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# MONEYWEEK

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## From the editor-in-chief..



Almost everyone hates inheritance tax (IHT). It is seen to be the worst of all the double taxations (all money is taxed over and over). It piles needless administration on to grief. It's needlessly complicated (the newish residence nil-rate band being the last straw for many). It comes with enough loopholes that anyone who doesn't find a way to avoid it feels like they aren't trying hard enough to protect their wealth for their children, which keeps them up at night. It isn't particularly fair. But possibly worst of all, the existence of IHT creates a friction that slows the passage of money, businesses and land through the generations.

Those with money don't understand the annual IHT free gifting system – £250 here, £1,000 here and maybe no limit if your gifts are out of income. So they give less than they might. Those with businesses that aren't liable to IHT are given an incentive to hold on until death (to avoid paying capital-gains tax if they transfer when they are alive). It's a mess – especially given that one thing the UK could really do with is a trickle down of wealth between the generations.

Good news then that the Office of Tax Simplification has produced a new report on how the IHT system might be simplified (see page 23). There are useful things in it. The idea that one simple



©Alamy

Agricultural land: should it really be free of inheritance tax?

### “Why don't we just abolish inheritance tax and replace it with a gift tax?”

(hopefully high!) annual allowance could replace all the silly little ones – and possibly the gifts out of income exemption – is sensible. A thought on dumping the seven-year rule and the taper within it (tapers are always a nightmare – see our blog at moneyweek.com for more on the chaos the pensions taper is causing) would work. The plan to look at the huge exemptions from IHT for agricultural property and businesses is good too – if we want firms constantly to renew and rejuvenate, the current incentives aren't quite right.

(One aside here for those who invest in Aim stocks with a view to avoiding IHT, be careful. Right now if you hold an eligible Aim-listed stock for two years, it passes on IHT free. This review will consider how the relief works. If it looks like it might be dropped or curtailed

the [high] valuations of currently eligible stocks will fall – fast.)

But here's the thing: all these things are just tinkering. Not awful tinkering – but really no more than tinkering. The UK needs more than that. In an ideal world we'd get a root-and-branch reform of the entire tax system. That's not going to happen. But given that IHT brings in only 1% of the total tax take, we could go for a full reboot, without really risking our tax base.

So why not abolish the entire thing and replace it with a gift tax on the recipients of unearned cash – wherever it comes from? It would be fair, progressive, unavoidable and, possibly best of all, low stress for the elderly (the tax becomes the recipient's problem rather than theirs). Perfect. There's more on this at moneyweek.com. However, you might also turn to our cover story on page 24. The rise of personalised medicine is about to revolutionise healthcare – and your ideas about how long you will live. Dying with enough cash that our estates are liable for IHT might not turn out to be much of a problem for most of us.

And lastly, a reminder – tickets for the MoneyWeek event on 22 November are now on sale. Don't miss it – snap up your seat at moneyweekwealthsummit.co.uk.

Merryn Somerset Webb  
editor@moneyweek.com

### Loser of the week



©GMP/Twitter

An unnamed driver, whose car had been seized by Greater Manchester Police (GMP) after he was caught driving it with no insurance, turned up at Eccles police station to reclaim it in a £290,000 bright yellow Lamborghini Aventador supercar. Unfortunately for him, that car ended up in the car pound too, after officers checked and found that he wasn't insured to drive that, either. “If you're going to turn up at the police station to reclaim your previously seized vehicle for no insurance, it might be worth checking that the car you turn up in is covered on your policy first,” GMP tweeted. It is the third Lamborghini that the force has impounded in recent weeks – one was taken in Manchester city centre, and another in Oldham.

Cover illustration: Adam Stower. Photos: Christie's; Getty Images

### Good week for:

A book bought for £5 in a second-hand shop 20 years ago could be worth up to £20,000, its owner recently learned. **Sarah Hickman** bought a first edition of *England's Treasure by Forraign Trade* by Thomas Mun, published in 1664. She put it aside and forgot about it for years, before uncovering it when tidying. The book will be auctioned by Christie's this week.

**Cori “Coco” Gauff**, a 15-year-old US tennis player (pictured), ranked 319th in the world before this year's Wimbledon tournament, reached the last 16 of the competition this week, after starting her run by beating Venus Williams. She leaves £176,875 richer, after losing to Simona Halep. Forbes estimated in March that she could earn \$1m this year; that now “looks deeply conservative”, says The Guardian.

### Bad week for:

Australian tennis player **Bernard Tomic** lost all of his first-round prize money at Wimbledon this week – £45,000 – after the referee deemed his performance against Jo-Wilfried Tsonga “did not meet the required professional standards”. Tomic, who lost 6-2, 6-1, 6-4, in just 58 minutes, says he was unwell and plans to appeal.

The Information Commissioner's Office (ICO) has fined **British Airways** (BA) £183m after hackers stole details of 500,000 of its customers' names, emails and credit-cards in 2018. Firms can now be fined up to 4% of turnover for breaches; BA said it was “surprised and disappointed”, but the ICO said: “The law is clear – when you are entrusted with personal data, you must look after it”.





# The decline of the public company



**Alex Rankine**  
Markets editor

Investors went “gaga” over the “mini-flurry” of flotations including Uber, Beyond Meat and Slack this year, says Andy Serwer in Yahoo Finance. But perhaps that is just because such opportunities are rarer than they used to be. Between 1980 and 2000 around 310 companies went public every year in the US; this year there will be just 230.

Start-ups are making the most of abundant venture capital and private equity (see page 5). Last year technology and biotech firms raised \$50.3bn through public markets, but \$130.9bn through private investors. This is part of a broader “de-equitisation” trend, as more of the economy becomes inaccessible to ordinary retail investors going through public markets. The winners are wealthy private investors who use private markets to buy into high-growth sectors from which smaller investors are excluded.

## Capitalism is not what it used to be

The number of stocks being traded in the US fell by half between 1996 and 2016, writes Jonathan Tepper in *The Myth of Capitalism*. One factor is “extreme corporate cannibalism” as industries become ever more concentrated and competition declines. Google, for example, has purchased 234 companies since 2001. There are fewer listed firms today than in the early 1970s, even though the US economy was one-third as big then. On the current trend, by 2070 America “will only have one company per industry”.

The trend towards private capital has been driven by our era’s “unusually low interest rates”, says Buttonwood in *The*



*Investors went gaga over the flotation of Uber this year*

Economist. With miserable yields on stocks and corporate bonds, “even staid old pension funds” have turned to private markets in search of better returns. Private financing suits many companies just fine, says Frank Partnoy in *The Atlantic*. Going public costs millions of dollars in fees from bankers and lawyers and requires compliance with stringent disclosure requirements every quarter. A public company must open its books to “analysts, activist investors, the media, and short sellers”. Even businesses that are publicly listed have helped drive the de-equitisation trend, adds Richard Henderson in the *Financial Times*. Last year saw US companies spend \$806bn buying back their own stock. That reduces the number of shares in circulation.

## Britain leads the world

This is not only an American trend. Citigroup data shows that Britain’s equity market is the fastest shrinking in the world, says Ksenia Galouchko on Bloomberg. Depressed valuations have fuelled the biggest set of UK share buybacks since 2008 (\$45bn in the year to June). Fewer firms are going public amid Brexit jitters. Foreign buyers are also swooping in. Last year saw the \$39bn acquisition of Sky by Comcast and Takeda Pharmaceutical’s \$62bn purchase of Shire, two deals that “alone reduced the public UK equity count by 3%”. Investors now have access to a “much smaller part of the corporate universe”, says Duncan Lamont of Schroders. So public-market investors may well end up with lower long-term returns.

## Good news scares stocks

June brought the best monthly US jobs growth of the year, notes Chris Matthews on MarketWatch, but markets were not best pleased. Shares fell back on the strong data at the end of last week amid worry that good jobs growth means interest-rate cuts by the Federal Reserve are less likely.

US non-farm payrolls rose 224,000 in June. In May only 72,000 jobs were created.

The jobs news means that there is now “no chance of a 50 basis-point rate cut” later this month, writes John Authers on Bloomberg. Yet many traders are expecting rates to fall by 0.25% when the Fed next meets. The “guts” of the employment data were less encouraging than the headline figure implies. Unemployment



*US consumer spending has remained robust*

actually ticked up slightly to 3.7%. Manufacturing is also in bad shape. The June IHS Markit manufacturing index fell to 50.1, its worst reading since 2009.

Don’t be distracted by the noise of monthly payroll

figures, says Anatole Kaletsky for Gavekal Research. There is no consistent evidence to suggest that a US recession or serious weakening is on the cards. Consumer spending growth, which accounts for 70% of GDP, continues to chug

along. Some will point to an inverted yield curve – the yield on the ten-year Treasury bond remains below that of the three-month note – but in an era of near-zero interest rates the bond market has lost its old power to signal impending doom. Note that today’s “ultra-expansive monetary policy” ultimately caused an outbreak of inflation when it was tried in the 1960s but markets appear “completely indifferent” to this risk today. If an inflationary surprise is around the corner then a Fed rate cut can only hasten the reckoning. Still, as Luke Bartholomew of Aberdeen Standard Investments told CNBC, “markets have come to expect a cut [and] will fall out of bed if they don’t get one.”



## The boom in private equity

The flipside of de-equitisation and the decline of public markets (see page 4) is an increasingly busy private market. That helps explain why private-equity deals have soared to the “highest level since the lead-up to the global financial crisis”, say Javier Espinoza and Eric Platt in the Financial Times.

The value of leveraged buyouts hit \$256bn in the first six months of this year, according to Refinitiv data. That is the second-biggest first-half figure on record after 2006. This kind of deal often involves a private firm taking a listed one private. “The buyout boys” are “back to rock the stockmarket”, says Christopher Williams in The Daily Telegraph. Last year, worldwide public-to-private takeovers reached their highest level since 2007, according to Bain & Company. One of the most eye-catching deals was KKR buying out German news publisher Axel Springer.

Expect more: investment bankers talk of a “wall of money” waiting to be deployed. One reason for that is that debt for leveraged buyouts is set to get “cheaper still as central banks prepare to loosen monetary policy again. That will only add to the firepower of private-equity firms as they run the numbers on more public companies”. A stockmarket setback, meanwhile, would also entice bids. It may not be too long before another big name or two disappears from the mid-cap or blue-chip indices.

## Greece: back in business

Victory for the centre-right in last Sunday’s Greek election is “good news for Europe”, says The Times. The new prime minister, Kyriakos Mitsotakis, “understands the role of business and markets in generating prosperity”, unlike the radical left-wing Syriza party of outgoing prime minister Alexis Tsipras.

The country’s stockmarket is also cheering, says Michael Msika for Bloomberg. It has been the world’s best performer this year, with the ASE benchmark index jumping by 45%. Government bonds have also done well. Yields have fallen to levels suggesting that Greece is barely riskier than Italy.

### A decade of crisis

Greece’s 2009 sovereign-debt crisis, caused by extreme overspending and borrowing, precipitated a severe 25% slump in GDP, a fall similar to America’s Great Depression. Syriza swept to power in 2015 on an anti-austerity platform. Its attempts to secure better terms from international creditors and avoid austerity provided much drama – it nearly left the single currency after a snap referendum – but were ultimately futile. The result was capital controls and a collapse in business confidence. The country finally exited the international bailout programme last summer, but



youth unemployment is still around 40%. Tired of “high taxes” and grinding austerity, voters have delivered a “crushing rejection for the eurosceptic “new left”, says Justin Huggler in The Daily Telegraph.

A parliamentary majority for Mitsotakis means that he must waste no time implementing pledges to cut bureaucracy, “force the pace of privatisation” and boost sluggish investment, says Stephen Pope for Forbes. Cuts to corporation and property taxes are also on the agenda.

Tax cuts could prove costly, says Ben Hall in the Financial Times, but the new prime minister may be hoping that planned reforms of labour and product markets could encourage the EU to loosen strict fiscal rules that require

Athens to run a 3.5% primary budget surplus. Any deal could help boost growth.

Greece has returned to weak growth in the past two years, but still faces acute challenges, says Nektaria Stamouli in The Wall Street Journal. It is one of the “most difficult places in the European Union to do business”. Above all, public debt equivalent to 183% of GDP will act as a long-term drag on performance.

A long-term solution to Greece’s woes is likely to require a restructuring of its debt, as we have often pointed out. But despite the recent bounce, equities have still only recouped half of their losses from a 2014-2016 slump. Trading on a price-to-book ratio of 0.8, they look reasonably priced. The rally looks set to continue for now.

### Viewpoint

“If shorting Japanese government bonds is the ultimate widow-maker, calling the top of the gravity-defying Hong Kong property market cannot be far behind. The International Monetary Fund... has been warning about the dangers of an unsustainable bubble since 2010. Now suspicions are growing that the stopped clock’s hour may finally be at hand. Last month millions of local residents took to the city’s streets... And last week a handful of young hotheads even invaded and trashed the city’s legislature... Amid such a climate of uncertainty and fear, ask some observers, surely the world’s most expensive residential property market is on the cusp of a deep correction? Even a 1997-style crash? [But] in the last week, a closely-followed index of secondary market residential prices set a new high, up 500% from its 2003 low following the Sars outbreak.”

Tom Holland, Gavekal Research

## French earnings growth gathers pace



One of France’s biggest problems is “chronic structural unemployment”, says Yvan Berthoux of Halkin Services, and one of the key reasons for it is a “mismatch” between workers’ abilities and companies’ requirements. The system just doesn’t produce enough skilled workers. Unemployment is now at a ten-year low of 8.8% and almost 50% of firms are reporting difficulties getting hold of the workers they need. This problem is “creating production bottlenecks” and boosting the annual rate of wage inflation. Another quirk of the French labour market is generous unemployment benefits; these tend to reduce the pool of labour looking for work, which also implies higher salaries.



# MoneyWeek's comprehensive guide to this week's share tips

## Three to buy

### Grafton Group

*The Daily Telegraph*

A dreary Brexit outlook and worries about the construction sector have prompted many investors to give this builders' merchant a wide berth. Yet the business is growing market share and making judicious bolt-on acquisitions. A rigorous capital allocation policy has facilitated six consecutive double-digit increases in the dividend. Yet market jitters over the macroeconomic outlook mean that the shares are going cheap: a forecast

price/earnings ratio of 12 represents a discount to peers such as Howden Joinery and Ferguson. *821.5p*

### Loungers

*Shares*

This newly listed casual-dining outfit looks set to buck the high-street gloom. Equal parts restaurant, pub and coffee shop, the flexible format of its sites makes it able to adapt to ever-shifting consumer trends such as breakfast gatherings or late-night drinking. The model generates high returns on



capital – 36% for a Loungers site – that far outstrip the industry average. The shares are not cheap, but a “truly differentiated” format makes this an interesting growth story. *218p*

### Vodafone

*The Times*

Shares in Vodafone have lost a third in two years. Low-cost competition has hit revenue and squeezed the balance sheet. In May the group cut the dividend by 40%, the first reduction since 1990. Yet the company has arguably got through the worst and is racing to become Europe's largest 5G network as customers demand faster speeds and more data for entertainment streaming. “A turnaround should start to take hold”. *131.5p*

## Three to sell



### Marks & Spencer

*Money Observer*

February's announcement of a £1.5bn food-delivery venture with Ocado is generating some excitement about M&S but the risks look high. It will be

two years before any “serious money” starts to come in from the deal. In the meantime, the clothing business remains weak despite “many attempts” to reinvent the operation. *214p*

### IQE

*Investors Chronicle*

The US-China trade dispute has come at the worst possible time for this semiconductor supplier. The business nearly trebled capital expenditure to £30.4m last year, but its expensive bet on a new photonics foundry in Newport

has run into industry supply-chain disruption. That means a growing quantity of stock, a particular problem in a sector where rapid innovation can quickly leave unsold widgets obsolete. The shares dropped 40% after a recent revenue warning, but further downgrades cannot be ruled out. *56p*

### Carnival

*The Times*

Shares in the world's largest cruise operator tumbled last month after it revealed

that bookings had been hit by weakening demand in Europe and US restrictions on travel to Cuba. A large ageing population spells huge opportunity in this sector, but US travel agents note that Carnival brands are being beaten out by competitors. A poor environmental record is likely to attract growing scrutiny. The industry is also suffering from overcapacity, particularly in Europe where Carnival is more exposed than peers. There are “choppy waters ahead” – avoid. *3,578p*

## ...and the rest

### The Daily Telegraph

US pharmaceutical business Merck & Co.'s Keytruda immunotherapy treatment has fewer side effects than existing drugs, which will help health providers keep a lid on medical cost inflation (*\$85.51*).

### Investors Chronicle

Liontrust Asset Management has enjoyed consistent investment inflows despite the uncertain market outlook and its shares trade on a discount to peers (*736p*). Risk-tolerant investors in the market for an

Aim-listed gold play should take a look at obscure Russian operator Trans-Siberian Gold (*75.5p*).

### Money Observer

Poor advertising figures have weighed on shares in ITV, but a strong backlist of sought-after content and a cheap valuation could make it a “sitting duck” for a takeover (*110p*).

### Shares

Investors have until 18th July to take up a 106.5p per share issue at commercial property

investor **Regional REIT**: a buy for income investors with a 7.7% dividend yield (*107.6p*). Improving customer ratings of its Frankie & Benny's sites may herald a turnaround at **Restaurant Group** (*135p*).

### The Times

The market has yet to price in the benefits that will flow from a planned de-merger at **Prudential** (*1,788p*). Dubai-based port operator **DP World** has embarked on a pricy acquisition spree but the global trade war is a reason to steer



clear (*\$16*). Sports nutrition retailer **Science in Sport** is well-positioned to gain from growing interest in workout supplements, but with big acquisitions elevating risk it is worth watching and waiting before rushing in (*60p*).

## A German view

With Germany's ten-year Bund yield slipping below zero, investors are desperate to find solid income stocks. Enter Munich Re, the world's biggest reinsurer. It is one of the few “dividend aristocrats” in the German stockmarket, as Der Aktionaer points out. It has raised or maintained its annual payout since 1969. The stock currently yields 4.1%, while the profit outlook is also encouraging. Climate change should prompt companies to hedge against natural disasters to a greater extent than they do now, while cybersecurity is another promising field. It costs the global economy around \$600bn a year, but cyber insurance only covers 1% of this sum.

## IPO watch

The top spot in the annual global initial public offerings (IPO) market has alternated between New York and Hong Kong in recent years, note Hudson Lockett and Mercedes Ruehl in the Financial Times. Hong Kong secured it in 2018. In the first half of 2019 New York came out on top with \$17.4bn of listings on the New York Stock Exchange and \$14.4bn on the Nasdaq. Hong Kong could only muster \$8.9bn. Chinese firms (notably tech stocks) keen to make a splash in the US have so far been undaunted by the trade war. Key debuts included Luckin Coffee and S-Young, an online marketplace for cosmetic procedures. They raised \$561m and \$179m respectively.



City talk

● When a company's leadership changes, the new team often undertake a "kitchen sinking" exercise, notes Russ Mould of investment platform AJ Bell. The key is to release as much bad news in one go as possible so that investors reckon things can only get better under the new regime. Superdry's interim boss (and co-founder) Julian Dunkerton has found himself "the biggest kitchen sink available". Last year the group made a £65m pre-tax profit; this year it fell into the red to the tune of £85m as shoppers gave its offerings the cold shoulder. Margins, cash and the dividend are all down. Nobody expected Dunkerton to turn the group around so soon after reinstalling himself at the helm of the company after a boardroom fracas. But investors' patience won't last forever. By this time next year they will want to see clear signs of progress.



● "If, like me, you're fascinated by the rise and fall of great companies," last week's "bad-mouthing" of one former Tesco boss by another was "gripping", says Martin Vander Weyer in The Spectator. Ian MacLaurin, who ran the supermarket heavyweight in the 1990s, said his successor Terry Leahy, who quadrupled the group's sales, was also to blame for the group going off the rails in the early 2010s, when a failed foray into the US was followed by an accounting scandal. Today, the group is in good shape. Boss Dave Lewis has revamped the supply chain and prioritised cheaper brands to fend off Aldi and Lidl. The discounters, incidentally, may be finding expansion increasingly expensive. Lidl's "very drinkable" Comte de Senneval Champagne "has [fallen] from a super-bargain £11.99 to an insane £9.99... surely a sign of desperation".

# Deutsche beats a retreat

Germany's biggest bank has presented its latest plan to get out of trouble. But is it all too little too late? Ben Judge reports

Deutsche Bank is "throwing in the towel on its ambitions to go toe-to-toe with the big Wall Street firms" in investment banking, says Anjuli Davies in The Daily Telegraph. Germany's biggest lender has announced a restructuring plan that will involve shutting its equities division and axing 18,000 staff. A decade ago, Deutsche seemed to have beaten the big Wall Street banks at their own game, says Nils Pratley in The Guardian, but now it is a "national embarrassment" worth less than a quarter of Spanish rival Santander.

So what's gone wrong? Deutsche is just one of many European banks to have failed on the other side of the Atlantic. "The numbers just don't add up" for them, says Davies; making it big in America is "never going to happen". Even the Wall Street giants are facing "an existential crisis" as their industry changes beyond recognition, with margins "razor thin" following a regulatory clampdown and new restrictions on leverage.

