JM FINN

No.37 *Winter 2021*

Prospects

The JM Finn Quarterly Periodical

Artificial intelligence
Getting faster and smarter

Non-fungible tokens
Here to stay?

Protecting family wealth
Financial stability via trusts

No.37

Winter 2021

Equity prospects
JM Finn's insights into companies 07, 11,15, 27.

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Welcome

At the time of writing the market is under some short term pressure over fears of a new strain of COVID-19, which of course we hope can be kept in check to maintain our relatively stable number of cases. Whilst we might consider the impact of this news, it also gave rise to some thoughts about our investment process.

As long term investors, our preferred action is often to pause and 'take stock' when markets react to short term developments. With global portfolios where investment decisions are made on understanding the fundamentals of the businesses, investors have the benefit of time on their side. That said, markets do not always behave in a rational manner over shorter periods, hence diversification is a critical element for effective portfolio management.

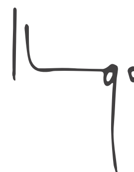
At JM Finn, we look after clients and their families for the long term with a focus on nurturing and growing their wealth, which generally means we look through short term volatility. 2020 was a case in point. Markets fell heavily following global lockdowns, but recovered during the year. It is times like these when we hope we can add meaningful value to our client relationships and when protecting wealth becomes the focus.

As many readers will know, we conducted a client survey during August of this year to better understand how our clients feel we are doing and, importantly, to explore our performance during the extraordinary year that was 2020. The results are shown on page 28 and we are proud to say that our key metrics, such as client satisfaction, improved upon our last survey, and also that we seemingly performed well during the pandemic.

Different to previous surveys we have carried out, this year our results were also included in a benchmark survey of other, similar wealth management firms. Our results came out well on a standalone basis, and very encouragingly we ranked top across all the surveyed metrics, compared to our competitors.

Some of our scores will be as a result of our continued focus on offering a personalised service and ensuring that the manager who is responsible for a client's portfolio is the main point of contact. And our communication scores will be thanks to a preference for face to face, or at the very least, in this current world, video meetings. We hope that now we have settled in to our new London HQ, clients will come and visit us, as it is these important touchpoints that help cement relationships. Likewise, for our clients looked after by investment managers in our branch network, do feel free to visit your team to give you a greater feel for the culture of the firm.

In terms of longevity, I have mentioned in previous editions that this year is our 75th anniversary. 2021 also marks the 10 year anniversary of our partnership with Delen. To mark this strong alliance, we asked some questions to Jan Suykens, a board member of JM Finn, which can be read on page 12. In the meantime, despite the short term concerns, let us hope that we can continue our journey back to normality and that 2022 comes with a little more certainty and also freedom in our everyday lives.



Hugo Bedford
CEO

Editorial

How AI is shaping our lives

Michael Bray, CFA
Research Analyst

Illustration by Rachel Tunstall

Although a buzzword of our time, Artificial Intelligence (AI), is not a new concept. The earliest substantial work in the field was done by logician and computer pioneer Alan Turing, famed for his contributions to the Allies' code breaking efforts during the Second World War. In 1947, he gave the earliest known public lecture to mention computer intelligence, and in 1948, he introduced many of the central concepts of AI in a report titled "Intelligent Machinery".

But in the years since, the evolution of AI has not been a smooth one; we have seen bouts of optimism followed by many disappointments, and periods of outright stagnation. Until recently, the idea of AI being used in the mainstream was a non-starter.

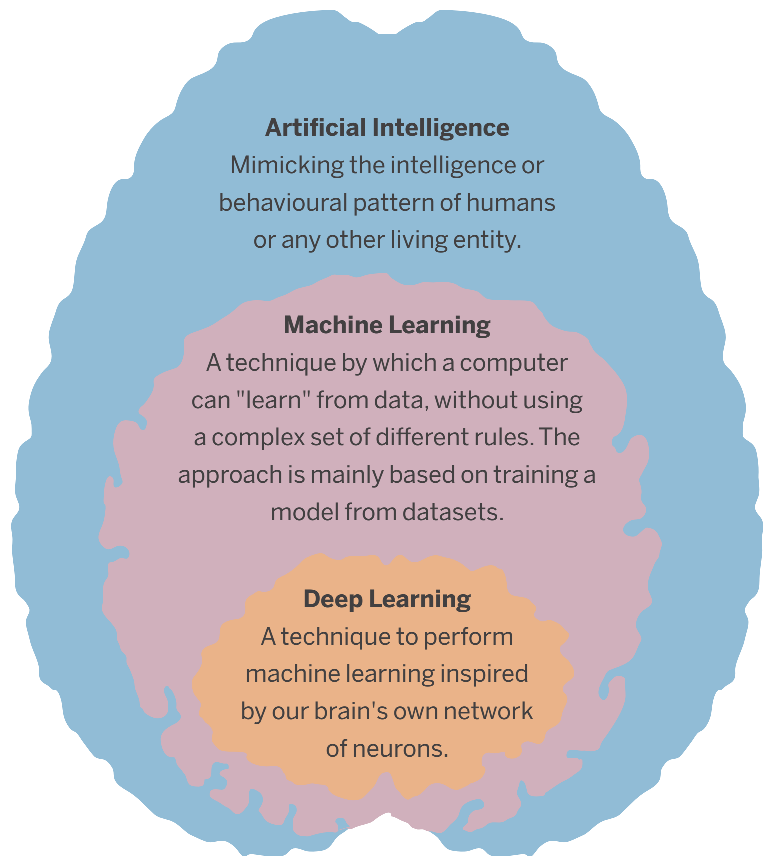
Like many technological evolutions, the next step for AI has been enabled by advancements in other fields. These have included: 1) the vast computing power provided by cloud computing and ever-increasing levels of computational efficiency; 2) the falling cost of data storage and exponential growth in data volumes used for training AI models and; 3) the emergence of open source frameworks which enable the sharing/integration of different data sets and applications.

With 75% of executives saying AI will be actively implemented in their organisations within three years, the technology is growing in its importance. So what is AI? How does it work? And why are we likely to see more of it?

AI is not one type of technology. It encompasses many different technologies working together to mimic the intelligence or behavioural patterns of humans. It is used to predict, automate, and optimise tasks that humans do. Perhaps the two most commonly discussed subfields of AI are machine learning and deep learning.

Machine learning is dependent on human intervention to help it learn. Humans determine the hierarchy of features from which computers can then try to understand the differences between data inputs - this requires more structured data to learn. For example, to distinguish between different car model images, a human operator may determine the characteristics which differentiate them e.g. a car's bonnet.

AI encompasses many different technologies working together to mimic the intelligence or behavioural patterns of humans.



Where things get interesting is with deep learning, a subset of machine learning. It is primarily used for more complex use cases such as language and image recognition.

Deep learning is loosely modelled on the biology of our brains: interconnections between neurons - a neural network. Unlike our brains, where any neuron can connect to another within a certain physical distance, artificial neural networks have separate layers, connections, and directions of data propagation. The application of deep learning can be thought of in two phases: training and inference.

When training a neural network, data is put into the first layer and individual neurons assign a probability weighting to the input — how correct or incorrect it is — depending on the task being performed. Unlike machine learning models, it can ingest unstructured data in its raw form (e.g. text, images), and can automatically determine the set of features which distinguish them apart. So for image recognition of our car model example, the first layer might look for edges. The next might look for how these edges form shapes to determine whether the image is a car. The third might look for particular features of a car model — such as bonnets, headlights and wing mirrors. Each layer passes the image to the next, until the final layer and final output is determined by the total of all those weightings which are produced.

Over time AI models and applications will get smarter, faster and more accurate.

Where the neural networks of deep learning AI differs from our own brain is that if the training algorithm doesn't reach a conclusion, it doesn't get informed what the right answer is i.e. an error message is returned. The error is propagated back through the network's layers and it has to guess at another characteristic. In each attempt it must consider other attributes — like a car bumper — and weigh the attributes examined at each layer higher or lower. It then guesses again. And again. And again. Until it has the correct weightings and gets the correct answer practically every time - it's a 2012 Volkswagen Golf. Our model has been 'trained'.

Deep learning is loosely modelled on the biology of our brains.

