JM FINN

Prospects

US inflation?
Will history be repeated?

Carbon capture
Making coal less bad

New tax year
Use it or lose it

The JM Finn Quarterly Periodical

No.38 *Spring 2022*

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Spring 2022

Equity prospects
JM Finn's insights into companies 07, 11,15, 29.

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Welcome

The terrible events unfolding in Ukraine put much of what we do as a business into perspective and our thoughts go out to all of those impacted, either directly or indirectly. Whilst market movements are, in many ways, secondary to such events, our responsibility remains to ensure we keep clients informed of how we view the situation and how we are managing portfolios in response.

As a manager of private client as well as trust and charity money, our focus remains on staying calm and analysing the implications of the situation as it evolves. Our focus is to ensure our clients' interests are, as far as possible, protected and that long term planning remains the key determinant of any short term action.

Back here at home, we are moving towards a more normal existence, learning to live with Covid and being busy getting back to what we enjoy and what I believe we're good at: meeting and engaging with our clients. Whilst video conferencing helped us to stay in touch for those who wanted it, it is with a sense of relief that it is now proving hard to book a meeting room at 25 Copthall Avenue!

We know some of our clients have been missing the face-to-face contact as much as we have, over the last two years, and whilst some will prefer a hybrid solution or even a pure digital relationship, for those who would prefer to see their investment managers, our five offices are well and truly open.

From a business perspective, although it has been a challenging time, there are many things we have learnt and some practices we will keep. We will, for example, continue to offer our staff the flexibility to be more agile in their working patterns. We know they work well at home and we are happy to accommodate this. We also recognise that as a people business, we work best when we can exchange ideas, with the most innovative ideas often coming from the small interactions; so our offices will remain our primary place of work.

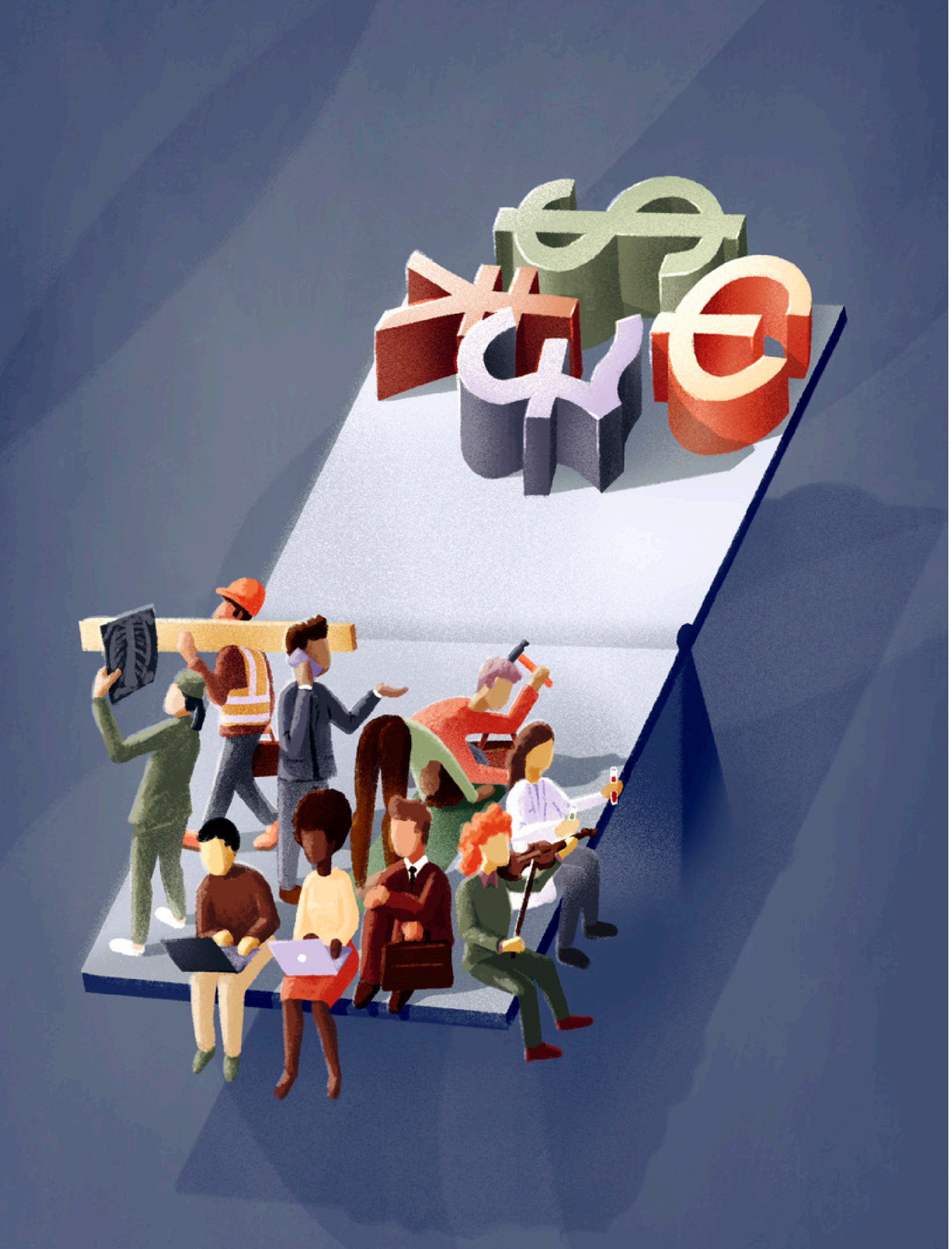
We have also looked to place additional emphasis on looking after our staff, recognising that remote working was not without its consequences. Our excellent Human Resources team have ensured we have remained close to our staff and the focus on wellbeing has never been greater, helping us to perform our roles to the best of our abilities and in the right working environment.

More and more clients have opted over the last 18 months for paperless reporting. Whilst we are not enforcing this, it does come with the benefit of being a more secure and timely method of delivering reports and updates. We have also seen a marked increase in the use of our secure messaging functionality within the client portal, which again can mitigate the increasing cyber threats. Although our portal appears to be doing a good job (and scores more highly than those of our competitors according to our client survey results) there is always room for improvement; by the second half of this year we will have launched a new version of our portal designed to enhance the user experience. More detail will follow on this.

It will not have escaped our clients' attention that, after 14 years of record low interest rates and inflation, it seems we are now moving into an environment of higher borrowing costs and price growth. We are currently seeing higher inflation in most developed economies and any action taken by central banks through higher interest rates will feed into the economy, albeit, we feel, at a slow rate. This period of adjustment in the economy may well last for longer than previously thought. Nevertheless, as rates move higher, our research team still believe they will remain at or below long term averages. Whilst it can be uncomfortable when economies transition and markets need to adapt, especially if previous gains are then reduced or eroded, bumps in the road are just that, particularly when adopting a long-term perspective.

Hugo

Hugo Bedford
CEO



Editorial

What wasn't keeping Paul Volcker up at night?

Rheanna Filmer
Assistant Research Analyst

Illustration by Sam Brewster

US inflation was 7.5% in January 2022, sending panic ripping through markets. Rheanna Filmer looks at the Fed's reaction and compares it to that of the 1980s response to the Great Inflation.

The last time the consumer price index (CPI) was this high was in 1982, at the end of The Great Inflation that ravaged the US in the 1970s and early 1980s. The higher than expected January 2022 inflation print prompted a litany of articles comparing today's predicament to that of Paul Volcker who was Chairman of the Federal Reserve from 1979-1987. Volcker is credited with wrangling inflation and heralding decades of sustained low inflation. "What would Volcker do?" was most likely a question ringing in Jerome Powell's head in mid-February.

There are many parallels that can be made between today and The Great Inflation. However we should be cognizant of how the crises are different. The differing macro circumstances include: higher debt burdens (both at a sovereign and household level), demographic differences and suspiciously bubble-like equity markets. However there is a more fundamental difference that pertains to the Federal Reserve's role, objectives and available toolkit.

The dual mandate is a term that refers to the Federal Reserve's two main objectives, which are, in their own words: "promote maximum employment" and "stable prices". There is a third objective of keeping long term interest rates "moderate" however it is widely accepted that achieving the first two will lead to the third...hence we say "dual mandate". These two objectives can however be conflicting.

The dual mandate was introduced in 1977 by the Humphrey-Hawkins Act. At the point of Paul Volcker's appointment as Fed chair in 1979 though, the United States had already suffered around a decade of inflation at around 6-11%. This previous inflationary decade had the effect of eroding the real value of a good chunk of the debt in the system but also, more subtly, pushed the "maximum employment" mandate into obsolescence.

