October 2018

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	5/10/16	1/1/17	5/4/17	1/7/17	5/10/17	1/1/18	5/4/18	1/7/18	5/10/18
FTSE 100	7033	7143	7332	7313	7508	7688	7200	7637	7319
FTSE All Share	3827	3873	3997	4002	4119	4222	3961	4202	4028
Dow Jones (US)	18281	19763	20648	21350	22775	24719	24505	24271	26447
S&P 500 (US)	2160	2239	2353	2423	2552	2674	2663	2718	2886
Nikkei 225 (Japan)	16819	19114	18861	20056	20629	22765	21645	22305	23784
WMA Balanced	1475	1492	1538	1533	1571	1599	1538	1597	1584

Growth Equities	Higher Yield Equities	Mid-Cap Equities	Overseas Equities	Collective Investments
AB Foods	BATS	Avast	ABB	B Gifford Positive Change Fund
Bunzl	BP	Babcock Int.	Colgate-Palmolive	Bankers IT
Compass Group	HSBC	Coats Group	Estee Lauder	Fidelity Special Values IT
Croda	National Grid	Diploma	Heineken	Finsbury Growth & Income IT
DCC	RDS 'B'	FDM Group	Johnson & Johnson	Impax Environmental Mkts IT
Intertek	Rio Tinto	James Fisher	Novartis	JP Morgan Japanese IT
Prudential	Severn Trent	Pennon	Novo Nordisk	Pacific Assets Trust
Reckitt Benckiser	Unilever	Shaftesbury	SGS	Schroder Oriental Income IT
Relx		Weir Group	Umicore	Trojan Global Income Fund
Smith & Nephew			Waters Corp.	Troy Income & Growth IT
Smurfit Kappa				

14½ Points

This newsletter will be more than a little Brexit heavy so first I should note a few recent headlines away from our European debacle.

- The remarkable story of the twelve Thai boys and their football coach being rescued from the flooded cave in Thailand, similar to the Chilean miners a few years ago. Despite the sad loss of one of the rescuers it was an amazing achievement to save the boys.

- The disheartening story of the Skripals and their poisoning, allegedly by Russian agents in Wiltshire.

- Donald Trump being greeted to the UK by a gigantic balloon depicting him in a nappy. He might be loathed but do we really have to stoop to his level? He then met Vladimir Putin – given all the election conspiracies one can't help but feel they are good friends already. Subsequently, he has claimed that Wall Street would crash if he were to be impeached and, sadly, he's probably right.

- Google's record $5bn fine for breaches of competition rules.

- The US have imposed further sanctions on Iran and have started trade wars with China.

- The Scallop war in the English Channel or is it La Manche!

- More positively, the Presidents of North and South Korea continue to communicate well.

- England's World Cup performance which lifted the spirits of our nation. This finally came to an end in the semi-final against Croatia.

- Victories for Geraint Thomas in the Tour de France and Francesco Molinari in the Open whilst Alistair Cook has retired from test cricket as one of the greatest batsmen of all time (thank you Chef). Also, Eliud Kipchoge set a new marathon record of 2 hours 1 minute and 33 seconds. Some will remember Bannister's 4 minute mile; I can't wait for the euphoria in Africa when a man goes 'sub 2' for the marathon, this will be a truly extraordinary feat of the 21st century.

- Boris, who has resigned as Foreign Secretary (thank goodness) has continued to excel himself. Whilst running through a 'wheat field' in his pants was vaguely amusing (no doubt plenty of farmers spotted the wild oat problem), using words attacking Theresa May such as; "wrapping a suicide vest around Britain and handing the detonator to Brussels," along with derogatory statements about Burkas and letterboxes is hardly helpful for international relations. Why Boris, why, when you have potential to be a brilliant politician do you continuously come out with such provocative rubbish you buffoon?