Deutsche's chairman Paul Achleitner says the restructuring plan was "the right response to the major changes and challenges in the financial industry". But that's "clutching at straws", says Pratley. Nobody's making much money trading equities, but "the reality is that the storm happened a decade ago", and Deutsche has been too slow in reacting to the global financial crisis.

### A decade wasted

It is "only now setting up an internal 'bad bank' to sell €74bn of unwanted financial assets", says Pratley. Deutsche may have avoided a huge state bailout, but it "seems to have wasted an entire decade avoiding serious restructuring". It may be too late now. "At a moment when... even RBS and Barclays [say] their years of restructuring [are] over, Deutsche is only now talking the language of radicalism." It will take a decade to repair a bank this "broken". The restructuring is "as sensible as it is overdue", says Stephen Wilmot in The Wall Street Journal, but it will



Christian Sewing: a step in the right direction?

"require flawless execution and may not go far enough". For instance, chief executive Christian Sewing may be getting out of equities trading, but he is hanging on to the US leveraged-finance division, which is "making good returns" but is "at risk of overheating and has little to do with the new strategy". Deutsche should ditch it.

If Sewing's plan works, it will be "a step in the right direction", says a Bloomberg editorial. And it is "more promising" than the previous plan – the failed merger with Commerzbank. The plan improves systemic safety, but aiming for a leverage ratio of 5% "would still fall far short of what would be needed to weather a severe crisis". This is where the European authorities need to raise their game. In their eagerness to "build... national champions" they have often "indulged the kind of overreach" Deutsche was guilty of. Regulators "need to be less forgiving and more impatient, so that Europe's financial system is better prepared for the next crash".

## Britain's ten most-hated shares

These are the UK's ten most unpopular firms, based on the percentage of stock being shorted (the "short interest"). Short-sellers aim to profit from falling prices, so it helps to see what they're betting against. The list can also highlight stocks that may bounce on unexpected good news when short-sellers are forced out of their positions. Troubled travel group Thomas Cook has reached the top ten after Lufthansa said it was not interested in buying its German airline Condor. Kier Group issued a profit warning in June. Investors have also grown more pessimistic about Greencore and IQE: both are back in the top ten.

Company	Sector	Short interest on 9 July (%)	Short interest on 29 May (%)
AA	Support services	10.54	9.96
Thomas Cook Group	Travel	9.98	NEW ENTRY
Kier Group	Construction	9.87	NEW ENTRY
Babcock International	Engineering	9.85	8.89
Arrow Global	Financial services	9.85	11
John Wood Group	Oil services	9.67	9.32
Anglo American	Mining	9.62	9.08
Debenhams	General retailers	9.53	9.53
Greencore	Food production	8.38	NEW ENTRY
IQE	Semiconductors	8.07	NEW ENTRY



# Labour settles on a Brexit strategy

But what precisely is it? That remains difficult to say. Emily Hohler reports

Jeremy Corbyn's attempt to clarify Labour's Brexit policy by announcing a "settled" policy of backing Remain in any referendum called on a Conservative deal doesn't actually answer the question of whether the party is now officially Leave or Remain, says Gaby Hinsliff in *The Guardian*. After weeks of wrangling within the party, Corbyn has finally said that the Labour party will back a second referendum on Brexit in all circumstances. He has also said that Labour will try to renegotiate a better deal with the EU if it wins power, and refused to say how Labour would campaign if a snap general election were called.

## Labour Remainers must take back control

Remain-supporting Labour MPs hailed these "manoeuvres as ground-breaking", even though Corbyn insists that he has not altered his position one bit, says *The Daily Telegraph*. Such "constructive ambiguity" once suited Labour's purposes, which were to blame the Brexit mess on the Tories, but with Labour's ratings "plummeting" to record lows (it polled fourth on 18% in a YouGov survey last week), "panic is setting in". There are many MPs who would like to replace Corbyn ahead of a possible general election. Support from the big trade unions is "crumbling" and at the same time the anti-Semitism row has deepened with the resignation this week of three Labour peers. There has even been talk of Corbyn's closest ally, John McDonnell, being "open to a putsch, perhaps over the summer", says Fraser Nelson in *The Daily Telegraph*.

The exasperation of Corbyn's erstwhile allies is understandable, says Robert Shrimley in *The Financial Times*. In his "vacillation over Brexit, weakness on anti-Semitism and his inability to grasp



Corbyn sticks to "constructive ambiguity"

the agenda from a hapless government", he has shown an "utter lack of leadership". Which raises questions about how he would manage our education system, or the NHS, as prime minister, says Matthew D'Ancona in *The Guardian*. Corbyn has been presented with a "great opportunity". As we "cruise" towards a no-deal Brexit on 31 October, there are a lot of centrist voters looking for a home, "appalled by the small-minded nativism of contemporary Conservatism, but unpersuaded by the left-wing populism of Corbyn's Labour". Labour Remainers must "seize control before the party becomes a historical footnote". The real losers of a Labour electoral defeat are unlikely to be the "clique that have the Labour party in its grip", but rather those the Labour party "was established to protect": the poor.

Corbyn hasn't "changed his view on anything since Brezhnev was in power", says Nelson. And although he is a "dangerous ideologue who risks tipping

Britain into an economic dark age", his strategy – of "holding his nerve, keeping it vague and hoping to unite Labour once the Brexit storm passes – is about the only sensible policy he has". Almost a third of Labour voters voted Leave. The local and European elections showed Labour "shrinking into metropolitan echo-chambers", but "fragmenting in non-metropolitan Britain". To take power in Westminster, Labour needs to win in the latter. If Labour embraces Remain, it could be a gift to the Tories, with Corbyn losing all those Labour voters in the Brexit-voting north. As for Corbyn's ineptitude, it may not matter, says Shrimley. If Labour is the "only real alternative to a Tory government that has delivered a disastrous Brexit, then it may win power by default". This doesn't stop Corbyn from looking like a man "who has been rumbled by the voters". His personal health may be unclear, but as for Labour's political health – like a fish, it is rotting from the head".



Resolve and bluster may be decisive in future EU bargaining

## Why personality matters for future PM

The first televised debate between Tory leadership hopefuls Boris Johnson and Jeremy Hunt "exposed two big faultlines", says Andrew Sparrow in *The Guardian*. Johnson is "determined to play down the risk of a no-deal Brexit, while Hunt isn't". And while Hunt is willing to be "moderately critical" of President Trump (who said that Theresa May's Brexit strategy has been a disaster), Johnson refused. But as far as the electorate (ie, the Tory party membership) is concerned, Johnson is still winning. It loves Johnson's "do or die" approach to Brexit, says the FT. Indeed, one survey found that a majority of Tory members

wanted Brexit at any cost, including the break-up of the UK, "significant damage to the economy, or the destruction of the Conservative party itself".

The details of whatever deal is reached will "depend on the resolve (or convincing bluster) of the man who conducts the operation and sets the tone", says Janet Daley in *The Daily Telegraph*. But the idea that we are going to leave the EU without a deal on 31 October is in "absolutely nobody's interest on either side of the negotiation" and therefore will not happen, whatever Hunt or Johnson says. That doesn't mean that we shouldn't be prepared for a no-deal exit. A "determination to push the

negotiation to its absolute limits" will be essential, which is why the personality of the leader matters so much.

The threat of no deal is nonetheless being taken very seriously. Sir John Major has promised to mount a legal challenge to any attempt to prorogue parliament, and a group of British lawmakers is mobilising to prevent this too, say Stephen Fidler and Max Colchester in *The Wall Street Journal*. Moody's Investors Service says a no-deal exit would cause a recession, while Chancellor Philip Hammond predicts it would cost the Treasury £90bn, putting paid to both candidates' plans for tax cuts and spending increases.



**Betting on politics**



With nearly a fortnight to go before ballot papers in the Tory leadership election have to be returned, the amount of money matched on the betting exchanges continues to rise. The sum matched on Betfair has grown to £14m; another £2.2m has been wagered on Smarkets. Both betting exchanges predict that Boris Johnson will emerge triumphant, and his odds have narrowed to 1.06 (94.3%). Those on Jeremy Hunt have drifted out to 17 (5.8%).

Having tipped Johnson (among a host of other candidates) two years ago, I'm not going to recommend that you put any more money on either candidate. In any case, the odds seem about right, since Johnson has a huge lead in the membership opinion polls. Still, a lacklustre debate performance, his failure to back the (now former)



UK ambassador to the US (see right), and the possibility of a last-minute scandal, mean that there is still a small chance that Hunt could yet end up as the next leader of the Tories.

However, if you want some real value, then I'd recommend that you turn your attention to Europe. Last week, it was announced that the German defence minister, Ursula von der Leyen (pictured), has been selected to be the president of the European Commission (see box, right). Because of the controversial way she was appointed, there's a chance that the European Parliament could refuse to confirm her. I think it's unlikely they will reject her, so you should take the 1.33 (75.2%) available on Smarkets on her being the next president.

# Trump fumes over British insults

Will a diplomatic row spoil the special relationship? Matthew Partridge reports

Sir Kim Darroch, Britain's ambassador to the US, has resigned after "being sucked into an unseemly row with Donald Trump", reports the Financial Times. The US president declared on Monday "that his administration won't deal with Sir Kim, in retaliation for some unflattering comments the ambassador made in leaked diplomatic cables" (Sir Kim had described Trump as "inept", "insecure" and "incompetent"). Trump then later unleashed a stream of abuse on Twitter directed at both Theresa May and the ambassador, whom Trump called a "pompous fool". May and the foreign secretary, Jeremy Hunt, backed him, but Boris Johnson pointedly refused to confirm that Sir Kim would be kept on should he become the next prime minister.



Sir Kim Darroch: resigned after a run-in with Trump

Sir Kim had to go as it is hard to see how he could continue to lobby effectively on Britain's behalf in Trump's Washington – not least for trade concessions post-Brexit, says Simon Jenkins in The Guardian. And he has only himself to blame – he was a "fool" if he thought that his opinions would be kept secret. Foreign Office officials have been repeatedly warned that, in this age of electronic hacking, they should "commit nothing to electronic communication they did not want to see on the front page of the Daily Mail".

Nonsense, says the Daily Mail. In 2010 a leaked cable from the American ambassador criticised David Cameron. That provoked "severe embarrassment" in Washington DC, but it "never threatened Britain's "special relationship" with the US. Sadly, we're now dealing with the "thin-skinned" Donald Trump, whose refusal to take the

high ground, and his "abrasive discourtesy" in his subsequent tweets, "demeans his office". In any case, a US president "should not veto who represents Britain", especially considering Sir Kim was only "doing his job".

**Still good friends?**

The incident highlights the extent to which May's premiership "has witnessed a noticeable decline of British standing in the affections of the

White House", says Con Coughlin in The Daily Telegraph. Indeed, at times it looks as if the government and the foreign-policy establishment "fundamentally disagree with everything the Trump administration stands for, whether it is supporting Britain's attempts to leave the EU or withdrawing from the Iranian nuclear deal". Instead of adopting the "patronising tone" of the outgoing PM, May's successor "should seek to celebrate the benefits of Britain's long-standing relationship with the US".

A cooling in Anglo-American relations was always inevitable given that Trump has "lavished praise" on totalitarian regimes such as China and North Korea, while "reserving his criticisms for allies, including Germany, France and now Britain", says The Times. Indeed, one gets the sense that Trump has deliberately manufactured this row in order to "exert leverage on a new prime minister, who may soon find himself diplomatically isolated and in urgent need of a trade deal". Given this vulnerable position, and Trump's aggressive stance, it is vital that May's successor seeks "to maintain broad alliances rather than bet on Trump's goodwill".

## Back-room deal decides the top jobs in EU



Lagarde: the new chief at the ECB

Following negotiations that went on through the night, the top jobs in the European Union were finally agreed in a package that "is not perfect, but nor is it terrible", says The Economist. The new president of the European Commission, the EU's executive, will be former German defence minister Ursula von der Leyen, "a mature and

moderate administrator". Current IMF head Christine Lagarde will run the European Central Bank. Belgium's PM Charles Michel will become the president of the European Council, the group of EU heads of government. Spanish social democrat Josep Borrell is the new foreign minister. Provided these officials are confirmed by the EU parliament, this "is a win for Macron", the centrist French president, who has succeeded in "getting friendly faces into both the Commission and the ECB".

The result of these "back-room decisions" – which tore up all the unwritten rules over such haggling, including that the Commission president should come from the largest party

grouping in the European Parliament – is that the top job in Europe is in the hands of a last-minute compromise candidate "who has never once campaigned for a European Parliament seat or other job in Brussels", says Der Spiegel. And it is a slap in the face for Europe's populists, says Andrew Lilico in The Daily Telegraph. Von der Leyen is a long-standing advocate of what she calls "a united states of Europe – run along the lines of the federal states of Switzerland, Germany or the US". The populists may be getting "lots of headlines in the UK", but it is "the Macrons and Merckels that get elected, and it is the von der Leyens that they appoint".

©Getty Images



## Mexico

**Finance minister quits:** President Andrés Manuel López Obrador has accepted the resignation of his finance minister, Carlos Urzúa. In his strongly worded resignation letter, Urzúa accused the government of forming policy without sufficient consideration. Urzúa wrote, "I'm convinced that economic policy should always be evidence-based, careful of potential impacts and free of extremism, either from the right or the left. These convictions did not resonate during my tenure in this administration." Urzúa had been seen as a moderate, committed to fiscal discipline. The president, who is seen as a leftist populist, lost no time in promoting Urzúa's deputy, Arturo Herrera, to the vacant role. "Well known to investors and seen as a competent economic manager, Herrera now has the task of reviving economic growth, while meeting a 1% primary budget surplus, kick-starting flagging investment and fending off downgrades from ratings agencies worried about indebted state-oil company Pemex", says Diego Oré on Reuters. He is not a "dogmatic individual", Alberto Ramos, head of Latin American research at Goldman Sachs, tells Reuters. "But in light of the unusual content of Urzúa's resignation letter, there is out there the lingering question of who is ultimately in charge of running economic policy."

## Dallas

**Henry Ross Perot dies:** The Texan billionaire who ran for president has died at the age of 89. Perot made his fortune in 1984, when he sold Electronic Data Systems Corp, the firm he founded, to General Motors for \$2.5bn. He ran for the presidency in 1992 as an independent before dropping out, blaming Republican dirty tricks. Then he rejoined the race. He focused his campaign on the national debt and the "giant sucking sound" of jobs heading for Mexico if the North Atlantic Free Trade Agreement (Nafta) were to come into effect. He won the largest-ever slice of the vote by an independent, 19%. Perot ran again four years later, but with the economy booming his protectionist and fiscally conservative message failed to resonate. But it paved the way for the Tea Party movement, which later became a powerful influence on the Republican Party.



## Brasília

### Government tackles pensions:

Investors may have "cheered the progress of Brazil's key pension-reform bill last week", but it is far from a done deal, says Samy Adghirni in Bloomberg. President Jair Bolsonaro (pictured) said there are some errors that need correcting and members of his party want special treatment for police. It also faces "fierce resistance from opposition lawmakers".

Overhauling Brazil's social-security system is the "centrepiece" of Bolsonaro's plan to "cut debt" and put the economy back on track. Establishing a minimum retirement age and making it harder to access benefits will save \$261bn over the next decade. At present some public workers retire in their 40s with "lifelong, inheritable pensions close to their final full salary"; reforms would raise the retirement age to at least 60 and insist on higher contributions, says Paulo Trevisani in The Wall Street Journal. Brazil offers a "cautionary tale for other countries with ageing populations". It spends 45% of its budget on pensions and just 2.8% on schools, hospitals, roads and police.



## The way we live now: rampant inflation in end-of-school parties



The cost of US-style proms (end-of-school parties) in Britain is soaring, says Harry Shukman in The Times. Some parents are shelling out the price of a holiday to give their children a night to remember. One 16-year-old girl, Cara O'Connor from Essex, said she had spent almost £1,000 in the last two years (the stage when pupils start preparing for their GCSE exams) getting ready for the event organised by Hall Mead School in Upminster. A dress costs around £700, shoes are £40, then another £40 goes on a bag. Hair extensions cost £50 and false eyelashes are about £35. Optional

extras include a spray tan (£30), waxing (£41), flower corsage (£31), and a share of a stretch limousine (£55). Or how about a helicopter for six at £2,000, plus VAT? "They're very popular," says Brian Moulton of Atlas Helicopters. Elaine Bull owns a bridal and prom outfitters, Ivy Blu, in Billericay. The cost of end-of-school parties has doubled since she started selling prom dresses in 2009. "It has a far more frenzied feel than weddings," she says. "A bride doesn't have competition, does she?" Local hair salon-owner Anna Rose Porter agrees. "I'm just glad I've got boys."



## London

**Productivity crisis continues:** Productivity fell in the first three months of 2019 compared with the same period last year, according to the Office for National Statistics (ONS). Output per hour worked was down by 0.2%. Productivity has stagnated since the financial crisis, in stark contrast with previous downturns, after which productivity bounced back and kept rising. It is still almost 30% below the pre-crisis trend, notes Jack Leslie of the Resolution Foundation think tank. The data forms part of a deteriorating bigger picture for the economy, says the Financial Times. Surveys of purchasing managers for June point to a stagnation in the services sector and the steepest contraction in manufacturing activity for six years. The construction industry is also seeing the lowest level of activity for a decade. On the plus side, households continue to borrow and spend (consumption accounts for around 60% of GDP) and employment remains historically high. That could change, however, since a turbulent Brexit is still a possibility.



Building activity is at a ten-year low

## Taipei

**America sells arms to Taiwan:** America's State Department has given the green light to the biggest arms deal of Donald Trump's administration. It is to sell \$2.2bn of weapons to Taiwan. In doing so, it is signalling its support for the government in Taipei, which has come under increasing pressure from the regime in Beijing, which regards Taiwan as its renegade region. While the Chinese Communist Party has never ruled Taiwan, Beijing has threatened to invade in the past. America is committed to defending the island militarily under the 1971 Taiwan Relations Act; the arms deal includes 108 Abrams tanks and 250 Stinger missiles. To complicate matters, however, the deal comes at a time of worsening trade relations between the US and China, and the deal could affect Beijing's willingness to revive trade talks. The US has demanded that China buy more of its agricultural produce to address a trade imbalance, and to enforce the protection of intellectual property. China seeks the removal of \$250bn of tariffs on its goods. The last round of talks in Washington ended in an impasse.

## Lusaka

**Government seizes mine:** The Zambian government has rattled investors by placing a mining operation run by India's Vedanta Resources into administration with a view to selling it. The operation, Konkola Copper Mines, is one of Zambia's biggest copper producers, valued at \$1.6bn. Vedanta has applied to the courts in South Africa for an international injunction against the sale. Zambia's government says the liquidation is legal. The once-thriving democracy has fallen on hard times since President Edgar Lungu came to power in 2015, says Joseph Cotterill in the Financial Times. Lungu has promised a quick sale, leading to questions about China's "extensive ties" in the country: a Chinese state-owned company is said to be among the bidders. The president has called for a "divorce" from private international mining companies, which have complained about Zambia's steep taxes. Lungu accuses the miners of failing to invest. "They are liars, they are cheats and they take us for fools," he says. "Those who are uncomfortable to stay in our house can go out." Zambia's debt has doubled to \$10bn over the past decade, and the country is edging closer to default.

## Ankara

**Erdogan sacks the head of Turkey's central bank:** Turkey's President Erdogan dismissed Murat Çetinkaya (pictured), the head of Turkey's central bank, by presidential decree this week, a year before his four-year term was to end. No official reason was given for the sacking, but Erdogan told party members that he "didn't do what was needed". "We told him numerous times that he had to lower interest rates during meetings on the economy," Erdogan was quoted as saying in the Hürriyet newspaper. Erdogan has called high interest rates the "mother and father of all evil". He insists they cause inflation. Turkey is mired in a deep recession, with high inflation and a sliding currency. Its main interest rate currently stands at 24%, having been raised from 17.5% in September, while inflation is around 15%, having peaked at 25% in October last year. Paul McNamara of asset manager GAM spoke for everyone concerned about the central bank's independence and economic literacy when he told the Financial Times that the sacking was "extraordinarily stupid".





# Boris Johnson and the sugar tax

Our probable new prime minister wants to scrap the levy on sugary drinks introduced by some of his predecessors. Would that be a good move? Simon Wilson reports

## What's happened?

Boris Johnson, who is likely to become our new prime minister, has announced that he wants to revisit and potentially reverse one of the Cameron government's main public-health policies – the introduction of a tax on sugary drinks – and put the brakes on moves to extend it. The so-called sugar tax came into effect in April 2018. It imposes a charge of 18p per litre on drinks with 5g-8g of sugar per 100ml, rising to 24p on those with 8g or above.

## Why does Johnson want to scrap it?

To arrest the “creep of the nanny state”, he says. If elected Tory leader, as PM he would launch a review into the effectiveness of such taxes while making clear he's a sceptic. Embarrassingly, his announcement coincided with a new study from Cancer Research UK finding that obesity, rather than smoking, is now the leading cause of four common cancers and came just days before the health secretary, Matt Hancock, was due to publish a green paper on public health pulling in the opposite direction. The paper, now delayed, is widely reported to push various proposals to tackle obesity, including taxes on sugary milk drinks.