> **The dual mandate is a term that refers to the Federal Reserve's two main objectives, which are, in their own words: "promote maximum employment" and "stable prices".**

Volcker himself said in an interview in 2013: "I do not remember the word "dual mandate" ever passing my lips in all the time that I was Chairman". Volcker here is being hyperbolic as he was in fact questioned by Congress on the issue in 1981 to which he responded: "recognizing that objective for unemployment cannot be reached in the short run". Ultimately, maximum employment was not a priority and by the time Volcker managed to get inflation under control in 1983 unemployment was at 10.8% (from 6% at the time of his appointment in 1979). Unemployment did not reach 4%, the definition of maximum employment that was typically cited at the time, until 1999. But you won't hear that in the many articles that sing Volcker's praises.

> ***I do not remember the word "dual mandate" ever passing my lips in all the time that I was Chairman.***
>
> Paul Volcker

How does this differ from today? A great illustration of how the Federal Reserve currently thinks about its dual mandate comes from a 2020 review of the Fed's Monetary Policy Strategy; the text was edited so that "employment" came ahead of "inflation" in all sentences that did not already have it in that order.

The Availability Heuristic is a cognitive bias that reflects the tendency to estimate the probability of something happening based upon how many examples of it happening readily come to mind. For many working today, there are no examples of rampant inflation that come to mind in a developed economy. We have only seen low levels of inflation and therefore may overweight its probability of continuing.

With this bias in mind and after decades of low inflation, the maximum employment objective has graduated to number one. Meanwhile inflation is seen as a less credible and even manageable threat. See: Powell's insistence on inflation being transitory.

More worryingly, the Federal Reserve's ability to impact employment is indirect at best. The Fed say so much themselves in justifying the lack of maximum employment target: "[maximum employment] is not directly measurable and changes over time owing largely to non-monetary factors that affect the structure and dynamics of the labour market".

The Federal Reserve, the monetary authority in the United States, cannot materially impact employment as it is largely governed by non-monetary factors.

Paul Volcker describes the dilemma well in his 2013 interview: "...given the circumstances [the Fed] has acted and has been asked to act in an extraordinary way, it kind of gives the impression that the Federal reserve has the keys to the kingdom-that they can achieve price stability and low unemployment at the same time, and it doesn't matter what the budget is, and all the structural problems in the economy, and the dislocations in the economy. Monetary policy will solve all problems."

> **There are many parallels that can be made between today and The Great Inflation. However we should be cognizant of how the crises are different.**

Though they may not have felt it, the Federal Reserve got lucky in January 2022. While inflation surprised on the upside, employment was surprisingly strong. A strong labour market, close to pre-COVID levels, meant the Fed could focus on tackling the 7.5% CPI print, without abandoning its dual mandate.

However, history tells us that the unemployment rate can prove a fickle fellow and that luck tends to run out. Is the Federal Reserve in its current form capable of a Volcker style victory, while maintaining its dual mandate? Volcker didn't seem to think so.

AB FOODS

Henry Birt
Research Assistant

PRICE
£19.60

52 WEEK HIGH-LOW
£25.09—£17.06

NET YIELD
2.1%

HIST/PROS PER
32/14

EQUITY MARKET CAP (M)
£15,085

At first glance Associated British Foods (ABF) presents a slightly confusing investment case; a business of two parts. On one side ABF owns some well-known brands such as Twinings, Pataks and Jordans cereal. They also produce sugar and provide ingredients used in baking and agriculture. Confusingly though, nestled amongst the food-focused segments is the high street stalwart Primark.

Primark accounts for c.40% of group revenue and, before the pandemic, was the key driver of ABF's growth. Primark has unsurprisingly had a tough few years as the retail chain's lack of online presence has seen it lag behind ecommerce peers such as Boohoo. The risk Boohoo presents to ABF has been evident since well before the start of the pandemic.

Whereas in the past Primark's model of vast stores with ultra-low prices was able to keep high street competitors such as H&M at bay, online fast fashion retailers can now increasingly compete with Primark on price whilst providing greater convenience. As the return to normality approaches, investors will be asking whether Primark can keep competing in a world increasingly dominated by ecommerce.

Please read the important notice on page 1.

Guest Editorial

COP26 agreed to bring an end to unabated coal but what is carbon capture and does it even exist?

Gregor Maxwell
Assistant Manager, JM Finn

Illustration by Adam Mallett

At COP 26 the world committed to phase out unabated coal power generation and to cease issuing inefficient subsidies for fossil fuels. The words "unabated" and "inefficient" were both late additions. Gregor Maxwell explores how significant an inclusion these words were?

At the recent COP 26 Summit 46 world leaders signed the "Global Coal to Clean Power Transition Statement".[1] This statement committed them to the rapid scale up of clean energy. But in the final minutes "unabated" was added to the coal commitments. The final version committed to phase out unabated coal power generation and to cease issuing inefficient subsidies for fossil fuels. The words "unabated" and "inefficient" were both late additions. But what does unabated mean and how significant an inclusion is it?

To abate is to make something less intense. Unabated coal is therefore power generation where no active steps are taken to reduce CO2 emissions.

In the case of coal, abatement generally refers to two distinct processes: Carbon Capture and Storage (CCS) and Carbon Capture, Utilisation and Storage (CCUS). In June 2021, the G7 meeting that took place in the UK declared "Unabated coal power generation refers to the use of coal that isn't mitigated with technologies to reduce the CO2 emissions, such as CCUS" [2].

So what is carbon capture and how much does it actually mitigate CO2 output? CCS is the process of separating greenhouse gasses from non-greenhouse gases through the use of CO2 absorbing chemicals or membranes. Through this process CO2 can be captured at rates in excess of 90%. The CO2 is then transported in gas pipelines, ships or by land. Finally the gas is stored in permeable rock layers several thousand meters underground[3]. This may sound a little sci-fi but this is actually in operation today. In fact, the US has 5,000 miles of CO2 pipelines currently in use and CCS presently accounts for the prevention of 40 million tonnes of CO2 per year*. CCUS is all together quite different. In this process, the CO2 is put to work. Industries such as the foods and beverage sector rely on CO2 for dry ice to transport foods. This may not lead to emissions reduction but it is a means of utilising the captured CO2[4]. This is still beneficial because it replaces fossil carbon raw materials that would otherwise be used in these processes.

So how bad is coal? Coal-fired electricity generation accounts for 30% of all global CO_2[5]. However much coal may be seen as an older technology, its utilisation continues to grow. Whilst the average age of a coal fired station in the UK is 47 years old, coal powered plants with a capacity of 15Giga Watts were completed in China in the first half of 2021, and there are plans for further expansion. To put this into context, that is 3x the UK coal capacity introduced into China in a 6 month period. This was alongside the restarting of a further 24GW of capacity that had stopped during COVID-19[6]. Here, China's coal rich inland provinces and energy demanding coast conflict with global environmental targets. China did not sign the aforementioned COP 26 statement. In short, coal is both the single biggest contributor to CO_2 emissions and on the rise.

> **To abate is to make something less intense. Unabated coal is therefore power generation where no active steps are taken to reduce CO2 emissions.**

So what is the goal? The International Energy Agency (IEA) estimates that to meet the Paris Climate Accord's net zero emissions target by 2050, CCUS deployment for coal would need to capture 430 million tonnes (Mt) of CO_2 per year by 2030. However, based on projects currently in early and advance phases of development the potential capacity is set to reach a very disappointing 60Mt in 2030. When we look at the state of play today, the outlook is even bleaker. There is one commercial power plant equipped with CCUS in operation today, the Boundary Dam in Canada[7]. The Boundary Dam has been in operation since 2014 and has capacity to capture 1Mt of CO_2 per year.

But it isn't all doom and gloom. The Boundary Dam may seem insignificant but this facility has proven to be an invaluable testing ground. The International CCS Knowledge Centre has undertaken a feasibility study with SaskPower (Boundary Dam operator) to determine if there is a business case to retrofit carbon capture onto a further 305MW power station. This retrofit would deliver the world's second coal facility with a capacity to capture 2Mt of CO_2 per year. This is achieved at a capital cost reduction of 67% per tonne of CO_2 compared to the Boundary Dam. And this facility could operate at a capture rate of 97%. In addition, it is important to note that the physics and economics that govern the design and operation of thermal power plants is very similar throughout the world[8].

