BARRATT & COOKE
STOCKBROKERS SINCE 1880
WWW.BARRATTANDCOOKE.CO.UK
TELEPHONE: 01603 624236

	1/7/20	5/10/20	1/1/21	5/4/21	1/7/21	5/10/21	1/1/22	5/4/22	1/7/22
FTSE 100	6170	5943	6461	6737	7037	7077	7385	7614	7169
FTSE All Share	3411	3327	3674	3849	4015	4044	4208	4239	3941
Dow Jones (US)	25813	28149	30606	33527	34503	34315	36338	34641	30775
S&P 500 (US)	3100	3409	3756	4078	4298	4346	4766	4525	3785
Nikkei 225 (Japan)	22288	23312	27444	30089	28792	27822	28792	27788	26393
PIMFA Balanced	1574	1581	1677	1718	1778	1711	1849	1806	1665

Growth Equities	Higher Yield Equities	Mid-Cap Equities	Overseas Equities	Collective Investments
Croda	Admiral	Bytes Tech	ASML	Blackrock Throgmorton I/T
Dechra	Anglo American	Diploma	Coloplast	Cordiant Digital Infrastructure I/T
Experian	Persimmon	GB Group	IDEXX	JP Morgan Global Real Assets I/T
Halma	Phoenix	Liontrust AM	Estee Lauder	Mercantile I/T
Intertek	Rio Tinto	NCC	Microsoft	Smithson I/T
LSE	Royal Dutch Shell	Softcat	Schneider Electric	TR Property I/T
Spirax-Sarco	Unilever	Spirent	Verisk Analytics	3i Infrastructure I/T

"Challenging times"

This is a quote I have been greeted with (or words to similar effect) at a number of meetings recently. My response is simply "yes, challenging indeed".

As you well know, at Barratt and Cooke we hold cautious optimism at the core of everything we do. However, we will not 'spin a yarn' simply to allay fears or concerns; equities are risk assets and it is important that those with investment portfolios can tolerate the volatility and risk to capital of investing. That said, markets are 'forward looking' (normally about 18 months) and consequently we are of the opinion that the current bad news is, in many cases, discounted into values now, thereby presenting attractive entry levels. Of course one has to be bold to buy right now, but you will have noticed that where cash weightings had become high (due to de-risking) we have been net investors in recent times.

Having said that, I do really want to start this newsletter with a few rays of sunshine.

Shortly after 5th April 2022 Sam Waley-Cohen rode to success in the Grand National, in what turned out to be his last professional race. Thank you, Sam, for bringing some tears of joy to television sets across the country.

Her Majesty the Queen, was seen at the Chelsea flower show, guided by the wonderfully named Mr Weed, head of the Royal Horticultural Society. We subsequently saw Her Majesty at the trooping of the colour to open the Platinum Jubilee celebrations. Having taken some time out to rest, Her Majesty did then make a further appearance alongside Paddington Bear at the party at the palace; absolutely enchanting, as were the corgis in the drone light display.

Matthew Fitzpatrick, a little known but very talented golfer from Sheffield, won the US Open with a Faldo like display, hitting 17 greens in regulation in a brilliant final round. It was fabulous golf, under intense pressure.

In less positive news:

Fines were dished out to Boris Johnson and Cabinet members for parties at 10 Downing Street and I think (but I am so bored with it) Kier Starmer and Angela Rayner remain under review for a curry night.

The local elections saw the Conservative Party haemorrhage votes. Further Tory sleaze led to Conservative defeats in the Tiverton & Honiton and Wakefield by-elections, though the Prime Minister had earlier survived a vote of no confidence by 211 votes to 148.

As this newsletter goes to print we have learnt that letters of resignation have been submitted by two of Boris' right hand men, Rishi Sunak and Sajid Javid; it is absolute chaos in the Tory cabinet and we will see how things unfold in the coming days and weeks. Suffice to say, confidence in the Conservative party is shattered, both inside and outside the walls of Westminster.

Strikers Harry Kane and Raheem Sterling dominated the news last summer, but this year sadly the RMT and rail strikes are making headlines. There are now talks of teachers, barristers (thank goodness it's not baristas as the high street really would be dead!), Royal Mail employees, airport workers and NHS staff all striking over the summer. This list is far from exhaustive and apparently civil servants might even strike despite the fact that most of them have refused to go back to their place of work since the Covid-19 pandemic anyway. This is utterly disappointing, not least for those applying for a passport.