## What is Johnson's thinking?

“The recent proposal for a tax on milkshakes seems to me to clobber those who can least afford it,” he says. “If we want people to lose weight and live healthier lifestyles we should encourage people to walk, cycle and do more exercise.”

## But don't sugar taxes work?

They probably do. It's too early to say whether the UK's sugar tax has started to slim our waistlines. But according to Graham MacGregor, a professor of cardiovascular medicine who campaigns on public health, more than half of all drinks manufacturers have cut the sugar content of drinks since the tax was announced in March 2016 – the equivalent of 45 million kilos of sugar not eaten each year. That's already a big win, given that for overweight teenagers – 80% of whom will remain obese as adults, and lose 15-20 years of healthy life as a result on average – soft drinks are their biggest source of sugar.

## So the taxes reduce consumption?

Yes. A survey of the issue, published last month in the journal *Obesity Reviews*, by academics at the University of Otago in New Zealand, carried out a meta-analysis of four recent studies from settings where a sugary-drinks tax have been introduced. They found that on average a 10% tax on sugary drinks has cut the purchase and consumption of such products by 10%.



Separately, a study for *The Lancet* last year of 13 different countries found that taxes on unhealthy consumption, such as Mexico's sugar levy, had resulted in major health gains, especially for the poorest.

## But aren't these taxes regressive?

Yes, in the sense that they impose the highest monetary cost on poor families: their children drink the most fizzy drinks. But they are only regressive, argues the Institute for Fiscal Studies, if you ignore the future costs to an individual's health of consuming too much sugar now. The World Health Organisation is strongly in favour of such taxes, which it sees as progressive, since they help poor people the most. In a previous life, Johnson too was strongly in favour. In 2015, as London mayor, Johnson argued that because those most affected by obesity were “overwhelmingly” the poorest, London must lead the way on sugar taxes.

*“A tax on milkshakes seems to me to clobber those who can least afford it”*

The next year he introduced a 10p levy on soft drinks with added sugar in the City Hall cafe.

## Why does this matter to investors?

It's a sign of where Johnson's thinking may be on regulation. The posh tonic people Fever-Tree saw their shares tick up on the morning he made his comments. Britvic (which makes Pepsi in the UK, and Robinsons) also perked up. More broadly, though, it's a reminder of the financial risks and burgeoning opportunities associated with nutrition and obesity – including the threat of class action lawsuits we have seen in the tobacco sector. Changing consumer preferences and regulatory environments will favour firms that can switch their product portfolios to healthier alternatives, says investment firm Rathbone Greenbank.

“At the same time, there are potential opportunities for producers of food ingredients that enhance nutritional value, companies providing fitness equipment and services, and healthcare companies that are developing novel treatments for obesity and its related health issues.”

## How has “Big Sugar” responded?

Among the big manufacturers that slashed sugar levels in response to the levy was AG Barr, which makes Irn Bru, as well as drinks brands such as Rockstar, Rubicon and Snapple. Barr cut the sugar content in its flagship Irn Bru from 10.3g to 4.7g per 100ml – and says that 99% of its products are not caught by the sugar tax. Coca-Cola decided it can't afford to change its classic recipe (10.6g) for fear of alienating its customers. Instead, it has shrunk bottle sizes (now selling 1.5l bottles rather than 1.75l, for example) and sold a lot more bottles of Coca-Cola Zero Sugar. But it has cut sugar levels in other drinks, including Fanta, Sprite, Dr Pepper, Lilt and Oasis.

## What would a reversal mean?

If Johnson does roll back regulation, it's unlikely that makers would start ramping up sugar levels again, although it would help Coca-Cola, which stuck with its high-sugar classic. Meanwhile, firms that have moved heavily into artificial sweeteners include Tate & Lyle, the major supplier to food and drink producers, although investors should be aware that sweeteners themselves could be subject to growing health concerns and political risk. PureCircle focuses on “next-generation stevia sweeteners” that it says will lead to higher margins. Meanwhile, Treatt (a global supplier of flavourings and fragrance ingredients) is growing its business to help food and drink producers reduce sugar content.



# Don't reinvent the fund wheel

We don't need new fund structures to tackle liquidity concerns – the ideal vehicle already exists



**John Stepek**  
Executive editor

The fallout from the gating of Neil Woodford's open-ended equity income fund, as he tries to sell illiquid assets to pay back disillusioned investors, continues to reverberate through markets. Investors in the UK pulled £1.9bn out of actively-managed open-ended funds in the three months to the end of June, notes Vicky McKeever on Citywire. That's the biggest such rush since the run-up to the Brexit referendum in mid-2016. Meanwhile, the issue is in the sights of both the Bank of England (Mark Carney has described open-ended funds as "built on a lie") and the regulator.

The problem with open-ended funds owning illiquid assets was made very clear three years ago, when commercial property funds were shut in the wake of the Brexit vote in 2016. Woodford has merely added urgency to the issue. Now the Investment Association, the trade body for open-ended fund managers, is proposing a brand new type of fund to tackle the problem – a "long-term asset fund". This open-ended fund would own illiquid assets, but investors would only be allowed to withdraw their money at "appropriate time intervals", and would also have to pass some sort of "appropriateness tests".

There are some practical issues here (what's an "appropriate time interval"?). But the main one is that we already have a vehicle that is ideally suited to holding illiquid assets, which also allows investors to withdraw their cash in a pinch – investment trusts. For a full definition, see below. But the key point about investment trusts is that, unlike open-ended funds, the number of shares is fixed (new investors buy shares from previous



*Carney: open-ended funds are "built on a lie"*

investors who sell out), which means the manager can never be forced to sell due to a "run on the fund". A side-effect is that it makes asset-gathering (selling as many shares in the fund as possible, to boost the fees collected) a trickier

***"We already have a fund vehicle suited to illiquid assets"***

proposition, which is one reason why open-ended funds remain so popular with the industry.

So if you're in the market for an actively-managed fund that invests in less liquid assets, you need not wait – just trawl the investment-trust sector. One trust that MoneyWeek has recommended several times is **Syncona** (LSE: SYNC) (previously the BACIT trust) – see page 26. The trust invests in promising early stage life-sciences companies and has an excellent track record (its net asset value climbed by nearly 40% in the year to the end of March). Another interesting option is **Herald Investment Trust** (LSE: HRI), which invests in smaller listed and some unlisted technology and media companies around the globe. The trust also has a strong record (up 90% in the last three years) and trades on a discount of 16%.

## Guru watch

**Mark Mobius,**  
founder,  
**Mobius Capital Partners**



"I love gold." Mark Mobius, perhaps the best-known emerging markets investor in the world, reckons that the precious metal should form at least 10% of any investor's portfolio (in the form of bullion). However, now looks like a particularly promising time to invest – and it's all down to central bankers, he tells Bloomberg in an interview in Singapore.

For one thing, "interest rates are going so low, particularly now in Europe". So, as Mobius says, "what's the sense in holding euro when you get a negative



rate? You might as well put it into gold, because gold is a much better currency". Expectations of even looser monetary policy from central banks across the globe, including the Federal Reserve in the US, have seen gold hit a six-year high this year already (in US dollar terms at least), of close to \$1,440 an ounce.

Cutting interest rates isn't the only factor – central banks, particularly in Russia and China, have also been ramping up their own purchases of gold to add to their reserves. And while Mobius is not a buyer of cryptocurrencies at the moment ("I don't know what the real value is"), a resurgence of interest in the likes of bitcoin has also drawn attention back to alternatives to fiat currencies such as gold. In all, Mobius reckons the price could go further from here, to top \$1,500 by the end of the year.

In terms of wider markets, Mobius favours stocks over bonds, and he is also still a big believer in emerging markets, which are set to benefit from ongoing, business-friendly reforms.

## I wish I knew what an investment trust was, but I'm too embarrassed to ask

Investment trusts are collective investment schemes. Just like any other fund, they allow investors to pool their money and invest in a wide range of companies and other assets, enabling them to diversify in a convenient way. However, there are some key differences between investment trusts (which are closed-end funds) and their open-ended peers.

Investment trusts are listed companies whose business is to invest in other companies. This means they raise an initial amount of capital when they go public. After that, if you want to invest in the investment trust, you have to buy the shares in the open market. This differs

from an open-ended fund, where any new money results in the creation of new units (and any sale results in the redemption of those units).

As a result, the value of the shares in an investment trust can vary from the value of the underlying portfolio (the net asset value – NAV). If the share price is higher than the NAV per share, then the trust is said to be trading at a premium. If the share price is lower, then it is trading at a discount.

This can create interesting opportunities. If a trust trades at a discount of 10%, say, then it means you are effectively getting £1 worth of assets for 90p when you invest. This is

more common than you might think. Be warned, though – the only way to benefit from buying at a discount is if the discount narrows and you then sell the shares at a profit. There is no guarantee that will happen. So rather than looking at the absolute level of the discount or premium, the best bet is to compare it with the five-year average to see if it represents good value or not.

One other aspect of investment trusts to be aware of is their ability to borrow money to "gear up" their portfolios. "Gearing" or "leverage" cuts both ways – in good times it can boost returns; in bad times, it can exacerbate losses. So it's always worth checking how highly geared a trust is.



# The City must move on from Europe

It thrived as the EU's finance hub. But now new opportunities look more promising for the City



**Matthew Lynn**  
City columnist

Deutsche Bank has been staggering from crisis to crisis for years now. Its shares have fallen almost 90% from their pre-crash peak, and what was once Europe's mightiest financial institution is now a shadow of its former self. With 8,000 staff in London, it was one of the largest employers in the City, and it was a mark of the British capital's dominance of European markets that the German giant chose to run its trading operations from here rather than Frankfurt. Many of those jobs were eliminated in a restructuring this week, and unless there is a dramatic turnaround it is likely that many more will be lost in the next few months.

By itself that might not matter so much. Investment banking is a cyclical, turbulent industry. But there is also a deeper theme here. It is not just Deutsche that is in trouble. Most of the major European finance houses are in retreat. BNP Paribas, its only real equal inside the eurozone, has been struggling this year because of losses in its trading division. Credit Suisse has been hit by trading losses, and has spent years reducing its reliance on investment banking. UBS has been cutting jobs in investment banking, and so has France's Société Générale; Germany's Commerzbank has too many problems of its own to do anything other than retrench. There is not a single European bank that is expanding.

There are reasons for that. The eurozone has been stagnant for years, and that is being reflected in the strength of its banks. They are not so important any more because their domestic economies are not very strong. The imbalances that are endemic within the single currency zone mean that huge sums have to be recycled



*Deutsche Bank's workers hit the road*

through the banking system and that has created vast potential losses. And the negative interest rates the European Central Bank has imposed have wiped out bank profits by making it virtually impossible to earn any sort of margin on deposits or loans. Europe has crippled its banking sector and it is unlikely to recover anytime soon.

That matters for the City. Over the last 30 years London has turned itself into Europe's main financial hub. A deep talent pool, access to global markets, a stable legal system and membership of the EU's single market meant it was the easiest place for European companies to raise capital and for investors to trade shares, bonds and debt. London accounted for the vast bulk

of Europe's equity trading, its derivatives market, its foreign-exchange business, its hedge funds and its bond issues. That was great while it lasted, and it was one of the key reasons the City flourished. Europe could use it to access the world, and the world could use it to access Europe. True, it meant complying with the EU's often meddlesome rules on finance. But that was a price worth paying.

## A changing equation

The trouble is, most of Europe's financial sector is now in full-scale retreat. That changes the equation. It was worth complying with the EU's rules if it meant Deutsche employed 8,000 highly paid staff in London and generated lots of tax revenues. For 1,000 staff, or even 500? Not so much. The City has been fretting for the last three years about losing access to the European market if we see a no-deal Brexit. But the EU's banks have already been leaving Britain – because it doesn't have a sustainable business any more.

The City has already started to refocus on its links with China and the Middle East and North America. It has created a system that makes it possible to trade Chinese equities in London. It has carved out a niche as the place to list Russian or Middle Eastern companies. It has started to pivot towards raising debt for businesses and governments across the developing world, and it is becoming an alternative technology hub to the west coast of the US. The City will need to double down on that, and focus a lot less on what kind of relationship survives with the EU. Its links with Europe have been great for the last three decades, but as the likes of Deutsche wind themselves down there is very little mileage left in them – it is time to move on to the next opportunity.

## Who's getting what

● **Andrea Orcel**, who was offered the job as chief executive of Spanish bank Santander last year only for the bank to rescind the offer, is to sue the bank for €100m, reports *The Guardian*.



Santander said it could not justify paying a €50m signing-on fee, which the bank said was "significantly above the board's original expectations", plus €8.9m a year. The €50m was supposed to compensate him for bonuses he would have earned at investment

bank UBS. Orcel (pictured), who told the *Financial Times* that he is "not a person who lets things go", is claiming for lost earnings and legal fees.

● **John Jakes**, founder and chairman of Acorn Stairlifts, has paid himself £97.5m in dividends since 2010 – just less than all the profits made by the company in that time, reports *The Mail on Sunday*. Jakes founded the firm 27 years ago. It employs 1,500 people, made a pre-tax profit of

£22.3m last year, and paid £20.8m out as a dividend.

● **Boris Johnson** says he'd be richer if he wasn't in politics, says the *Daily Mirror*. But it turns out he's doing fairly well nonetheless. As the top-earning MP, he made around £800,000 last year, including £275,000 for a weekly newspaper column and £407,895 from speeches. If he were to become prime minister, however, he would have to get by on just £158,000 as stricter rules mean he would have to give up both the speeches and the column writing.

## Nice work if you can get it

**Bosses at Thames Water will get bonuses of almost £800,000 this year, reports City AM. Chief financial officer Brandon Rennet will pocket £448,000, bringing his total remuneration including any benefits and pension contributions to £985,000. Director of strategy and regulation Nick Fincham will get a bonus of £346,000, bringing his total to £720,000. Chief executive Steve Robertson will defer his bonus until 2020. Pre-tax profit for the 12 months to the end of March more than halved to £51.6m, down from £137.4m the previous year. In the same year, the company cancelled its dividend payments "until 2020 at the earliest", was fined £120m for failing to fix leaks, and apologised for letting customers down, says the BBC. It is also planning to cut up to 650 jobs to reduce costs, as it says it remains "totally focused on managing our cost base" as "the money we spend belongs to our customers and investors".**



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## Capitalism will save the planet

Andrew McAfee  
Wired

More than two billion iPhones have been sold since its launch 12 years ago, but some say that extracting all the resources used to make and run them – metal, plastic, glass, electricity, etc – has been “bad for the planet”, says Andrew McAfee. Such critics aren’t seeing the whole picture. Total electricity use in the US has essentially flatlined for a decade; the growth rate of natural resource consumption has “gone negative”. Why? Dematerialisation. The iPhone has obviated the need for clocks, cameras, films, compasses, calculators, and much more. And the “technologies of dematerialisation are all over the place”. Computer-aided design enables thinner aluminium cans, lighter buildings, and more fuel-efficient engines. Precision agriculture increases food production while using less land, water, and fertiliser. These technologies may be energy-intensive, but in aggregate, they also save a lot of energy. The driver is capitalism. Companies don’t want to spend a penny more than they have to. Of course, this doesn’t mean that capitalism and technological progress can solve all of our environmental challenges – far from it – but it does mean we don’t have to worry so much about the iPhone and its digital kin gobbling up the planet.

## Feeding the world with insects

Editorial  
The Economist

While visionaries wait for Western consumers to become less squeamish about eating insects – a dense and efficiently produced source of protein – a band of entrepreneurs has found an indirect route to our tables: breeding insects as animal fodder, including fish food, says The Economist. One of the most advanced enterprises, Ynsect, produces 30 tonnes of protein meal a month from flour-beetle larvae (or mealworms) from its “vertical” farms. “Nothing is wasted.” The meal is used in pet food – and eventually, Ynsect hopes, fish food – and the insect droppings used as fertiliser. In South Africa, meanwhile, AgriProtein is breeding black soldier flies. Mealworms are vegetarian, but soldier flies eat just about anything. AgriProtein, which formulates proprietary diets to conform with regulations in destination markets, has used abattoir blood and hopes to use treated faeces soon. The tonnages these firms produce are still “trivial”, but that leaves plenty of room for growth. “This is, moreover, a growth that may bring environmental benefits as well as economic ones. Today, a lot of fish food is itself fish. Insect farming could help relieve the oceans of that burden,” leaving more fish in the sea.

## Don’t ignore the chaos in Colombia

Francisco Toro  
The Washington Post

As Venezuela’s economic and political situation worsens, concerns are growing about the peace and stability of neighbouring Colombia, says Francisco Toro. After Colombia signed its famous peace deal with the Revolutionary Armed Forces of Colombia (Farc) in 2016, Farc’s “unruly little cousin”, the National Liberation Army (ELN), was “paradoxically strengthened”. It is now the biggest terrorist group in Colombia, with an estimated 2,500 fighters who are devoted more to “running drugs than to overthrowing the bourgeoisie”, and nearly half of them are now in Venezuela. Indeed, ELN is now the “de-facto governing authority” in areas where the Venezuelan military is happy to “outsource the job” of imposing order. Meanwhile, the country’s “economic tailspin” has left thousands hungry and desperate to make a living, “creating rich recruiting grounds for the guerrillas”. As a result, the challenge for US policymakers is no longer just millions of Venezuelan refugees; it’s also the thousands of Colombian fighters heading in the opposite direction “in search of ungoverned spaces to control and exploit”. This is not the “kind of problem” that can be ignored indefinitely.

## Kazakhstan starts a debt jubilee

Nariman Gizitdinov and  
Anthony Halpin  
Bloomberg

Kazakhstan’s president, Kassym-Jomart Tokayev, is planning to write off bad loans held by around 15% of the population and put an end to state bailouts of private banks, say Nariman Gizitdinov and Anthony Halpin. The loan forgiveness programme is Tokayev’s first major policy announcement since he was elected president on 9 June. The initiative, costing around \$1bn, is predicted to provide relief for around 500,000 of the country’s poorest citizens, who are unable to manage their debt. In 86% of cases, the loans are for less than \$2,650. As for bank bailouts, they are a “sensitive issue” in Kazakhstan, which has been “mired in a decade-long crisis, leading the government to pump at least \$18bn into lenders” to keep them from collapsing as a result of bad debts. The previous president, Nursultan Nazarbayev, accused ministers of being “cowards” in January for failing to clean up the banking system shortly before dismissing the government and replacing the central-bank governor. The new president now says that the government should not get involved any more, signalling a sharp change in policy and an end to speculation that the government was about to embark on a costly new round of bailouts.

### Money talks

**“We never had much money so there was nothing to fight over.**

**I think that’s why we were so happy.”**

Singer Gloria Gaynor (pictured), quoted in The Observer



**“Boris unashamedly talks about wealth. He is able to sell the idea that we have to defend wealth creators in an inclusive way that resonates and doesn’t sound like we’re rapacious capitalists. No one else bothers.”**

Local government minister Rishi Sunak on the Tory leadership candidate Boris Johnson, quoted in the Financial Times

**“The difference between successful people and others is how long they spend feeling sorry for themselves.”**

US businesswoman and author Barbara Corcoran, quoted in the San Francisco Chronicle

**“People are surprised at how modest the payment is for producers and presenters in factual television. Journalism doesn’t pay that well. The costs involved in writing books are what people forget: an awful lot of research and an awful lot of time. If I ever calculated the hourly rate for writing a book, I’d probably realise it’s financially never worth doing again!”**

Historian David Olusoga, quoted in The Sunday Telegraph

**“Being good in business is the most fascinating kind of art.”**

Andy Warhol, quoted in The Times

**“It’s not an investment. It’s a gambling device. It’s had a lot of frauds associated with it. Some people have lost a lot on it. Bitcoin hasn’t produced anything. I’ll tell you what, I’ll tear a button off my jacket and I’ll [sell it to you for] \$1,000. Maybe you can then sell it for \$2,000, but at the end of the day that button has one use.”**

Warren Buffett on bitcoin, in The Sunday Times

©Getty Images



# Who owns Britain's wealth?

[resolutionfoundation.org](http://resolutionfoundation.org)

Britain is in the middle of a “decades-long wealth boom”, says George Bangham. Total wealth now stands at a record £12.8trn. “But where you live and when you were born plays a big part” in how much of that wealth you are likely to own.

## What do we own?

Britain's wealth boom has been driven mainly by rising house prices and pension entitlements, combined with the rise in home ownership of the 1980s and 1990s. Property represents 36% of total wealth. But the biggest slice is actually pensions at 42%. Net financial wealth – savings, Isas, stocks and shares – makes up about 12%; wealth in terms of possessions is about 9%.

That wealth is not equally shared, however. You need about £670,000 per adult, excluding physical possessions, to get into the richest tenth

of families. And much of the UK's wealth is concentrated in London and the southeast. By contrast, the bottom tenth of families tend to have more debts than they do wealth. But this is not a story of ever-rising inequality. The share of wealth held by the top 1% fell for most of the 20th century and has been stable since, mainly due to the rise in home ownership.

