October 2021

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	5/10/19	1/1/20	5/4/20	1/7/20	5/10/20	1/1/21	5/4/21	1/7/21	5/10/21
FTSE 100	7155	7542	5416	6170	5943	6461	6737	7037	7077
FTSE All Share	3933	4196	2958	3411	3327	3674	3849	4015	4044
Dow Jones (US)	26574	28538	21053	25813	28149	30606	33527	34503	34315
S&P 500 (US)	2952	3231	2489	3100	3409	3756	4078	4298	4346
Nikkei 225 (Japan)	21410	23657	17820	22288	23312	27444	30089	28792	27822
PIMFA Balanced	1643	1679	1389	1574	1581	1677	1718	1778	1771

Growth Equities	**Higher Yield Equities**	**Mid-Cap Equities**	**Overseas Equities**	**Collective Investments**
Bunzl	Admiral	Bytes Tech	CME Group	APAX Global Alpha I/T
Diageo	Anglo American	Fevertree	Coloplast	Cordiant Digital Infrastructure I/T
Experian	Reckitt Benckiser	GB Group	Fastenal	JP Morgan Emerging Markets I/T
Intertek	Rio Tinto	Liontrust A M	L'Oreal	JP Morgan Global EM Income I/T
LSE	Royal Dutch Shell	LondonMetric	Nike	Securities Trust of Scotland
RELX	Severn Trent	NCC Group	Novo Nordisk	Smithson I/T
Rentokil	SSE	Rotork	Orsted	TR Property I/T
Rightmove	Unilever	Spirent	Visa	3i Infrastructure I/T

Though I write the majority of our quarterly newsletters, as usual this October offering has been written by Will Mellor, our Investment Director. WJB.

Predicting the unpredictable

I have thought long and hard about the introduction to this newsletter, but for various reasons keep coming back to a favourite quote:

> 'Life is not about waiting for the storm to pass, but learning to dance in the rain'

This quote can be applied to many aspects of life, including investments where following a sluggish start to the year for our underlying investments (the storm) we stuck rigidly to our investment policy of 'quality, quality, quality' and I am pleased to report that client portfolios are indeed 'dancing in the rain' and portfolios now generally sit close to all-time highs.

Of course the next storm is never far away, so in this newsletter I shall consider the impacts of supply chain issues, the prospects for potentially more entrenched inflationary pressures and how these forces may impact the various asset classes we consider for investment.

But before that, it would be remiss of me not to mention our new national sporting sensation. Having been forced to retire from Wimbledon due to breathing difficulties, Emma Raducanu 'returned' with a sensational US Open victory aged just 18. Unfortunately the European Ryder Cup team fared less well on US soil and were comprehensively beaten by a talented, and worryingly youthful, US team at Whistling Straits.

Similarly, following a return to the Premier League, Norwich City started with six defeats on the bounce – as Kermit the Frog (and our Prime Minister) once sang 'it's not easy being (yellow and) green'. In cricket, I note the MCC have amended the laws of the game to use the gender neutral term 'batter' rather than 'batsman', but oddly there is no mention of 'fine leg'?!

Our staff continue to compete in various sporting events, with Edward Sidgwick part of the Norwich rowing club team that participated in the Henley Regatta whilst our triathlon team of:

Swim	Clare Haynes (Secretarial)
Bike	Paul Webster (Compliance)
Run	Trevor Kuhrt (Administration)

won the Norwich Triathlon in July. Bravo.

With the majority of Covid restrictions relaxed in July, we have gradually returned to a 2019 BC (before Covid) way of living. Or at least we had until the BBC news reported problems with fuel deliveries due to a shortage of HGV drivers, but failed to mention this related to just 5 out of over 8,000 fuel stations across England, Wales and Scotland.

The media has much to answer for, was it really in the public interest to report this? Anyhow, merely mentioning the words 'shortage' and 'ration', even proceeded by 'potential', and the morons* were out in force adding unleaded petroleum to their prior stocks of loo roll, yeast and baked beans. Perhaps we are returning to a more historic way of living? The Barratt & Cooke pigeon is ready and waiting.

*I was reluctant to use this description but having heard of someone trying to fill plastic supermarket shopping bags with petrol it seems fair and reasonable.

Global supply chains & inflation

For too long many economies have survived on a 'just in time' supply chain model (where materials and components are transported when they are required) rather than a 'just in case' model (where companies retain large inventories pending fluctuations in demand).