Most horrifically, Putin's invasion of Ukraine continues and is increasingly targeting civilians. Our press is starting to suffer 'war fatigue', with the atrocities no longer making front page headlines, but we must not forget what this abhorrent man is doing. I'm a great believer in freedom of speech but Bernie Ecclestone comparing Putin's atrocities to a business decision is absolutely disgraceful.

The other story which has dominated the news is that of inflation. We have written about this extensively in recent newsletters but with UK CPI at a 40 year high it should be revisited.

Inflation

The primary drivers of the current high-inflationary environment are:

1) Energy price increases
2) Food price increases
3) Input cost (raw material) increases
4) Wage inflation.

The cost of manufacturing/processing physical products is subject to all, or certainly some, of these inflationary forces and is therefore significantly higher now than a year ago. The increase has to either be absorbed by the company (a squeezing of the margin) or passed on to the consumer (a hike in price) or most commonly a combination of both. Tesco has recently announced it is to cease selling certain Heinz products due to excessive price hikes.

The energy problem and food problem are quite binary, where the outbreak of war has had a major impact since Russia is a major supplier of fossil fuels and Ukraine is known as the bread basket of Europe. Moreover, much of the raw material and input cost inflation is a result of global supply chain disruption as economies seek to reopen following the Covid-19 pandemic.

Wage inflation is the most concerning monetary challenge. The CPI (consumer price index) rate of inflation rose to 9.1% in the 12 months to May 2022 and clearly employees want their wages to increase in-line with this, in order to ensure their spending power is not eroded. However, the economic implication of significant wage inflation is the cost of producing goods and services increases, creating a chicken and egg effect and causing inflation to spiral out of control. It should not be forgotten that private sector businesses often give staff wage increases over and above inflation when CPI is lower, so there needs to be dialogue to establish reasonable demands by the workforce and reasonable concessions by employers in order to compromise at a fair equilibrium. The aforementioned strikes are not the way forward.

In the previous newsletter I commented on the first quarter de-rating of the US technology sector, which continued throughout the spring. It is disappointing to 'give back' some unmaterialised gains, but we still strongly favour the sector due to scalability and the structural growth opportunities for many of our preferred stocks. Indeed, with asset light business models and low reliance on raw materials, such businesses should be more robust during inflationary times. It is the valuation of such companies which has contracted (due to rising discount rates), not the growth outlook and we remain of the view that these companies are well placed to prosper over the medium term.

I am going to nail my colours to the mast (a dangerous thing to do) but I am increasingly asked what I believe will happen to inflation over the next few years. If central bank policy remains consistent, with gradual rises in interest rates, and war doesn't escalate across Europe (two big 'if's'), I would expect inflation to remain buoyant for the remainder of this year, perhaps peaking at low double digits in early winter, however next year it will start to fall quite considerably.

Firstly, the base level of the basket of goods in 2023 will be 9%+ higher following the inflation we are currently experiencing, so 'base effects' will theoretically limit the year on year rate of increase. Secondly, there are signs that supply chains are starting to correct themselves as economies return to work post pandemic and hopefully the energy constraints will have softened. In recent weeks we have seen significant falls across commodity prices (soft commodities such as wheat, metals and I note oil is back to around $100 per barrel). With supply bottlenecks being resolved, the impact of higher interest rates is likely to see demand wane as the post pandemic demand in the economy eases. Therefore, I feel it reasonable to assume circa 6% inflation in 2023, then returning to a more normalised 3%-4% during 2024. We shall see.

In the interim, whilst inflation roars, we are mindful of products which are deemed discretionary spend (i.e. those which it is easier to trade down from, or which are not everyday necessities). Anecdotally demand for very high end luxury goods tends to be fairly resilient. I was born in 1979 so I am not therefore going to preach on 'The Great Inflation' of the 1970s, when inflation peaked at 24% in 1975 and interest rates rose to 17% in 1979 (with a commensurate increase in mortgage rates). There are plenty of differences between now and then in terms of how these numbers were achieved, although energy prices are consistent (in the 1970s the UK populate had to put up with black outs which triggered the three day working week, whereas we are now hearing suggestions of windfall payments for not using electricity at certain times in the day).