## A generational divide

Wealth is built up over a lifetime by getting on the property ladder and saving and investing. But younger people's personal wealth is not growing at the same rate as their parents' and grandparents' did. Sixty-somethings are the wealthiest age group, with average wealth of £332,000, as they became home owners in time to benefit from the house-price growth that started in the 1980s or were enrolled in generous pensions.



*Britain is booming, but some are doing better than others*

©Getty Images

On the plus side that means that millennials – the generation currently aged 19-38 – can look forward to an inheritance boom. But that boost is a long way off – the average millennial is not expected to get their inheritance until they're 61, which is too late to help them onto the property ladder. And those are the lucky ones. Nearly half of millennials who don't yet own homes have parents with no property wealth, meaning they are unlikely to get a significant inheritance. Those

with home-owning parents are three times more likely to own a home by the age of 30.

This matters for the future direction of inequality. Many will be hoping that hard work will be enough. But large wealth gaps mean that “whether you receive an inheritance could become the most important factor”. Those facing a future without one are “more likely to face long-term housing insecurity, higher private rental costs, and insufficient funds for their retirement”.

# How mergers ruin great firms

[mattstoller.substack.com](http://mattstoller.substack.com)

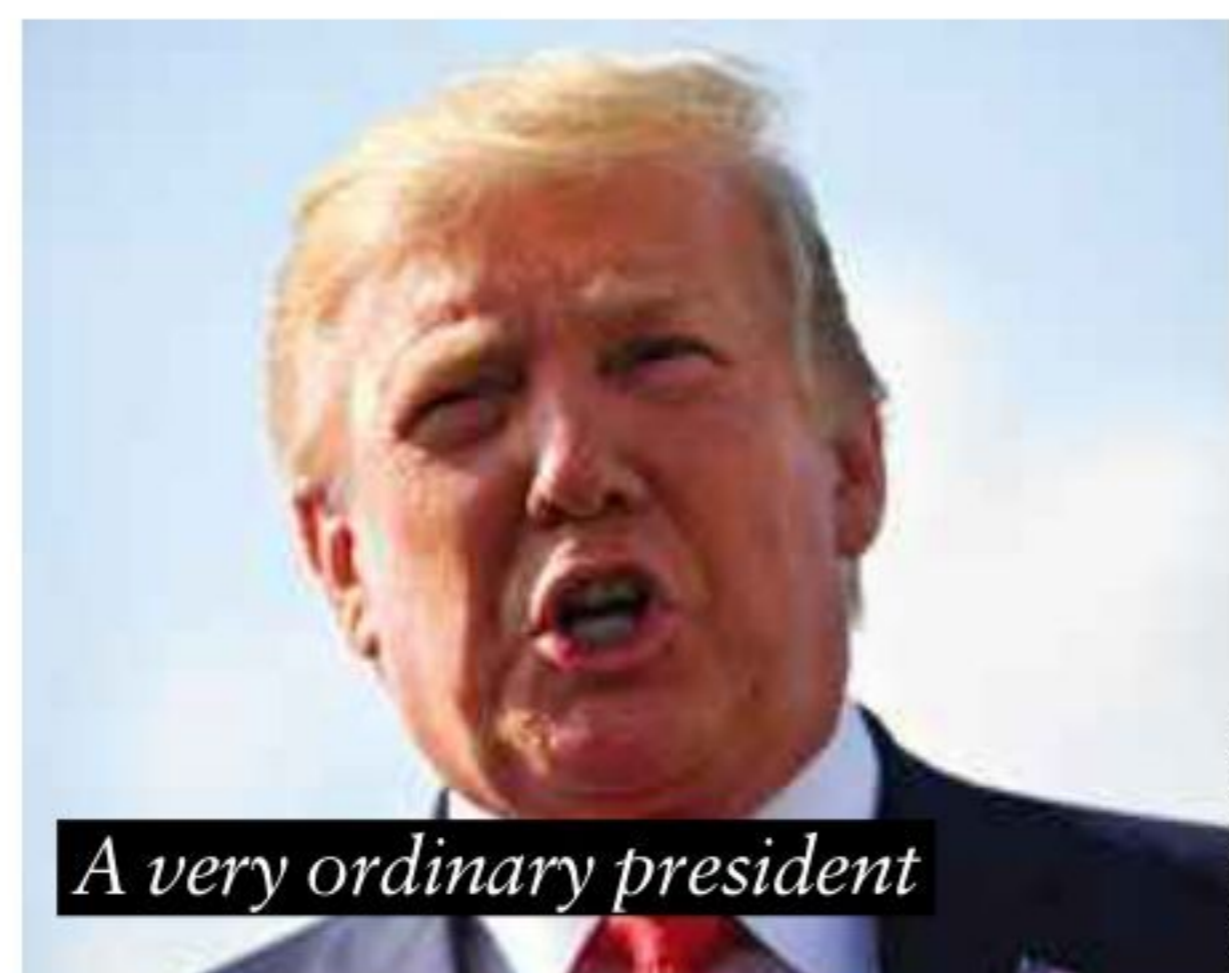
For much of the 20th century, “Boeing made miracles”, says Matt Stoller. Its engineers designed the B-52 in a weekend, bet the company on the 707 and built the 747 in the face of much scepticism. The 737 started coming off the assembly line in 1967 and was still the company's top moneymaker 30 years later. And what explains the miracles? The civilian engineers were in charge. That all started to change when, in 1993, President Clinton's deputy secretary of defence, William Perry, formerly an investment banker, started insisting on mergers. The rationale was to “find efficiencies” and cut military spending. The predictable result was a monopoly with no incentive to produce quality products. In 1997, Boeing bought McDonnell Douglas. But McDonnell's executives, all financiers rather than engineers, somehow took power. Then began Boeing's long decline due to aggressive cost-cutting and politically-motivated design choices. The 737 Max fiasco – Boeing's latest plane has been grounded due to safety concerns – is just the latest disaster in a long line of commercial blunders. With a new leadership in place, Boeing could make great planes again. “We should put safety-conscious civilian engineers back in charge of both building planes and regulating them. Otherwise, planes fall out of the sky.”

# The revolution that wasn't

[theconversation.com](http://theconversation.com)

The Democratic candidates for the presidency of the US have begun their campaigns, but they are making a big mistake in demonising Donald Trump, say academics Jon Herbert, Andrew Wroe and Trevor McCrisken. By attacking him for the radical changes he has wrought, they are deciding to fight the 2020 campaign on Trump's chosen turf.

Trump has actually been a very ordinary president. He has always portrayed himself as an outsider coming to Washington to shake things up. The reality is that he has not achieved very much – and what little he has is standard



*A very ordinary president*

©Getty Images

Republican fare. He cut taxes in 2017 – significant, but not revolutionary. He secured the nomination of two conservative justices to the Supreme Court – pretty standard. As for his more radical ideas, they have all failed. His attempts to dismantle Obamacare were defeated. His immigration reforms have been rebuffed. His protectionism has amounted to little more than “a businessman's ploy to eke out marginally improved trade deals”. Trump's personal style and rhetoric may be unusual. But there is a large gap between that and what he has achieved.

# Don't be too gloomy about Brexit

[publicpolicypast.blogspot.com](http://publicpolicypast.blogspot.com)

Look at the political situation in Britain, as the country tears itself apart over Brexit, and it's hard not to be depressed, says the anonymous blogger. But when you consider the crises that Britain has sailed through in recent history, it all seems relatively tame stuff by comparison. In 1940, we faced the prospect of an invasion by fascists. The Suez crisis of 1956 was an unmitigated disaster. The country seemed on the brink of ungovernability in 1972-1973. In 1976 we went cap in hand to the IMF. In 1981-1982 Britain's cities went up in flames.

Look out beyond the politics, and today Britain is “not actually on fire”. The economy is growing. Wages are rising. Inflation is low. We face a “climate emergency”, but Britain is taking a lead in doing something about it. “For most people, in most places, things are just about okay. They go on living their lives... just as they did during the Depression or during the post-war boom. Life goes on, and seems to have been getting better.” Our political leaders may well be “in retreat... But Britannia? Well, Britannia advances”.



# Japan: overlooked and mispriced

A new trust focuses on neglected bargains in the small-cap sector



**Max King**  
Investment columnist

Yet again, Japan has been left behind. The US has returned nearly 20% this year and Europe 16%. Japan has returned 7%. There are two possible explanations: the “secular stagnation” of Japan and the lack of interest from professional equity investors.

Economic growth of below 1% limits the potential for domestic companies, although there are plenty of opportunities overseas. There is nothing novel about Japan’s slow growth. It is the result of a falling population; output per capita is as robust as anywhere in the developed world.

## A 20% discount to America

Inflation is also below 1% and government bond yields are negative, which makes Japan’s high level of sovereign debt affordable. Lax monetary policy is accompanied by what Udith Sikand of Gavekal Research describes as an “extraordinarily tight” fiscal stance.

Analysis by Thompson Reuters at the end of March estimated the Japanese market to be trading on 13.5 times 2019 earnings, slightly higher than Europe, the UK and emerging markets, but 20% less than the US. It also anticipated a 2.7% drop in corporate earnings this year and growth of only 3.7% next,



Investors should look beyond the “impossible script”

though both figures look too pessimistic. Of course, market averages can hide a multitude of traps and opportunities. Simon Edelsten, co-manager of Mid Wynd International Investment Trust, enthuses about NTT, Japan’s telecom giant. Revenues haven’t grown for 25 years, but earnings per share have doubled in five years, thanks to efficiency improvements and share buybacks. The shares still only trade at the book value of the assets. Joe Bauernfreund, manager of AVI Global Trust (AGT, formerly British Empire) is focusing on the outstanding value in smaller firms. Japan now accounts for 21% of AGT’s portfolio and £100m

has been raised for a new trust, AVI Japan Opportunity Trust (LSE: AJOT), to invest alongside. “People say that nothing ever changes in Japan,” he says, “as a result of which there are overlooked, neglected and mispriced assets.”

## Piles of cash

Japanese smaller firms, he says, trade, on average, at only 7.9 times cash flow, barely half the European figure. Yet they have returned an average of 11% per annum over ten years and 14% over five. What’s more, 900 firms have more than 40% of their market value in cash. His portfolio of 30 companies has 83% of its market value in cash and listed securities, leaving the

businesses valued at less than three times cash flow, despite a return on equity of 20%.

The median market capitalisation is £400m, so these are not tiddlers, yet 90% of them are covered by two or fewer analysts, so they go unnoticed. Why invest now? “The combination of extraordinary undervaluation, corporate governance reform... and growing shareholder activism.” Historically, accountability to shareholders was poor and companies protected each other through cross-holdings. Only 5% of companies have a majority of independent directors. Poor share-price performance was the result.

The key to change, Bauernfreund says, is sympathetic rather than aggressive engagement with companies. The strategy is already working with a two year return of 15.8% in AGT from Japan against a Topix index return of 2.1%, while AJOT has returned 5.1% in seven months when the Topix index is down 1.3%.

The other explanation for Japan’s lacklustre recent performance is that many investors regard the country, with its impossible script and idiosyncratic customs, as too troublesome and expensive to bother with. Until, that is, renewed outperformance makes fools of them. Bauernfreund’s enthusiasm suggests that may be in sight.

## Activist watch



Neil Woodford has been caught in a spat between two of his investments, says Tom Rees in The Daily Telegraph. Activist investor Crystal Amber, run by Richard Bernstein (pictured), has threatened to call an extraordinary shareholder vote at Allied Minds that could lead to the ousting of the tech incubator’s new leadership. Woodford owns shares in both Allied Minds and Crystal Amber. The altercation concerns plans to offer Allied Minds’ bosses a controversial bonus scheme despite a recent collapse in the share price. Woodford and Invesco jointly hold a 48% stake in Allied Minds, so their votes could well prove decisive.

## Short positions... Hargreaves derails Lindsell Train

■ Britain’s top stockbroker, Hargreaves Lansdown (HL), has dropped two funds managed by Lindsell Train from its Wealth 50 best-buy list. The Global Equity fund and the UK Equity fund have returned a respective 182% and 96% over the past five years. But they have large stakes in Hargreaves Lansdown, with an overall holding of 12% in the investment platform – second only to founder Peter Hargreaves on the share register. This has led to “clear conflicts of interest”, as Edward Sheldon notes on Yahoo Finance, and relegating the funds is “a smart move after the... Woodford suspension scandal”. HL had come under fire for promoting Woodford’s fund, having a large stake in it and being too slow to drop it once it encountered liquidity problems. Lindsell Train’s star manager Nick Train said this week that there was no conflict of interest inherent in the stake in HL, but “in the current environment, we can understand why questions might be asked”.

■ The exodus from active funds is accelerating. American and European investors withdrew €21bn (€24bn) and \$12.9bn respectively from actively-managed funds in the first five months of 2019, notes Attracta Mooney in the Financial Times. High fees and poor performances are the key reasons active investors are being ditched and passive funds, or index trackers, keep gaining ground. They now make up 37.5% of the American mutual fund market, up from 36% 12 months ago. In Europe they comprise 18.3% of the market compared with 16.6% a year ago. Active managers’ reputations were dealt another blow when Neil Woodford’s Equity Income fund ran into trouble last month. Investors withdrew £1.9bn from active funds in the UK in June, the highest monthly outflow since June 2016.



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# House prices in the doldrums

The property market is set to tread water while incomes rise, making it more affordable



**Merryn Somerset Webb**  
Editor-in-chief

The numbers aren't looking good for residential property investors. House price growth in the US fell to a mere 1% at the beginning of this year, according to the latest report from the Dallas Federal Reserve. Look at global data across the 18 largest economies in the world and things don't look much more encouraging. This could be the year in which we see "global growth dip to its lowest pace in a decade". Investment is slowing fast, says Oxford Economics.

The UK is no outlier here. The Nationwide index and the Rightmove Asking Prices index show prices and asking prices respectively to be all but flat. The Halifax House Price Index shows a better annual number but suggests prices fell mildly in June. You can see the same trend in Hometrack data, which suggests that the falling prices we have seen in London are beginning to spread: over a third of homes are now in areas with annual price falls (the higher the value the market the more likely this is), although the absolute levels of falls is small. So what next? Most analysts expect the market to tread water from here (at best) – although if a new PM were to pull a Brexit deal from the hat we could of course see a little London bounce.

## A flat market...

This is probably correct. There is still some support for prices. Housing starts are falling slightly (so the supply of housing is not rising much). Interest rates are low and will go lower if Brexit goes horribly wrong. The banks' wholesale funding costs have also edged down, and that should soon feed into mortgage rates. At the same time wages have jumped (year-on-year growth excluding bonuses hit an 11-year high in April) and household disposable incomes are also on the up.

That makes houses – even at today's silly prices – seem more affordable. Prices, says Nationwide, are likely to be at least supported by "healthy labour market conditions and low borrowing costs." That said, there isn't much to push prices up either. They are still high relative to incomes. The tax and regulatory hit to buy-to-let is discouraging buyers in that market. An unwelcome (to big property owners, at least) overhaul of property taxation may be on the way. And the Help to Buy scheme (which has played a clear part in pushing prices up) is likely to be at least scaled back soon. Put all those factors into the mix and it is hard to see a rebound in prices in 2019 "or beyond" says Capital Economics.

*"Prices have been too high relative to average earnings. But that is finally changing"*



*The inhabitants of Aldershot won't be downsizing any time soon*

## ... is good news

The key thing to bear in mind there is that this is not bad news – unless you very recently paid too much for a house. One thing we have all agreed on in the UK for decades now is that houses are too expensive relative to average earnings. That makes it tough to get on the ladder and tough to move up the ladder. Add today's high levels of stamp duty to your cost of buying and it's nasty out there.

But the fact that house prices are not really rising in nominal terms, combined with the small real rise in wages over the last two years, is beginning to change this situation. In 2007 Nationwide's house price to earnings ratio for the UK was 5.42. At the end of 2016 it was 5.25. Today it is 5.03 times. That's not ideal – but if this gentle drift down continues and we end up at more like four times, it will suddenly be an awful lot easier to buy (and sell) houses. That would be a very good thing.

## Head for Hampshire

Nevertheless, for those of you determined to find the next hot location in the property market and make your fortunes the easy way, Anne Ashworth writing in *The Times* has an idea for you. She suggests checking out age profiles. Why? Because the younger the crowd, the higher the potential for growth. In areas with an older demographic, you can expect to see sales and downsizing (the cash from which then gets spread around children and grandchildren who won't necessarily live in the area). In one with a younger demographic you can expect to see the opposite.

Look back over the last decade, says Lucian Cook of Savills and you will see this in action. Those areas with large concentrations of people in their 40s have seen much greater price appreciation (up 56%) than elsewhere. With that in mind, look at somewhere such as Aldershot in Hampshire. There 39% of households are headed by someone between 31 and 40. They won't be downsizing any time soon.

## Housebuilders face a profit squeeze

Everybody's got an answer to the UK's housing crisis. Jeremy Hunt, for instance, has a new "Right to Own" plan in mind which he reckons will produce 1.5 million cheap homes. The cheap bit will be the result of forcing developers to share the rise in the value of their land post-planning permission with councils (there are echoes of the rationale for a land value tax here – see our website for more on this).

He also wants to ease planning regulations so that people can "build up" (he's talking about putting new stories on top of existing apartment blocks). As far as Boris Johnson is concerned, we need to

cut stamp duty, particularly in London, although he is not yet prepared to "put a figure" on it. And Prince Charles, who is more focused on quality than on price, reckons a series of policies that would allow more houses of better quality to be built is the answer.

The real answer is likely to be a combination of all these things. But it is worth noting that most plans to improve the UK market (Boris Johnson's aside) one way or another look likely to involve the housebuilders having to raise quality, quit landbanking, share planning bonanzas and submit to more regulation. None of those things will be good for their profits.



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# Dividing the spoils

Women may be missing out on pension assets after a divorce



**David Prosser**  
Business columnist

The government plans to ensure that women involved in divorce negotiations will be given much better advice about their pension options. Penny Mordaunt, the minister for women and equalities, said she had grown increasingly worried about the failure of the divorce courts to ensure women are getting a fair share of couples' retirement savings; just 36% of divorce settlements include provisions for sharing pension assets.

The minister promised a new campaign to raise awareness of the benefits of pension sharing as well as more effort to ensure couples understand how the process works. The proposals are especially important given the well documented "savings gap". Women routinely save less than men for retirement, often because they have taken time out of work to take on caring duties, and may be financially dependent on their partners in old age.

## The main options

While the pensions system is widely perceived as inflexible, there are several ways to deal with retirement savings during a divorce. The most straightforward option is to simply award one partner a share of their former spouse's



*Will she get her fair share?*

savings, which can then be transferred to a pension plan of their own. Alternatively, a pension can be earmarked, with one partner eligible to share in the income once the pension holder starts claiming it. In other cases, couples choose to leave pension savings entirely with one partner, in return for the other receiving a greater proportion of the couple's other assets, such as the family home.

However, while couples have several options, pension experts say divorce lawyers often lack the knowledge to help their clients reach a fair outcome. A group of specialist legal experts, known as the Pension Advisory Group, has just published a new best-practice guide for the profession following research showing many divorce lawyers aren't confident about how to split

pensions. There have also been a number of negligence claims against family lawyers accused of failing to consider pensions properly during a divorce.

The issue may have been exacerbated by the pension freedom reforms introduced in 2015. These changed the rules about how and when people may access pension savings. One effect has been to undermine pension earmarking in a divorce settlement.

The Pension Advisory Group warns, for instance, that the terms of some earmarking orders made before the reforms contradict the rules as they now stand. It is possible, for example, that one partner might be able to withdraw their entire pension fund as a cash lump sum, circumventing an order that income generated from the fund should be shared with their former spouse.

## When to top up your national insurance

■ Should you top up your national insurance to boost your state pension? Reforms to state pensions mean anyone retiring after 5 April 2016 must have at least ten years' national insurance contributions to claim one, while you need 35 years to get the full amount of £8,767 a year.

However, if your national insurance record falls short, you can make voluntary top-up contributions, typically for up to six years after periods in which you didn't pay in full.

In principle, topping up national insurance is a good deal. It will cost you roughly £750 to buy each extra year. In return, each year after the minimum ten years you buy will generate roughly £250 of extra pension every year for the rest of your life.

The return is even higher if the top up takes you up to the minimum ten-year record, below which you're not entitled to any state pension.

Nevertheless, it's important to check your entitlement to means-tested benefits. If you expect to retire on a low income, with little or no private pension or savings and investments, there's a good chance you'll qualify for means-tested payments such as pension credit.

Extra state-pension entitlement will reduce your eligibility for these benefits, in which case there's no point in paying voluntary national insurance.

## Tax tip of the week

Land used to grow fruit for wine and cider can now be passed on free of inheritance tax, says Carol Lewis in *The Times*. Earlier this year, HM Revenue & Customs updated its guidance about what counts as agricultural use of land for inheritance-tax purposes, and clarified that when land is used to "produce food for human and animal consumption", food in this context "would include, for example, grapes grown to produce wine, and apples grown to produce cider" (see gov.uk for more details). It is also interesting to note that "the relief is not limited to land within the UK, but extends throughout the European Economic Area, which could be an attraction for investors looking to reduce their inheritance-tax liabilities while having the pleasure of owning a vineyard", says Richard Crane of accountancy firm BKL.