The problem now is that our deep learning neural network is essentially a large clunky database which requires a huge amount of computational power to run. If it is to be used practically, on a day-to-day basis, it needs to be speedy but retain the learning and apply it quickly to data it has never seen. That's where inference comes into play.

Inferencing can be done in two ways. The first approach looks at parts of the neural network that don't get activated after it's trained - they can be snipped away. The second looks for ways to fuse multiple layers of the neural network into a single computational step, like when compressing and uploading a digital image to the internet.

Either way, inference means AI can be used all the time. Apple's Siri voice-activated assistant uses inference, as does Google's image search, and Amazon's and Netflix's recommendation engines. More importantly, inferencing was crucial in enabling Moderna to quickly and successfully develop a COVID-19 vaccine, by modelling which subcomponents of a vaccine were most likely to trigger an immune response. In the future, inference will enable autonomous vehicles to roam our roads via image recognition.

What is clear is that over time such AI models and applications will get smarter, faster and more accurate. Training will get less cumbersome, and inference will assist with ever more sophisticated tasks and bring new applications to every aspect of our lives. Although not a new concept, AI technology is still very much in its infancy.

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BARCLAYS

John Royden
Head of Research

PRICE
£1.93

52 WEEK HIGH-LOW
£2.04—£1.30

NET YIELD
1.55%

HIST/PROS PER
22.0/5.8

EQUITY MARKET CAP (M)
£32,557

Barclays has been in the news recently with the resignation of Jes Staley. Staley's reputation was tarnished by his rule-breaking pursuit of the identity of a whistle-blower back in 2016 for which he was fined £642,430. Then, on 1st November 2021, we learnt that he had resigned to defend the manner in which he described his commercial relationship with the disgraced Jeffrey Epstein.

To misquote Oscar Wilde, to suffer one regulatory hiccup, Mr Staley, may be regarded as a misfortune; to get hit by two looks like carelessness. He was right to resign and is set to be replaced by "Venkat" as he is known. Venkat is a long standing senior Barclays employee, who promises more of the same.

That begs the question of what same looks like. Barclays says that its sensitivity to interest rate changes is £525 million per 0.25% increase in interest rates. That is because as rates rise, they pass the whole rate rise on to their borrowers but only some of it on to their depositors. For a bank that was making a pre-COVID-19 c£3 billion in after tax profit, interest rate changes are impactful.

Please read the important notice on page 1.

Guest Editorial

How NFTs are taking the art world by *storm*

Julian Usher
Red 8 Gallery

NFT is the hottest acronym on the art market right now, but what exactly is a Non-Fungible Token, and how is it disrupting the art collection and investment world?

Jack Dorsey, Twitter's founder and CEO, recently auctioned off his first ever Tweet for $2.9m, the not so thrilling 'just setting up my twttr'. Meanwhile, YouTube's Logan Paul is reported to have made millions through the NFT explosion. This innovative form of 'art' is shaking up the investment market. And just like any other speculative asset, the world seems to have high hopes on its future.

The concept is in fact simpler than it seems. A token, by definition, is something that grants you access and ownership. Much like a key to a house, an NFT gives you ownership of a digital work. Its non-fungible properties also mean none of these pieces are interchangeable. You can easily trade one bitcoin for another, but an NFT is truly one-of-a-kind and irreplaceable. And so in the trading of an NFT, you'll always end up with a different piece of digital work. An NFT is essentially a guarantee of something's authenticity – a digital file whose unique identity and ownership is verified on a blockchain, usually Ethereum so far.

While NFTs are culturally significant and collectable objects in their own right, many buyers are also treating them as an investment, speculating on their rising prices. And rightly so. This year the market for NFTs has surged to new heights, with more than $2.5billion in sales in 2021 so far, compared to just $13.7m in the first half of 2020.

'Craig' by wildlife photographer William Fortescue, who partnered with Saving the Wild to release his first NFT 1/1.

What is intriguing about NFTs, for both art collectors and artists themselves, is that they have turned the art market into an open, inviting space for all. The sharing of art via online communities instead of physical galleries, means that art now officially transcends geographical limits, and is guided only by interest. This results in more networking opportunities than ever, as well as a friendly, non-discriminatory platform for the trading of art. The scope of art has become more fluid than ever. Since the definition of an NFT is not restricted to a certain art form, it could be digital ownership of whatever the token is attached to, whether that's music, imagery or even Tweets. For artists, NFTs also reduce costs of creation and delivery that are normally associated with creating traditional art.

NFTs look like they're here to stay, and the boom has been particularly notable within the digital art world. It's no wonder that this exciting new form of art investment has garnered the attention of so many astute collectors.

"This is new for all of us," says Sotheby's CEO Charles Stewart. "But there's a lot here that's really exciting and we think has staying power."

Mike Winkelman, the digital artist known as Beeple, sold an NFT of his work EVERYDAYS: THE FIRST 5000 DAYS earlier this year for a staggering $69m, which is $15m more than Monet's painting Nymphéas was sold for in 2014. Minted exclusively for Christie's, Beeple's sale highlights a major move in art investment. The auction house was the first ever to offer a purely digital artwork with a unique NFT.

Christie's record-breaking sale catapulted EVERYDAYS – it is now the third most expensive artwork ever sold by a living artist, behind stalwarts Jeff Koons and David Hockney. The second most expensive known NFT sold to date has been Larva Lab's CryptoPunk 7253, one of 10,000 unique collectible characters with proof of ownership stored on the Ethereum blockchain. The NFT fetched $11.8m at Sotheby's.

NFTs look like they're here to stay, and the boom has been particularly notable within the digital art world.

New digital auction house Rare.Market joins Christie's and Sotheby's in offering collectors digital ownership of artworks in the form of NFTs. Collectors can purchase physical art and receive digital ownership of their chosen work as an NFT, all in a single easy sale. We are excited to have joined forces with Rare.Market in this one-of-a-kind offer.

As exciting as it is, the NFT market has received its fair share of critics, mainly on the amount of carbon footprint it creates. In order to make, sell, or buy an NFT through mining Ethereum, an estimated 44.94 terawatt-hours of electrical energy is consumed, which is approximately the yearly power consumption of countries like Qatar and Hungary. Not especially appealing in the sustainability-conscious world we live in, the issues place NFT's longevity into question amidst the hype it receives.

Look out for work from outstanding wildlife photographer William Fortescue, whose new spectacular collection focuses on the majestic wildlife of Kenya.

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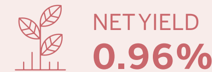
Julian Usher
Red 8 Gallery
0207 846 4021
info@redeightgallery.com
redeightgallery.com

L'ORÉAL

Rheanna Filmer
Assistant Research Analyst

PRICE
€412.55

52 WEEK HIGH-LOW
€430.45—€290.10


NET YIELD
0.96%

HIST/PROS PER
64.8/47.7

EQUITY MARKET CAP (M)
€231,824

L'Oréal is a European beauty conglomerate that owns some of the best known beauty brands in the world (e.g. Lancome, Garnier, La Roche-Posay). The business is split into four operating segments: Consumer Products, L'Oréal Luxe, Professional Products, and Active Cosmetics. Consumer Products and L'Oréal Luxe accounted for 78% of FY2020 sales. L'Oréal's largest geographies are China and the United States.

At a group level L'Oréal has maintained strong organic growth in recent years with consistent value accretive M&A. L'Oréal have a 5YR CAGR of 6%, taking into account negative growth in 2020, meanwhile APAC alone has a 13% 5YR CAGR.

L'Oréal has invested strongly in its digital platform and so were well placed to benefit from the rapid increase in e-commerce during the COVID-19 pandemic; growing 62% year on year. Pre-COVID, e-commerce grew 52% in 2019 and 41% in 2018. Growth in L'Oréal's e-commerce still has plenty of runway though; e-commerce accounted for 50% of Chinese sales and only 25% of total sales.

On valuation, L'Oréal looks very expensive on a 42x P/E multiple, well above its 5 year average of 31x. Perhaps it makes sense for L'Oréal to trade on luxury premiums given its luxury brand dominance but this may prevent investors piling into the stock.

Please read the important notice on page 1.

Interview with

Jan Suykens

JM Finn partnered with Delen Private Bank in 2011 and to celebrate the 10 year anniversary the Prospects editorial team put some questions to Jan Suykens, CEO-Chairman of the Executive Committee of our ultimate parent company Ackermans & van Haaren, Vice Chairman of Delen Private Bank and JM Finn board member.