Of course the highlight of the last three months was the Ryder Cup where we saw the definition of Britain and Europe being "stronger together". Played in <u>France,</u> under the captaincy of a <u>Dane</u> (Bjorn), with the top scorer from <u>Italy</u> (Molinari) and the talisman from <u>Spain</u> (Garcia) the Continental Europeans gelled with the home faithful where; debutant Fleetwood (Southport), 'postman' Poulter (Stevenage) and $10m man Rose (Johannesburg – there always has to be at least one South African in every winning team), suffocated the Americans. I am reassured that leaving the EU does not mean eviction from the European map and so the selection process is likely to stay the same (although it is interesting that neither a Swiss nor a Finnish player has ever made the European squad).

<u>Brexit</u>

Most importantly we should be grateful that we live in a democracy where everyone is given the opportunity to have a voice – sadly this isn't the case in so many parts of the world.

Although we seek to be apolitical in these newsletters it is very difficult when discussing a vote which was so 'black or white' and I am not prepared to have the telephone call with clients asking how big the splinter in my bottom is, because I sat on the fence. Therefore in order to be transparent, whilst I respect the view of many friends and clients who voted LEAVE and <u>I certainly accept the result</u>, I confirm that I personally voted REMAIN.

My conviction revolved around the importance of free trade with Europe where in my opinion, a small increase in tax on low margin UK exporters of either goods or services could be crippling. In addition I did not want to vote for the unknown, we didn't know what leave meant (and still don't). Arguably it would have been better to never have been part of the EU but we have to remember that we started the referendum process from a position of 'in'. As such, I took the view that it would be a mistake to 'upset the apple cart'. Perhaps this was cowardly, perhaps not. However, my overriding reason to vote STAY was because I genuinely believed we had the best of both worlds with:

a) Free trade within the EEA

b) Yet without the burden of the EURO

If we go back a generation, John Major was my true champion (believe it or not). Whilst Spitting Image might have portrayed him as grey and boring, he handled Europe brilliantly during the launch of the single currency via the Maastricht Treaty. How he managed to manoeuvre Britain to retain sterling as our sovereign currency but without falling out with the whole of Europe was truly remarkable. I know he was one of the less popular Prime Ministers of the last century, but I believe his leadership, which ended in 1997 just a year and a half before the first Euro was spent, gave Great Britain a strong hand in Europe without being held to ransom.

Of course being in Europe comes with plenty of problems and the arguments with regard to European red tape and immigration do not go unnoticed. Although currently with 'just' one million people without work, unemployment, in percentage terms, is at its lowest rate since 1975. Therefore I am not sure I agree with one of the vote leave's campaign slogans "British jobs for British people".

We welcome those from overseas who come here to work hard in both skilled labour such as doctors and nurses and unskilled (I hate that word) labour such as those in the fields at 4:00 a.m. picking fruit, vegetables and flowers. I do wonder whether such roles would be filled by unemployed British nationals, but perhaps I am being too cynical. I appreciate that in Norfolk, partly due to accessibility, we do not have a full picture of the UK's immigration problem so my view might be somewhat skewed and those from Kent might say it is a far greater burden on the UK economy.

Going into the vote, it looked likely that REMAIN would edge the result but I was aware that the momentum (a word often used in the Ryder cup) was behind LEAVE. I was particularly aware that much of the LEAVE argument was passionate with phrases such as "taking back control of our borders" and "ripping down red tape" as well as the aforementioned "British jobs for British people". Such slogans created images of: George and the Dragon, Richard the Lionheart and Winston Churchill. This momentum made it difficult for the 'remainers' to fight back because their argument was <u>measured</u> rather than <u>passionate,</u> or quite possibly because 'we' (remainers) were measured rather than passionate. Frankly perhaps 'we' could have been described as a little bit 'Spitting Image grey'.

So LEAVE won on 24th June 2016 and the people of Great Britain including its Politicians (seemingly two very different types of people) accepted the result. Despite the way in which I voted, on the announcement, I actually felt a little liberated, I liked the slightly anti-establishment feel to the vote. The British people had stood up against a bureaucratic, political, juggernaut which was something to be proud of.