## No end to final-salary transfer scandal

Financial advisers are continuing to suggest that clients transfer out of generous defined-benefit (DB) pension schemes despite repeated warnings from regulators that this is the wrong option for most people. The Financial Conduct Authority said its latest investigation of the pension-transfer market found that more than two-thirds of people receiving advice on whether to move their DB savings ended up shifting their cash into riskier defined-contribution (DC) plans.

The regulator has grown increasingly frustrated by its failure to deter advisers from offering poor advice.

It has already intervened in the market, requiring anyone with a pension fund worth more than £30,000 to take independent financial advice before moving it out of a DB scheme. But despite telling advisers they should start from the position that a transfer is the wrong option,



half the firms it reviewed told more than three-quarters of such clients to move their money.

The FCA believes the guaranteed, index-linked retirement income that defined-benefit pension schemes pay mean most people will be better off staying put. By contrast, defined-contribution schemes offer no certainty of future retirement income, with savers dependent on returns from financial markets.

It seems some savers have had their heads turned by generous pension-transfer deals offered by employers hoping to shrink their pension liabilities.



# Prepare for big changes to IHT

Britain's most detested tax is set for an overhaul



**Ruth Jackson**  
Money columnist

Around 590,000 people die in the UK every year and 275,000 complete inheritance tax (IHT) forms. Only 24,500 estates ultimately pay the levy, but it is still widely despised. The Office of Tax Simplification (OTS) describes inheritance IHT as “almost uniquely unpopular”. The main complaint is that it is a double tax – the taxman is taking another slice of money you were already taxed on when you earned

it – but it is also deemed a tax on dying.

Now, however, “Britain’s most hated tax” is set to change, reports Harry Brennan in The Daily Telegraph. A review of IHT by the OTS, requested by Chancellor Philip Hammond, has suggested several changes to make the complicated tax simpler.

One key reform would be the gifting rules. At present you can give up to £3,000 a year away free from IHT,

plus £1,000 for wedding presents (more if you are related to the bride and groom). You can also make as many small

gifts of up to £250 as you like. Give away more than that and your gifts could be subject to 40% inheritance tax when you die. The OTS wants to scrap all those different gifting rules to create one single, higher “personal gifting allowance”. It noted that the current £3,000 allowance would be worth £11,900 today if it had kept pace with inflation rather than being frozen since 1981.

The OTS also wants to cut the seven-year rule to five years and abolish the sliding IHT scale applied during those years. At present if you make a gift beyond the annual allowances and die within seven years it counts as part of your estate for IHT purposes.

If you die within three years the gift it is taxed at 40%, falling to 32% in year three then gradually sliding away to 8% in year six. After seven years you pay nothing.

Under the proposed change if you die within five years of a gift it would be taxed at 40%, but there would be no tax due after that.

In order to make IHT rules

simpler the OTS also suggested abolishing the 14-year rule that means lifetime gifts into a trust are subject to IHT. It also wants to remove the tax on death-benefit payments from life insurance companies. This means life insurance policies wouldn’t need to be held within a trust in order to avoid IHT.

There could be bad news for Aim investors, however. The OTS wonders whether Aim portfolio funds designed to provide IHT relief are “in the spirit of the rules,” says Dylan Lobo on Citywire.co.uk.

At present certain Aim shares are free from IHT owing to business property relief (BPR). This tax relief was brought in to prevent family farms or businesses from being split up to pay IHT bills. Fund houses have built Aim portfolio funds designed to reap the benefits of this IHT loophole.

The question, says the OTS, is “whether it is within the policy intent of BPR to extend the relief to such shares, in particular where they are no longer held by the family or individuals originally owning the business.”



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# The age of bespoke medicine

Doctors have traditionally approached diseases with a one-size-fits-all model. But advances in genetics and artificial intelligence are making medical treatment far more personal and effective. Matthew Partridge explains how to profit from this medical revolution



Medical treatment has followed the same broad pattern for thousands of years. You wait until you get sick, then you go to the doctor, who tries to diagnose what's wrong. Once they work it out, they give you what is deemed the correct treatment for the condition. But while this model can work, advances in medical science have exposed its limitations. Not only do symptoms take a long time to emerge, but diagnoses can be inaccurate, so by the time people go to the doctor, the condition may be incurable.

Another problem is that not all drugs and treatments are as effective for some people as they are for others, even when treating the same condition. If you are one of those lucky people who respond well to the standard treatment, then all is well. But if you aren't, then the wrong cocktail of drugs could mean the difference between a full recovery and continued illness, or even death.

## A new era is dawning

But things are changing. The past few years have seen huge advances in medicine, heralding a new era in treating disease. We're getting better at predicting diseases, especially those that run in families, which means that both doctors and patients know which symptoms to watch out for. We're more effective at tailoring treatments to the individual, resulting in healthier patients and fewer side effects from medication, says Ketan Patel, manager of the Amity UK Fund at EdenTree Investment Management. Both sets of advances could have the knock-on effect of "helping to alleviate financial pressures on healthcare systems that are already under considerable strain". This revolution is down to advances in three fields: genomics, epigenetics and artificial intelligence.

## It's in the genes...

Although we've known about DNA since the 1960s, it wasn't until the completion of the human genome project in 2003 that scientists were able to map the entire human genome: all the hereditary information encoded in DNA. This led to "a lot of hype around the potential impact of genomics" (the combination of genetics and medicine), says Frances Salisbury, a European patent attorney and partner at intellectual property law firm Mewburn Ellis. Hopes that this new knowledge would enable us immediately to unlock cures for every disease proved unfounded, with drug companies and government pouring huge sums of money into this area, only to become frustrated by "just how complicated biology is".

Still, thanks in part to the huge investments carried out during and after the human genome project, "we've come a long way since then, both in terms of the speed of getting genomic information and the detail that can be obtained", says Salisbury. One indication of how fast the technology is progressing comes from the cost of sequencing (mapping) a person's genome. The original project cost \$2.7bn and took 13 years to complete. By 2006, the cost of mapping a person's individual genome had fallen to \$300,000. Companies now offer people the chance to map their entire genome for \$1,000 or less.

If mapping one's personal genome is starting to move into the realm of affordability, then tests for individual genes are even cheaper. In 2013 the actress Angelina Jolie made headlines when she announced that she had decided to have pre-emptive surgery because the results of a test for a gene associated with breast cancer indicated that she was at high risk of developing the disease. With the costs of such tests now around £175, it has become routine for women with a family history of breast cancer – and men whose fathers had prostate cancer – to get tests and then decide how to minimise their chance of developing the disease.

## ... but will it emerge?

Despite recent advances, "much could be done to improve the accuracy and precision of predictive medicine", says Andy Lindstrom of drug development firm Sygnature Discovery. In particular, "while we are good at giving people an estimate of their potential risk compared to the rest of the population, we are still not able to give a definitive answer to the question of whether they will get the disease or not". As a result, many people will end up undergoing unnecessary surgery, with all the risk that involves. Still, improvements in our knowledge in this area mean that "for many conditions we should soon be able to cut out this problem and give people a fully informed choice".

Coming up with a better indication of if and when people will get certain conditions can be extremely useful. Nevertheless, "the ultimate goal is to come up with solutions, rather than just predictions", says Lindstrom. Fortunately, over the past few years it has become clear that there are "big opportunities in using genetic information to deliver the right treatment to the right patient at the right time". In particular, trials indicate that many drugs licensed for one particular use "can be extremely effective for other conditions, provided they are given to the person with the correct genetic profile".

## Applying drugs to different diseases

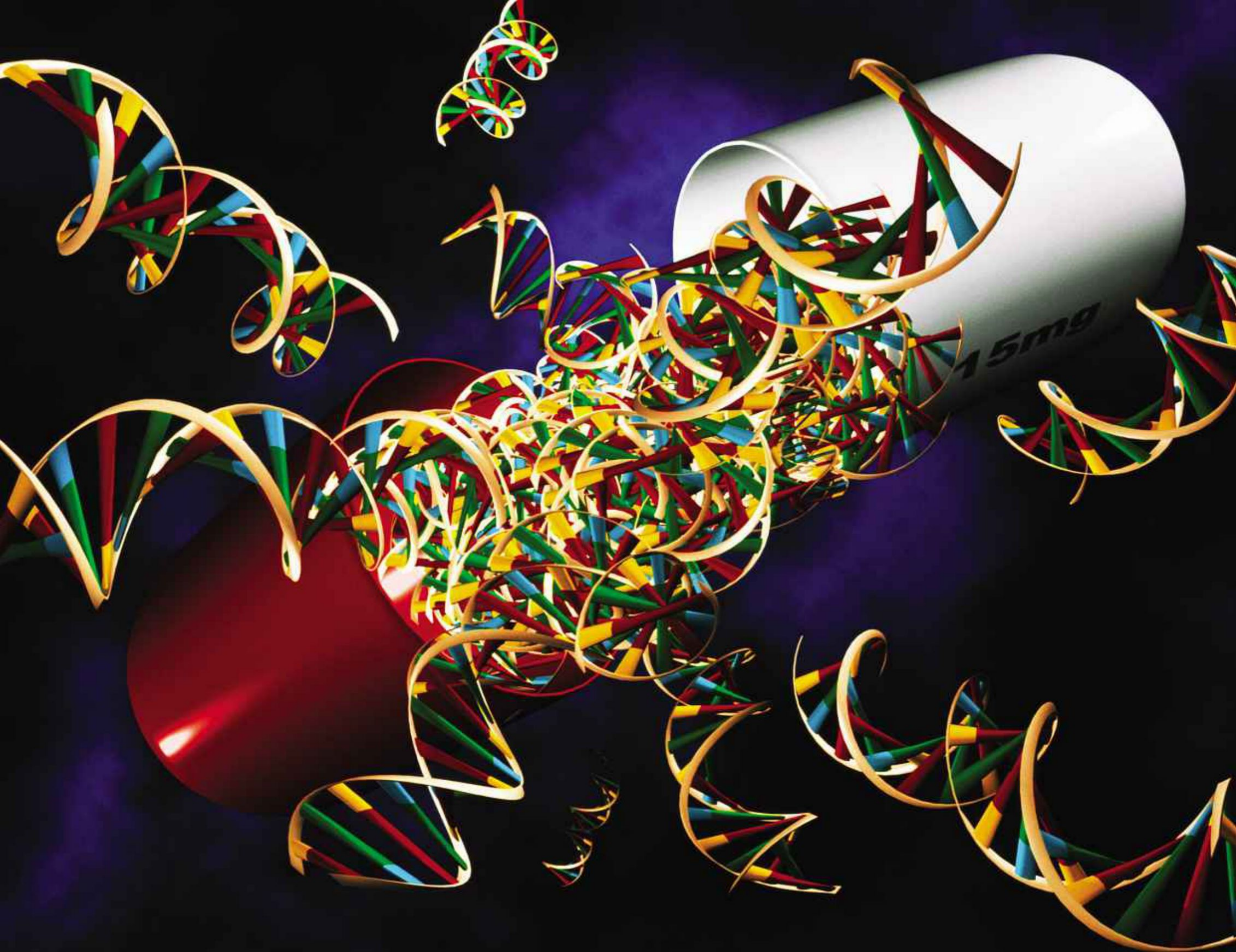
One notable example that emerged from a recent large-scale trial of personalised medicine involved a woman who had failed to respond to any of the recommended treatments for her cancer. When she was dispatched to a hospice with just two weeks to live, her doctors decided to make one last attempt to save her by switching to another drug, not normally used, based on her genes.

To their surprise, she recovered so much that she was able to leave the hospice and go back home to spend Christmas with her grandchildren. Overall, around 10%-40% of patients with apparently untreatable conditions could profit from switching to different drugs selected as part of a personalised approach, reckons Lindstrom.

A telling illustration of how much attention the scientific community is paying to genomics is that the British government is funding the 100,000 Genomes Project. Run by the NHS, the study's aim is to map the genome of 100,000 people and

*"Drugs licensed for a particular use can be effective for other conditions if given to someone with the right genetic profile"*





*Advances in genetics are powering the medical revolution*

then make comparisons with their past and present medical history. The hope is that this project, which is mirrored in several European countries, will make it easier to understand which specific genes affect which conditions, improving the accuracy of predictions and facilitating effective treatments, especially for rare diseases and cancers.

The private sector is also investing large sums, says Alex Hunter, global equities analyst at asset management group Sarasin & Partners. For example, biotech company Amgen has set up a subsidiary called deCode. It “has benefited from the examination of the interplay between 100,000 Icelandic patients’ genetic information and their medical records”.

**Epigenetics: how genetic code is expressed**

Genes play a major role in determining our chances of getting certain diseases and the types of drugs we best respond to. But at best they provide an incomplete picture, “the medical equivalent of a black-and-white photo, compared with a three-dimensional scan in full colour”, says Lindstrom. Scientists are increasingly realising that to get the most accurate picture we will also have to pay attention to epigenetics. If genes are the base genetic code within our cells, then epigenetics are the part of cells that determine how this code is expressed. “Just as orchestras led by different people will interpret the same piece of sheet music differently, people with the same genes may not have the same outcome if there are differences at the epigenetic level.”

Like genes, our initial epigenetic make-up is inherited from our parents. However, while genes

remain relatively constant over our lifetime (which is why we can use them to trace our ancestry), our epigenetics change as we get older. They can even be altered by major events in our lives, such as disease, physical trauma, or lifestyle choices (such as diet). These changes can be passed down to subsequent generations. For example, numerous studies have shown children, and even grandchildren, of people who have undergone extreme physical hardship during wars or famine tend to be in worse health than the descendants of those who haven’t faced adversity.

The fact that epigenetics play an important role in disease and changes over time has big implications for both predictive and personalised medicine, says Tom Stubbs, chief executive of Epigenetic company Chronomics. Because epigenetics “can shine a light on where our health is heading years before we even start to have any meaningful symptoms”, we can “find out about our epigenetics today and take action to avoid ill health tomorrow”. It also enables people to cut through all the contradictory health advice they are bombarded with.

The field of epigenetics “is moving faster than ever, with new technologies and breakthroughs in our understanding occurring almost daily”, says Stubbs. We will soon see “huge gains in our understanding of epigenetics and an ever-broadening set of indicators that can tackle ill health proactively”. For example, Stubbs’ company Chronomics has developed a non-invasive saliva test to help patients “understand how

*“The medical impact of hardship such as war or famine can be passed down to one’s children”*

Continued on page 26



Continued from page 25

to avoid many of the largest risk factors associated with age-related conditions, such as heart disease and cancer". These include factors that were previously invisible, "such as smoke exposure, metabolic status and biological [not just chronological] age".

### How artificial intelligence can help

Personalised medicine has been greatly advanced by developments in human biology. But artificial intelligence (AI) is playing an important role too, not least by sifting through the huge amount of evidence generated by genetic and epigenetic research. "AI and deep learning can identify meaningful patterns and relationships in raw data that would take humans years... to recognise," says Marcus Vass, a digital health specialist at legal practice Osborne Clarke. It can then turn these patterns "into much earlier prediction of which patients will develop which specific disease".

While genetic testing will contribute to the "exponential" growth in information available for diagnosis and drug development, there's also "the digitisation of health records and the internet of medical things", as Vass points out. Healthcare providers will also be able "to combine new patient-generated data streams such as wearables [the data generated live by gadgets such as Fitbits and Apple Watches] and new patient-reported data streams such as mood-logging with provider data such as radiology images and lab results". Overall, the total amount of medical information is expected to reach 25,000 petabytes by next year. One petabyte is equivalent to one million gigabytes, or 1,000 desktop PC hard drives.

Already AI systems make surprisingly accurate predictions about patients. Technology company FDNA has developed an app called Face2Gene, "which uses deep learning AI software, DeepGestalt, to spot facial features often associated with rare genetic disorders", says Vass. Its database contains information on more than 10,000 diseases. DeepGestalt claims "to be able to distinguish between



AI should make research cheaper for the drugs industry

pictures of patients with one syndrome [and] another random syndrome with an accuracy rate of over 90%, beating expert clinicians by a margin of 20%". The University of Pennsylvania has been working with Intel to create a platform called Penn Signals. Their algorithms help predict and prevent sepsis and heart failure. The platform claims to be able to identify "85% of sepsis cases 30 hours before the onset of septic shock". Traditional identification methods can only discern septic shock two hours before it occurs.

The fact that machines "are better at pattern recognition than interpolating data" means they will always be better at diagnosis and prediction than treatment, says Hunter. Still, in the longer run the hope is that computers and AI will be able to speed up the development of personalised treatments. That would be good for producers too: "it would make drug development more targeted [and] cost effective to the drugs industry". We are, in short, on the threshold of revolutionary change for patients and drug producers alike. We look at firms and funds poised to profit from the new era of bespoke medicine in the box below.

*"Algorithms can predict and prevent sepsis far more effectively than humans can"*

## What to buy now

Start with **Amgen (Nasdaq: AMGN)**, one of the largest biotechnology companies in the world. It "has been at the forefront of cutting-edge biotechnology since it was established in 1980 and has more recently been using data analysis to help develop therapies", says Alex Hunter of Sarasin & Partners.

It is working with several local and national health authorities to identify the genes responsible for various conditions. Despite consistent double-digit growth in earnings per share (EPS), Amgen is relatively cheap for a US company, trading at only 12.6 times 2020 earnings, and with a solid yield of 3%.

**Thermo Fisher Scientific (NYSE: TMO)** specialises in diagnostic and analytical products for the medical, scientific and industrial sectors. It also produces a range of equipment to help

those involved in genomic research and personalised medicine. It has developed a range of so-called next generation sequencing products that allow for faster DNA sequencing and more rapid detection of epigenetic changes.

While the stock isn't cheap, trading at 22 times 2020 earnings, the valuation is more than justified by the fact that revenues have grown by 50% over the past five years, while EPS has increased by two-thirds.

An even riskier company is **Oxford BioDynamics (LSE: OBD)**, a spin-out from Oxford University. Its EpiSwitch technology uses epigenetics to diagnose and predict the progression of a wide variety of conditions in individuals, ranging from Alzheimer's to liver cancer. It also has potential applications in cutting the time and cost of

discovering new drugs. At present Oxford BioDynamics is losing money. However, revenue is starting to take off, thanks to fruitful research projects, and it is planning to expand further in overseas markets, including Asia. With major drug companies expressing an interest in its technology, there is a large potential upside for its shares.

An investment trust worth considering is **Syncona (LSE: SYNC)**. It specialises in life sciences companies, and many of its investments "are at the forefront of personalised medicine using gene and cell therapy to design individual cures to an array of diseases from haemophilia to lung cancer", says Hunter.

Recently, one of the companies that it helped found, Nightstar, was bought from Biogen for \$877m, producing a return of 4.5 times the initial investment. Since it

was founded in October 2012 Syncona has returned 120% for investors.

One firm in Syncona's portfolio that's worth a look is **Autolus Therapeutics (Nasdaq: AUTL)**. It focuses on immunotherapy, reprogramming the body's immune system so it can identify and destroy cancer cells. It also combines its own immunotherapy treatment with other approaches, which tends to be even more effective.

Its approach is personalised in that it is not only tailored to both the specific cancer that the patient is dealing with, but also to their individual cells. While the company has no revenues at present, it expects to complete early-stage trials of four different products this year and has 76 patents. It has \$188m cash on hand, which should allow it to conduct research through 2021.





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# How you can do well by doing good

Ignore corporate virtue-signalling. There is a more practical and tax-efficient way for investors with a social conscience to help struggling communities, says David Stevenson

I'm deeply cynical about corporate virtue-signalling, whereby big companies chase good environmental, social and governance (ESG) ratings in order to appear to be doing the "right" thing. Investing where you have a direct impact on a social need strikes me as much more interesting. It is often done by so-called third-way institutions: mutuals, community enterprises and socially-minded corporations, for instance. In this category we've seen the emergence of several new institutions, many of them banks, which have tried to develop new products that should appeal to investors with a social conscience.

It was in connection with some of these new investment products that I was introduced to the Community Investment Tax Relief allowance (CITR). The idea behind this tax relief is admirable. There are many potential investment projects that don't quite fit the traditional investment definitions. They need to work alongside newer financial institutions that are less profit-orientated and more community-focused. They can produce a return, but they also have an impact that benefits the community.

## How it works

The CITR should be a useful tool for these projects. The HMRC website says it "encourages investment in disadvantaged communities by giving tax relief to investors who back businesses and other enterprises in less-advantaged areas by investing in accredited community development finance institutions (CDFIs)". The relief is available to individuals and firms; it totals up to 25% of the value of the investment in the CDFI and is spread over five years.

The CITR scheme could be especially attractive to higher-rate taxpayers – that 25% relief over five years equates to an annualised return of 3.9%-6.12% (subject to an individual's utilisation of their personal savings allowance), while for those paying the additional tax rate the net benefit amounts to 6.63%. Note that the relief can also be used by businesses to reduce their tax bill.