Delen is a well-established private banking name in Belgium and the Netherlands (the latter through Oyens & Van Eeghen); what made you want to expand into the UK wealth management sector 10 years ago?

Delen Private Bank has always had a strategy focused on both organic growth as well as external acquisitions. We had the ambition to develop a second 'home market', but only if we could find the right platform, with the same focus on discretionary investment management for private clients. And with a management team sharing the same ambition, and willing to apply what we have learned in our home market to a new geography.

We were introduced to the management team at JM Finn and immediately felt we shared the same values and investment philosophy.

What made JM Finn the ideal partner back then and have those reasons changed at all over the last 10 years?

Both Delen and JM Finn have a focus on discretionary investment management for private clients. The broad offering of wealth management services has clearly helped Delen in developing such a strong client franchise, and this is exactly what JM Finn has focused on in recent years.

In the meantime, the current COVID crisis has clearly proven that close proximity, both physically and digitally, with our clients helps to build the trust that is needed in times of uncertainty.

We are blessed by the dedicated teams of investment managers and support staff always putting clients' interest first. Meeting clients, understanding their needs, developing into their 'first port of call' for any wealth management question, ultimately being a 'safe haven' for their wealth.

Focus, personal contact and efficiency are key in building a trusted and successful investment management service.

What have been the highlights for JM Finn over the last 10 years from your perspective?

There have been many successful developments over the first 10 years, notwithstanding some rollercoaster events in the market environments around us!

— The focus on discretionary investment management, now representing 84% of total funds under management.

— Excellent portfolio returns for our clients.

— Our ability to offer our clients wealth management services, thereby anchoring a much stronger way to accompany clients from one generation to another.

— Our focus on meeting clients and further developing our relationships, which has helped us generate additional inflows both of existing clients as well as new clients.

— The resilience shown by the whole staff during COVID, in terms of the seamless transition to remote working, whilst keeping communicating with clients.

— Our marketing efforts promoting the JM Finn brand, by offering high quality events to our clients. Delen has been the main sponsor to the BRAFA Art Fair in Brussels for many years, and similarly, JM Finn became a corporate partner of the Royal Academy ten years ago.

— The further strengthening of our internal organisation and the recent successful CEO transition from Steven Sussman to Hugo Bedford.

— And last, but not least, we are hopeful that the recent move to our new London HQ will further boost not only staff morale but also our business proposition.

The result of all of this is that we almost doubled AUM (from £5,5 billion to £11,5 billion) whilst achieving a Net Promotor Score (i.e. the extent to which clients would be inclined to 'promote' JM Finn) of 71 (on a scale of 100), which is extremely high in the financial industry!

Congratulations to all our staff, and a sincere 'thank you' to all our clients!

Finally, where do you hope to see JM Finn after the next 10 years of a successful partnership?

We have to continue doing what we are good at: staying close to our clients, offering the best wealth management services they need, protecting their assets via diversified investment management and yielding returns in line with the risk appetite of our clients.

That way, we will grow with our clients and be able to continue growing our client base.

We will also continue to consolidate the position of JM Finn in the market in the UK. This has always been the strategy at Delen and we will continue to support this, both in terms of new teams joining, as well as looking at potential acquisitions, thus strengthening our franchise or the geographic spread of the business. But, make no mistake, we will always prioritise organic growth and supporting our existing client franchise.

We remain ambitious, and therefore we need to continue to invest in our organisation, both in terms of people as well as secure IT systems and efficient administration. We are a strong believer that IT and increased automation will free up time for investment managers to focus more on their clients.

We should not become complacent while the market environment remains challenging, the financial markets potentially even more volatile and the regulatory requirements becoming ever more stringent. We feel we have the right people and the right culture to remain a solid and secure home for our clients and we remain convinced that the close relationship Delen and JM Finn have established over the first 10 years will prove even more mutually beneficial in the coming years.

I'm truly looking forward to even more collaboration and exchange of experiences as I believe our clients will only benefit from it. Growth is not an objective by itself, but if we continue to focus on building even stronger client relations, I'm convinced it will not take us another 10 years before we double assets under management again!

We thank our clients for their trust, and our 315 colleagues for their commitment in serving our clients.

JM Finn *News*

New office move complete

In November, the final members of staff moved into our new London headquarters at 25 Copthall Avenue. It has been a herculean effort by our facilities and IT teams to move us all, but we are now settled in and, apart from a few small snagging details, are very happy to be in our new premises.

Having the entire London-based staff on one floor is a significant enhancement to our working lives, making communication and internal relationship building even easier. We are also enjoying the benefit of a large break out area and kitchen where staff can meet informally, as well as many more meeting rooms.

We very much hope to host clients in our new building in due course. With a wraparound terrace, al fresco dining is very much a possibility in the summer months and meanwhile those clients who have visited our new home already have been very impressed with both the offices and our excellent catering staff, who continue to look after us all extremely well.

Our new address, as a reminder is: 25 Copthall Avenue, London, EC2R 7AH

JM Finn wins Wealth Management Firm of the Year award for the third year in a row

JM Finn was delighted to have won the award for Medium to Large Wealth Management Firm of the Year from MoneyAge. Having won the award in 2019 and 2020 it was especially rewarding to have received this recognition again. Our employees, partners and clients have all been instrumental in our achievements over the last twelve months.

The judges noticed our increasing assets under management, our uptake in new business and our consistently outstanding client communication, making us a clear leader within our space.

Returning for its sixth year, the MoneyAge awards aim to address the many changes that are taking place in the consumer finance space and provides the financial services sector with timely news, and in-depth analysis to help guide their advice and decisions.

Two investment managers receive accolade

We are delighted and extremely proud of Alexander Gulliford and Karen Lau for both being named in the Citywealth Future Leaders awards.

These awards celebrate talent within the wealth management sector and champion those professionals who are making an important contribution to society.

Following a submission process, which must include a testimonial, the awards are then judged by a panel of

wealth management professionals in the private wealth management sector. An online public vote opens once the shortlist is announced to garner support from peers and raise the profile of the participants.

Alex was recognised in the Investment Director category and Karen was named in the Investment Manager category. Congratulations to both - it is fantastic to see their hard work and efforts being recognised.

Understanding Finance

RETURN ON CAPITAL

Henry Birt
Research Assistant

Return on capital metrics are closely watched by managers and investors alike. However two metrics, Return on Invested Capital (ROIC) and Return on Capital Employed (ROCE), are often (incorrectly) conflated.

Although definitions vary, the numerator for ROCE is often defined as Operating Profit. Net Operating Profit After Tax (NOPAT) tends to be used for ROIC. On the denominator ROIC uses invested capital and ROCE uses capital employed. Invested capital is essentially the amount of capital used to support the operating business assets whilst capital employed is all the capital in the business. Invested capital is therefore a subset of capital employed.

Imagine a bus company which owns buses and runs a bus route but also holds shares in the local corner shop. ROIC would measure specifically the return made on the investment in the buses but would ignore the shares in the corner shop. Alternatively ROCE, as it considers all the capital in the business, would include both the investment in the bus and the corner shop. Thus, ROCE is a broader measure and is often considered a proxy for capital management success across the business whilst ROIC is a more targeted measure.

For both metrics, a higher number is desired as this indicates a company is gaining a greater return on a given amount of capital and is thus more profitable. Both metrics begin to gain meaning once compared to the weighted average cost of capital (WACC). I.e. if the company has created more from its allocation of capital than it had to pay for the capital, this allocation is theoretically value creating. Both metrics can also be used for comparison against peers.

OXFORD NANOPORE TECHNOLOGIES

Henry Birt
Research Assistant

PRICE
£6.46

52 WEEK HIGH-LOW
£6.99—£5.14

NET YIELD
NA

HIST/PROS PER
NA/NA

EQUITY MARKET CAP (M)
£5,335

Oxford Nanopore Technologies (ONT) is a DNA/RNA sequencing company. ONT develop and supply instruments which can be used to read the genetic code of an organism. This information can help to find treatments to diseases. The sequencing market is not without competition however; in Illumina ONT finds a formidable opponent.