I am fascinated by mindset. As Mark Stein (formerly of both the Independent and the Telegraph so a very talented man) points out, the 1970's followed the swinging 60's with iconic parties and morale at all-time highs. Indeed, the baby boomers were in their mid-twenties/early thirties and had the gusto to take on whatever was thrown at them, however uncomfortable. Whereas we now enter a high inflationary period having all been locked up for two years during the Covid-19 pandemic. Morale, self-esteem, mojo (or whatever you want to call it) is at all-time lows. If one enters any sort of challenge in low spirits it is going to be a struggle, but in high spirits you will get through it and might even enjoy the adversity and the ride. So for me mindset, with the current blame culture, negative sentiment and woke attitudes, is the biggest concern. I really think the UK population needs to have a damn good party, albeit a cheap one; the Jubilee celebrations almost satisfied this, but not quite.

Interest rates are ticking up gradually, to try and curb inflation, but the Bank of England needs to be careful and balance this with protecting the economy. As interest rates rise so too do mortgage rates, and though most UK mortgages are on fixed terms (typically 2 to 5 years) as these terms end and homeowners renew at higher rates disposable income will be squeezed further, adding to the cost of living crisis.

Valuations

The diversified nature of portfolios, with exposure to different asset classes and geographic regions, has assisted with the stability of the bottom line value. Whilst it is never enjoyable to send out valuations which are lower than previously, it is important to acknowledge that these are falls from all time highs in portfolio values, despite significant economic and political headwinds. The occasional stock has not performed as expected, but fortunately we have avoided some of the total disasters; for example since January Netflix is off 70%, Tesla is down 41%, FTSE listed Evraz has fallen 86% before it was suspended and 'digital gold' Bitcoin has lost 58% of its 'value'. There have been a lot of traps on a valuation basis, not least in the ESG space where buyers, at any price, had pushed stocks too high. Given our focus on stocks with structural growth opportunities, where we seek to invest at defendable valuations, the 'froth' coming out of the market is starting to produce some interesting opportunities.

I have asked one of our analysts, Ashley Baxter, to look at an interesting sector in today's environment, as he highlights below these businesses benefit from similar scalable synergies to the technology sector.

Information Services Sector (by Ashley Baxter)

The Information Services sector, whilst arguably one of the less well-known, has been one of the best performing over the past twenty years. Most crucially this reflects the structural demand from professional and business customers for increasingly sophisticated information-based analytics and decision tools, in addition to the impressive business models which the leading companies within the sector operate.

RELX (previously Reed Elsevier), the 12th largest company in the FTSE 100 at the time of writing, is an excellent example. By combining leading content and data sets with global technology platforms, RELX serves customers in more than 180 countries across various industries. The group's Scientific, Technical & Medical division helps researchers and healthcare professionals, advance science and improve health outcomes, with products including:

- ScienceDirect, the world's largest platform dedicated to peer-reviewed primary scientific and medical research, hosts over 19m pieces of content from over 4,400 journals and over 43,000 e-books and has over 18m monthly unique visitors.
- ClinicalKey, the flagship clinical reference platform, is used by doctors, nurses, medical students and educators at over 5,000 institutions to gain concise answers around all areas of healthcare.

Whilst RELX's suite of risk products help detect and prevent online fraud and money laundering and deliver insight to insurance companies:

- More than 200,000 websites implement the LexisNexis Digital Identity Network, a solution that gives businesses the ability to detect and block fraud, around the world.
- 85% of new US auto insurance policies issued to consumers in 2021 benefited from a RELX product.

Other leading companies in the sector are listed outside of the UK. Wolters Kluwer, a Dutch company, has some overlap with RELX, although they mostly complement one another. In addition to products which help companies comply with finance, risk, and regulatory reporting requirements, they have a cloud-based platform to simplify tax collection and preparation, and decision-making tools which serve legal professionals in law firms.

In the US, Verisk Analytics is a leading provider of risk assessment solutions and fraud prevention tools to the insurance industry. These solutions help insurers define, measure, and manage risk; estimate losses; track policyholder claims; and set premiums accordingly. Verisk's database comprises more than 1.3 billion previous claims and its customer base includes all the top 100 property & casualty insurance providers in the US.

Evidently the products and services provided by the industry enable customers to make informed decisions, get better results and be more productive, hence it is unsurprising that the leading companies achieve impressive results and attractive returns on a consistent basis.

	10 Year EPS CAGR*	Operating margin	Return on Invested Capital
RELX	7%	30%	15%
Wolters Kluwer	9%	25%	14%
Verisk Analytics	12%	33%	16%

**Earnings Per Share Compound Annual Growth Rate*

These return profiles have been accentuated in recent years by a shift in customer expectations and the way revenue is generated. As digitalisation has taken hold, the sector has transformed into digitally led data specialists (print now accounts for less than 10% of sector revenue), and with customers expecting data and information to be up to date on an ongoing basis, revenue across the sector is now largely generated on a subscription basis. This recurring revenue model is very appealing, as it provides excellent visibility of future earnings.