What this doesn't mean however is that retrofitting every coal power plant is the immediate solution. The technology exists but it is very new and remains extremely expensive. This retrofit of the second SaskPower facility comes with a total initial investment of $1.5bn Canadian Dollars or roughly £900 million. At the recent COP26 summit in Glasgow much of the public debate was around the failure to deliver $100bn to developing nations affected by global warming after nations had agreed to do so at the Copenhagen Summit in 2008[9]. There is not much hope therefore that sufficient capital exists to meet CCUS net zero targets even if the technology comes online. However, it's not dead in the water. The hurdle at the moment is that there isn't an economic case to implement this expensive technology. After all, why would an energy company fork out £1bn to retrofit a single coal power plant when there is then no return on that investment? The economics however might be about to change. The answer is tax. Carbon tax is tax imposed based on the amount of carbon emitted into the atmosphere as a result of human activity. If we look to Canada and the Greenhouse Gas Pollution Pricing Act 2021 as an example, there are present real life examples of countries imposing carbon pricing. Under Canada's carbon tax, pricing starts at $15 per ton of carbon dioxide. For the SaskPower retrofit that would equal $30m in annual carbon tax savings. It would take 50 years to recover the initial $1.5bn investment, which is roughly equal to the life expectancy of a coal power plant. Could tax reform be the critical step required to meet net zero targets? Or are we looking at this in the completely wrong way?

By adding the word "unabated", have world leaders inadvertently delayed or even stopped the transition away from coal by creating a new industry aimed at making coal less bad? After all, they have placed a great deal of hope on a technology that is nowhere near the stage required to meet near term environmental targets. Had the word "unabated" been excluded, as it was in earlier drafts of the agreement, would the focus instead be on the development of renewable and nuclear power capabilities?

Call me naive but I hope that when it comes to climate action the pen is mightier than the sword. Electing world leaders to deliver action seems better than gluing yourself to the M25. It seems like a summit such as COP 26 should bring about the global action that is needed in a cooperative manner. But when we look at this recent agreement it seems cowardly. China have not signed up and the inclusion of the word "unabated" places reliance upon a new and expensive technology that is not in wider use. This single word now seems likely to drive a technology revolution in efforts to extend the utilisation of coal power stations. Its intended purpose was to transition away from coal. Maybe when it comes to the environment it is better for a few nations to work towards a common goal. When there are too many world leaders in the room agreements might not just fail to meet their objective but do quite the opposite.

*This figure is for all CCS and is not specific to coal.

[1] https://ukcop26.org/global-coal-to-clean-power-transition-statemen/

[2] https://www.g7uk.org/g7-leaders-commit-to-protect-planet-and-turbocharge-global-green-growth/

[3] https://www.ccusnetwork.eu/carbon-capture-and-storage

[4] https://journeytozerostories.neste.com/circular-economy/ccs-and-ccu-mind-explaining-what-these-are-again#c09569d6

[5] https://www.iea.org/reports/global-energy-co2-status-report-2019/emissions

[6] https://energyandcleanair.org/wp/wp-content/uploads/2021/08/China-Q2-briefing-coal-steel-CO2.pdf

[7] https://www.iea.org/reports/ccus-in-power

[8] https://ccsknowledge.com/pub/Publications/Shand_CCS_FeasibilityStudy_Public_Report_Nov2018_(2021-05-12).pdf

[9] https://www.ft.com/content/2fc0398d-c982-4214-b534-1ee3205cde97

B&M

James Ayling, CFA
Research Analyst

PRICE
£5.82

52 WEEK HIGH-LOW
£6.51—4.80

NET YIELD
7.2%

HIST/PROS PER
14/15

EQUITY MARKET CAP (M)
£5,957

B&M are a leading UK value retailer who focus primarily on physical retail sites versus online retail. Similar to companies like Primark they seek out high levels of consumer footfall and try to inspire impulse purchasing decisions when customers browse store aisles. B&M concentrate their store footprints around the 20,000 square foot size which is equivalent to the size of a small supermarket. However, unlike traditional supermarkets, B&M offer little fresh food produce. Instead, inventory is geared towards offering branded long-life food and drink, household and personal care products and, a range of household general merchandise.

Key to B&M's general merchandising approach is direct sourcing. Working directly with Far East manufacturers enables B&M to avoid intermediary mark-ups to the likes of exporters, importers and distributors in its supply chain. These savings have helped B&M offer a strong value price proposition to customers.

However, after years of benign inflation the recent inflationary surge, across raw materials and freight, may prove testing for B&M's value perception if pricing must rise. A quandary ahead is whether B&M could mitigate the price rise impact if instead they see consumers down-trading from squeezed real incomes.

Please read the important notice on page 1.

Life in a post-pandemic world

Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Isabelle Bamburg

Two years ago, my wife and I had just returned from a lengthy stay at our house in the Algarve when we were suddenly thrust into lockdown. The coronavirus pandemic had arrived, with all the disruption and uncertainty that was generated as a consequence. For much of the following two years the media was dominated by the ravages being wrought by Covid-19, as we came to know it, and by the measures introduced by the government to combat its spread.

We now know that the effect on our economy was considerable, but also that we were able to bounce back swiftly – at a price, of course. Government borrowing soared as support to businesses was put in place and the costs associated with the medical emergency ratcheted up. Less easy to predict was the impetus the pandemic delivered to inflation, partly because of changes in buying patterns all around the world, with supply chain disruption adding to costs. With the labour market also thrown into turmoil, the rapid rise in the cost of living now appears more understandable.

But the restrictions that seemed so necessary two years ago are now being dismantled. While some changes brought about by the virus look likely to stick, the fact is we are entering a period of relative normality, albeit a somewhat different normal to that which existed before the term coronavirus became common currency. Just as masks are commonly worn in some Far Eastern countries, so we had better get used to seeing them regularly in this country, particularly in medical facilities. And the boost to online shopping occasioned by successive lockdowns is unlikely to be reversed, with all this might mean for our high streets.

In economic terms the pandemic has bequeathed a legacy that is likely to have a mixed effect over the coming years. The sheer size of government debt will doubtless constrain spending in the months and years to come, while making reductions to the tax burden that much more difficult to justify. That said, a Conservative government will almost certainly aim to be able to introduce at least the promise of tax cuts by the time of the next election.

Then there is the effect of rising inflation to take into account. While this is not solely the consequence of the measures various countries have put in place to contain the virus, it is doubtful that the cost of living would have risen quite so much without the events of the past two years. Aside from the additional strain this places on consumers' pockets, it will raise the costs of servicing the borrowing undertaken to ward off the economic consequences of the pandemic. On the plus side, it should over time devalue the debt, though we should now expect measures to be introduced to lessen the risk of high inflation continuing for too long.

> **The ability of economies to recover and the lessons learned in how to manage such a difficult set of circumstances should give us greater confidence.**

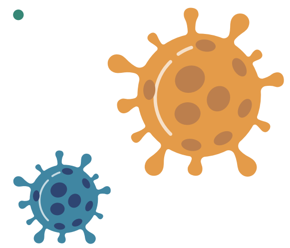
If normality persists, then the labour shortage in some sectors could become more acute. Hospitality has suffered from a loss of inexpensive workers from, in particular, eastern Europe as a result of Brexit and from those who have left the industry to seek employment elsewhere because of lockdowns. Other industries, like road haulage and home deliveries, have also seen problems created by both a lack of suitable workers and changes in demand and delivery patterns. While these should sort themselves out in the fullness of time, shorter term promises to be difficult.

> **It is doubtful that the cost of living would have risen quite so much without the events of the past two years.**

But overall, the ending of legal constraints must be taken as a positive sign. Perhaps it would be unwise to assume that this pandemic is entirely behind us, but the ability of economies to recover and the lessons learned in how to manage such a difficult set of circumstances should give us greater confidence in the future. Quite how to translate our experience over the past two years into sensible predictions as to what we might expect from markets is another matter altogether.

What we do know is that markets always overreact – in both directions. Perhaps the bear market that ensued once the full extent of the spread of the coronavirus became apparent was an overreaction, but then we really didn't know what the final cost of this pandemic was likely to be – in both human and financial terms. Similarly, the rebound, which took many markets into new high ground, now looks an overreaction in the opposite direction, though the pull back we have seen in recent months has more to do with the situation between Russia and Ukraine than with any concerns that the economic recovery might fade.

Indeed, it is fair to say that the focus on what might drive markets in the weeks and months to come now has much less to do with post-pandemic life than what is going on elsewhere in the world. Russia, China and inflation – all are likely to have an impact on investor sentiment as we roll through the spring and into summer. Markets will continue to surprise, but some pleasant surprises will not go amiss.



JM Finn News

JM Finn continues partnership with the Affordable Art Fair

The Affordable Art Fair roared back to life in 2021 with art lovers from across the country making sure that attendance figures did not disappoint.

Following an enjoyable and successful partnership we are delighted to be sponsoring it again as lead partner, but this time bringing the opportunity to attend at two fairs: Battersea and Hampstead.

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

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

> ***"Our mission is to democratise the art world and make art accessible to all."***
>
> Will Ramsay, Founder and CEO

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

Nearly 3 million people have visited an Affordable Art Fair, taking home over half a million pieces of artwork to adorn the walls of countless homes around the world.