However, whilst Illumina remain the largest player in the market, PacBio present the most direct competition to ONT as the sequencing market is bifurcated into short-read technology (used by Illumina) and long-read (operated by PacBio and ONT). Short-read technology is more established than long-read and will likely remain the dominant sequencing solution for years to come. However, there is a 9% or so 'dark zone' of the human genome which can't be sequenced by short-read techniques and this is where ONT hopes to make traction.

ONT's long-read technology is only just emerging from its proof-of-concept phase and its instruments are currently involved in a series of trials that will be crucial to catalyse further adoption. Whilst promising, ONT still have a lot to prove.

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 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.

Henry Birt
Research Assistant

Rheanna Filmer
Assistant Research Analyst

CONSUMER DISCRETIONARY
Currys, Whitbread

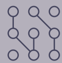
CONSUMER STAPLES
Reckitt Benckiser Group

ENERGY
Royal Dutch Shell

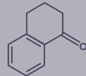
FINANCIALS
Euronext NV,
Legal & General Group,
Schroders

HEALTH CARE
Oxford Nanopore Technologies

INDUSTRIALS
Ricardo, Kone Oyj,
Travis Perkins, ITM Power,
Ceres Power Holdings, Bunzl

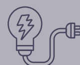


INFORMATION TECHNOLOGY
Darktrace, SDI Group,
ASML Holding NV ADR,
AVEVA Group



MATERIALS
Hill & Smith Holdings,
Victrex, Mondi, Rio Tinto

REAL ESTATE
Supermarket Income REIT



UTILITIES
Orsted

1.

Aveva

Price **£32.29**
52 week high-low **£42.42 – £30.64**
Net Yield **1.09%**
Hist/Pros PER **284.5/31.1**
Equity Market Cap (M) **£9,886**

Information Technology
Peter Herweck, CEO

Aveva has featured in numerous media headlines following some high profile M&A activity. In 2017, Schneider Electric bought 60% of the British software firm and, in turn, handed over their software division to Aveva. More recently, this year, Aveva acquired Silicon Valley software firm OSIsoft for $5bn. The focus of our meeting with CEO Peter Herweck was to garner a more complete picture of this integrated business in the aftermath of these transactions.

Aveva's growth strategy has focussed on cross-selling products to their existing customer base and developing their cloud platform, Aveva Flex, has greatly facilitated this. Additionally, with the OSIsoft purchase, Aveva acquired "the best customer success management team". This team's focus is to assist customers to best utilise the full Aveva product suite. It is Peter's belief that hands-on customer service is vital to customer retention and expanding product use.

Management see Aveva's software as vital to the energy transition. Roughly 35% of Aveva's revenue derives from the Energy sector. Their software seeks to drive operational efficiencies and value chain optimisations which will help reduce CO2 emissions in the Oil & Gas sector. Additionally, management see the trend towards electrification as working in their favour. Major new industrial projects require Aveva's design software expertise and OSIsoft's data transformation technologies.

Near term, management's priorities are to deliver integration synergies from the OSIsoft and Schneider deals, enabling a progressive dividend policy.

2.

Orsted

Price **DKK 831.20**
52 week high-low **DKK 1,400.50 – DKK 818.20**
Net Yield **1.36%**
Hist/Pros PER **23.1/35.1**
Equity Market Cap (M) **DKK 354,801**

Utilities
Mads Nipper, CEO and Marianne Wiinholt, CFO

We met with the Danish wind farm experts fresh off the COP26 circuit. The team were candid regarding their hopes for a net zero future and the short to medium term challenges they face to achieve their ambitions of being a central player in offshore and onshore wind and solar energy generation. Management said they had seen no material impact from the global supply chain crisis. Where there had been some minor price increases, these were reflected in better compensation from their Power Purchase Agreements (PPA). Key materials, such as steel, have typically been purchased at predetermined prices though they can be dynamic on timing these forward agreements to ensure value for money. They have held off on locking in future steel prices recently due to the current elevated steel price. With recent Q3 earnings underwhelming, Orsted also explained how this reflected an uncharacteristically windless European autumn/winter.

Roughly 90% of revenue corresponds to subsidies or PPAs that extend out to 2027. There is therefore little scope to benefit from increased energy prices or for them to lose out to falling energy prices. The remaining 10% of revenues are exposed to energy market pricing, however Orsted hedge this price risk.

Looking longer term, global competition has increased rapidly and will continue to do so, whether from large oil and gas majors or local players. To combat this, they put considerable emphasis on the importance of being first mover in a country and, maintaining financial discipline, enabling them to be more selective as to which auctions they participate in.

3.

SDI Group

Price **£1.92**
52 week high-low **£2.19 – £0.85**
Net Yield **NA**
Hist/Pros PER **39.9/28.0**
Equity Market Cap (M) **£192**

Information Technology
Mike Creedon, CEO

SDI group design and manufacture scientific products for end markets including life sciences, healthcare and astronomy. Since CEO Mike Creedon's appointment (2012) he has executed on a plan of shrewd acquisitions to form the collection of companies forming SDI Group today. The group divides into two segments: Digital Imaging (45% of revenue) and Sensors & Control (55%).

The businesses making up the Sensors & Control segment range from electrochemical sensors for use in laboratory analysis, to vacuum and gas flow measurement devices.

Mike confirmed that most of SDI's growth going forward would come from M&A, so we spent some time running through the strategy. He echoed some of the comments we have heard from larger acquisitive companies, that SDI's culture is what draws acquisition targets to them. They also run a decentralised operating model, affording subsidiaries greater autonomy. But organic growth prospects and margin expansion are limited in the near term, adding pressure on Mike's ability to execute on further acquisitions, opening the group to execution risk. When asked about SDI's biggest issues, Mike cited labour costs and supply chain problems. He remains sanguine however and assured us that his tight capital discipline and focus on cash remained a priority.

Looking forward, with an unwavering focus on M&A opportunities seemingly intact, we can expect much of the same. As with any acquisitive business, the proof will be in the execution.

Please read the important notice on page 1.

Economic Focus

Emerging threats or transient difficulties?

Brian Tora, Chartered Fellow, CISI
Consultant

Illustration by Isabelle Bamburg

Surprisingly little has changed since last I shared my views on how the domestic economy is shaping up in a post-pandemic world.

We've had the United Nations Climate Change conference in Glasgow, which seemed to have little influence on investor sentiment, though it's still too early to determine what any longer-term implications might be. Inflation remains a worry, while Covid continues to resist attempts to be pushed to the sidelines of our concerns. And supply chain disruption looks like hindering the economic recovery that has restored the fortunes of major economies to close to, or even above, pre-pandemic levels.

Despite all these uncertainties – and the heightened geo-political tensions that a more aggressive Kremlin is generating - at the time of writing, shares have held up remarkably well, with our own FTSE 100 Index finally returning to the sort of levels not seen since the recession hit, even if we continue to lag the US. Markets are clearly viewing the destabilising threats that surround us as merely transitory, but are they wise to shrug aside these concerns? Some of the influences could be said to be self-cancelling in some measure, but it is worth trying to assess just what might happen as the world adjusts to a new normal, post-pandemic life.

The imbalances in both the supply of labour and the availability of goods and services is not just a domestic issue.

With hindsight it is, perhaps, hardly surprising that both the cost of living and the delivery of goods should have been so disrupted by the changes wrought by the Covid-19 crisis. The initial reaction to the pandemic was to shut down vast swathes of economic activity, leading to massive destocking and a shift in working patterns all around the world. As consumers regained their confidence, so demand rose rapidly against a background of supply shortages brought about as businesses had sought to protect themselves by running inventories down.

Meanwhile, with particular industries hit hard by government measures to control the spread of the virus, many of those employed in such sectors as hospitality and transport, worried over the prospects for employment in the future, sought employment elsewhere. The result has been imbalances in both the supply of labour and the availability of goods and services. And this is not just a domestic issue. All around the world these problems exist in some form or another.

Establishing a more balanced environment will take time to achieve and one of the consequences could well be further upward pressure on the cost of living. Already in America inflation has topped 6% - a level most would have considered unlikely even just a few months ago. This brings it to a three-decade high, but with energy and fuel driving the rise in prices, the expectation remains that the upward pressure will moderate. After all, if prices stabilise, then inflation will too.