In turn, cash conversion is exceptional and there is often significant surplus available for management to pay dividends (both RELX and Wolters have raised their dividend for more than 15 consecutive years while Verisk recently paid its maiden dividend following years of growth focused investments), buyback shares and/or make earnings accretive acquisitions.

Like with any investment, there are risks of which we must be cognisant. A large proportion of the sectors revenue is generated in the US thus dollar weakness (which appears unlikely, at least in the near term due to its 'safe-haven' status) can have an adverse impact on earnings, although this is mostly a translational impact so doesn't have a significant effect on cash. Furthermore, the quality of the companies operating in the Information Services sector inevitably means the shares tend to trade on premium valuations compared to the market average, meaning any market preference for cyclical stocks over defensives could see the sector underperform.

Nevertheless, we feel reassured, particularly during periods of economic uncertainty, by these quality companies which are ideally positioned to benefit from structural demand drivers, provide defensive characteristics, and have excellent management teams. These companies have the ability to compound earnings over the long term and we expect them to be resilient growth holdings.

An interview with Adrian Mann who has recently retired from Barratt and Cooke after 46 years of service.

Adrian, your time here was a remarkable achievement, the third longest tenure after my grandfather and father. Thank you for all your help over the years. Please can you tell me about the office in your early years and specifically about my grandfather JALB.

The Post – Your grandfather was keen to make sure that the postage book was reconciled to the 1/2p! He was a hard task master, I was repeatedly told "there are lots of holes in the floor, you do not want to end up falling down one, there is plenty of **** down there!". There was a little friction between your father & grandfather in the early years as your father was taking over the running of the firm; this was nothing serious but I think this is why your father has been very good in letting you and Sam takeover.

On one occasion, your grandmother scurried into the office dragging her dachshund, Monty, behind her. The only problem was she was only pulling a lead with the collar on the end. Martin Warren had to retrieve Monty from London Street! JALB was an old fashioned gentleman, hard but fair and a great businessman.

And what did your job entail in those first few years?

I did the daily walk to deliver the post, I seemed to do it for years! I also had to collect the Jobbers (Market Makers) tickets instructing us where to send sold stock. The certificates would go down on the train to London with transfers to split the stock and calculations to work out the jobbers 'turn' (commission), stamp duty etc. We would also settle trades for other country brokers: Coopers, Fowler Sutton, Mclean Ballard and Torrie and Co.

It was a very different time, no computers, basic calculators, typewriters and Tipp-Ex to make corrections (though Tipp-Ex was only allowed to be used very sparingly). We had huge ledgers which make excel spreadsheets in this day and age look very simple! It is remarkable how far the business has come with computerisation fuelled by "Big Bang" and the CREST system. We even closed for a lunch break, though your grandfather rarely left his desk and your father (if he did go out) only lunched in The Norfolk Club with clients or other Norwich professionals.

In the mid 1980's you were heavily involved in the Privatisation Issues, please can you tell us about the office and processes?

The Privatisations were all different with some being just one stock whilst the large Electricity and Water privatisations had a whole industry being split into many localised businesses. We had so many people wanting to participate we set up desks outside with queues snaking down Opie Street on to London Street. We then had to reconcile everything and get the cheques down to London complete with each order.

Then we received allocations (often scaled back) where we had to issue the stock and re-imburse the difference, some people wanted to 'stag' (sell on day one of listing when ordinarily the shares went to a premium) so we would work into the early hours collating the order. There was a problem one day, Martin Warren had worked all night on the data which was recorded on a cassette, but the tape snapped. Fortunately we managed to fix it with Sellotape but that was fairly stressful! During privatisations the whole office knuckled down as a team, it was hard work but actually good fun.

You have seen the office expand in terms of numbers of staff from a handful to over 50, do you believe Barratt and Cooke have managed to keep a family ethos?

Yes, it is controlled by you and your brother who I know help any member of staff, as a friend, if they have any problems whatsoever. Long may that continue.

What do you think is the best thing about Barratt and Cooke?

1. The Barratts – the firm is run as family business with staff rewarded generously and treated very fairly (as recently witnessed through Covid-19).
2. Ethos – clients are put at the centre of all investment decisions, with a really competitive and transparent fee structure.
3. Staff – I have been lucky to have worked with friendly, hard working colleagues where we have shared the burden and enjoyed the buzz together.