However, factory production in Asia has been severely impacted by the surging delta variant of Covid-19, leaving manufacturers affected by a shortage of key components, from semi-conductors to construction materials. Meanwhile, higher energy costs are pushing freight rates to record levels, prompting exporters to either raise prices or simply cancel shipments. The supply chain for many goods and services is effectively broken.

This was originally perceived to be a short-term issue as economies reset following the pandemic and as the UK and EU iterated towards new trade arrangements following Brexit. However, strict lockdown measures remain in place in Asian ports whilst the UK/EU issues are highlighted by the shortage of HGV drivers.

Having insulted Europeans with Brexit, it is outrageous that the Government now expects European lorry drivers to sacrifice stable jobs on the continent to come back to the UK, but only for three months until Christmas; no wonder their response has been:

> Like the Christmas turkey, get stuffed!

The labour shortages are being seen across multiple sectors of our economy, with reports of issues in the hospitality sector whilst following a recent flight back to Heathrow the scarcity of Border Force personnel was all too apparent. On landing at 7am we were greeted with the longest queue I have ever seen at immigration – thankfully one of the few benefits of travelling with our 2 year old son is that families with young children were fast tracked; more chocolate for Harrison!

But in all seriousness the effects of supply chain issues, combined with fuel and labour shortages, are gradually paralysing the economy, the result of which is likely to be higher levels of inflation, at least for the foreseeable future.

If inflationary pressures do become structurally embedded in the economy then central banks will eventually have to tighten monetary policy; tapering of quantitative easing and/or increasing interest rates. But of course interest rates also determine the affordability of Government debt mountains, so one could cynically assume Government rhetoric around inflation will remain muted. Indeed, at the annual Jackson Hole Economic Symposium in August, US Federal Reserve Chairman Jerome Powell referred to 'transitory inflation with the drivers of current inflation concentrated in cyclical sectors benefiting from reopening such as hotels'. This is all too predictable.

On the other hand, one must remember that inflation is a 'year on year' number whilst the supply bottlenecks alluded to above will eventually be resolved. Additionally, technological advances such as automation and robotics provide strong underlying deflationary forces, particularly with respect to capping wage inflation over the medium term.

There are clear inflationary pressures impacting the economy which look set to prevail for the medium term (gilt market expectations of five year inflation have risen from 2.7% at the start of the year to 4% currently) but the longer term outlook, with economic growth rolling over and deflationary forces noted above, may be more benign.

The effect on gilt yields has been:

	January 2021	October 2021
UK 5yr Gilt yield	-0.1%	0.6%
UK 10yr Gilt yield	0.2%	1.0%
UK 50yr Gilt yield	0.5%	1.2%
US 10yr Treasury yield	0.9%	1.5%
German 10yr Bund yield	-0.6%	-0.2%

The Bank of England has also recently launched an inaugural 'Green Gilt'; a 12 year issue on a 0.87% redemption yield.

In the context of history yields remain remarkably low and the old formula of 'gilt yields should be 2% above inflation' is unlikely to be seen any time soon. Consensus forecasts are for a UK interest rate rise in early 2022, with the US following suit in 2023.

Investment Asset Classes

Set against this backdrop, in fixed income a blend of relatively short-dated issues and index-linked exposure (for a degree of inflation protection) supplemented by high quality corporate bond funds remain our preferred 'ladder' of holdings. That said, given the yields referred to above, such assets are primarily held for liquidity and risk management purposes rather than to generate significant real investment returns.

For several years we have increasingly 'globalised' our equity positioning, mainly due to:

1. Quality UK names being taken over leading to an ever-deteriorating universe of investable UK stocks

2. The calibre of opportunity we are identifying in overseas markets is quite simply far superior to UK listed competitors

I expect the direction of travel in our equity positioning will see ever increasing weightings to overseas listed stocks, the corollary of which is gradually reducing exposure to UK listed stocks. However, irrespective of where companies are listed, our focus on 'quality' is based around the following characteristics:

- Market leadership in their respective sector (typically #1 or #2)
- Operate in structurally growing markets (with limited reliance on a human labour force)
- Generate high returns on capital
- Convert a high proportion of profits into cash (profits can be distorted, cash cannot)
- Achieve relatively high gross margins (see below)
- Manageable balance sheets with sensible levels of leverage

Companies which exhibit these attributes typically reward shareholders handsomely over the longer term due to their strong compounding cash flow characteristics.

Additionally, good gross margins are a sign of brand strength and pricing power and suggest any rise in input costs (inflation) can be passed on to their end consumers whilst continuing to invest in expansion of the business.

