) but he just took it in his stride and would protect me fiercely if anyone tried to sledge me.

What do you think the benefits are for a mixed team and for a single sex team?

I think there are benefits to both. From my experience, mixed teams give a good variety of characters or personalities, and that diversity can help the team although there is possibly more competition and bravado in a mixed team. Single sex teams sometimes provide a safe environment to work in, where the individuals are more likely to express themselves and take on responsibility without as much fear of failure.

> ***"I was just playing the game I loved, regardless of gender.***

To non-cricketers, it's about the match tea; what's the best match tea you've had?

You can't beat a Lord's match tea. It's a 3 course meal but unfortunately while we're playing there is never enough time to enjoy it properly. I have a massive sweet tooth so any kind of dessert is a match tea must for me, but these days we have to be good with what we eat so it's normally yoghurt and fruit instead of cake!

What advice would you give to a school leaver now looking to follow a career in sport?

A career in sport can be really rewarding, but it is also a harsh world at times. My advice would be to have a lot of interests outside of your sport as well as within. That way you'll have some perspective to be able to stay grounded. I believe it's important to know where you want to get to, have that as your goal and be realistic with where you currently are and make a plan on how to get there.

Are you surprised at the success of this year's ICC world cup in terms of media attention?

I wasn't surprised at how the ICC World Cup was received by the media and the fans as I think that is a reflection of where our game is at the moment and that it is now an exciting and competitive game. It was amazing that the tournament was the most tweeted women's sporting event of the year which I guess is a reflection of the exciting games and close finishes leading fans to take to twitter in those emotional and pressure moments!

What were the pivotal steps that got you where you are now; and future plans?

I took a long time to find my feet at international level. I spent the first 5 years of my career yo-yoing in and out of the team. At the time I had a lot of doubts as to whether I was good enough to play at this level, and I spent a long time trying to fit into the team as a player that didn't suit who I really was. I finally worked out what kind of person and cricketer I wanted to be and worked towards becoming that every day and only then did my performances start reflecting that.

Is there anything you wish you had been told before playing professionally that you would now pass on?

Enjoy and embrace every minute. Too soon it could all be over, be it through retirement, injury or poor performance, so you might as well get stuck into every moment and have no regrets.

Quick fire questions

Age: 26
Born: Dover
Lives: Loughborough, Leicestershire
Batting or fielding: Batting
Sporting hero: Sir Bradley Wiggins
Female icon: Michelle Obama
Night in or night out: Night out
Strictly or X-factor: Strictly
Favourite film: Shawshank Redemption
Favourite book: Harry Potter Series
Twitter or Instagram: Instagram
Song first on playlist: Chariot by Gavin DeGraw
If you weren't a cricketer, you'd be..: A physiotherapist
Last holiday: A weekend in Barcelona with my brother
Preferred cricket format: white ball (50 overs)
Rule change if you were in charge: no ball is a free hit - even in test matches
Top three cricketers of all time: Kumar Sangakarra, James Anderson & Sir Viv Richards

Tamsin (Tammy) Beaumont is a specialist opening bat and a wicket keeper and plays for England, Kent and Surrey Stars. She was a member of the winning England team in the 2017 ICC Women's Cricket World Cup and was voted ICC player of the tournament. She was nominated as the Player of the Year for 2017 at the annual Professional Cricketers Association awards and has been nominated for the Action Woman of the Year 2017 at this year's BT Sports Action Woman Awards.

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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	Positive	Opportunities may come from operational gearing due to interest rate rises.
Consumer Goods	Neutral	We like this sector for its defensive qualities.
Oil and Gas	Negative	Given the unfavourable supply/demand dynamics we do not expect any long term improvement
Consumer Services	Neutral	Some interesting global opportunities exist.
Industrials	Neutral	Selective opportunities still remain in the sector that should benefit from weaker sterling.
OTHER EQUITIES		
US	Positive	There is scope for a dollar rally and the potential for support from tax cuts.
Europe	Negative	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	Neutral	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	Our preference remains for property companies rather than open-ended funds.
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

Fred Mahon

Fund Manager, London

Lives Sheperd's Bush, London

Family Middle child of five, born in Dublin and grew up in Bath

Education School in Somerset, Masters in history at St Andrews

Started at JM Finn Summer 2012

Hardest challenge so far Cycling across America and passing the CFA

Next holiday Cambodia and Laos

Team supoprted Bath Rugby and the WG XI

How did you get into being a fund manager?

I started at JM Finn in the Research Department where I was a UK equity analyst. Under the watchful eyes of Geordie Kidston and John Royden (current Head of Research) I was thrown in at the deep end, meeting well over a hundred companies in my first year, including plenty of visits to factories, distribution centres and building sites. It was a fantastic way to learn the fundamentals of the investment world. I have wanted to be a fund manager for many years and the firm was very supportive in helping me develop as an analyst. At the beginning of 2016 I was lucky enough to be given the opportunity to manage the Coleman Street Investments (CSI) funds and have been doing so for almost two years now.

How do you describe the CSI service to your friends?

CSI offers a cost effective way to invest your savings in a portfolio of high quality and growing businesses. Clients typically invest in one of three funds, chosen according to their investment objectives and within each fund we actively invest into a range of equities, bonds and alternative assets so as best to achieve the fund objectives. This pooled approach allows for a diversified portfolio with low transaction costs for accounts starting from £5,000; so can be suitable for smaller accounts such as savings for children and grand-children. It is where I have my savings!

In a nutshell can you explain your overarching investment approach?

I look to invest in companies that will stand the test of time and be sensible in the price I pay for them. I focus on companies with clear barriers to entry, a long term record of revenue growth and that generate lots of free cash flow. In my opinion, the key factor is identifying if a company has a unique attribute that gives it the potential to earn abnormally high returns and to establish if this can be defended against fierce competition and over time.

Who are your investment idols?

I read lots of investment books and have met many fund managers so have a pretty long list here. Buffett, Munger and Graham are the originals and, even though it is a very consensus answer, are/were truly great investors. I have been lucky enough at JM Finn to meet some really idiosyncratic investors and have borrowed many of their ideas in developing my own approach to markets. My first boss, Geordie Kidston has to be mentioned – he was unique in many ways and approached investment from many thousands of feet. That is to say, Geordie was an obsessive reader of articles from far flung corners of the world that had a unique ability to pick up on macro trends and identify how these fed down to companies and markets. There are also some outstanding investors within the companies that we meet and invest in – Andrew Williams at Halma and Bruce Thompson at Diploma stand out for me.

What advice would you give to someone looking to get into a career in wealth management today?

Don't study Economics at university! This is a fascinating and diverse industry that needs people from all walks of life and academic backgrounds; being different is a real advantage.

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