And the worst?

1. The Barratts! (I hope you are not offended) – it can all get very heated at times! However, once the issue is sorted, everything calms down, all is forgotten and we move on, together.
2. Compliance and Audit – when I started the only rule was "my word was my bond", now there are so many rules and regulations and need for proof, this takes up so much time and energy but Barratt and Cooke always operate in good faith.

Do you feel Barratt and Cooke is well set for the future?

Yes, Barratt and Cooke has evolved over the years and I am sure it will continue to do so. It is still small enough to be able to adapt to change when required and satisfy client needs to the full, where clients will always be individuals rather than just a number. You have built up a good team and the staff are loyal, hard working and highly skilled.

Any further anecdotes?

Too many to mention, a lot cannot be repeated.

The tannoy on the telephone – your father's favourite toy; the phones would bleep around the whole office and everyone would hold their breath hoping it was not going to be them who was being summoned! "Can er… er … er… David come here now" followed a few seconds later by "I'm still waiting" (David was three floors above him)!

Mrs Brett – she came in to do a bit of cleaning and make tea. On one occasion she got locked in the office by mistake. She was a wonderful character.

Looking at the old office photos - the perms, moustaches, flares and the hair! Goodness me we came a long way over the years and to do much of it with the same employees (where a considerable number have done 25 years+ and 44 with CWLB) has been brilliant.

Adrian, I have, (in fact we all have) loved working with you over the years. You will be truly missed, you were part of the team that built up responsibility for the custody of £1.6bn of assets. SCLB, CWLB and I are hugely grateful for your work, loyalty and we've had good fun together! Thank you.

I can't resist by finishing with a small anecdote myself. In Adrian's early years (about 17 years old), one weekend he found himself on CWLB's ride-on lawnmower. Unfortunately Adrian managed to drive the lawn mower over a gooseberry bush, a story which has been regaled a number of times at office parties. On Adrian's final day he decided to give a present to CWLB, a gooseberry bush, which is now planted, 46 years on, in exactly the same place. At Barratt and Cooke hard work is important but having a sense of humour helps even more and Adrian, you certainly had the last laugh - I have never seen my father (who also has a great sense of fun) roar with such laughter. Well done my friend.

Conclusion

Last time I wrote I had read Animal Farm, this time I'm reading a book called 27 Steps which is about a Romanian chap who enters an endurance race over 600km around the Arctic; everything is cold and everything is white. The narrative not only around markets, but also, the economy, the cost of living, strikes and politics seems to be similarly bleak. But I use one of my father's favourite quotes:

"Things are never quite as good as you expect them to be, but they are also nowhere near as bad".

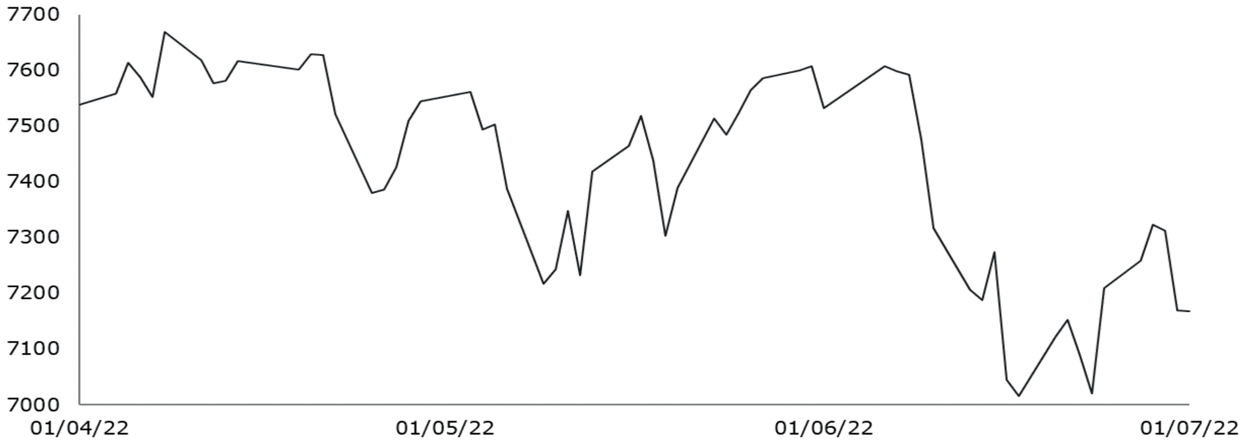
One thing is a certainty at the moment, cash in the bank is being eroded in terms of spending power. Equities will go up and then down, or indeed down and then up, and if you are able to absorb some risk, we believe investing and, if possible compounding dividends, will stand you in good stead, particularly after the recent considerable de-rating. Some prices are at substantial discounts to where they were in January, as much of the bad economic news has been absorbed.