Conversely, low margin businesses faced with rising input costs may need to cut costs (and therefore sacrifice investment in the future) to protect thin margins or indeed may lose their entire profit margin. Though cognisant that market ratings for high quality, high growth companies may decline (for example if/when interest rates rise), we are comforted by the ability of many of our portfolio companies to pass on rising input costs in an inflationary environment.

We remain very much equity focussed investors, but we do believe alternative assets have a role to play in portfolio diversification. Having held a proportion of client assets in:

Infrastructure Funds
Gold

for several years, we are increasingly attracted to:

Private Equity

where with an abundance of capital available in private markets many companies are delaying listing (on the Stock Exchange) until much later in their development, at which stage much of the initial upside has been captured by earlier stage private equity investors.

China

Having enjoyed a relatively strong year in 2020, Chinese equities have suffered a sharp contrast this year due to a series of regulatory measures combined with a debt crunch at one of China's largest property firms, Evergrande (a builder of upmarket flats), which has debts of £217bn and where any default will clearly have ramifications on the wider Chinese economy.

The Hang Seng property index (which tracks the Chinese property sector) has recently touched a four year low whilst fears of a slowdown in the Chinese property sector have caused a slump in commodity prices:

	2021 High	Current	% Fall from high
Copper	$10,725	$9,268	14%
Iron Ore	$230	$110	52%
Steel	$794	$702	12%

It is estimated that the Chinese property market consumes approximately 20% of the world's steel and copper and 9% of aluminium. Though mining share prices have slipped back recently, balance sheets are better capitalised than in previous slowdowns and we are therefore content to retain typically modest exposure to the sector (underweight relative to the FTSE100 index) at this stage.

The Chinese authorities have introduced several regulatory measures, including limiting the time children can spend online gaming (no bad thing), sanctions on leading Chinese internet stocks and a ban on private education businesses making a profit (not so good).

Such actions serve to highlight the political risk and unpredictability of investing in China, which had seemingly been forgotten in recent years with many professional investors increasingly viewing China as a standalone 'allocation' within portfolios.

There is no doubt that the long-term growth opportunities prevailing in China are important to capture (it is estimated that 40% of the population still survive on less than US$200 per month), but given the governance risks we maintain our conservative approach of obtaining Chinese exposure via diversified Asian Investment Trusts where the Fund Manager has the ability to allocate across the region and can move freely between China, India and other economies as appropriate. Many of the quality direct equities held within client portfolios are also well positioned to enhance their Chinese exposure over time.

COP26

COP (Conference of the Parties), the climate change conference to be held during November in Glasgow, will be the 26th summit following the United Nations Framework Convention on Climate Change treaty of 1994. There is a plethora of opinion about climate change and the action required to ensure the Paris Agreement target of 1.5c rise in temperatures is not breached.

Encouragingly, reporting requirements around carbon footprint and climate data for listed companies are becoming increasingly robust and standardised, ensuring improved disclosure which can only help towards reducing emissions and tackling the climate crisis.

Irrespective of whether clients formally adopt an 'ESG' policy for their investments, our core investment offering is naturally moving in an environmentally/sustainability aware direction, as evidenced by relatively recent investments into stocks such as Ecolab and Orsted, whilst high quality, well managed companies typically 'do the right thing' in terms of governance and social responsibility issues.

Barratt & Cooke's Services

We continue to expand our offering and in August launched our TB Opie Street Income Fund. Barratt & Cooke provides investment management services to:

> Private Clients (including ISA and Junior ISA – the Prime Minister recently announced a 1.25% increase in the amount of tax on income from share dividends as part of the social care package, highlighting the importance of maximising ISA subscriptions)
>
> Trusts
>
> Charities
>
> Pension Funds (SIPP & SSAS)
>
> Corporate/Family Investment Companies

across our suite of products:

> Bespoke Portfolio Management
>
> ESG Portfolio Management (where clients wish to align ethical preferences with their investments)
>
> AIM Portfolio Service (for potential Inheritance Tax mitigation)
>
> Fund Portfolio Service (with Growth, Balanced & Income TB Opie Street Fund options)

Moreover, we continue to recruit where our owner managed structure allows us to create an environment of personal development in which talented individuals have the autonomy to contribute to team investment decisions.