The rise in prices seems set to continue here too, with forecasts of above 5% likely for next year. Again, utility bills and the cost of fuel will be leading this charge and both should moderate in due course. Determining how wage inflation might affect the picture is altogether more difficult. In those sectors of the economy where labour shortages are limiting our ability to progress satisfactorily, such as transport, we are already seeing some quite significant rises in pay packets, which in turn could well encourage other workers to adopt harder line approaches when seeking wage settlements.

Wage inflation is by far the most dangerous element in the rising cost of living mix. But the self-correcting mechanism that could come into play is simply that of falling demand as consumers, hemmed in by larger energy and fuel bills, start to ratchet back their spending plans. With our nation remaining heavily dependent on the health of the consumer, this could swiftly translate into declining demand and a shrinking economy, which should stifle excessive pay demands.

A big hike in the cost of borrowing could have devastating consequences.

So, on balance I remain in the transitory camp so far as inflation is concerned, even though I fear it will take longer for the cost of living to return to a more acceptable rate of increase than many expect. The good news is that this should limit the Bank of England's desire to raise interest rates. A big hike in the cost of borrowing could have consequences that would be devastating, as a whole new generation of home owners could find the additional burden of higher mortgage costs, alongside their inflated utility bills, simply too much to bear.

If inflation is likely to moderate and supply-side shortages equally capable of resolving themselves in the medium term, then it is the other, less predictable risks we need to monitor. The fallout from Brexit remains a worry, with the Northern Ireland question still unresolved and containing the potential to scupper the entire EU/UK trade deal. And the less than democratic Russian and Chinese governments more assertive roles internationally add further uncertainty. Whoever said forecasting the future was easy?

Wealth Planning in focus

Trusts for Vulnerable People

Anna Murdock
Head of Wealth Planning

Illustration by Adam Mallett

There are a number of reasons as to why you may wish to settle assets in trust, but one of the most prominent is to protect family wealth and to look after the long term interests of family members.

A trust can be a particularly useful tool to provide financial stability for a vulnerable person throughout their lifetime. Some trusts for disabled people or children get special tax treatment. These are called 'trusts for vulnerable beneficiaries'. It is important to differentiate between what you may deem vulnerable and what is classed as vulnerable in terms of the applicable law where preferential tax treatment can be applied.

Who qualifies as a vulnerable beneficiary

A vulnerable beneficiary is either someone under 18 whose parent has died or a disabled person who is eligible for any of the following benefits (even if they do not receive them):

- A person incapable of managing their property due to a mental disorder;
- A person in receipt of an attendance allowance, disability living allowance or personal independence payment;
- A person in receipt of an increased disablement pension;
- A person in receipt of a constant attendance allowance;
- A person in receipt of an armed forces independence payment

For the trust to qualify as a disabled person's trust, the person must be disabled at the time property is transferred to the trust.

It is important to differentiate between what you may deem vulnerable and what is classed as vulnerable.

Mental disorder

HMRC accept the following conditions will count as a 'mental disorder' and enable a person to qualify as disabled, if as a result of having the condition they are incapable of managing their affairs if the condition lasts, or is expected to last, for more than 12 months:

- Alzheimer's or other forms of dementia;
- Bipolar disorder, schizophrenia, depression or other mental illness.
- In addition, those with the following conditions may qualify as having a mental disorder if as a result of the condition they are incapable of managing their affairs:
    - Autistic Spectrum Disorder;
    - Learning disability, such as those with Down's syndrome.

For the trust to qualify as a disabled person's trust, the person must be disabled at the time property is transferred to the trust.

Why might a trust be set up for a disabled person?

A trust might be set up for a variety of reasons including:

— the disabled person may not (or may not always) be able to manage their own finances;

— an individual may wish to set aside funds for the disabled person, but retain control (via the trust deed) of what happens to the fund in the event the disabled person marries or dies, for example;

— it might protect the disabled person's entitlement to means-tested state benefits.

Who might set up a trust for a disabled person?

— A parent or other relative who sets up a trust for a child or other relative.

— An individual may set up a trust for themselves if they think they may need that protection in the future.

— An individual may set up a trust to receive compensation monies (for personal injury, for example).

Preferential tax treatment

A disabled person's trust is one that is set up to conform with the requirements of section 89 Inheritance Act 1984. Broadly, such a trust avoids some of the harsher tax consequences of a trust.

The special tax treatment broadly aims to tax the income and gains of the trust in the same way as if the individual beneficiary's own allowances, reliefs and rates applied to the trust income and gains; and to ensure that for inheritance tax the 10-yearly tax charges that affect most other trusts do not apply.

Crucially, the income tax and capital gains tax reliefs are not automatic. The trustees need to take action, sometimes along with the beneficiary (or their parent or attorney). If the trust was settled by the beneficiary for themselves, no income or capital gains tax relief will be available.

If the trust was settled by the beneficiary for themselves, no income or capital gains tax relief will be available.

Ordinarily, trusts have 10 year inheritance tax charges of 6% on the excess above the nil rate band.

In addition there are situations when trusts for vulnerable people get special inheritance tax treatment. Ordinarily, trusts have 10 year inheritance tax charges of 6% on the excess above the nil rate band (i.e. 6% on excess over £325,000), but trusts with vulnerable beneficiaries are usually exempt.

Of the tax benefits available, particular note should go to the deduction in income tax liability. As an example, the trustees would firstly work out what the trust income tax would be if there was no claim for special treatment, after which they would work out the income tax the vulnerable beneficiary would be liable to pay should the trust income have been paid directly to them as an individual. The trustees then claim the difference between the two figures as a deduction from their own income tax liability.

The same process applies when working out the relief available for capital gains tax on a disabled persons trust, but it is important to remember that the trust also benefits from an increase in the capital gains tax allowance from what would ordinarily be offered to trustees (i.e. an increase from £6,150 to £12,300).

Claiming special tax treatment

To claim special treatment for income tax and capital gains tax, the trustees have to fill in the 'Vulnerable Person Election' form. If the vulnerable person dies or is no longer vulnerable, the trustees must tell HMRC.

Trusts for Vulnerable People are a complex area and professional legal advice should be sought if you are considering setting up such a trust.

The information provided in this article is of a general nature. It is not a substitute for specific advice with regard to your own circumstances.

Personalised portfolios for charities

Sam Barty-King
Investment Director, JM Finn

Having a bespoke portfolio tailored to specific investment goals is often considered solely the preserve of those charities with large amounts of capital to invest.

However, there are now a number of cost effective options available for charities of all sizes and with the fiduciary responsibilities placed on charity trustees, it may be sensible to opt for a more personalised, bespoke investment solution, by developing a relationship with an investment manager. Here we look at the options available for charities.

For charities that are fortunate enough to have excess capital to invest, their trustees have to consider and adhere to a set of considerations and legal requirements when investing their charity's assets for a financial return. Whilst the Charity Commission has published *Charities and Investment Matters: a guide for trustees*, also known as CC14, investment still remains a complex area for many, especially for those who are not experienced investors.

In general terms, charities can invest in a wide range of assets, including cash deposits and shares, as well as bonds issued by both governments and companies. Collective investment schemes (pooled funds), commodities, derivatives and buildings or land are also approved charitable investments. Furthermore, trustees are responsible for ensuring that strategic decisions about a charity's assets are in line with its overall objectives and they can decide to make investment decisions themselves, if they have the necessary skills and experience. However, most trustees choose to delegate the decisions to a professional investment manager.

Having identified capital for investment, the key decision then is what assets to hold, as asset choice is the primary driver of long-term returns. How these assets are held however (directly or in pooled funds) and who you should entrust them too, should be a secondary consideration.