Come and visit JM Finn at the Affordable Art Fair

Hampstead, London
4th – 8th May
2022

Battersea, London
20th – 23rd Oct
2022

Join us and discover the joy of collecting art with 1,000s of original artworks, all priced between £50 – £6,000.

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

Understanding Finance

THE DISCOUNTED CASH FLOW MODEL

James Ayling, CFA
Research Analyst

A core method we, as equity analysts, use to calculate and estimate the present value of the companies we invest into on behalf of clients is the discounted cash flow model (DCF). This represents an example of an absolute valuation methodology because we are seeking to derive a target share price estimate, today, that reflects the intrinsic value of a business based upon the present value of future cash flows that a business is thought to be capable of generating.

This approach differs then, from relative valuation methods such as using the Price to Earnings (P/E) ratio to benchmark the value of a company by assessing its P/E multiple versus industry peers.

A key input into the discounted cash flow model is the weighted average cost of capital (WACC) which determines the discount rate by which future cash flows are brought back to a value today. The WACC helps embody the time value of money principal: £1 today being worth more than £1 tomorrow. To compute the WACC we assess a company's capital structure to assess the proportion of equity and debt used to fund company operations. Equally, we need to decide upon appropriate costs of equity and debt.

Given the recent central bank policy U-turn to hike interest rates to tackle inflationary pressures, this places upward pressure on the cost of debt and equity and, hence the WACC. If we assume then that a theoretical WACC rises from 5% to 7%; a future cash flow of £100,000 in twenty years falls from a present value of £37,689 to £25,842. Extending this example helps explain why higher growth companies with more cash flows weighted into the distant future suffer more valuation loss from rising rates.

CROWDSTRIKE

Henry Birt
Research Assistant

PRICE
$181.8

52 WEEK HIGH-LOW
$298.5—$150.0

NET YIELD
NA

HIST/PROS PER
0/312

EQUITY MARKET CAP (M)
$41,682

CrowdStrike is a cloud-native cyber-security company with a platform specialising in endpoint security. An endpoint is any device that can be connected to a network (i.e. a laptop or phone) and CrowdStrike deals in the protection of these devices from cyber-attacks. As the list of endpoint devices continues to grow through the rise of internet of things (IoT) devices, so too does the need for endpoint security.

CrowdStrike provides a solution which compares increasingly favourably to the products of legacy players who are struggling to compete as cloud uptake continues. Whilst legacy players use what is known as signature-based methods, where only previously seen threats can be dealt with, CrowdStrike uses Artificial Intelligence (AI) to detect, but also fight, attacks on endpoint devices.

However CrowdStrike operates in an incredibly disruptive market in which maintaining dominance is no easy feat, as illustrated by the rapid fall of previous incumbents. CrowdStrike argue their platform provides them with an edge and increases the stickiness of their customers. But, if they are to fulfil growth hungry investors' expectations, they will need to keep innovating on their platform at a rapid pace.

Please read the important notice on page 1.

Independent View

Financial abuse: protection and prevention

Ann Stanyer
Partner, Wedlake Bell LLP

Illustration by Adi Kuznicki

Abuse of older people comes in many forms including financial, psychological and physical. It is often the case that an elderly victim will suffer from more than one type of abuse at the same time.

A frequent occurrence is where the older person is subjected to a degree of pressure amounting to bullying. They may well be suffering from a reduction in cognitive powers including memory loss which makes them particularly vulnerable.

In considering financial abuse we see that this abuse causes long term damage not only to a person's finances but also related stress and anxiety problems stemming from it. The Care Act 2014 defines financial abuse as having money or other property stolen, being defrauded, being put under pressure in relation to money or other property, or having money or other property misused.

Who is at risk?
In November 2015, Age UK published their "Financial Abuse Evidence Review". This identified various factors that make some elderly persons more vulnerable to financial abuse than others. This showed that those suffering from age related conditions like dementia, reduced cognitive function, and those with increasing poor health or at risk of clinical depression, are more vulnerable than others. Another study showed that women were twice as likely as men to suffer financial abuse: the majority would be living alone, aged between 80 and 89, and single or widowed.

What are the warning signs?
How can we identify when financial abuse is taking place? Possible indicators would include the following which professionals and other concerned individuals should be on the lookout for:

— an inability to pay bills/unexplained shortage of money;

— unexplained withdrawals from an account;

— a new person befriending the older person or someone known to them suddenly taking too much interest in their finances;

— unexplained loss/misplacement of financial documents;

— the recent addition of authorised signers on a client or donor's signature card; or

— sudden or unexpected changes in a will or other financial document.

How can financial abuse be avoided?
There are various steps that can be taken to mitigate such abuse.

It is important to ensure that the older person has complete confidence in anyone they are entrusting with their finances whether that is family members or their appointed attorneys. They should be reminded not to be afraid to change their mind about decisions in the future: they should always challenge any suspicious behaviour. We always advise clients to prepare for older living and this includes ensuring that their legal documents are kept up to date and reviewed regularly. An attorney appointed ten years ago may no longer be suitable today. Circumstances and people change.

Simple steps should be taken like reviewing your will and lasting power of attorney (LPA). Keep your "letters of wishes" up to date so that your attorneys and or family know what your particular wishes are with regard to finances and health issues. Speak to your advisers about how to do this. LPAs are powerful documents: spend time reviewing and ensuring whoever is appointed is trustworthy and has sufficient additional powers to manage your finances properly. We build in safeguards for our clients' LPAs so that the document protects so far as possible against the risk of the attorney abusing their position.

For property owners we also recommend that you register alerts at the Land Registry. This will give you advance warning of any unauthorised dealings with your property. We consider this a priority step to protect clients from fraudsters.

Who can help?
It is important to ensure that if abuse is suspected that you or a trusted friend, relative or professional adviser know to call for help. The Office of the Public Guardian has an investigation unit where concerns about an attorney can be raised. If there is evidence that a crime has been committed then you should call the Police.

We have extensive experience of financial abuse cases and can assist you if you have concerns or you know suspicious activity is going on. We have teams across our firm who will collaborate to bring a perpetrator to account. For example, one recent case involved our private client, family, residential property, insolvency and corporate teams all working together to ensure that our client (the victim) recovered property and misappropriated funds, and participated in bankruptcy proceedings against a fraudster.

What is important to remember is that by spending time choosing the right attorneys, regularly re-evaluating their appointment, and keeping the LPA document under review (particularly if circumstances change), you can ensure you are as well protected as possible.

Company Meetings

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

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

James Ayling, CFA
Research Analyst

Henry Birt
Research Assistant

John Royden
Head of Research

CONSUMER DISCRETIONARY
Young & Co.'s Brewery,
On The Beach Group, Currys,
Crest Nicholson Holdings,

INDUSTRIALS
Smiths Group , ITM Power,
BAE Systems

CONSUMER STAPLES
Ocado Group, Fevertree Drinks,
Nestle, Tesco

INFORMATION TECHNOLOGY
Halma, Palo Alto Networks,
Paypal Holdings, Darktrace ,
ASML Holding, Visa

ENERGY
Shell , Equinor ASA

MATERIALS
Givaudan, Hill & Smith Holdings,
DS Smith

FINANCIALS
Lloyds Banking Group,
Legal & General Group

REAL ESTATE
Supermarket Income REIT,
Assura, LondonMetric Property,
Shaftesbury, SEGRO,
Land Securities Group

HEALTH CARE
Edwards Lifesciences
Corporation

UTILITIES
National Grid

1.

BAE

Price **£6.53**
52 week high-low **£7.49 – £4.81**
Net Yield **3.3%**
Hist/Pros PER **12/15**
Equity Market Cap (M) **£23,423**

Industrials
Martin Cooper, IR Director

We met with Martin Cooper from BAE's investor relations department and after arriving at BAE's London offices we began with the fraught issue of ESG and defence; an issue cast into new light following the unfolding of recent geopolitical tensions. We learned that global tensions had encouraged some investors to reconsider their defence moratorium. Whilst we certainly didn't leave the meeting completely convinced, BAE seem comfortable with their position in an increasingly ESG conscious world.

What had previously dogged the shares, and therefore dominated investor discussions, was the pension liability. However, having paid down £1bn of this deficit in a one-off lump sum payment last year, our meeting could focus elsewhere for once. BAE is arguably a company of two halves: a highly-visible but slow growing UK business where BAE operates as the largest defence player, and a fast growing, more competitive US business where BAE is often a 'tier 2' player. Martin summarised the transatlantic dynamics nicely: in the US you fund your own R&D and in return you get a higher margin; in the UK much of the R&D is government funded but the returns are thus more sedentary.