I started to pen this newsletter on 1st October 2018 (the first day of the Conservative party conference) and have just overheard Dominic Raab say the EU needs to "get real" because we are nowhere near a deal. It is concerning that with a leave date of 29th March 2019 we are over 80% of the way through the negotiations (and more if you consider the January deadline) yet we seem clueless of the strategy. The Irish Border (not one of my true considerations when voting) is proving to be more than just a stumbling block and this is not aided by the government relying on votes from the DUP to prop them up.

Brexit means Brexit (or does it).

I went on a bicycling holiday in the Italian Alps and Dolomites in May 2016, just as the referendum debates were taking place. The Peloton was spilt down the middle in terms of those who were 'in' and those who were 'out' and it seemed unlikely that anyone would be moved from their view, afterall this would be deemed a sign of weakness and nobody wanted to show this trait of character the day before the 42 switchbacks of the Stelvio!

The one thing we could agree on, was if LEAVE were to win, we didn't know what shape it would take. That said, those voting 'out' did not think this was sufficient reason to sway. The Brexit conversation became a game of strategy as at the bottom of the mountain everyone would try and shout out a controversial statement, in the hope it would provoke someone into a 30 minute monologue about the merits of leaving or staying, whilst the rest of us just sucked in the air to keep the pedals turning!

For the time being, Theresa May is sticking resolutely to her Chequers plan, she <u>just</u> has to get the approval of Brussels.

Chequers would see:

- The UK commit to match the EU on standards and regulations for goods and agri-foods
- A new customs set-up in which the UK would collect tariffs on the EU's behalf
- No visible border in Ireland
- An end to the free movement of people
- The end of both direct European Court of Justice oversight of UK affairs and annual payments to the EU

At the recent summit of EU leaders in Salzburg Donald Tusk made it clear that he was in the “chuck Chequers” camp stating that the UK must rework its proposal for the Irish Border and that the proposed economic partnership will not work. It therefore seems unless a new plan is formulated we face either:

Hard Brexit

- No access to the single market or the customs union
- Full control over borders
- The ability to immediately strike new trade deals with other countries
- Reduced or no contribution to the EU budget
- No jurisdiction for the European Court of Justice

Soft Brexit

- Access to the single market resulting in goods and services being traded with the remaining EU states on a tariff-free basis
- Membership of the EU's customs union, meaning that exports would not be subject to border checks
- Payments into EU budgets and acceptance of the “four freedoms” of movement of goods, services, capital and labour
- Laws would remain subject to judgments of the European Court of Justice

No Deal

- Immediate withdrawal from the EU with no transition period and the instant implementation of World Trade Organisation rules on trade
- No divorce bill or annual contribution to the EU budget
- Exports to the EU subject to customs checks and taxes
- An immediate hard border in Ireland
- Uncertainty regarding residence of EU citizens in the UK and British citizens in EU countries
- No jurisdiction for the European Court of Justice

Trade tariffs, immigration and the Irish Border remain at the core to any negotiation.

What will happen next?

Time is running out. Perhaps because David Davis did too much running backwards to Brussels with little progress; perhaps because in the early part of this year the Conservative party focus was actually on domestic affairs, or perhaps because the European Parliament simply doesn’t want to ‘play ball’ (afterall we are the ones who are deserting them).

The British public are fed up of hearing of “deals almost being reached”. I think we are very close to an extension being called (although as this goes to print I hear again that there have been “encouraging discussions”). I hope I’m wrong, ask any university student when they finished their dissertation and you are likely to get an answer of “about an hour before the gong”. Would an extension be any good? No, but it would give a meandering (at best) leadership and a stubborn Brussels more time to try and find a compromise.

Theresa May is a good person. Her speech at the Conservative party conference was dignified. She acknowledged that the Brexit negotiations were challenging, she offered support to members in the opposition such as Dianne Abbot and she even had a laugh at her own expense, strutting to ABBA in reference to her African tribal dance. Sadly in politics 'the nice guy rarely wins', it is the tough; Thatcher and Churchill or the egotistical Blair that normally win.