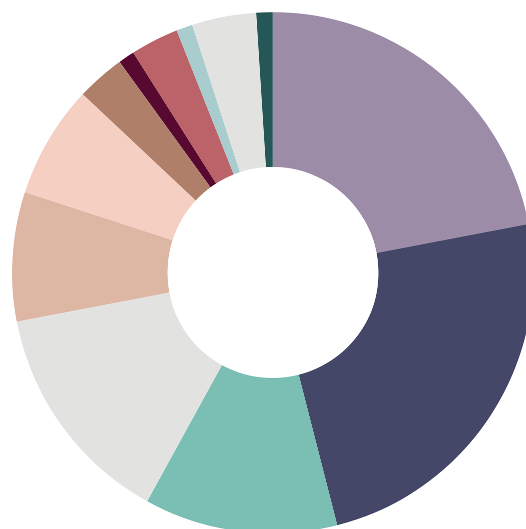
For charities with smaller amounts of capital to invest, adopting a pooled fund approach, rather than having a bespoke directly invested portfolio, has for some time now been the go-to option. Using a Charities Official Investment Fund (COIF) or a Charity Authorised Investment Fund (CAIF), ensures that these types of charities have access

to a wide range of securities, which might be difficult to achieve as part of a directly invested portfolio, in a cost effective manner, given the portfolio size. Furthermore, the administrative ease with only one main fund holding, accounting and record keeping is kept simple for the charity. Many of these pooled vehicles are also dual-regulated by the Charity Commission and the Financial Conduct Authority (FCA), offering trustees additional comfort.

The first pooled fund established exclusively for charities was launched in 1994 and there are currently 42 charity investment funds, with invested capital of over £20 billion. Both the number of funds and assets invested has grown steadily over the last 25 years; furthermore, new funds continue to be launched. All these funds are invested in a slightly different way, with different risk profiles and investment objectives, with some aimed at specific charitable organisations. Whilst there is no doubt this method of accessing markets is appropriate for some, we at JM Finn believe that accessing financial markets is only one part of a complex equation. By investing this way you adopt a standardised approach with little flexibility to adapt to changing circumstances. We believe charities now demand more from their investment manager rather than just investment advice.

Historically, many charities have felt that a bespoke portfolio is not an option for them, given the size of the assets they want to invest. However, the landscape has changed over the last two decades as trustees have had to embrace new regulation, consider Environmental, Social and Governance (ESG) requirements that continue to develop and evolve, look at new asset classes, whilst the opportunity set for investment has grown exponentially. There is a lot more choice now and arguably the amount of information that is available instantly, makes it ever more important to implement a dynamic asset allocation strategy.

Funds managed by JM Finn's charity team by sector

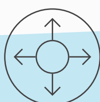


- Education
- Grant making
- Religious
- Livery and not for profit
- Health
- Culture
- Disability
- Community
- Relief of Poverty
- Almshouses
- Military and Aerospace
- Sport

Award winning charity services

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.

Whilst investing in a COIF or a CAIF might be a cost effective solution for some, at JM Finn we have always advocated that a bespoke portfolio is available to charities who approach us for advice, regardless of the size of capital that they want to invest, given the option of a flat charging structure we adopt. When meeting new clients, we are continually asked why we advocate investing in a bespoke manner rather than pooling funds. To us the advantages are clear:



1. Flexibility

With a bespoke portfolio, attitudes to risk, to ESG requirements, to investment objectives can change over time, depending on specific requirements. With a bespoke portfolio you are able to adjust and adapt quickly and efficiently, taking advantage of changes in market sentiment, whilst also ensuring that the investments fully reflect the charity's short term and long term goals and aspirations. Whilst there is a high commonality of investments held across all our charity portfolios, we treat all charities individually, as many have special instructions and/or investment restrictions.

2. Highly Personable

We find that the relationship between a charity and investment manager works best when trustees have a good understanding of the investment process and we spend a lot of time with trustees, educating them if needed, on different asset classes and financial markets. Furthermore, drawing on our experiences with developing private client relationships, we dedicate a lot of time to communicating with trustees, ensuring that we understand the intricacies of their charity. We feel this promotes much better outcomes for both.

3. Communication

Bespoke portfolios, on the whole, ensure that the investment manager/relationship manager role is combined and therefore nothing is lost in translation. At JM Finn, we feel that this promotes a better understanding of a charity's aspirations and objectives and again promotes accountability and better client outcomes. The trustees have a direct line of communication into the team who are managing and investing the charity's assets, ensuring the portfolio not only reflects the charity's overarching investment objective, but also its goals and values.

4. Cost Effective

Charging structures have changed over the years with more of a focus now on 'all in' fixed percentage management fees. With no dealing costs, this ensures that charities with small amounts of capital to invest can avoid paying high charges when dealing in smaller amounts.

Our experience highlights that smaller charities are often surprised to hear that they can have a bespoke portfolio. They soon realise that the additional services that come with having a personalised service, the increased flexibility and the direct communication that they have with those managing their assets, becomes invaluable.

We believe charities now demand more from their investment manager rather than just investment advice.

At JM Finn we pride ourselves on the client service we offer, believing that communication and service are key aspects of delivering a quality bespoke portfolio management solution.

Given the changing landscape and the growing number of requirements charities need to adhere to from a regulatory perspective, we find that trustees feel more comfortable investing in a portfolio built around their specific needs, with an experienced team who have the tools at their disposal to deliver this. Furthermore, being able to talk to the team that manages the money can lead to better outcomes whilst ensuring that their investment objectives and aspirations are met.

Sam Barty-King, Investment Director

UBS

John Royden
Head of Research

PRICE
CHF 16.52

52 WEEK HIGH-LOW
CHF 17.04—CHF 11.80

NET YIELD
2.05%

HIST/PROS PER
9.0/8.4

EQUITY MARKET CAP (M)
CHF 61,497

UBS takes about 50% of its revenues from Wealth Management. Another 10% comes from Personal & Corporate Banking, 30% from the Investment Bank and 10% from Asset Management. Across the group, $4 trillion in assets under management drives steady revenues with half the world's billionaires being UBS clients.

Swiss Banks were previously known for their legal duty of secrecy and confidentiality. Times have changed and the Swiss now more readily participate in disclosing tax-avoidance to other regulators. That said, the bank suffers from a French case regarding UBS facilitating tax avoidance in the "noughties". UBS is appealing against its €4.5 billion fine with judgement expected soon. With a market capitalisation of €56 billion, the fine is meaningful.

Leaving the outcome of the legal appeal aside, it looks as if the general consensus is for strong loan growth which should translate into low double digit growth in net interest income (about 20% revenues). Non-interest income looks to be on the upward trajectory such that the bank might start delivering acceptable returns. Relative to other banks, UBS's loan book is seen as low risk, which helps the investment story. The risks are more tax avoidance litigation or an adverse outcome in the French case.

Please read the important notice on page 1.

JM FINN
Investment | Wealth

Client Service Excellence 2021

As many readers will know, we conducted a client survey in the summer of 2021, our third such survey, in order that we get a better understanding of how our clients feel we are meeting their goals.

This year we also wanted to explore how well we performed during the pandemic, as it is periods such as calendar year 2020, when we think having an investment manager as the main point of contact in a relationship, really adds value. Additionally, our survey results were included in a benchmark study.

The benchmark is an industry-leading study which presents an overview of the client journey, through the lens of the client, as measured by key performance metrics of 10 participating firms who collectively manage in excess of £150bn in assets on behalf of private clients in the UK and was run for each firm during the course of 2021.

JM Finn results

Once again, we were delighted to see an improvement in our scores with the three main key performance indicators, overall satisfaction, investment manager satisfaction and Net Promoter Score, all improving from the 2019 survey.

Overall satisfaction
(8-10/10)

93% (2019); **93%** (2015) **94%**

Investment manager satisfaction
(8-10/10)

93% (2019); **93%** (2015) **95%**

Net Promoter Score (NPS)
(-100 to 100)

70 (2019); **50** (2015) **71**

Net Promoter Score (NPS)
Our consistent growth over the years can be attributed to exceptionally high standards of client service, which drive client referrals via word of mouth. This willingness to refer is measured by the NPS, or net promoter score, which is based on the overall satisfaction scores and which in turn is the result of our performance across a number of metrics.

KPIs vs our competitors

9.1 Benchmark 8.6
Overall Satisfaction
(range: 9.3 to 8.2)

9.3 Benchmark 8.8
Investment manager satisfaction
(range: 9.3 to 8.3)

71 Benchmark 49
Net Promoter Score (NPS)

Other key aspects of a quality wealth management service are the communication, the day-to-day account management, digital services and client centricity. We measured all of these as part of the benchmark study and are delighted to report that we were top out of all ten participating firms in these categories:

Communications
On a scale of 0-10 JM Finn clients are more satisfied with the firm's overall communications than the competition **(range: 9.1 to 8.0)**

8.4 Benchmark 7.8

Digital
On a scale of 0-10 how satisfied are you with the overall digital capabilities provided by JM Finn? **(range: 8.4 to 6.8)**

Performance during the pandemic

As 2020 was such an exceptional year we wanted to explore how clients felt we communicated with them, as these are the times when we need to prove our worth.