As a result of this faster growing, higher margin US exposure becoming a larger part of the business, in conjunction with operational improvements, BAE expects some steady margin progression going forwards. Having also quelled the pension concerns, Martin noted that BAE is now in a position to return cash to shareholders, building on the £500m buyback programme executed in 2020. I left the meeting feeling more sanguine about the business, if not entirely convinced BAE could regain favour with ESG conscious investors.

2.

Crest Nicholson

Price **£2.96**
52 week high-low **£4.69 – £2.88**
Net Yield **1.4%**
Hist/Pros PER **11/17**
Equity Market Cap (M) **£751**

Consumer Discretionary
Peter Truscott, CEO & Duncan Cooper, CFO

We recently spoke with Crest Nicholson, a UK listed housebuilder that is undergoing a strategy transformation under CEO Peter Truscott, who joined Crest in 2019. Under Peter's leadership, Crest made numerous new senior hires, pooling talent from other UK housebuilders and, further afield, with Duncan Cooper joining from Sainsbury's finance division.

Peter outlined how he had selected a breadth of industry experience to help Crest tackle core operational issues. A key example bringing this to life is Crest's new house type range. In 2019, Crest were building approximately 128 different house types across their development sites. Putting it mildly, this lack of homogeneity was overcomplicating planning and slowing build times, hurting Crest's profitability. So, Crest launched a new house type range (20 designs) that is being rolled out across sites. The refreshed housing range enabled site plans to be re-plotted to improve layouts and density with greater standardisation reducing technical expenses. Critically, building construction time has reduced by nearly two months. However, Crest pushed the lever further by considering procurement. Similar layouts and engineering requirements mean kitchens, windows, doors etc. are being purchased at greater scale, driving up Crest's buying power and, lowering costs.

Operational improvements appear to be bearing fruit. In January, Crest reported that revenue grew 16% year-on-year, operating profit margins expanded and, net cash on the balance sheet rose +78% to £253m; providing a more solid financial footing. Ahead, risks remain. If interest rates continue rising this could push up mortgage rates and hit housing affordability. Crest may need to tread carefully when increasing housing volumes going forward.

3.

Tesco

Price **£2.87**
52 week high-low **£3.04 – £2.17**
Net Yield **3.2%**
Hist/Pros PER **4/13**
Equity Market Cap (M) **£21,829**

Consumer Staples
Jenny Carney, Head of ESG – Investor Engagement, Investor Relations

Tesco have been on a roll recently having demonstrated market share gains and progress at Booker. Guidance was firmed up but by less than the market was expecting. With that background in mind, Jenny indicated that market share gains had been driven by a perception of good value at Tesco. She said their Aldi Price Match Promise (on 650 products) worked well with the Club Card prices on the value front.

We pushed the subject of on-line shopping, which peaked at 16% of sales from 9% pre-COVID 19 and is now 15%. 90% of orders are still hand-picked from stores although recent developments, which include a computer guiding the picker around the store, suggest that the economics might improve. Click-and-collect is 20% of the overall on-line sales. I was left with the impression that store sales are most profitable, click-and-collect second best and on-line shop and delivery the least favourable.

Tesco now have three UFCs or Urban Fulfilment Centres with an aspiration to increase this to 27 within three years. UFCs are intended to use surplus space in Tesco's larger stores. They also have six dark stores around the M25 which are dedicated to on-line fulfilment but which use different automation models ranging from a computer guided hand-picker to a conveyor belt which is also what happens in the UFCs. This sounds less developed compared to Ocado's bots.

On the rapid delivery front, Tesco are developing their Woosh brand and partnering with Gorilla and Deliveroo in what is described as a "learning phase" .

Please read the important notice on page 1.

Wealth Planning in focus

Tax year end planning

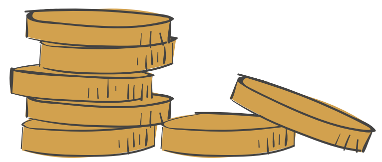
Anna Murdock
Head of Wealth Planning

Illustration by Adam Mallett

As much as April is associated with fools, springtime and new beginnings, it is also a time to consider implementing smart financial planning strategies as it marks the end of another tax year. With the 5th April fast approaching, it is time to consider the many allowances offered on a 'use-it-or-lose-it basis' to reduce your tax liability and assist in growing your wealth.

Individual Savings Accounts (ISA)

With interest rates at a very low level currently, it is important to understand the real value of investing savings given the tangible risks associated with record inflation. In the 12 months to December 2021 inflation rose to 5.40%[1] - its highest rate for 30 years – diminishing the spending power of your cash and savings. The table below highlights the impact of tax and inflation on cash savings for different rates of income tax:



	Equivalent Gross savings rate needed to equal the rate of inflation			
Inflation Rate	ISA	Basic Rate Taxpayer	Higher Rate Taxpayer	Additional Rate Taxpayer
4.00%	4.00%	5.00%	6.66%	7.28%
4.50%	4.50%	5.63%	7.50%	8.19%
5.00%	5.00%	6.25%	8.33%	9.10%
5.50%	5.50%	6.88%	9.16%	10.01%
6.00%	6.00%	7.50%	10.00%	10.92%

Source: JM Finn

ISAs are a tax efficient vehicle in which the owner pays no income tax on the income received from their ISA savings. The ISA does not attract capital gains tax arising on the investment gains either. You can invest in either a Cash ISA or, given today's low interest rates, a Stocks & Shares ISA. The latter will ensure your cash savings are placed in equity based investments which provide some protection against inflation. Of course, this carries an element of investment risk and we advise you speak to your Investment Manager further regarding this.

The adult ISA allowance is £20,000. The Junior ISA allowance is £9,000 and is available for anyone under the age of 18.

An interesting quirk in the current legislation is that 16 and 17 year old children currently have access to two ISA allowances: £9,000 for a Junior ISA in addition to £20,000 for an adult cash ISA.

Consideration may also be given to converting a Child Trust Fund (CTF) into a Junior ISA, permitted since April 2015. If the CTF is not transferred, when a child reaches 18, they'll still be able to access the money. Or they can choose to transfer it into a normal cash ISA.

ISA and Junior ISA spending limits will be frozen at their current levels until at least 2023.

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Contact JM Finn to discuss the ISA contributions that you have made in the current tax year, remembering that individual ISA allowances do not carry forward.

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Check your spouse or partner has also maximised their own ISA allowance- which could mean as much as £40,000 invested tax efficiently.

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Investing £9,000 per child or grandchild into Junior ISAs could be a great method of passing capital down through the family.

[1] Source: www.ons.gov.uk

Pension Contributions

The Pension Freedom Act 2015 provided investors with greater access, flexibility and control over their pension savings.

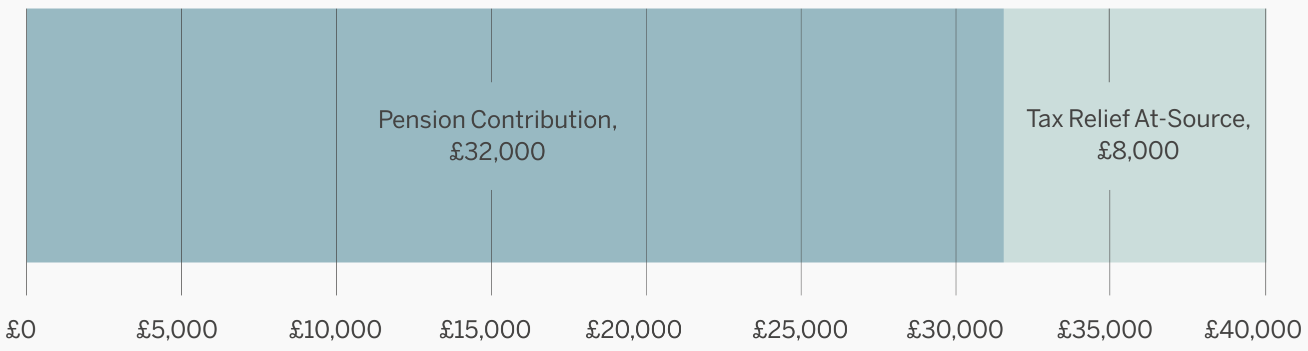
The tax incentives and efficiencies offered by pensions make them a particularly attractive means of accumulating wealth for retirement.

You can pay into a pension up to 100% of your pensionable earnings and receive tax relief, capped at the annual allowance of £40,000. Restrictions apply to individuals with income of more than £240,000[2]. Where you have no income it is still possible to contribute £3,600 towards a pension.