We just continue to pray that the shocking humanitarian news now ceases in Ukraine.

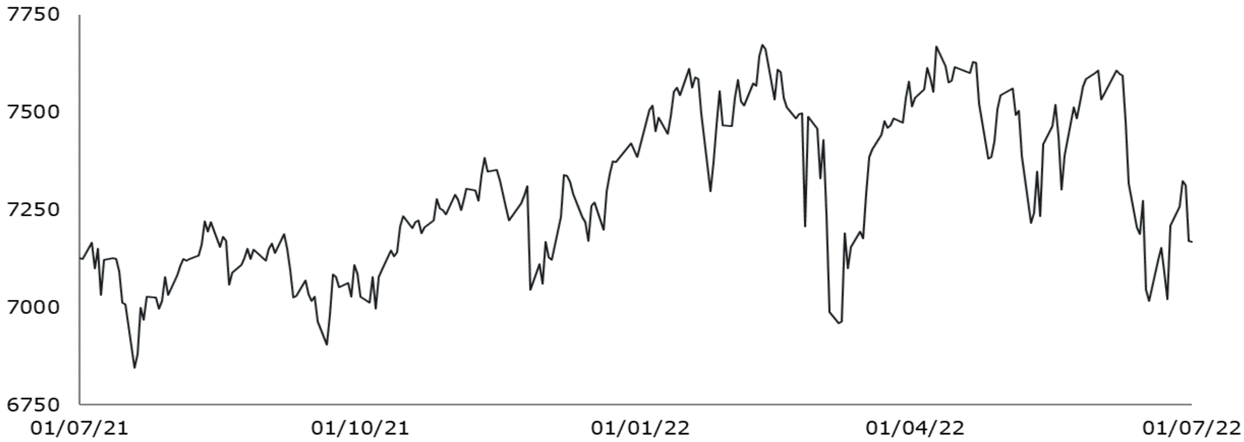
Like Paddington Bear who sees the best in people, we can see some really great value in our world of stockmarkets amid the gloom… now where is that Marmalade sandwich?

WJB
5/7/2022

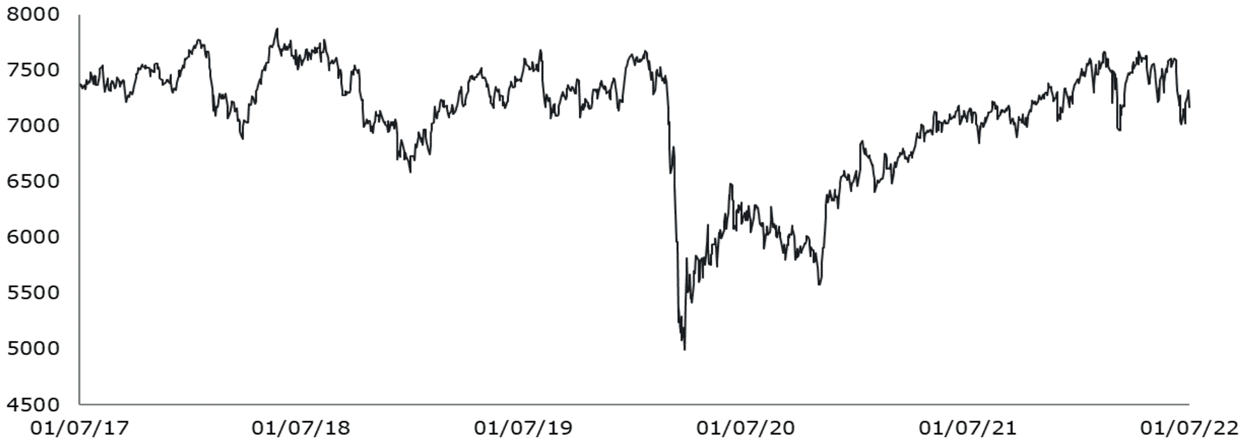
FTSE 100 – Previous Quarter



FTSE 100 – 1 Year



FTSE 100 – 5 Year



Source: Iress