The Prime Minister says that a "No Deal is better than a Bad Deal" and in the longer term for the UK it is; however, I am not convinced she means this. If we do default to a No Deal, in my opinion, the government as we know it would be the sacrificial lamb. This is predominantly down to the hard border in Ireland and the reliance on the DUP within parliament. 'That' general election in the summer of last year really was a total disaster for the Conservative party. We all know how politics works and the Conservative's primary goal will be to stay in power, which is why I feel that Theresa May, possibly following an extension to Article 50, will somehow manage to come up with a compromise which will take the form of a typically British 'medium to moderate' deal. It will feel like a lukewarm bath, where there is no time to run another and is just about bearable to do the job, before rushing out to dinner.

Jeremy Corbyn has started mumbling about a second referendum, yet how on earth can we have one of these? I voted remain (like many others), I accept the vote (like many others), I just want Brexit to be finalised (like many others) and whilst I, personally, would like to see it as soft as possible I acknowledge that many want a firmer line. What if REMAIN wins next time, is it like a boxing contest where a clause is written into the contract for a trilogy at 1-1? Corbyn has also started talking about a stealth tax on business, the perfect way to isolate our country from a trade perspective after we have left Europe! Couple this with the annual anarchy within the Labour party, this time about anti-Semitism, and I fear for our economy should he be given the mandate to run this country.

Brexit market forces and portfolio positioning

So are we concerned about Brexit? Yes, but not disproportionately so.

Uncertainty has driven markets since the beginning of time and at Barratt and Cooke we have learnt through the generations to err on the side of optimism, albeit sometimes with a slightly conservative stance. It has certainly 'paid' to be invested over recent years as, even accounting for the banking crisis and dot com boom and bust, returns from growth in equity prices and the compounding of dividends have significantly exceeded deposit interest. Of course there could be a correction, but given that the FTSE 100 has appreciated 19.2% plus dividend income since the referendum it is less Brexit uncertainty and actually either a global correction or a change of domestic government that would be of more concern to us.

Part of the reason we are happy to remain invested is the currency impact if we do get a Bad Brexit or a No Deal Brexit. If Great Britain becomes a less attractive place to invest, a more difficult place to do business or loses some of its competitive advantage, sterling is expected to depreciate further. We believe there has been a generational re-rating in our currency and are sceptical as to whether $1.31 is fair value given the future uncertainties.

With 78% of FTSE 100 earnings generated from overseas, such a softening of the Pound would result in an 'increase' in earnings once they have been converted back to sterling, which is why we have been buyers of stocks in the fast moving consumer goods and pharmaceuticals sectors. We are however mindful of the fact that in some instances this is just an accounting benefit (as often the monies actually stay in the home currency). It is, however, certainly very good for dividends where the funds have to be remitted back to the UK before being paid out.

In addition, weak sterling makes UK based businesses attractive to overseas companies looking to buy them. Since sterling has weakened from $1.62 (a long term average until about 3 years ago) we have seen the acquisitions of SAB Miller and ARM Holdings and more recently SKY, Randgold Resources and Shire being subject to bids from overseas companies. We also saw the failed bid from Kraft Heinz for Unilever which led the FTSE 100 stalwart into the process of seeking to move its headquarters to Rotterdam to fend off future bids (but under the mask of a more competitive environment), though fortunately this did not go through. Such currency forces provide support to certain companies domiciled in the UK.

As you will know we have adopted a greater international bias to portfolios whether through overseas collectives or individually listed US and European stocks. We live in a global market place and it is important to hold some investments which will not be influenced by our currency, nor our politicians or the forces of the UK economy. There are some fantastic opportunities in overseas jurisdictions which we are unable to gain access to in the UK and as such these stocks are in the portfolio on their own merits but with the added benefit of mitigating some domestic UK risk.

It is important to note that, generally, the stocks on our buy list have:

a) strong management
b) market leading positions in their sector
c) robust cash flows and relatively low leverage
d) structural growth drivers over the medium term

whilst of course trading on valuations with which we are comfortable.