Key benefits of making additional pension savings before the end of the tax year:

The adult ISA allowance is **£20,000** The Junior ISA allowance is **£9,000** and is available for anyone under the age of **18.**

- Boost retirement savings within a highly tax efficient investment vehicle.
- Access pension tax relief of 20%. For example, if you contribute £32,000 (subject to allowances), the government will top up the contribution by a further £8,000 (making your total contribution £40,000)



- Reclaim allowances. The standard tax free personal income allowance of £12,570 is reduced for incomes over £100,000 (cutting out altogether at £125,140). Pension contributions can be used to reduce an individual's taxable income and reinstate the personal allowance, providing tax relief of up to 60% on the contributions made.
- Reduce your tax liability. Contributions made by higher rate (HRT) and additional rate (ART) taxpayers may attract tax additional tax relief of 20% and 25% respectively.
- Contributions can also be made for non-working family members, such as a spouse, child or grandchild. If a contribution of up to £2,880 is made, the government will contribute a further £720, by way of pension tax relief.

[2] For individuals with 'threshold income' in excess of £200,000 and 'adjusted income' in excess of £240,000, your annual allowance will be reduce by £1 for every £2 above £240,000. The maximum reduction is limited to £36,000.

Capital Gains Tax (CGT)

CGT is a tax levied on the profit when you 'dispose of' an asset that realises a gain. The gain you make is then taxed, rather than the amount of money received.

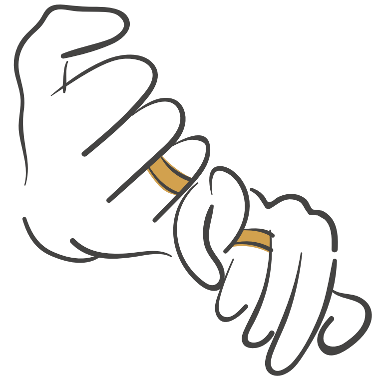
The individual tax-free capital gains allowance, known as the 'annual exempt amount', is currently £12,300 (21/22) and will remain frozen at this rate until 2025/26.

Where sensible, the annual capital gains allowance should be fully utilised each tax year as failure to do so will result in the benefit being lost.

Regular and proactive capital gains tax management will serve to reduce the impact of taxation on your wealth. Effective use of the allowance could reduce your tax liability by up to £2,460 each year.

Consideration may also be given to realising gains on assets and transferring them to a lower or non-taxpayer or tax effective investment, such as an ISA. This can be particularly effective with the use of inter-spousal transfers. Inter-spousal transfers (also applicable to civil partners) refers to gifts between partners for which no CGT charge generally occur. This effectively allows individuals within partnerships to utilise two tax-free allowances flexibly between one another.

The individual tax-free capital gains allowance, known as the 'annual exempt amount', is currently **£12,300** (21/22) and will remain frozen at this rate until 2025/26.



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Don't miss the opportunity to potentially carry-forward previous pension allowances! The current rules allow you to make use of any unused pension allowances from 2018-19 onwards. This can be a particularly useful tax planning strategy for those with high tax liabilities and a great way to utilise a bonus!

Marriage Allowance

In the UK the standard personal allowance for an individual is £12,570 (21/22). This is the amount of income on which you do not have to pay income tax.

However, if you have a husband/wife/civil partner who is on an income level below £12,570 you can apply to transfer £1,257 of their personal allowance to yourself. This is provided your income level is between £12,571 and £50,270.

This will reduce your tax bill by up to £252 in the tax year.

You can backdate your claim by four tax years to include any tax year since 5 April 2017 that you were eligible for Marriage Allowance.

[3] Based on £12,300 of assessable gains at rates of up to 20% (applicable to higher or additional rate taxpayers on investment gains)

Gifting to Charity

Gifting to charity also attracts relief from certain taxes such as income tax. This is done primarily via Gift Aid or Payroll Giving.

Gift Aid is a scheme run by the government in which any charity you donate to can claim a further 25p from the taxman for every £1 donated. These donations also have the effect of increasing your basic rate band and higher rate income tax bands by the grossed-up amount of your gifts. So, if you are a higher or additional rate tax payer, you can claim the difference between the higher and basic rate on your donation on your Self-Assessment tax return. Alternatively, you can ask HMRC to amend your tax code.

Example:

If your Gift Aid payments add up to £100 in 2021 to 2022 the grossed-up value of your donation to charity would be £100 × 100/80 = £125. Higher rate relief due to you would be:

— £25 if you pay tax at 40% (£125 at 20%)

— £31.25 if you pay tax at 45% (£125 at 20% plus £125 at 5%)

Payroll giving can be done through some employers or personal pension providers. This allows you to donate straight from your wages or pension towards a charity before income tax is deducted. The tax relief you get depends on the rate of tax you pay. If donating £1, you would pay:

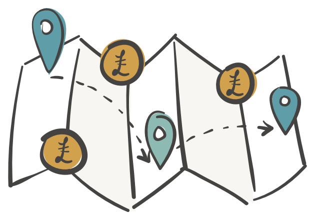
— 80p if you are a lower rate taxpayer

— 60p if you are a higher rate taxpayer

— 55p if you are an additional rate taxpayer

Additionally, the effect of gifting could have implications for your various allowances in the same way as for pension contributions.

It is important that you keep records of all of your donations if you wish to deduct them from your total taxable income.



Inheritance Tax Planning (IHT)

IHT is an unpopular tax levied on the intergenerational transfer of wealth subject to various available reliefs.

IHT is payable at a flat rate of 40% (reduced to 36% if you leave at least 10% of your net estate to charity) on estate assets in excess of £325,000 (known as the nil rate band) for a single person or £650,000 for a couple[4].

Small gifts made out of normal income do not generally attract Inheritance Tax. These are known as 'exempted gifts'.

There may be Inheritance Tax to pay if you've given away more than £325,000, but only if you die within seven years. Even after three years tapered relief exists to reduce the tax liability on the gifted asset.

Whilst the 'exempted gift' threshold is considered by many as insignificant, it can be used as an effective means of saving/investment for grandchildren via contributions to Junior ISAs.

There is an additional main residence allowance of £175,000 per individual, introduced in the 2017/18 tax year, for main residences passed on to direct descendants.

If any of the above opportunities are of interest to you, we would encourage you to contact your JM Finn Investment Manager for further discussion.

This article is of a general nature and does not constitute specific advice. It is recommended that you seek advice from a qualified tax professional, which can be tailored, to your personal circumstances. Tax rates and allowances are subject to change by the HMRC. Any figures quoted are accurate at the time of publication. Where advice is required, we would be pleased to work with your existing advisers or refer you to a trusted external provider.

[4] This assumes that none of the nil-rate band is utilised on first death event through use of inter-spousal transfer exemption. Where this is used the surviving partner will inherit the remaining proportion of the nil-rate band. The maximum nil-rate band an individual may be entitled to is 2x the nil-rate band. This inheritability also applies to the residence nil-rate band subject to conditions.

JM Finn News

JM Finn supports staff wellbeing by extending partnership with Cityparents

JM Finn recognise that a work-life balance is essential for employee growth, personal happiness and productivity.

The firm are thrilled to continue their partnership with Cityparents, an award winning organisation offering expertise and support to over twenty thousand professionals who have a shared interest in balancing home life with a progressive career.

The Cityparents Programme has three main channels and provides a rich resource for members to tap into whenever and wherever they wish:

1) **Cityparents Live:** a schedule of online Webinars and Support Groups spanning careers, wellbeing, workplace, inclusion and parenting topics.

2) **Cityparents On Demand:** a collection of videos and recordings, available for members to watch at their convenience, in their own time.

3) **Cityparents Library:** Online content published weekly through their library of Expert Articles, Cityparents Talk podcast series and their popular blog series sharing experiences of working parents.

JM Finn understand the challenges faced by everyone over the last two years so are pleased to be able to provide a platform for support.

www.cityparents.co.uk

Helping young people explore and discover inspiring careers

JM Finn participated in the Future Frontiers scheme, giving career guidance to young people in the UK.

A number of staff members volunteered their time with the charity Future Frontiers which exists to deliver career coaching to young people from disadvantaged backgrounds, where they would normally miss out on the opportunity to engage with professionals. Our volunteers worked 1:1 with 15 and 16 year old girls from Prendergast School in Lewisham, looking at their options post GCSEs, either for college, apprenticeship, A-levels or employment.

The JM Finn coaches worked with the students to discover and explore their interested career in detail, and then connected the students with a professional in their chosen field, so they could increase their knowledge and become inspired about reaching their career goals.

The feedback from our volunteer coaches was that they enjoyed and benefited from the experience during what was a difficult time, with many students dealing with Covid disruptions at school. The student feedback suggests our coaches had a real impact on the students' mindsets and thinking about the careers options open to them.