How satisfied, on a scale of 0-10, were you during the pandemic with:

Everything we do at JM Finn is about delivering successful client outcomes. Our clients appreciate that we treat each client as an individual and therefore assessing how we have done via an independent and anonymous survey is the best means to get a true picture.

We asked all participants whether they feel that the range of products and services from JM Finn are:

1. In line with their risk tolerance
2. Meeting their individual needs and goals
3. Offer good value for money

Client outcomes

We were delighted that the average percentage of respondents answering "yes" to these questions across all three statements was 99%.

Finally, one crucial aspect of looking after clients' hard earned wealth is the trust they have in the firm and we continue to be delighted that the trust levels have remained exceptionally high in all our client surveys to date:

Trust
(8-10/10)

96% (2019); **97%** (2015) **96%**

The survey was an independent survey of 1,653 discretionary clients of JM Finn conducted in 2021 by Aon Client Insight.

Participating firms in the benchmark study were: abrdn, Brewin Dolphin, Brooks Macdonald, James Hambro & Partners, JM Finn, Kleinwort Hambros, Nedbank Private Wealth, Quilter Cheviot, 7IM and WH Ireland.

Stock in Focus

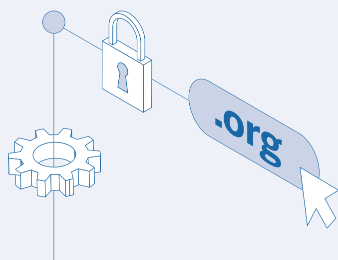
VeriSign

James Ayling, CFA
Research Analyst

The COVID-19 pandemic increased the Internet's importance amongst nearly all consumers and businesses. If you hadn't tried online grocery ordering pre-pandemic, I'd guess you or a close family member may have trialled an online delivery service or, perhaps, an online to offline click-and-collect service instead of braving the queues at your local physical supermarket.

The pandemic has, undoubtedly, accelerated the need for companies to consider their digital strategy – a highly consensus opinion. Yet, much focus is placed on the excitement of evermore e-commerce and the potential of a digital metaverse, meaning opportunities at the Internet's core, that should grow from rising digital penetration, are often overlooked.

This led me to think about internet utility operators. Unlike traditional physical utilities, digital utility firms seem to offer higher long term growth potential as well as benefiting from a relatively more embryonic regulatory framework that struggles to keep pace with rapid digital innovation.



To explore this, let's look at a foundational infrastructure layer of the internet; the domain name system (DNS). It's essentially a large database akin to a traditional phone directory that maps human comprehensible alphabetic website domains e.g. jmfinn.com into a numeric internet protocol (IP) address to tell your computer where to find the JM Finn website. Clearly for us it's easier to remember www.jmfinn.com but, remember computers prefer binary.

The DNS is a worldwide network of servers (i.e. computers). Importantly, DNS is a hierarchical and distributed network. Each level of the DNS system only knows a small amount of information to resolve a domain name query – essentially enough information to pass the query request to the next level down the hierarchical architecture.

At its core, DNS is made up of 13 authoritative root zone servers. These specific servers know exactly where to find top level domain (TLD) servers; examples include .com, .co.uk or .gov. The .com TLD server knows where to look for .com addresses; not .co.uk addresses.

To find a website domain, a computer iteratively speaks to numerous hierarchical DNS servers to ultimately find a website's unique IP address. This may seem a highly convoluted process. But, it delivers a highly efficient website address look-up function, benefiting from several levels of redundancy to ensure we are accurately routed to websites of choice quicker than we blink.

PRICE
$245.39

52 WEEK HIGH-LOW
$248.22—£184.60

NET YIELD
NA

HIST/PROS PER
34.7/45.1

EQUITY MARKET CAP (M)
$27,257

A company intrinsically linked to DNS is Verisign, the world's leading internet domain registry operator. In simple terms, Verisign maintain the website address books or supporting infrastructure for a number of TLD registries: .com, .net, .cc, .tv, .gov, .jobs, .edu and .name.

Specifically for .com, .net and .name, Verisign has monopoly status as it has the single exclusive license to maintain and update these registries under strict agreements from the Internet Corporation for Assigned Names and Numbers (ICANN) and, additionally for .com, the US Department of Commerce.

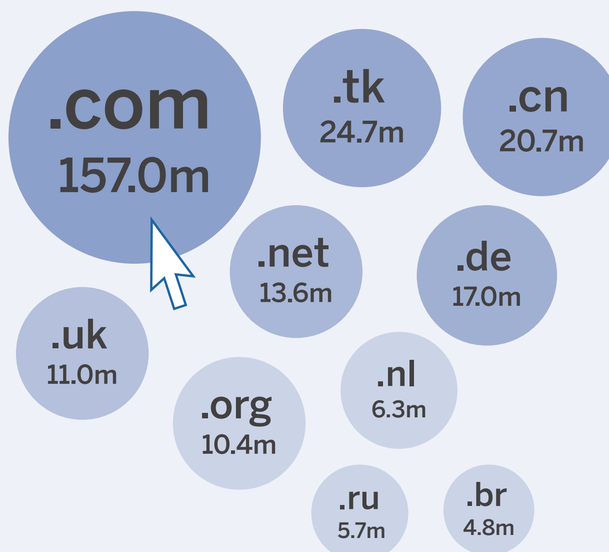
Whilst Verisign operates in a highly technical sphere – if we take .com as a case study - Verisign generate revenue every time a website domain on .com is either registered or renewed (annually). So, the basic underlying revenue drivers are: growth in .com website domains and pricing.

Currently, for the 157m website domains on .com (Q2 2021), Verisign charge an annual fee of $7.85 for each domain registered or renewed. This pricing is strictly governed by ICANN. Currently, Verisign can enact a maximum 7% annual price hike on the .com TLD in the final four years of each six year licencing period.

So, with pricing growth tightly bound, the key variable element of Verisign's revenue growth seems to boil down to volume growth of .com websites. Therefore, if you think more businesses create a .com presence, post pandemic, then you might forecast higher revenue growth ahead.

Top 10 largest TLDs by number of reported domain names

Source: ZookNIC, Q2 2021; Venisign, Q2 2021; Centralized Zone Data Service, Q2 2021



As of June 30, 2021, the largest TLDs by number of reported domain names were .com, .tk, .cn, .de, .net, .uk, .org, .nl, .ru and .br.

Early in the Internet's history, limited TLDs gave .com a significant (<90%) market share of website domains. However, many analysts highlight how .com's share has slid to c. 40% today following the broadening of country level domains (.co.uk) and generic introductions like .shop.

I'm optimistic on .com prospects because, whilst TLDs have proliferated, .com retains its iconic cachet. I see .com as an intangible brand, favoured by businesses through their insistence on a .com domain. Moreover, if you appropriately analyse where websites store their content, versus non-content domains (that instead principally auto-forward you to the .com content domains), you realise .com retains the lion's share.

However, a potential risk to Verisign's .com volume growth narrative may emanate from online marketplaces that thrive on the .com TLD. Amazon.com or Etsy.com who theoretically require just a single .com domain to pull individual sellers to their sites – reducing small businesses needs for separate .com websites!

Please read the important notice on page 1.

Bond focus

Blocked supply chains, inflation and where this takes interest rates

John Royden,
Head of Research

Illustration by Emily Nault

In the early summer of this year, we saw a huge surge in retail sales across the world with growth close to four times what is normal.

So it comes as no surprise to me that the resulting re-stocking orders have come to clog up logistics channels and revealed compromised supply chains; probably both because of COVID-19 related problems but also due to the surge in activity. I am detecting evidence that re-stocking orders might have been placed on a scale to not just only re-stock the empty shelves, but also to cope with anticipated on-going strong growth levels of retail sales. I say this because I see evidence of inventories building up which suggests that re-stocking has been overdone in some areas.

Capitalism will theoretically react to changes in demand for scarce resources using price and increased (or decreased) supply. The high rates of inflation as a short term reaction to strong demand pending more supply, should therefore be expected. It is obviously easier to raise prices in the short term as more supply from longer working hours, or more investment into greater capacity, takes progressively longer.