TB Opie Street Funds – Edward Sidgwick

In August, we were delighted to launch the TB Opie Street Income Fund, which follows the prior launch of the Balanced and Growth Funds in August 2019. This now completes (at least at this stage!) the set of three funds which we manage on behalf of those of our clients in our Fund Portfolio Service who are typically investing sums up to approximately £400,000. The funds are differentiated by risk profile and investment objective, helping to ensure that we are able to assist clients with a broad range of requirements:

- TB Opie Street Growth Fund – A 'medium-high risk' approach, with a focus on long term capital growth.
- TB Opie Street Balanced Fund – A 'medium risk' approach, targeting a balance of long term capital growth alongside a reasonable level of income.
- TB Opie Street Income Fund – A 'medium risk' approach, with a focus on delivering an attractive level of income alongside long term capital growth. The forecast income yield on this fund is approximately 3.2%.

We manage investments of over £90m (across the three funds) on behalf of over 1,000 clients. It remains relatively early days, even for the funds launched in August 2019 (in the context of our clients' investment time horizons), but it pleasing to note that the funds are performing well (in absolute terms and also against their respective benchmarks and 'rival' funds), whilst delivering on the assurances of broad diversification, proactive investment management and competitive charges.

The funds increasingly enable us to engage with a broader demographic of clients and it is particularly pleasing to be able to assist the younger generation starting out with investing (with a minimum initial investment of £20,000), where there are typically significant barriers to accessing professional investment services (e.g. minimum portfolio sizes of £500,000+ with many firms).

This often has relevance to those of our clients passing assets down the generations as part of their inheritance planning (enabling the younger generations to continue to benefit from Barratt & Cooke's services). We have also found that the funds are of increasing appeal to smaller charities (for whom a traditional shares portfolio can prove overly cumbersome) and to some corporate/farming clients (who have excess cash retained in their businesses available for long term investment, helping to diversify their asset base).

We have written (and will continue to write) to those of our clients for whom we feel the Opie Street Funds are appropriate, but please do not hesitate to contact your advisor should you have any queries on the funds.

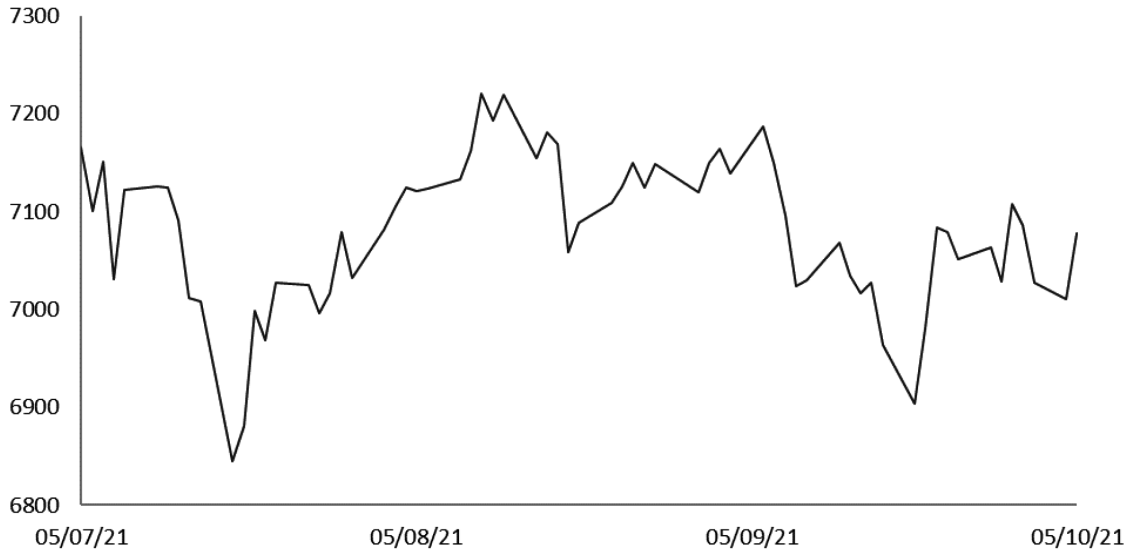
Conclusion

I am delighted that all of our staff are back working in the office, with the majority of the advisory team (and their support staff) benefitting from the open plan environment on the 2nd and 3rd floors of our new building (neighbouring our existing offices on London Street). The ability to bounce ideas off work colleagues and develop newer members of the team is just so much more effective in person compared to Microsoft Teams.