One organisation using the CITR is Charity Bank. It makes loans to charities and social enterprises and is owned by charitable foundations, including Big Society Capital and the Charities Aid Foundation. Since its launch in 2002 it has made nearly a thousand loans to charities and social enterprises totalling over £270m. At the end of 2018 the loan portfolio stood at just £142.7m, with the balance sheet expected to grow to £188.1m in 2019. The majority (97%) of the bank's loans are secured and total losses to date (since 2002) amount to 0.36% of the amount lent out. Charity Bank also raises money from depositors in the conventional manner and deposits are forecast to be £212m at year-end 2019. According to one note on the bank, it has an impressive tier-1 capital ratio (a key

*"Investors will be hearing a lot more about this form of tax relief over the next few years"*



*The CITR should help boost investment in deprived areas*

measure of financial strength) of 15.7% as of the first quarter of 2019. It recently became profitable.

## The products on offer

The bank has been offering, on and off, various structures that take advantage of the CITR. Alongside its usual term notice accounts it's also been offering a CITR savings allowance under the title of a five-year community account (which stipulates a minimum investment of £2,500). These tend to have limited periods of issue and come in two varieties. The first pays a deposit rate over the five years (recently at around 1.5%); the other takes advantage of the CITR tax relief of 5% per annum income-tax relief but offers no interest.

Also, in recent weeks Charity Bank has been quietly approaching wealth managers with a new fundraising placement for investors with £100,000 or more. They're offering tier-2 capital loan notes based on the bank balance sheet that could generate returns of up to 10% per annum for highest-rate taxpayers (tier 2 denotes the level of risk above tier 1, which comprises cash and other highly liquid assets). This extra capital should allow the bank to grow its lending base, but the new notes come with the CITR, which means that an investor putting in £100,000 would be able to reduce their income-tax bill by £5,000 per year for five years. The bond will also offer a 1% coupon, which means a higher-rate taxpayer at 45% would in effect be receiving a yield of just over 10% gross. Note, however, that the tier-2 loans I mentioned are unlisted and off-market. The bond is not covered by the Financial Services Compensation Scheme. And looking at the tax-relief allowance, you'll need to remember that you are locked in for five years and the money must be invested for the full five years.

There are more institutions than just Charity Bank offering products with CITR. The website [responsiblefinance.org.uk](http://responsiblefinance.org.uk) has an excellent list of them. It reckons that to date £145m in private investment has been raised via 33 accredited institutions. Investors are likely to hear a lot more about this tax relief over the next few years.



# Another bubble in bitcoin

This price surge seems no more likely to endure than the last one



**Matthew Partridge**  
Senior writer

Early this year investors thought that bitcoin, the digital currency, was on life support. After peaking at \$20,000 at the end of 2017, bitcoin had slumped to \$4,000 by April 2019. However, since then it has tripled to \$12,800. So is this the start of a longer, more sustained rally, or is this another bubble that is just going to end up as badly for bitcoin investors as the first one?

Bitcoin's cheerleaders argue that things have changed. In their view, the big rise during the last enormous rally was driven by ordinary investors hearing about the huge amounts of money that people were making, and then blindly buying bitcoin in the hope of getting easy money. When the price started falling, they dumped their holdings, driving it back down. But this latest appreciation has taken place on the back of a wave of interest from financial institutions and companies in digital currencies, with JP Morgan and Facebook announcing their own coins.

This is a reasonable point, but these currencies could end up hurting bitcoin as much as they help it – especially if people decide that they'd prefer to use something backed by a respected company rather than some shadowy figures, and start moving to these new digital currencies instead. After all, from Netscape to Myspace, the technology sector is littered with pioneers who lost out when a slightly better product emerged to take the crown. The same can happen in the cryptocurrency market.

Even if competitors don't lure people away from bitcoin, the proliferation of new currencies could create a public backlash that leads to a much harsher regulatory crackdown. For example, Libra has generated a huge amount of anger, with several countries talking about banning it altogether. The European Central Bank has called

**“Bitcoin slumped from a peak of \$20,000 in late 2017 to \$4,000 this spring”**



Mark Zuckerberg's proposals a “wake-up call” for financial technology regulation in general.

## Watch out for the regulators

Given that bitcoin's price has doubled since Libra was announced, if Libra runs into regulatory trouble, bitcoin's price may well fall too. As Facebook is now in the doghouse over everything from privacy violations to election manipulation, this is likely to happen. In sum, the latest surge in the price of bitcoin seems to be a second bubble, not a sign that something has fundamentally changed in the digital currency sector.

Of course, overvalued assets can keep climbing. So I'd advise waiting until bitcoin has fallen below \$10,000 before shorting it. Then short it at 25p per \$1 (compared with IG Index's minimum of 20p per \$1) and cover your position if it rises above \$14,000. This gives you a maximum downside of £1,000. Note, too, that the FCA is contemplating imposing additional restrictions (or even banning outright) spread betting on bitcoin, although this could take some time to be implemented.

## How my tips have fared

The last fortnight has been a mixed bag for my long tips, with three of them going up and three falling. John Laing Group fell from 389p to 378p, Hays declined from 162p to 157p and Superdry fell from 482p to 447p.

However, JD Sports rose from 592p to 604p, Safestore increased from 630p to 643p and Bellway advanced from 2,697p to 2,728p.

Overall, my six long recommendations are making a total net profit of £572, with JD Sports currently my most profitable single tip.

In the last column I recommended that you short Beyond Meat. The strategy here is to wait until it falls below \$120, and then short it at £15 per \$1, covering your position at \$185; that would give you a total downside of £975. In the past fortnight the stock has risen very slightly to \$157. Similarly, at \$91 Zoom Video Communications remains above the \$68 level at which I think you should start shorting it.

As far as the four short tips that are currently active are concerned, three of them rose, though only by relatively small sums.

Weis Markets went from \$35.66 to \$36.49, Just Eat increased from 620p to 633p, and Tesla rose from \$223 to \$230.

The only short tip that actually declined was Pinterest, which declined from \$26.77 to \$26.72. Overall, the four short positions are making a net profit of £918, which is slightly down from £1,048 a fortnight ago.

At present I have three tips that are at least six months old: John Laing Group, JD Sports and Weis Markets. Although all three are making money, John Laing Group is the least profitable.

I have therefore decided that if it doesn't rise any further soon, I will be recommending that you close your position and take your profits.

## Trading techniques... watch the auditors

When it comes to auditing, most investors doze off. No wonder: the process of checking a company's books to see that it is not engaging in fraudulent behaviour is one of the least glamorous jobs in finance. However, it is also arguably one of the most important, and can have serious negative consequences when it is done badly.

As investors in Enron and other companies that turned out to be frauds found out the hard way, the fact that an auditor has signed off on the accounts is not necessarily a guarantee that everything is above board. But when auditors raise questions, or decide to stop auditing the



firm altogether, the market tends to sit up and pay attention.

For example, a US study by Messod Beneish, Patrick Hopkins and Ivo Jansen of the Kelley School of Business in 2001 found that when an auditor resigned from examining a listed firm, the stock price fell by an average of 3% in the next few

days after the announcement. However, shorting all firms that have experienced an auditor resigning may not be the most efficient strategy when it comes to trading based on auditors. Betting against stocks where the auditor has raised concerns looks more fruitful. According to a 2013 study by Asad Kausar of Nanyang Technological University, Alok Kumar of the University of Miami and Richard Taffler of the University of Warwick, between 1993 to 2007 American firms where their auditor had queried their future as a going concern for the first time lagged the market by 14% over the next 12 months, even after the initial announcement.



# Three long-term winners at bargain prices



A professional investor tells us where he'd put his money. This week: Guy Anderson of Mercantile Investment Trust highlights three British favourites

Against the backdrop of heightened political risk in the UK and abroad, combined with a notable slowdown in global economic growth, seeing beyond the uncertainty can be challenging. However, because we focus on the attributes of individual businesses we can still unearth companies that are both fundamentally robust and have the potential to be long-term winners, even if the immediate geopolitical and economic climate is tough. We are always poised to take advantage of strategic opportunities as they arise, and the current market environment is generating opportunities to buy potential long-term winners at attractive prices.

The Mercantile Investment Trust invests in a diversified portfolio of UK companies outside the FTSE 100 index with significant scope for growth. The UK is home to both domestically-focused businesses as well as those that are more global in nature. Within the first category, valuations have been depressed ever since the June 2016 EU referendum result – but we still believe there will be long-term winners once the Brexit fog lifts.

## Beyond DIY

Grafton Group (LSE: GFTU), the builders' merchant, is a company that has been performing strongly despite the uncertainty unsettling its market. Weekend DIY is being replaced by "do it for me" and by focusing on this trend through Selco, its trade-only builders' warehouse format, Grafton has been able to outperform a competitive market. The company has ambitious growth plans while competitors are struggling with outdated IT systems and unwieldy real-estate footprints. Having reported admirable growth (earnings have risen by

an annual 15% over the past three years) in a tough market, we expect the company to emerge in an even stronger position once there is more clarity over Brexit.

## Games are going global

While the past five years have proved to be very tough for high street retailers, an unlikely resurgence in table-top fantasy war games has been a boon for one of the key names in this sector, Games Workshop (LSE: GAW). The manufacturer and retailer of Warhammer 40k has seen remarkable growth since the appointment of a new chief executive in January 2015 with the shares returning more than 1,200%, making it the strongest performer in the FTSE 250 over that period. We still see further value as this exporter embarks on an international multi-channel expansion. With more than 40 years of experience, the company is rich with intellectual property and finding a growing number of avenues through which it can monetise this.

*"Former boss Kate Swann has left SSP well placed for further growth"*

## Captive consumers

Retail spending has also held up well within captive

locations such as airports and railway stations. SSP (LSE: SSPG) is a best-in-class food and beverage concession operator at these travel hubs. The company has been able to display strong growth in sales, both from its existing store base and by expanding internationally, while margins have been improving following several years of effective cost-cutting. The share price has been weaker this year following the news that Kate Swann was to end her successful period as chief executive, but we feel these fears are overdone and she is leaving the company in a strong position for further growth.

## If only you'd invested in...

### Go-Ahead Group (LSE: GOG)

Share price in pence



**Go-Ahead Group (LSE: GOG)** operates bus and rail services, mostly in the UK but also in Ireland, Germany and Singapore. It also runs the Southeastern and Govia Thameslink Railway through its subsidiary Govia, of which it owns 65%. Its Thameslink and Southern rail franchises botched a timetable change last year, prompting mass cancellations and financial penalties from the Department for Transport. Still, the company is geared for expansion with the recent acquisition of a bus depot in Manchester and bus contracts in Singapore and in Dublin.

## Be glad you didn't buy...

### Funding Circle Holdings (LSE: FCH)

Share price in pence



**Funding Circle Holdings (LSE: FCH)** is a peer-to-peer lending platform. It sources funds from retail and institutional investors and lends the money to small and medium-sized businesses. It is one of the largest peer-to-peer lenders, with more than £3bn under management. The industry as a whole has struggled lately; the high-profile collapse of Lendy has dented confidence and tighter regulations have hampered both investment and borrowing. This has slashed Funding Circle's expected sales growth this year from 40% to 20%.





# Indian visionary eyes up British Steel

The government is seeking a buyer for the UK's second-largest steelmaker. Sanjeev Gupta, an Indian-born tycoon with form as a saviour of troubled firms, is circling – but can he find the cash? Jane Lewis reports

The business secretary, Greg Clark, has been scouring India and China to drum up potential bidders for British Steel – the UK's second-largest steelmaker, which collapsed into insolvency in May. One firm reportedly “monitoring the situation” is Liberty House, the industrial conglomerate led by Sanjeev Gupta – one of a string of Indian-born tycoons who have been sizing up the ailing industry for the past decade.

Dubbed the “Man of Steel” by fans, Gupta, 47, has form as a rescuer. In 2013, he salvaged a troubled steel mill in South Wales and three years later became “one of Britain's biggest private landlords” when he bought Scotland's Lochaber aluminium smelter, together with two hydroelectric dams and more than 100,000 acres on the slopes of Ben Nevis, as *The Sunday Times* reported.

Scottish politicians couldn't have been more accommodating. In fact, politicians globally have been showering Gupta's operations with subsidies – seduced by his “vision” of a new type of manufacturing called “green steel” (marrying metal production with renewable power). The purchase of seven more European plants from ArcelorMittal last week has made his umbrella Gupta Family Group (GFG) one of the world's biggest steelmakers, with an empire spanning 30 countries. The troubling question is whether an edifice built so speedily on the “risky alchemy” of “state handouts and clever financing” could just as easily evaporate.



Gupta: the world's most ambitious industrialist

*“Steel is a brutal business, but Gupta scents opportunity where everyone else has failed”*

The “world's most ambitious industrialist” has always been in a hurry, says *Forbes*. Born into a prominent Punjabi commercial family – his grandfather owned steel mills; his father built a successful bicycle business – Gupta arrived in Britain, aged 12, to board at St Edmund's College, Canterbury. He got to Cambridge to study economics at Trinity College, but had little time for academia, notes the *Financial Times*. He spent all his time trading. Liberty House began life in 1992, headquartered in Trinity, and developed a line selling ICI chemical products to Nigeria. By the time the college authorities wised up to his activities, Gupta claims “to have been turning over £1m a day with the help of various relatives”. Fearing a breach of its charitable status, Trinity slung him out. “Tellingly, it wasn't the loss of

accommodation that Gupta minded,” but the fiscal advantage. “I wanted to use the college address because it meant the telex machine was exempt from VAT.”

## Roulette with public money

Two individuals have played key roles in Gupta's journey. The first, says *The Sunday Times*, is Australian financier Alexander “Lex” Greensill, whose reputation for “financial wizardry” centres on his expertise “in turning IOUs into tradeable financial instruments”. The second is Tim Haywood, formerly a fund manager at the Swiss asset manager GAM, who bought up much of GFG's debt. The pair fuelled

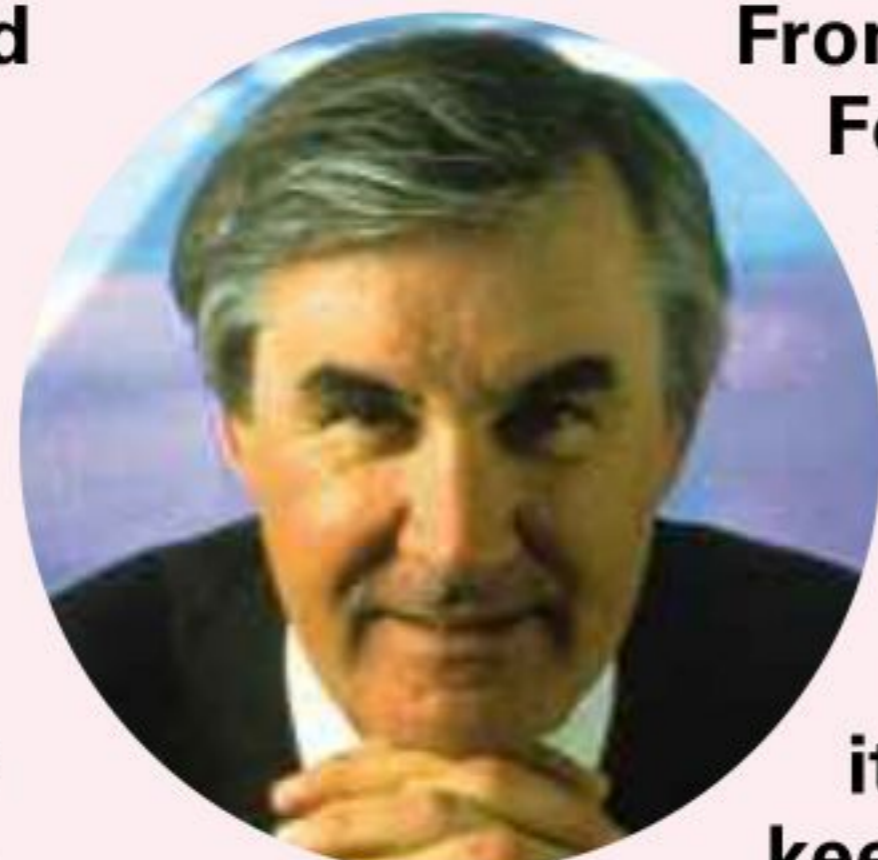
Gupta's dealmaking for years by “playing roulette with public funds”. But “a big crack emerged last summer” when GAM revealed that Haywood, head of its £8.5bn absolute-return bond funds, had been suspended. As investors rushed to pull cash from the funds, GAM's shares collapsed.

Steel is a brutal business, but “Gupta scents opportunity where everyone since the bewhiskered Victorian steel masters has failed”, said the FT in 2016. Warming to the part, he and his wife Nicola have bought a large country-house estate near Chepstow – a stone's throw from his Newport plant. Finance could be a little tight this summer: GAM “has demanded repayment of the bonds” and Gupta needs to raise about £600m fast. The ongoing question is whether he can “keep up his alchemy” now that GAM's door is “firmly shut”.

## Great frauds in history... Walter Forbes

Walter Forbes, then aged 30, set up Comp-U-Card (CUC) in 1973 with Kirk Shelton.

The company sold membership cards that allowed customers to buy goods and services from selected firms at discounted rates. During the 1980s and early 1990s the firm grew, attracting 30 million customers. It also started buying other companies, culminating in a 1997 merger with HFS Incorporated, which owned various franchises and hotel chains. The newly merged firm was renamed Cendant in 1997.



### What was the scam?

From the 1980s onwards Forbes and Shelton systematically manipulated earnings to give the impression that their company was more profitable than it actually was, keeping CUC's share price high. This allowed the firm to use its shares to buy other companies more cheaply than they would otherwise have been able to. The fraud reached a peak in the run-up to the merger with HFS, with more than \$500m of fictitious profits created between 1995 and 1997, mostly through the creation of false orders, and

manipulation in the accounts of the company's reserves.

### What happened next?

Shortly after the merger, two CUC managers, Casper Sabatino and Steven Speaks, told Cendant's new chief financial officer that they had been told to help manipulate earnings. Speaks immediately told CEO Henry Silverman about the allegations. Cendant immediately notified the financial community about the irregularities, causing its shares to plummet. Forbes was forced to resign as chairman shortly afterwards. In 2001 Shelton and Forbes were indicted for fraud and insider trading (due to a stock sale

shortly before the fraud was uncovered), and were eventually sentenced to ten and 12 years in jail respectively.

### Lessons for investors

The scandal would end up wiping \$14bn from the value of Cendant shares and bonds, far outstripping the \$2.9bn that the company paid to shareholders in a lawsuit. The biggest losers were HFS's shareholders, who received Cendant stock in exchange, only to see the value of the newly merged company plunge. If a company that you invest in merges with another company, consider whether you want to invest in the new entity, rather than just automatically holding onto the shares.



# Best served chilled – your wines for summer



Swig manages to find delicious wines you'd never come across in your normal walk of life, and it is this ability to sniff out hidden gems that makes them such an important fixture in the elite UK wine landscape. The wines I've chosen for July are no exception. Each bottle seems to have a few familiar traits, but then there is a little twist or turn which makes each wine unique and Swig-style. Chosen for top level summer dining,

all six of these wines should be drunk chilled. The trick with the reds is to take them out of the fridge 20 minutes before serving them, so that the acidity is slightly heightened and the fruit is trim. These wines can then blossom in the glass as they breathe and unravel.

Enjoy!  
Matthew Jukes



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Prices shown below are per case of 12 bottles. Wines are also available in a mixed case, giving you two bottles of each for **just £150** – it's a chance for you to try them all, and is the most popular choice with *MoneyWeek* readers!



£13.50  
£9.95

★ TOP PICK

**2017 La Valse des Mansengs, Domaine Horgelus, Gascony, France**

Unlike any other white wine that has graced these pages, this is a curio which celebrates the two quirky Manseng grapes, Gros and Petit, which together make the famous white wines of Jurançon. Horgelus grows these two magically perfumed white grapes, too, and they cleverly tighten up the finish of this white with the addition of 10% Sauvignon Blanc. The result is a floral, exotically perfumed wine with hints of violets and stone fruit, a sleek, plush palate and a long, dry, mineral finish. It's luxurious and tastes like no other wine on earth!

**CASE PRICE: £119.40 – Saving £42.60**



£18.95  
£15.95

**2014 Rosso No1, Tenuta Tobia, Seggiano, Tuscany, Italy**

Made by Brit Toby Owen, this is a spectacular wine, putting many Brunello di Montalcinos to shame with its lush, power-packed palate and insultingly low price. Made from Merlot, Cabernet Sauvignon and Sangiovese, this is such an impressive wine I drank the whole bottle rather than just tasting it and moving on. The depth of fruit and volume of flavour conjures up images of expensive Super Tuscan-style reds, and yet wines with this degree of sophistication cost somewhere between £50 - £100. If I could have one wish this month it would be for every MoneyWeek reader to order this wine – then you could all see what I see in this incredible creation.