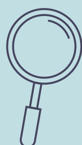
US inflation runs at 6.2% from a pre-COVID-19 average of about 2%. UK inflation is at 3.1% and it is 4.1% in Europe. This is not unexpected. Some of this is "base effect" because these are annual figures and prices were depressed this time last year.

The textbook response to uncomfortably high levels of inflation is higher interest rates. Recently we saw the surge in ten year rates as a reaction to higher probabilities of higher rates to control inflation. In August the UK ten year was at 54 basis points (=0.54%). It peaked at 121 bps in October, before falling down to 88 bps as I write. We saw a similar pattern in the US and Europe.

Capitalism will theoretically react to changes in demand for scarce resources using price and increased (or decreased) supply.

Going forward, I expect high inventories will depress inflation and lower it below what many expect. Bonds will do well for a couple of months until inventories are used up. Thereafter, I think consumers' and corporates' strong cash holdings will underpin ongoing demand, as rates gradually climb over the next few years in response to ongoing economic growth. I am more inclined to the US expectations for Fed Funds to be at close to 1.25% by mid-2023, with UK base rates possibly sitting at the 1% level by this time. But expect volatility on the way, as the cycle of stocking up / running down inventories seesaws its way through our economy. After short term gains in bond prices, I would look to be more inclined towards below benchmark maturities and probably invested in the higher grade space rather than the sub-investment grade area.

And my caveat is the assumption that vaccinations progress, COVID-19 infection rates decline and other medicines reduce the impact.



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 throughout 2020 helped by demand from China. Drivers include sustained high commodity prices and the growth-to-value rotation.
Consumer Discretionary	More normalised consumer spending patterns provide near term tailwinds for consumer discretionary names. 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	Banks are benefiting from the continued steepening of yield curves which should allow net interest margins to expand. UK listed banks now represent good value and see more near term upside versus US.
Financials Life Insurance	Life insurance companies benefit from the steepening yield curve. Higher rates drive liabilities lower and increase prospective investment returns. 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	Demographic tailwinds and the relative resilience of global healthcare spend mean this is a sector with growth and defensive attributes. Distinguish between biotech, life sciences, medtech and pharma. A greater weighting in the sector is to those which have been negatively effected by the pandemic i.e. elective surgery exposed names, 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	The ongoing pandemic recovery and sensible OPEC target production growth has resulted in an oil price rally. 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	Some sub-sectors performed well through the pandemic such as online gaming and online media. Changed behaviours should persist, but we do see tough earnings comparisons against exceptionally strong 2020 numbers .
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	Positives: Cheap on a relative PE basis. Brexit risk, an unlucky resurgence of Delta COVID 19 and unlikely Scottish devolution risk are priced in. Heavy on cyclicals which will do well if global growth continues and if China relaxes. Expected mild inflation will help asset prices. Fiscal responsibility driving "Goldilocks" growth. Negatives: FTSE100 is heavy on ESG-poor oils and miners and lingering inflation risk.
INTERNATIONAL EQUITIES	
North America	Positives: Fears of over-heating are waning with on-going support coming from large but post-peak fiscal spending programs aligned with a perception that any deceleration of economic and employment growth will deter monetary tightening. Slow global recovery could draw out tech rally. Ending wage support schemes should increase the supply of workers and help control wage inflation. Past peak stimulus. Negatives: Re-start of rotation out of growth/ tech into value.
Europe	Positives: The €750 billion Recovery Fund is now being invested. Christine Lagarde is dovish helping asset prices. Negatives: Too much ESG focus could increase cost of capital. 3% inflation might press ECB hawks to taper. The doom loop for local banks is a black swan to watch whilst high unemployment is still a drag.
Japan	Japanese equities have risen on the back of Suga's resignation and likely political change. Positives: Japanese valuations appear attractive and positioning looks light. The yen has the potential for reverting to safe harbour mode if COVID-19 variants extend the pandemic. Japan is OW industrials and consumer discretionary for the value trade. Negatives: We are cautious of much needed corporate reforms delivering on their promises although more share buy backs will help. The vaccine roll out has been unimpressive. Watch for quiet Bank of Japan tapering.
Asia Pacific	Positives: China is not imploding under a debt burden as many once feared and we are impressed with China's ability to exercise monetary restraint without driving an overly negative reaction. We think that regulatory crackdowns are coming to an end. Korea and Taiwan should benefit from the surplus of semiconductor chip demand. Negatives: Rebound in USD through to 2022 might hurt emerging markets in this region.
Emerging Markets	We have a preference for China, Korea, Russia, and Mexico. The near term risk is focused on Latin America if the USD strengthens and if China's tightening leads to more stalling commodities. Positives: USD weakness seems likely in the long term (post rates adjustment) and a gradual improvement in commodity prices (linked to a Chinese infrastructure stimulus) could help markets sensitive to commodity exports. Brazil, India and Russia have managed their third COVID 19 waves lower. Negatives: COVID-19 variants into relatively unvaccinated populations are always a worry and raises the risk premium. Political risk remains and supply chain issues abound.
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 inflation hedge. Positives: Hedge against inflation increasing from loose monetary and fiscal policy 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 corporate bonds. There is a possibility that corporate spreads could reduce further but we continue to think the upside from spread contraction has probably reached its limit.
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 and we still prefer equities. Choose exposure with care and avoid poor quality retail.
ALTERNATIVES	
Alternatives	We prefer to make more precise calls in equity, cash and fixed income. We like infrastructure and gold as diversifiers within the sector.

Meet the manager

Karen Lau

Senior Investment Manager, London

Lives Greenwich

Family Married

Started at JM Finn September 2012

Favourite Book So many but at the moment *Sapiens* by Yuval Noah Harari

Heroine My Mother

Passion Photography & Travel

Next Holiday Jersey

Most proud achievement Being an Investment Manager

Favourite film *Gladiator*

Favourite lockdown moment Cycling from Greenwich to Buckingham Palace with no cars around

Favourite Karaoke Song *Mr Brightside* by The Killers

With many themes and issues in play, from supply chains to inflation to the pandemic, how are you looking to position portfolios to protect your clients' wealth?

It is a dangerous game to try and predict the near future so we ensure our clients' portfolios are well diversified with a bias towards structural themes. With inflation on the rise, I have tilted clients' allocation to inflation linked investments like infrastructure and property; such investments are underpinned by real assets whilst offering attractive inflation linked income yields. In equities, I have positioned portfolios to include a spread of companies which have demonstrated pricing power over a multi-year period and have consequently been able to pass through cost inflation and protect margins. Additionally, I have kept an eye to the future with technology companies such as Microsoft, which are established businesses but still have growth ahead of them.

Are there any areas of the market you are excited for their growth prospects?

As a long term investor, the most exciting broad investment themes remain: 1) the advancement of technology, 2) healthcare, 3) sustainable investments and 4) changing demographics. These have been enduring trends but there are a number of sub-themes which we use to build a diversified portfolio. As an example, I hold ASML, the world's leading manufacturer of lithography systems, which supplies tools to the top microchip manufacturers who are central to the technology we depend on today. Given the importance of microchips, ASML is a company which can be seen as central to many themes including AI, robotics and autonomous vehicles. Another good example would be producers of green energy through wind and solar farms which we have had exposure to long before recent market interest.

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

The biggest challenge for most of our clients is how to balance between having sufficient funds to feel secure, meet taxation requirements and also pass on to their loved ones. Thankfully, we have a great Wealth Planning team who can help our clients optimise their investments. I am a proud manager to multiple generations of clients and as a firm, we have been able to help them throughout their requirements for education, house deposits, promotions, retirement planning and estate planning. We are privileged to be a trusted adviser for those moments.

Having recently received an industry award, what do you feel are the important qualities for an investment manager?

No one day is the same for an Investment Manager so it's important to embrace change and adapt, which translates to a passion for learning and problem solving. It is paramount to me that I treat every client as an individual, and to listen and communicate with them in a way which is focused on their needs. In a world where technology improves access and efficiency, it can also reduce the personal service; our clients still appreciate having an approachable Investment Manager to help them through their financial needs. It's rewarding for me when I am able to deliver both performance and a high level of service.

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