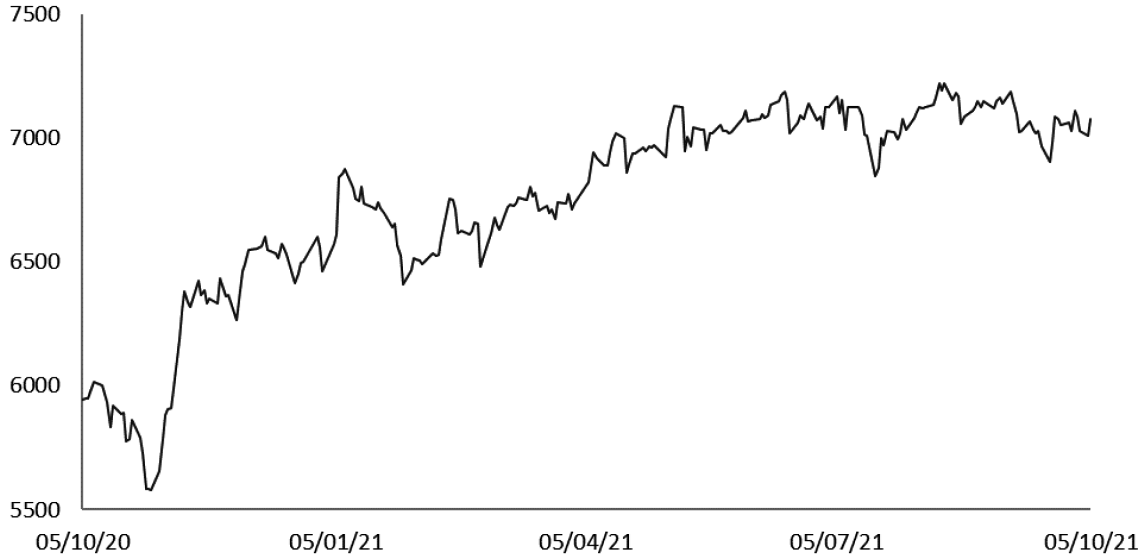
With inflationary pressures building we are moving closer to the point at which interest rates will be increased, albeit modestly, which may cause some turbulence within investment markets. But remember, successful investment revolves around managing risk, not avoiding it, and diversification remains of the upmost importance irrespective of when the next storm cloud rolls in.

WJM
05/10/21

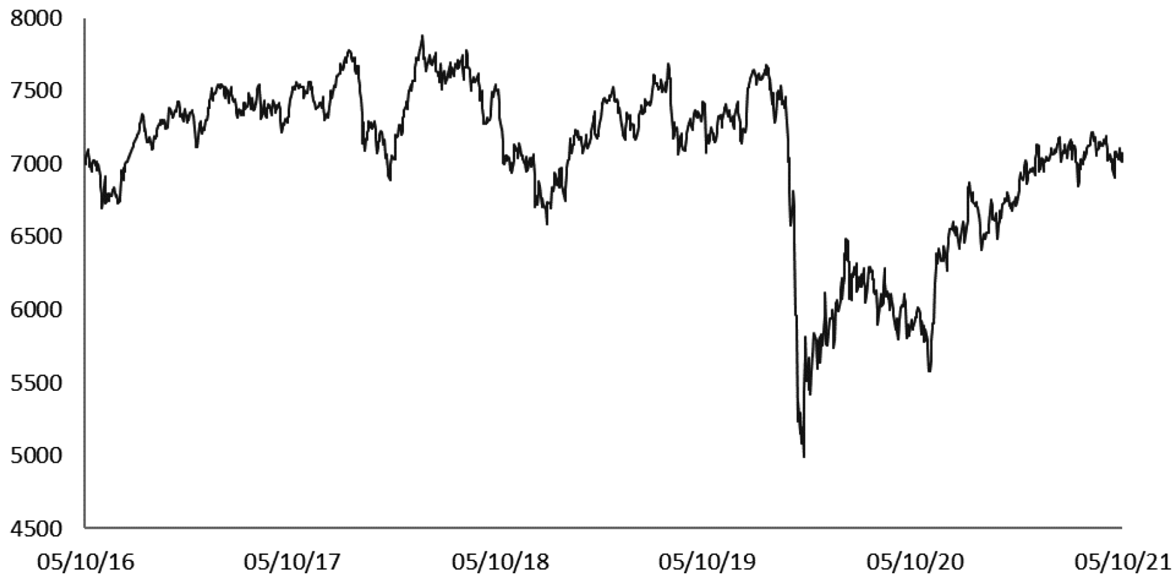
FTSE 100 – Previous Quarter



FTSE 100 – 1 Year



FTSE 100 – 5 Year



Source: Proquote