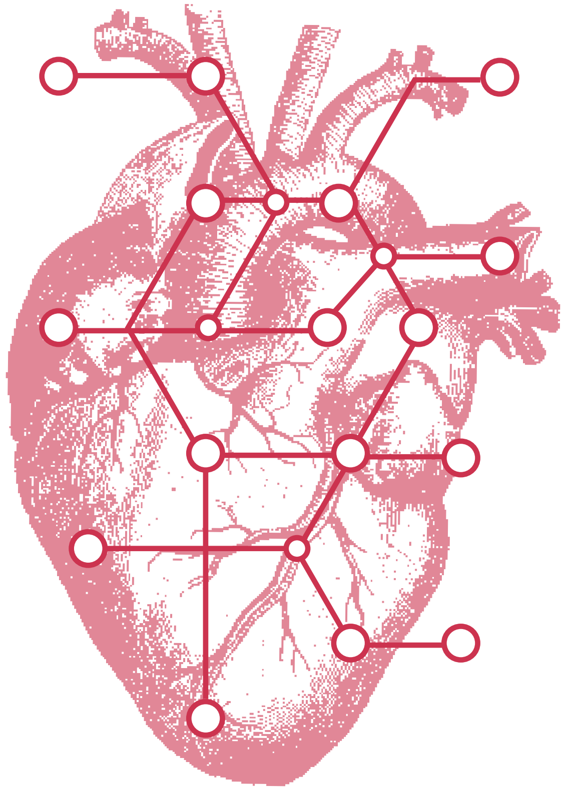
www.futurefrontiers.org.uk

Stock in focus

Edwards Lifesciences

Michael Bray, CFA
Research Analyst

Illustration by Adam Mallett



Edwards are the leading player in the treatment of structural heart disease and hemodynamic monitoring, the physics of how blood flows, with 97% of product sales coming from #1 global market share position.

The business reports into four segments:

Transcatheter Aortic Valve Replacement (TAVR) (65% of revenue): TAVR is a minimally invasive heart valve replacement technology which was first commercialised by Edwards in 2011 and has been a game changer for the treatment of severe aortic stenosis, a form of heart disease

Transcatheter Mitral and Tricuspid Therapies (TMTT) (2% of revenue): Edwards' most nascent division. It aims to replicate the success that transcatheter technology has had with TAVR, in treating mitral and tricuspid valves.

Surgical Structural Heart (17% of revenue): Edwards' legacy valve replacement business and captures Edwards' structural valve replacements, which are used for invasive open heart surgery. Sales are being cannibalised by demand for TAVR.

Critical Care (16% of revenue): captures Edwards' hemodynamic monitoring sales. Systems and consumables are sold which help detect and pre-empt adverse cardiac events, such as hypertension.

Broadly, the three secular drivers underpinning these divisions are aging demographics, improving diagnostics and increased focus on value for money by global health care systems. At a company level, TAVR remains the key mid-term driver for the business. We will therefore focus our attention on the segment.

To understand the market opportunity for TAVR sales we must first understand aortic stenosis (AS). AS occurs when the aortic valve, the largest of the heart's four valves, stiffens causing the aorta, the largest artery in the body, to narrow at the exit of the left ventricle.

AS is a deadly disease, with surgical treatment being non-elective. Once patients with severe aortic stenosis develop symptoms, their survival rate is as low as 50% at two years and 20% at five years without an aortic valve replacement. This falls to only a 3% survival rate over five years when including patients deemed inoperable. The plus five-year survival rate is worse than lung (4%), colorectal (12%), breast (23%) and prostate (30%) cancer.

The primary cause of AS is aging, and once a patient contracts AS, it's unfortunately a downward slope, with the only treatment being surgical.

Historically, AS was treated with structural aortic valve replacement (SAVR) which involved invasive open-heart surgery, requiring a patient's chest to be physically broken open. Such procedures take 3- 5 hours to perform and the patient will usually need to spend at least 3-4 days in the intensive care unit (ICU). Between 30-40% of all severe symptomatic AS patients are deemed inoperable using SAVR due to risk inherent in open heart surgery.

TAVR's superiority over SAVR comes from its minimally invasive approach, where the catheter containing a replacement valve is typically inserted via the femoral artery in the upper leg. Once the replacement valve is lined up with the diseased valve, it is expanded and fitted into place using a balloon system, and becomes a functioning valve.

The average time in theatre for TAVR is now less than half of SAVR, as is the medium ICY stay, and patients typically leave hospital after c.3-4 days versus c.9 days for SAVR.

Ultimately, to realise the full potential of TAVR growth, Edwards will need to drive wholesale industry change by influencing medical best practice. This is no easy task, and if successful will take the company many decades to achieve.

Please read the important notice on page 1.

PRICE
$113.0

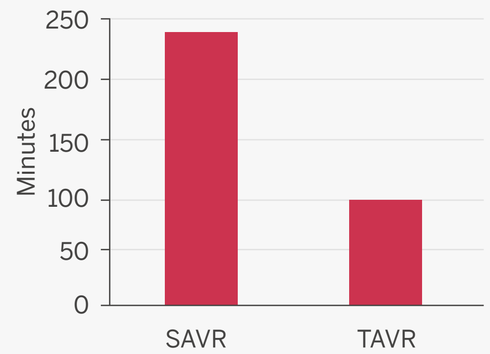
52 WEEK HIGH-LOW
$131.7—$78.4

NET YIELD
NA

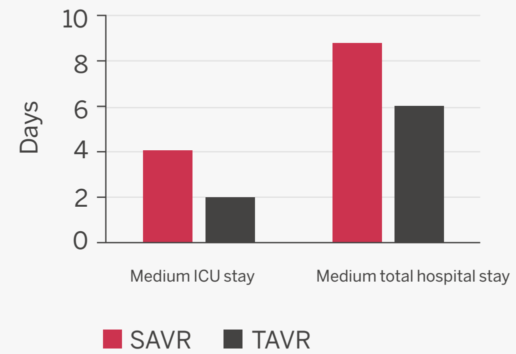
HIST/PROS PER
47/45

EQUITY MARKET CAP (M)
$70,441

Comparison of average procedure duration



Length of ICU and hospital stay



Source: Redburn, Leon MB et al PARTNER 2A NEJM 2016, 374:1609-20

Bond Focus

The road ahead

John Royden
Head of Research

Illustration by Emily Nault

This last quarter has been a tough one for bonds with climbing inflation pushing up ten year yields. The December 2021 low for the UK's ten year gilt yield was 0.7%; it now stands at 1.5%. In America, the low was 1.3% with the ten year US Treasury Bond now trading on a yield of 2%. The long-dated 4.5% of 2042 gilt fell from £170 in December to £152; which is down an uncomfortable 11%.

The average UK spread has widened out as well. This is the average extra yield that you get from owning a UK corporate bond over and above an equivalent maturity gilt. At the end of September the average spread was 1%; it's now 1.4%. Spreads widen to price in a greater chance of default which is what you see in recessions.

In the last edition of Prospects, I wrote that "I aim to be more inclined to below benchmark maturities." Shorter dated bonds are less susceptible to interest rate movements; the 2.75% of 2024 gilt fell only 3% by contrast.

We now ponder what is next for the bond market and that is very much driven by inflation. The market takes a pretty dim view of the UK's inflationary expectations and is pricing in the retail price index (RPI) to average 4.7% over the next five years. A person earning £30,000 will, this year, see their take-home pay plunge by £1,660 thanks to soaring living costs, stagnant wages and tax increases; and so the big question is whether this is going to be enough to take the heat out of inflation by reducing demand for goods and services.

Economists talk about UK inflation peaking at c.7% by the end of spring and then falling back. That ties in with my calculations and takes into account base effects which are driving energy's strong contribution to inflation. I see inflation falling back to 4.9% in 2023, 4.4% by 2024 and then 3.6% for 2025 and 2026 on the basis that inflationary expectations don't become entrenched and that the long term drivers of weak inflation that persisted before COVID-19 re-emerge as dominant.

These are the long-term drivers like Amazonisation, job rotation, capex and investment driving productivity and on-going globalisation. In a lowly unionised world, seeing the elder cohorts of COVID-19 job quitters back in the market place would reduce the propensity of the consumer price index (CPI) to iteratively propel wage inflation higher as well. The contrary view is that central bankers panic, raise rates too far and push the West into a recession.

A contrary opinion is that all the money we have saved by buying less services, like travel and holidays abroad, has been channelled into buying goods which is why demand is greater than supply for items like used cars; I see this as being a short term phenomena.

If you agree with me, then stay short dated with bond maturities and look to bonds rated in the BBB to B space. If not, keep your eye on the yield curve inverting (i.e. long dated yields being below short dated ones) and be ready to jump into longer dated, high quality bonds for the next recession.