**CASE PRICE: £191.40 – Saving £36**



£17.50  
£14.50

**2018 Little Beauty, Sauvignon Blanc, Marlborough, New Zealand**

This wine's name also acts as a perfect two word tasting note! Made by former Cloudy Bay winemaker Eveline Fraser, this is a fantastic Kiwi Sauvignon. It is stripped back to its raw ingredients, showing little tropical fruit or unnecessary ripeness. It's dry, smooth, citrus-themed and discreet. It is as euro-style as you can get in New Zealand and this makes it a desperately attractive style of wine. I love the wet pebble freshness and keen acid edge - this is not only a racy wine but also a crisp and energetic number, too. Notice I haven't sloppily mentioned the expression little beauty in my notes either...

**CASE PRICE: £174 – Saving £36**



£12.50  
£9.95

**2018 Ardina 300, Loureiro, Vinho Verde, Guapos, Portugal**

Vinho Verde is one of my (many) vinous guilty pleasures. This inexpensive essence of summer is Portugal's answer to Muscadet, Txakoli, Verdicchio and every other bright, crisp, seafood-friendly white. Drunk ice cold and very young (be sure to finish your bottles by the end of the year), this is an awesome aperitif style, with a devastatingly refreshing character. Loureiro is a delicious white grape with sea-spray notes and I cannot think of a better wine to start a feast than this palate-primping wine.

**CASE PRICE: £119.40 – Saving £30.60**



£14.95  
£12.50

**2016 Paisajes, Viñedos Ruiz Jiménez, Rioja, Spain**

This is a wonderful wine and it uses the Garnacha grape exclusively in its makeup. In terms of shape and size, it is a blast from the past - medium-weight, silky and honed. There is none of the woodwork or massive inky notes found in new wave Rioja and, if anything, tastes more Burgundian than it does Rioja. The aromatics are arresting and the red fruit is soothing and satisfying with herbal accents and a lovely long finish. This is yet another classic Swig wine – unusual, unexpected and unerringly rewarding.

**CASE PRICE: £150 – Saving £29.40**



£17.50  
£15.95

**2018 Bourgogne, Les Truffières, Domaine de Mauperthuis, France**

This is a very unusual find: not in terms of taste, but where it comes from geographically. Made by a Chablis producer, but coming from a vineyard west of the region in the greater Auxerre environs, this wine tastes a little like a cross between a classy Premier Cru Chablis and a silky Mâcon Blanc. The Chardonnay grape is on fine form here with little oak intervention. This is a succulent style tailor-made for early drinking. Give Chablis a break and try this wine this summer. It will not let you down.

**CASE PRICE: £191.40 – Saving £18.60**

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# Three new cruise adventures

From a trip into the Australian wilderness to snorkelling alongside dolphins in the seas off Mexico

The Kimberley is Western Australia's northernmost region. It is larger than three-quarters of the world's countries, and much of it is an "unreconstructed wilderness", says Wanderlust magazine. It features "rugged desert, tumescent boab trees, washboard mountains and bristly spinifex plains". Since the roads there are best enjoyed in "bone-juddering bursts", visiting by cruise ship makes perfect sense.

Trips tend to inch their way along the coast from Darwin to Broome, "past the gravity-defying Horizontal Falls and the shrinking tides of the Montgomery Reef". There's no shortage of things to do on land. Classic stops include Bigge Island, with its "first contact" rock art depicting the Wunambal people's initial encounters with European explorers; and Vansittart Bay, with its wreckage of a World War II transporter plane. Take a boat ride up the King George River and "teeter towards the thundering cascades" of the Horizontal Falls. (From A\$10,695 per person until October for ten nights aboard the new Coral Adventurer. See [kimberleycruises.com](http://kimberleycruises.com))



Take a boat ride up the King George River with Kimberley Cruises

## Explore the Sea of Cortez

Hurtigruten's brand-new expedition ship, the 530-passenger Roald

Amundsen, is named after the Norwegian explorer, and is kitted out with cool gadgets, says Sue Bryant in *The Sunday Times*. It comes equipped with underwater drones that beam images back to passengers wearing digital goggles, while in the science lab you can use

microscopes and contribute to research projects. There's also an infinity pool and a sauna with a viewing window. As the world's first hybrid propulsion cruise ship, it claims to be eco-friendly and quiet – a bonus when you're sailing on the Sea of Cortez, off Mexico, where "superpods" of dolphins are a common sight. Snorkelling, desert hikes and birdwatching can also be arranged as the ship sails from La Paz, Mexico, to San Diego in the US. (From £2,990 per person, including flights, excursions and drinks with dinner, [hurtigruten.co.uk](http://hurtigruten.co.uk))

## Must-see hotspots in Indonesia

Aqua Expeditions has long set the bar for curated adventures

on the Peruvian Amazon and the Mekong between Vietnam and Cambodia, says Maria Shollenbarger in the *Financial Times*. Now its owner has set his sights on exploring the ancient spice-trade routes that crossed Indonesia's Ceram and Banda seas. The vessel, Aqua Blu, is a long-range expedition-class yacht and the first such boat to be based in Indonesia with the power to move between the must-see hotspots of Raja Ampat (pictured left) and the Komodo archipelago via Ambon and Banda Neira. "All this with a near one-to-one crew-to-guest ratio and top creature comforts." (From \$7,525 per person for seven nights, [aquaexpeditions.com](http://aquaexpeditions.com))



## Wine of the week: a perfect sauvignon blanc

**2017 Blanc Fumé de Pouilly, Barre à Mine, Michel Redde et Fils, Loire, France**  
£37.50, *Goedhuis & Co*, 020-7793 7900, [goedhuis.com](http://goedhuis.com)



**Matthew Jukes**  
Wine columnist

I tasted this wine on 31 January and it moved me so much that I wanted to write it up on the spot. It provides a once-in-a-lifetime sauvignon-blanc experience, but, sadly, it was not due to arrive in the UK until later in the year.

Since then, I have been playing a game – trying to think of a finer wine made from this oft-derided grape. I cannot think of a single one that combines all of the epic sauvignon-blanc attributes in a single wine. Pavillon Blanc du Château Margaux; Haut-Brion Blanc (OK,



this has semillon on board); Gembrook Hill; early Cloudy Bay; countless Chavignols from Cotat; Redde's own wines; Cantina Terlano; Colterenzio; Reverdy; Spottswode; Casa Marín; Daguenea; Dog Point; Te Whare Ra; The Berrio; Iona; Viña Leyda; Dry Creek Vineyard; Larry Cherubino's epic 2017; The Lane Vineyard's Gathering (again with semillon loitering with intent); Shaw &

Smith; Cape Point Vineyards; Duckhorn; Greywacke; Boulay; Pellé and on and on... all these wines are fantastic sauvignon blancs, but none of them are as complete nor as enchanting as 2017 Barre à Mine.

The cosmic balance and inescapable magic made it a perfect 20/20 in my tasting notes. Barre à Mine translates as Crowbar. Never has such a blunt instrument inspired such an exquisite flavour. It is finally in the UK and Goedhuis only has 25 cases, so hurry.

*Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year ([matthewjukes.com](http://matthewjukes.com))*



This week: houses with tennis courts – from a 16th-century house with a flood-lit court in Hunterson, Cheshire,



▲ **Ro-Fawr Farm, Dryslwyn, Llandeilo, Carmarthenshire.** An 1800s farmhouse on the River Towy with landscaped gardens that include an all-weather tennis court, a barn with an indoor swimming pool, further stone barns, and two cottages. 5 beds, 2 receps, 2-bed annexe, conservatory, paddock, 13 acres. £1.2m Savills 02920-368930.

▶ **West View House, Old Sodbury, Bristol.** A Grade II-listed former vicarage in a small village surrounded by gardens that include a modern tennis court shielded by tall hedges. 8 beds, 7 baths, 3 receps, breakfast kitchen, study, ground-floor annexe, cellars, detached former coach house, 6.34 acres. £1.75m Savills 0117-933 5800.

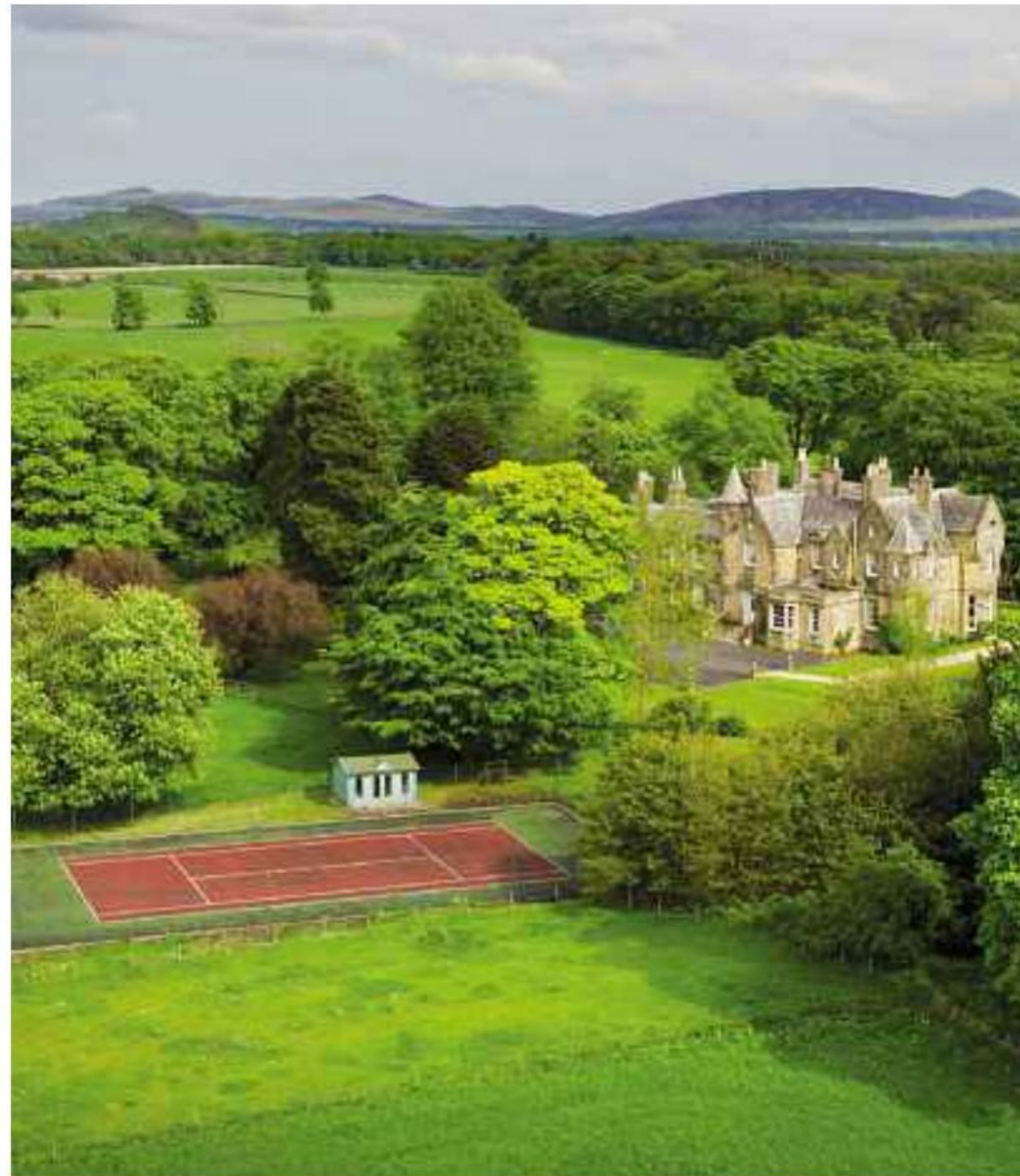


▶ **Time Flies, Eastern Shores, Marsh Harbour, Abaco, Bahamas.** A New England-style house on the tip of Marsh Harbour's eastern peninsula with a palm-tree fringed tennis court surrounded on three sides by open sea. The house comes with three deep-water boat docks and a standby generator. 2 beds, 2 baths, 2-bed boat house, garage with studio, 1.5 acres. \$3.9m Damianos Sotheby's International Realty +1 242 424 9699.





to a New England-style property on the eastern shore of Abaco in the Bahamas



▶ **Ormiston House, Kirknewton, West Lothian.** This B-listed, Scots baronial mansion dates from 1851 and is surrounded by grounds intersected by the Gogar Burn, which is spanned by a C-listed, 18th-century bridge. The gardens include a hard tennis court with its own pavilion and a greenhouse. The mansion has ornate plasterwork, open fireplaces, and a fitted kitchen with an Aga. 7 beds, 6 baths, 3 receps, 2 paddocks, 15 acres. £1.7m+ Strutt & Parker 0131-226 2500.

▶ **Langley Farms, McLean, Virginia, USA.** This custom-built house was constructed in 1997. It has wood floors, open fireplaces, and gardens that include a heated swimming pool and a hard tennis court. 5 beds, 3 receps, garage with guest suite above, 0.76 acres. \$5.2m Washington Fine Properties +1 202 243 1620.



▶ **Pewit House, Hunterson, Cheshire.** A Grade II-listed, 16th-century house with later additions in a rural location, surrounded by large gardens that include an all-weather, floodlit tennis court, two large outbuildings, and a helicopter landing pad. The house has beamed ceilings, an inglenook fireplace, and retains its original cast-iron cooker. 6 beds, 4 baths, 3 receps, breakfast kitchen, 6 acres. £1.195m Jackson Property 01743-709249.

▶ **Sheepcote Farm, Great Henny, Suffolk.** A 1770s, Grade II-listed, timber-framed house surrounded by landscaped gardens that include a two-bedroom cottage, a one-bedroom cottage, and a tennis court. It has exposed wall and ceiling timbers, vaulted ceilings, and a large brick inglenook fireplace. 5 beds, 2 baths, 3 receps, breakfast kitchen, 2 barns, summer house, heated pool, 3.3 acres. £1.65m Carter Jonas 01787-882881.

▶ **Woodside Farm, North Sydmonton, Newbury, Berkshire.** This Grade II-listed house is surrounded by open countryside in an Area of Outstanding Natural Beauty. The landscaped gardens include a hard tennis court and a four-bay garage with planning permission to create a home office. The house has beamed ceilings, an inglenook fireplace, a wood-burning stove, and a country kitchen with an Aga. 5 beds, 3 baths, 3 receps, 1 acre. £1.45m Knight Frank 01256-350600.





# Make the most of your garden

Ditch the rickety deck chairs and spruce up your “outdoor lounge”, says Mick Sharp

“The purest form of human pleasures” is how philosopher Francis Bacon described spending time in his garden. According to outdoor furniture specialists billyoh.com, green-fingered Brits will spend the equivalent of three working years of their lives mowing, trimming, weeding, pottering about and generally ensuring everything in their gardens is rosy. And that doesn’t include leisure time spent enjoying the garden.

Despite our somewhat changeable climate, we aren’t easily dissuaded from attempting an as adventurous and al fresco a lifestyle as the elements will allow. And catering for that desire is big business. “The garden has become a focal point for many families,” says Carol Lewis in The Times’s Bricks & Mortar supplement. Vicky Angell, a

partner and buyer for outdoor living at John Lewis, says gardens are increasingly used as an “outdoor lounge” and “living space”. Rather than making do with some rickety deck chairs and a teetering trestle table, people “are really investing in their garden furniture”, Angell tells Lewis. Spending on gardens was 27% higher last year than in 2017, analysis by John Lewis Finance shows, with sales in the company’s outdoor-living departments more than doubling over the last four years. Here are a few of this year’s best garden accessories.

“All of the flavour, none of the labour” is eco-friendly solar-powered cooking equipment firm GoSun’s catchy tagline for its **GoSun Grill**. This is “a grill for modern times” that is cool to the touch, heats to 260 degrees even under cloud cover, and allows you to steam, bake and roast without having to worry about empty gas tanks or scraping burned carbon off the cooking surface. It’s portable too so you can, in effect, cook anywhere as there is no fire hazard. Brett Tortorello on feast.media says he feels like “a good person” when he uses the GoSun. “Call me crazy, but I feel I’m doing a real service to the environment when I’m cooking on this grill.” £699, [gosuneurope.com](http://gosuneurope.com)



The **Husqvarna RC320Ts AWD** ride-on mower combines ease of use and excellent handling with power and performance. The manufacturer – perhaps better known for its motorcycles – says that “the all wheel drive (AWD) rider with a high-torque V-twin engine is a pleasure to operate and delivers great results”. It has a turn-key start, LED lights and can be fitted with 94cm and 103cm cutting decks. And if you thought a mower was just for summer, think again. “Thanks to attachments such as a snow blade, trailer, moss rake and spreader,” says [radmoretucker.co.uk](http://radmoretucker.co.uk), “it can help maintain your garden all year round.” £6,240, [redbanduk.co.uk](http://redbanduk.co.uk)



# Toys

If a traditional, old-school swimming pool is not eco-friendly enough for you, and taking a dip in “life-sustaining water and connecting with nature” is more your style, the **Swimming Pond Company** has the answer. Its ponds integrate beautifully with the landscape, offering the opportunity to swim in fresh, clear water without a trace of chemicals. The ponds attract and sustain a wide array of wildlife, “drastically increasing the biodiversity of your garden”, says company founder Paul Mercer. “A swimming pond is something beautiful to look at all-year round,” says Catherine Howard in Country House magazine, “and perfectly in tune with the zeitgeist.”

*From £75,000 + VAT for an 80 sq m pond, [theswimmingpondcompany.co.uk](http://theswimmingpondcompany.co.uk)*



To the outside world you just look like a cool dude/dudette with sunglasses. What the outside world doesn't know is that you are, in fact, wearing a pair of **Bose Frames**, an ingenious new design of shades with a micro embedded speaker in each arm. Available in two styles, Alto and Rondo, with a variety of coloured lenses, they're Bluetooth-enabled, leaving you “free to hear and interact with the world around while discreetly listening to music”, says Bose. The sound quality is superb, says Ryan Waniata on [digitaltrends.com](http://digitaltrends.com) – it seems as if the sounds have been “magically beamed within the boundaries of your skull”. £199.95, [bose.co.uk](http://bose.co.uk)



The **Softub Resort 300+** is a six-person hot tub, ideal for families, socialising and entertaining. It is also, claims the manufacturer, more energy efficient and takes up less space than most other six-person hot tubs. “Softub has been the undisputed market leader in heat recovery and heat recycling technology for more than 20 years,” says Victoria Melton on [vevivos.com](http://vevivos.com). According to [whatspa.co.uk](http://whatspa.co.uk), more than 20,000 are sold in the UK every year, and a survey by B&Q found that a hot tub was one of the things Britons “lusted after most for their gardens”. Melton for one is taking hot-tubbing very seriously. “We have some friends coming to stay and are planning to bring the TV down to watch from the tub.” £6,990, [softubuk.com](http://softubuk.com)



If your idea of the perfect summer's evening is to tilt your Panama hat at a rakish angle, sit back and relax in the sunshine, the silence punctuated only by the gentle cork popping on another bottle of Dom Perignon 2006, it's probably best you don't go within a

country mile of **Marshall's Tufton portable Bluetooth speaker**. The Bletchley-based amplifier builder has its own hallowed place in rock history, a true British global success story based on a simple USP: Marshall = Loud. The Tufton will rock your socks off. “If

you even edge towards top volume,” says Audley Waugh in The Mail on Sunday's Event magazine, “it will blast across your neighbourhood and you will stop being invited to barbecues”. Sounds like a win-win situation. £349, [marshallheadphones.com](http://marshallheadphones.com)