To quote CWLB “This enables us to sleep at night”. Of course there can be short term volatility and some months or even years could be uncomfortable, but as medium term investors, this is the trade-off for longer term returns and we simply can’t get attractive returns in the bank anymore. If we invest in a business that is driven down by market momentum but has the fundamentals listed above we can have confidence that it will bounce back. Indeed, if the company is still selling the same amount of product on a similar margin the market capitalisation should return again. Of course one can try to be clever with selling holdings but it is always very difficult to buy back where there is the metaphorical blood on the floor of the market.

During our portfolio construction we not only consider company fundamentals but weightings to our favoured sectors, preference for different geographies, market timing and exposure to fixed interest to help reduce volatility where appropriate. I should note at this stage that whilst the fixed interest exposure (both conventional and index-linked) has created a lag on performance in the recent long equity market rally, it is in such periods where both advisors and investors can become impatient. However during the credit crisis we were thankful that they provided buoyancy for those clients who required a medium or moderate risk profile for their investments and therefore we do believe they warrant their position in portfolios.

Corporate actions

Takeovers:

Sky - Comcast outbid 21st Century Fox with a cash offer of 1728p per share

John Laing Infrastructure – cash offer of 142.5p from Jura Acquisition Ltd

Shire – takeover by Takeda Pharmaceuticals (Japan), expected to complete in the first half of 2019

Whitbread – agreed the sale of Costa Coffee for £3.9 billion to The Coca-Cola Company

Other Corporate Actions:

Treasury 1.25% 2018 - redeemed at par

DS Smith rights issue - 3 new for every 11 held at 350p

Standard Life Aberdeen – consolidation and return of capital, 33.4p per share

In conclusion

Sitting at my desk very late on a Friday night, grappling with this newsletter and with my brain slightly scrambled I answered the telephone and it was Hannah (my wife). Having vented frustration over whether what I was writing was; right or wrong, would cause offence or would gain support, would amuse or would bore, I asked her a simple question: Why did people vote LEAVE? She gave me a two word answer – FOR CHANGE.

Wow, it is as simple as that. The problem with this Brexit debate is that one (particularly in this job) can look too deep; can worry about the next political move; can try and find the answers when they are difficult to fathom; can become embroiled in their own view; but when you take a step back or seek the advice from someone who is removed, you gain clarity.

The People of Britain had had enough and therefore wanted a CHANGE. Indeed it did not matter that they did not know what form it would take, they simply wanted OUT of Europe and all its Governance and that is good enough for me!

Brexit will provide opportunity as well and in the January newsletter I'll look at the potential for trade agreements with the rest of the world and reasons to be optimistic.

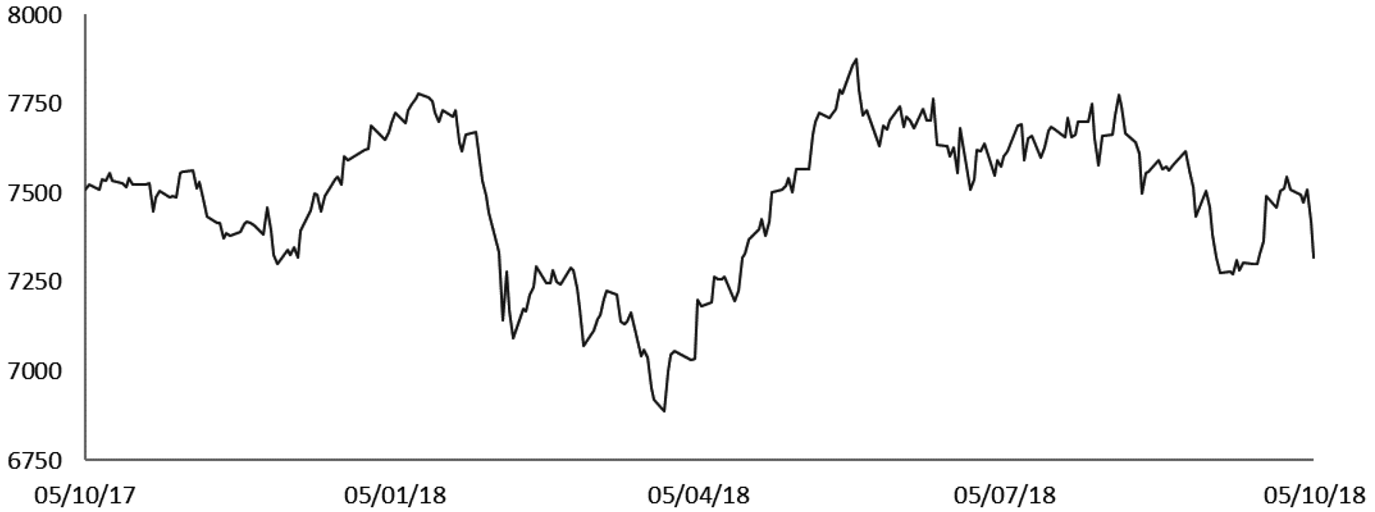
Humphrey Barratt, aged 6, has recently become familiar with fractions, his favourite number is not 9¾, (which his sisters, Olivia and Flora, would opt for with their affection for the Harry Potter stories) but the far more magical 14½. I am sure you are all aware, this is the crucial number of points required to win the Ryder Cup, a total our European heroes reached with little problem. Theresa May and her Conservative government will eventually manage to achieve their metaphorical 14½ points to deliver a reasonable Brexit deal and maybe, just maybe, it will be a bit hotter than that lukewarm bath. I for one wish her well.