VODAFONE

Henry Birt
Research Assistant

PRICE	£1.34
52 WEEK HIGH-LOW	£1.43—£1.06
NET YIELD	5.8%
HIST/PROS PER	352/16
EQUITY MARKET CAP (M)	£35,309

The name Vodafone, deriving from voice data fone, aptly covers much of what the business provides. This however oversimplifies what is famously a sprawling and complex multinational business: a point not missed by investors. In January it was revealed that activist fund Cevian Capital had taken a stake in the telecoms business hoping to encourage management to restructure its portfolio and focus its strategy on key markets.

In fairness to Vodafone, CEO Nick Read has for the last three years been engaged in such a project. Yet, this is indicative of a wider trend in huge UK conglomerates, where activist investors are pushing for consolidation and greater focus.

In Vodafone's case, it is clearly cognizant of its failings and is focussing on its key markets with Germany being the jewel in its crown. The question remains whether doubling down in Germany can compensate for the perennial laggard markets of Italy and Spain. Speculation concerning consolidation in these markets has ramped up in recent weeks but Vodafone remain tight lipped. This has returned to renewed focus as Cevian joins the list of impatient shareholders.

Please read the important notice on page 1.

Asset allocation and sector focus

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

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

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

Here we present a snapshot of the current views.

Sector Views

Overweight / Neutral / Underweight

Materials	Hard commodity markets have shown resilience since 2020 helped by demand from China. Drivers include sustained high commodity prices and the growth-to-value rotation. Long term, this is a sector in flux from the more traditional commodities to the new green economy commodities.
Consumer Discretionary	Longer term we favour e-commerce names and those businesses further along their digital transformation journeys.
Consumer Staples	We like the sector for its high quality businesses and resilience. Although valuations do not look stretched, they are not cheap, and the sector is vulnerable to rising input cost inflation, which has historically squeezed gross margins.
Diversified Financials	Many names are high quality but valuations are not at a level to turn more positive.
Financials Banks	We see rate rises and tighter monetary policy in the near future as inflation continues to surprise on the upside as we detect evidence that wage inflation may follow CPI inflation. UK listed banks now represent good value and see more near term upside versus US banks.
Financials Life Insurance	Life insurance companies benefit from the steepening yield curve. Higher rates drive liabilities lower and increase prospective investment returns. A key challenge is a lack of growth for those without exposure to Asia.
Real Estate	Global real estate may offer better value than other fixed income instruments but caution on bond proxy status in a rising rate environment.
Health Care	A sector with growth and defensive attributes thanks to demographic tailwinds and resilience of global healthcare spend. We favour companies which have been negatively effected by the pandemic i.e. elective surgery, which still offer reasonable valuations and encouraging long-term outlooks.
Industrials	We continue to see increasing evidence that global industrial production is improving and see this broadening further as we exit the pandemic period.
Energy	In the medium term oil demand forecasted to exceed pre-COVID levels by the end of 2022, which could create an environment for sustained elevated prices. The sector remains structurally under pressure due to environmental concerns.
Information Technology	We like the structural tailwinds supporting the sector. We would return to a positive view should bond yields stabilise. We favour more cyclically exposed names that are likely to benefit more as the economy unlocks.
Communication Services	Changed behaviours should persist, but we do see tough earnings comparisons against exceptionally strong 2021 numbers. Digital advertising names do have cyclical upside potential as a strengthening economy and lockdown easings are expected to support a revival in marketing activity. We continue to avoid more traditional telcos.
Utilities	Sector has some safe haven support, however it is not immune from the slowdown as business customers suffer.

Asset Allocation

Overweight / Neutral / Underweight

UK EQUITIES	
UK	The market still looks relatively cheap on a PE basis. The relative over-representation of financials, banks and oils has helped the index. Banks do better in a rising rate environment as their net interest margin expands. With more rate hikes on their way and talk of higher oil prices, we expect the UK to do well. These positives, including tax hikes indicating a fiscally responsible attitude, beat the negatives of low ESG scores, risks from runaway inflation, Brexit legacies, Scottish devolution and political leadership.
INTERNATIONAL EQUITIES	
North America	The US is relatively overweight "long duration" tech and growth which is why the market has reacted negatively to interest rate hikes. When we look at the de-rating implications of more rate hikes and the effect of inflation we think the US market will under-perform this year but rise to deliver strong performance in 2023.
Europe	The Eurozone's €750 billion support package is supportive of growth as is our expectation for relatively lower interest rate increases. Europe's periphery could struggle with higher rates and could trigger problems for banks with too much national debt on their balance sheets. However, with relatively restrained expectations for interest rate rises, low inventories and a rebound in China's prospects in H2 of this year, we think Europe will shine in 2022.
Japan	Japan's recovery has been weak but this has meant less of an inflation issue. The latest CPI was -0.8%. The Yen always has the potential for reverting to safe harbour mode if real yields fall in other countries. Although the new PM indicates more stimulus he now seems to be carrying a focus on redistribution China should stimulate in H2 which would be supportive for Japan.
Asia Pacific	China seems to be managing the property crisis well by balancing punishing over-exuberant property financing with the need to prevent a property market crash. We expect modest loosening to feed through to the economy by late summer of this year and then for growth in corporate earnings at which time we will upgrade. We are looking for China to relax their zero tolerance policy. Whilst South Korea and Taiwan should benefit from the surplus of semiconductor chip demand, the main impact on the region will come from China.
Emerging Markets	We still have a preference for China and others with a history of sound macro-economic policies, such as South Korea, and Mexico. The near term risk is focused on Latin America until China reflates. EM central banks face a dilemma of whether to cut rates to boost their economies, or raise rates to protect their currencies. Inflation, weak currencies and higher rates are a worry as is Argentina's debt negotiations with the IMF.
BONDS	
Conventional	The prospect of inflation, driven by the temporary impact of base effects and demand being fed into a sub-optimal supply chain continues to be a concern.
Index Linked	Pricey but necessary inflation hedge. Positives: Hedge against inflation increasing from loose monetary and a compromised supply chain. Negatives: Expensive negative yield curve in the UK.
Corporate bonds	Given our overweight equity position, we would prefer to be underweight as spreads are widening and should continue to do so, driven by investor sentiment.
CASH	
Cash	Cash has a poor yield but keep some on the side-lines for a possible pullback.
PROPERTY	
Property	Real estate lies somewhere between equity and bonds but with a built-in and attractive natural inflation hedge.
ALTERNATIVES	
Alternatives	The uncertainty that surrounds the direction of inflation leads us to overweight this sector. We like infrastructure and, to a lesser degree, gold as diversifiers.

Meet the manager

Michael Holder

Senior Investment Manager, Bristol

Lives North Somerset

Family Wife, 2 children, a cat and a gecko

Started at JM Finn 2004

Favourite Book *How not to say what you mean*, RW Holder

First Hero Andre Agassi

Passion Tennis, watching rugby and cricket, motorsport

Next Holiday Spain

Most proud achievement My daughter & son

Favourite film *Gladiator*

Favourite lockdown moment Managing to celebrate my 40th party in our garden the weekend before the Rule of 6 came into force.

Pet hate Motorists who fail to say thank you when you give way!

As you know we've recently been nominated for another industry award. What do you think specifically helps us stand out from our clients' perspective?

I personally believe it's our focus on client service. This can be seen throughout the whole company and is reflected in the consistently positive feedback we have received via a number of client surveys conducted over the years. This service manifests itself by being able to offer bespoke investment management tailored to client's individual and family circumstances as well as being a partner to them over the long term.

What's the key in your view to a successful client / investment management partnership?

As a firm I think we excel in our regular communications with clients when compared to our peers. Clients know that they have a direct line to their investment manager or a member of the team who recognise them, know their portfolio and are able to help them with any queries they might have.

How did your newest client find their way to you?

My two most recent clients have been firstly, a friend of my age who approached me about their pension situation which is becoming increasingly important for Generation X and Millennials. The second responded to a newspaper advertisement and was an introduction via our wealth planning team.

What do you see as your clients' primary challenges for their wealth?

This year in particular will see a difficult combination of higher taxes, energy costs and inflation at the highest level in 30 years, leading to real reductions in purchasing power, regardless of income. This may reduce the level of savings that hitherto might have been used to invest into tax efficient wrappers such as ISAs and SIPPs for longer term wealth accumulation, thus placing long term challenges on all savers.

Given a crystal ball, what do you see as the main themes for 2022 from an investor's perspective?

Whilst I am loathed to make predictions, the length of time that inflation remains at elevated levels, and how central banks respond, will weigh on markets and the current seriousness of the pre-emotive actions by Russia will mean volatility in markets will remain at elevated levels. It will be prudent to have a diverse asset allocation where equities, index-linked gilts and alternative assets that will be best placed to cope with elevated inflation.

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