WJB
5/10/18

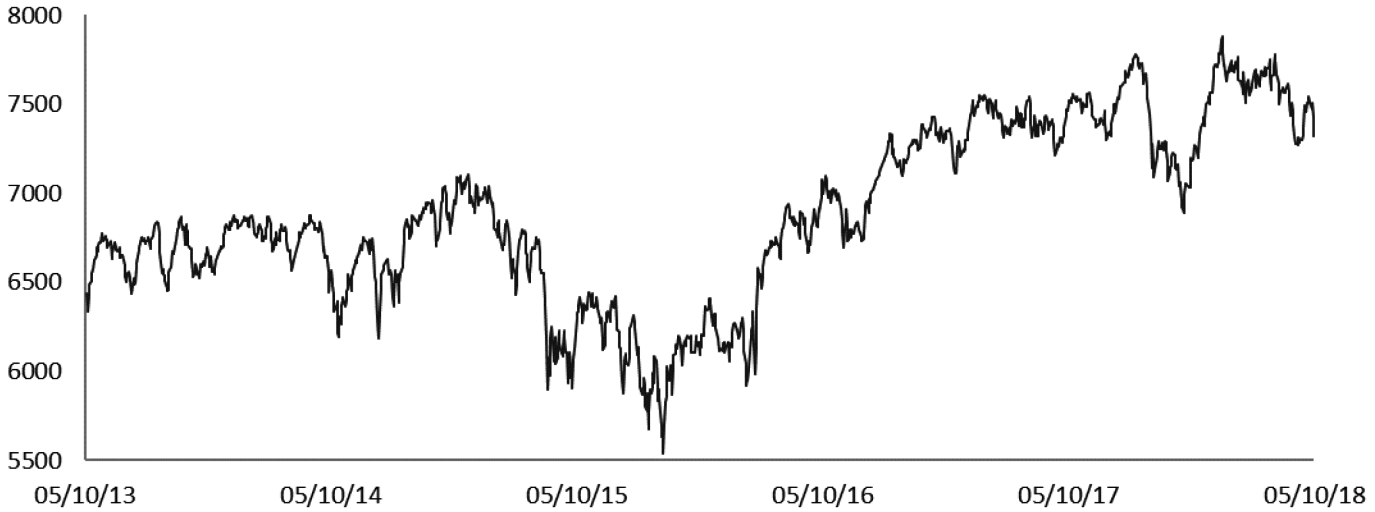
P.S Recently I enjoyed reading about the potential for a 'BRIN' (BRitain IN) vote in 2050, what a mess! If you have any ideas what the slogan might be for that referendum I'd love to hear it!

FTSE 100 – Previous Quarter

FTSE 100 – 1 Year



FTSE 100 – 5 Year



Source: Proquote