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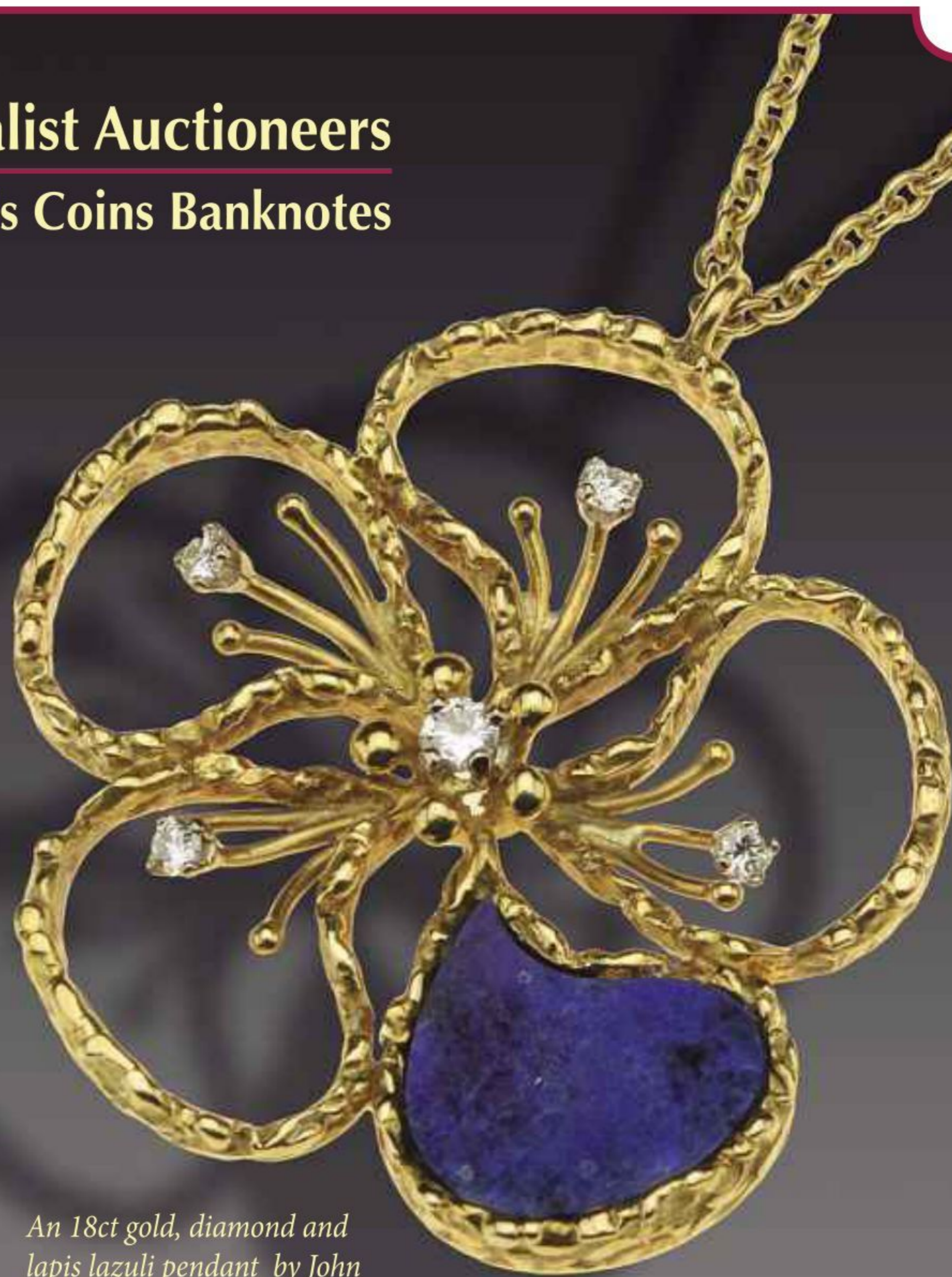
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David Thomas and Wendy Ramshaw  
are attracting high prices at our auctions*

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# Ancient art sparks controversy

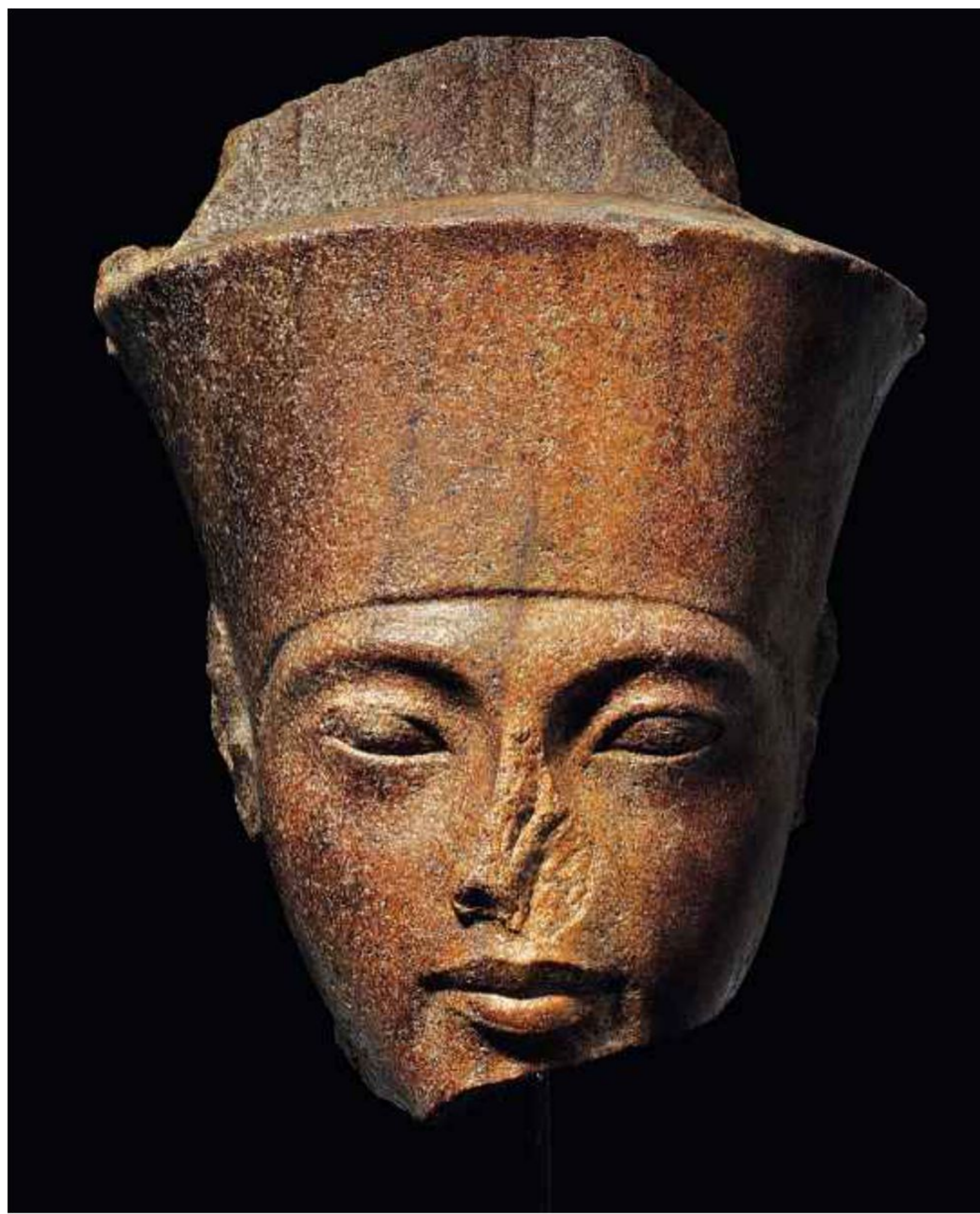
Who has the right to own treasures originally pillaged? Chris Carter reports

Not for nothing was the auction last Thursday at Christie's in London called The Exceptional Sale. There were many objects with fascinating histories among the lots. Nevertheless, just one item grabbed all the attention in the lead-up to the sale – and not all for the reasons Christie's had wanted, as exquisite as that item was. The lot that was hogging the headlines was a bust from around 1330BC of the ancient Egyptian “boy king”, Tutankhamun. With its fine eyes and delicate features, the sculpture is without doubt a work of art. “You're just blown away by the fact that a sculptor, over 3,000 years ago, used all his skills to create the most beautiful representation of the king,” says Christie's antiquities specialist Laetitia Delaloye. The Amun Head (pictured), as the piece is known, was expected to sell for £4m. After all, as Christie's says, “so many people have wanted to own this work of art”.

That includes Egypt's antiquities ministry. Right up until the day of the auction, the Egyptian ambassador to Britain, Tarek Adel, called for the sale to be delayed so that its provenance could be further investigated. Zahi Hawass, Egypt's former minister of antiquities, went further. “It seems that this sculpture was looted from Karnak Temple,” he said. “I don't think Christie's have the papers to show it left Egypt legally; it's impossible. Christie's has no evidence at all to prove that, and so it should be returned to Egypt.”

## Unattractive truths

Christie's refutes that claim. “While ancient objects by their nature cannot be traced over millennia, Christie's has clearly carried out extensive due diligence verifying the provenance and legal title of this object,” the auction house said in a statement. “We have established all the required information covering recent ownership and gone beyond what is required to assure legal title.” It is “understood to have



been in the collection of Prinz Wilhelm von Thurn und Taxis by the 1960s” (before being passed on), says Christie's in its catalogue note. That, however, was called into question when Viktor von Thurn und Taxis, the son of the minor German royal, told website Live Science that he did not

*“These tokens of a colonial past were pilfered and pillaged”*

recall his father ever owning the bust. He was “not a very art-interested person”, Wilhelm's niece, Daria, added.

Either way, the wider row isn't confined to the Amun Head. Last October, Iraq objected to the sale of a 3,000-year-old Assyrian stone relief when it was sold at Christie's in New York for \$31m. And in January of this year, an Egyptian cartouche that had been smuggled out of Egypt was rescued from a London auction house, The Daily Telegraph reported. Over the past five years, Egypt has recovered 1,500 illegally trafficked objects from abroad. “Sales of antiquities are increasingly sparking disputes

over provenance by authorities in countries of origin, such as Egypt, Greece and Turkey,” Heba Saleh and James Pickford point out in the Financial Times. That doesn't surprise author Peter Watson, who says in The Times that auction houses play a cynical game: “Sail as close to the wind as you dare, and when you are found out, do whatever you can to avoid admitting the unattractive truth”.

## “Wildly unethical”

Even if you can guarantee legal ownership, that may not be enough, says Aditi Natasha Kini in The New York Times. “These tokens of a colonial past were pilfered, pillaged and otherwise procured as ‘gifts’ from India [to Britain],” she says, referring to the Christie's sale of Indian and Mughal-era jewels in June. “The auctioning of stolen heritage to the highest bidder is wildly unethical. These objects must be given back.” The debate continues. As for the Amun Head, Christie's stuck to its guns that “there is an honourable market for ancient art” and the sale went ahead. It sold for £4.7m.

## A masterpiece comes home

Germany has agreed to return *Vase of Flowers*, a painting by the Dutch master Jan van Huysum, to the Palazzo Pitti gallery in Florence. The artwork, valued at €2m today, had been taken by retreating German soldiers in 1943 from a village where the painting and other artworks had been stored by the gallery for safekeeping during the war. However, Eike Schmidt, the director of the Uffizi, and a German himself, waged a high-profile propaganda war of his own to arrange for the painting's return. In place of where the stolen painting was meant to be hanging, Schmidt arranged in January for a framed photograph of the still-life, emblazoned with the word “Stolen!” in multiple languages, to be hung in its place. Germany cracked.

The painting resurfaced in 1991 in a private collection in Germany. Efforts to have the painting returned faltered when descendants of the German soldier into whose possession the painting went demanded €2m for it. They said the painting hadn't been stolen. The soldier had bought it for his wife at a market. German authorities also applied a 30-year statute of limitations. Schmidt has called for Germany to lift any statutes of limitations where Nazi involvement is suspected. The painting is now on its way back to Florence (how much money, if any, changed hands has not been revealed). “At long last [*Vase of Flowers*] comes home after 75 years,” Schmidt told Reuters. “The battle was tough.”





# That joke isn't funny anymore

Zimbabweans are increasingly fed up with the corruption of political elites

There's a joke that will be familiar to people living in certain developing countries. It's election time and an opposition politician accuses the sitting president of corruption, pointing to the leader's mansion and lavish lifestyle. Rather than denying the charge, the incumbent counters that his rival seems to have a very small house and to live modestly. "If he can't provide for himself, how can you trust him to provide for you?" the president asks the voters, who re-elect him in a landslide. Few Zimbabweans will see the funny side as their country's politics have become "a tale of unbridled gluttony", says Tarriro Mudzamiri in Zimbabwe Business Day. Political elites and their proxies "masquerade as business people" and enjoy "unprecedented levels of private opulence amid public squalor".

## Conspicuous consumption

Exhibit number one is Justice Mayor Wadyajena. Given that he is a member of parliament for one of the poorest constituencies in Zimbabwe, you might expect him to show some restraint. But no. Wadyajena has "set tongues wagging" by importing a brand-new Lamborghini Urus SUV, for which he reportedly paid \$420,000. This "profligacy" coincides with the new regime's "austerity for prosperity" programme that has seen public spending, including on infrastructure, slashed.

It isn't like Wadyajena desperately needs a new set of wheels, as the ZimLive website points out. Despite claiming that his business is bankrupt and that he is surviving on his MP's salary of \$2,500 a month, a court filing by his former mistress seeking maintenance for their daughter claims that he owns "eight top-of-the-range vehicles including a BMW M5, BMW X6, a Range Rover, a Jeep Cherokee and a Land Cruiser". Quite why is something of a



Justice Mayor Wadyajena and his new set of wheels

©Justice Mayor Wadyajena/Facebook

*"Buying a Lamborghini to drive on the streets of Harare is like serving filet mignon on a trash can lid"*

mystery as "buying a Lamborghini to drive on the streets of Harare" is like "serving *filet mignon* on a trash can lid".

But such conspicuous consumption seems to be par for the course in a country that has a \$150m Chinese-funded extension under construction at its main airport even though the national carrier now has only two functioning planes, according to Christina Lamb in *The Sunday Times*. Prices in Zimbabwe are once again spiralling, with ruinous consequences for the poor, yet those with contacts in the ruling elite are doing "extremely well". Zimbabwe's MPs are, for example, exempt from import duty on cars and "there is a Jaguar showroom just down the road from

the headquarters of the ruling Zanu-PF party" in Harare.

Given all this, it's not surprising that those who can afford it are thinking about leaving the country, says Brian Latham and Ray Ndlovu for Bloomberg. They may be in for a long wait. In addition to shortages of cash, fuel and electricity, passports are in demand too. The official explanation is that the passport company is refusing to print anything until the government has cleared its debts. Others think Zimbabwe is just "too broke to import the ink and paper needed" to print the passports.

Quintus Slide

## Tabloid money... the Farage fan club won't turn its back on the EU's cheques

● There is a scene in the film *The Big Short* where Michael Burry, played by Christian Bale (pictured), is forced to restrict withdrawals from his fund and then sits back with his headphones on while calls and emails from apoplectic investors flood in. "Now, I'm not suggesting that Neil Woodford took such a casual approach when his Equity Income Fund was frozen last month, yet I can't help but wonder if he does have his fingers in his ears," says Victoria Bischoff in the *Daily Mail*. "How on earth can he justify charging his loyal investors millions of pounds in fees when they still cannot access their money more than one month on?" He claims to understand the frustrations of his investors. "But actions speak louder than words Mr Woodford. My advice: Waive. Your. Fees."



● Under Labour's proposed "lifetime gifts tax", any cash or property above the "lifetime allowance" of £125,000 per child would be taxable at a rate as yet to be determined on their parents' death, says Nick Ferrari in the *Sunday Express*. So a typical two-child family would see just £250,000 of their estate escape punishing taxes. "This is insane." Over the course of a "lifetime", children would need to keep track of any cash given to them by their parents as gifts, as well as any help they received to, say, buy their first home. "Presumably, if Labour had its way, they'd ask you to log the fact Mum bought you a cup of coffee and a toasted sandwich when you went to the shops with her last week. This is... robbery, plain and simple."

● "Do you remember when we exported football hooligans en masse to European cities to abuse their people and their customs" in the 1980s? asks Brian Reade in the *Daily Mirror*. These days we have a "new breed of disrespectful louts to shame our national image – those 29 MEPs from the Nigel Farage fan club who turned their backs on teenage musicians playing Beethoven's *Ode To Joy* at the opening of a parliament they were elected to represent us at". They may have turned their backs on the EU's anthem, but they won't turn their backs on the £7,599-a-month pay they get, plus expenses. "Watching these grown men and women act like sulking toddlers... in a cry for attention, it didn't seem possible to be more embarrassed to be British."

©Getty Images



## Bridge by Andrew Robson

### My friend Bobby Wolff

The hero of this week's deal is many-time world champion Bobby Wolff of the USA. A maverick by nature, his autobiography is entitled *The Lone Wolff*.

Dealer West

Both vulnerable

♠ 95	♠ KJ63	♠ 108742
♥ QJ10	♥ A653	♥ K9
♦ AKJ1062	♦ 8	♦ 4
♣ 75	♣ AK64	♣ QJ1032

	♠ AQ	
	♥ 8742	
	♦ Q9753	
	♣ 98	



#### The bidding

South	West	North	East
	1♦	double	1♠
2♥ *	pass	3♥	pass
4♥ **	pass	pass	pass

\* Gambles successfully on partner holding four hearts.  
 \*\* Optimistic.

West led the ace of diamonds and would have defeated the game had he continued with a second diamond. East would ruff (overruff) and there would be two certain trump tricks to follow. It was almost impossible for West to have divined that his partner held just one diamond, however, and his natural switch was to a spade. Declarer, Wolff, won his ace, crossed to the king of clubs, and led a low heart from dummy.

It was the last chance for the defence. East needed to play low on the trump, letting West win and hoping for a second diamond (probably by now West should work out to do this – why else has his partner ducked the trump?). However, East rose with the king of hearts and now the game could not be beaten. Declarer won his spade return with the queen, crossed to the ace of trumps, then cashed his winners and cross-ruffed, the defence only able to score their top trump. Ten tricks and game made.

One final variant is worthy of note – if after winning the spade switch at trick two, declarer leads a heart to the ace, East must jettison his king. When declarer leads a second heart (as he must, or the defence score their three remaining hearts separately, West can win and cash a third heart, leaving declarer short of trumps for the cross-ruff.

For all Andrew's books and flippers – including his new hardback *The Next Level* – see [andrewrobson.co.uk](http://andrewrobson.co.uk)

## Sudoku 955

9		1	7					
	5			8	1	7		
			6					
2				1	8	5		
	4		8		6			
3	7	5					2	
			2					
7	1	8			9			
		7	4		8			

To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

4	3	5	1	7	8	9	6	2
1	6	7	9	4	2	5	3	8
2	8	9	5	6	3	7	4	1
5	7	2	6	1	4	8	9	3
9	1	3	7	8	5	6	2	4
8	4	6	2	3	9	1	7	5
7	2	1	3	5	6	4	8	9
6	9	8	4	2	1	3	5	7
3	5	4	8	9	7	2	1	6

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## Tim Moorey's Quick Crossword No. 955

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 22 July 2019. Answers to MoneyWeek's Quick Crossword No. 955, 31-32 Alfred Place, London, WC1E 7DP.



1		2		3		4		5		6		7
8										9		
10		11				12						
13								14				
15				16				17				18
19				20						21		
22						23						

Down clues are straightforward whereas across clues are mildly cryptic

- |  |  |
|--|--|
| <b>ACROSS</b>  | <b>DOWN</b>                                      |
| 1 Fish consumed on pier (7)  | 1 Commotion (3-2)                                |
| 5 Not an English racecourse? (5)                                       | 2 Disney dwarf (3)                               |
| 8 Arrangement of Hart score for the band (9)                           | 3 Go on too long (7)                             |
| 9 Short time with a large flightless bird (3)                          | 4 Where vegetables are grown for home use (7, 6) |
| 10 Signal you'll find in Chambers (5)                                  | 5 Sort of apple (5)                              |
| 12 Save by Man of the Match (7)  | 6 What did you say? (4, 5)                       |
| 13 Misdirect a soldier and this could be unwanted result! (3, 2, 4, 4) | 7 Rubbish! (7)                                   |
| 15 After complaint, leaves a nourishing drink (4, 3)                   | 11 Conceited and arrogant (3-6)                  |
| 17 Calls from parts of Yorkshire I'd forgotten (5)                     | 13 Hold closely in one's arms (7)                |
| 19 It's a plus, but often comes between partners (3)                   | 14 Cut of beef (7)                               |
| 20 Could be fries requested for the team? (4, 5)                       | 16 Stun gun (5)                                  |
| 22 Bush senior (5)   | 18 Alarm device (5)                              |
| 23 Grandma's eager to get a yellowish cotton cloth (7)                 | 21 Expire (3)                                    |

Name .....

Address .....

#### Solutions to 953

**Across** 1 Riviera anagram 5 Mores more + S 8 On-the-spot two meanings 9 See two meanings 10 Suede swayed 12 Old hand two meanings 13 Court disaster deceptive definition 15 Minorca minor + ca = about 17 Madam palindrome 19 Lax I a x 20 Greenhorn deceptive definition 22 Taser hidden 23 Yashmak anagram **Down** 1 Riots 2 Vat 3 Everest 4 Approximately 5 Muted 6 Restarted 7 Spender 11 Equinoxes 13 Camelot 14 Almonds 16 Roger 18 Minsk 21 Ohm.

The winner of MoneyWeek Quick Crossword No. 953 is Julia Rodgers, Comely Bank, Edinburgh.

Tim Moorey is author of *How To Crack Cryptic Crosswords*, published by HarperCollins, and runs crossword workshops ([TimMoorey.info](http://TimMoorey.info))

Taylor's, a family firm for 325 years, is dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello cherries on the nose, and cassis, plums and blackberry to taste. Try it with goat's cheese or a chocolate fondant.





# Hobnobbing with the 0.01%

Our resident anthropologist observes one of America's tribes at a ritual dinner



**Bill Bonner**  
Columnist

One of the advantages of having some money is that you get to observe others who have it. Up close, without being arrested. You see the rich in their native habitat. You learn their lingo. You observe their customs. It was in that spirit of anthropological curiosity that we joined a group of some 300 wealthy Americans at the Palace of Versailles in Paris recently. What a place. Over the top. Spectacular.

Our visit began with a noble entry into the palace. Military standards unfurled on either side. Then, we crossed a red carpet to arrive in the Halle d'Entrée. Our group was then escorted on a private tour of the great rooms. We passed through rooms used by Louis XIV and his entourage, the boudoir of Marie Thérèse, Louis' own bedroom and antechamber, the famous Hall of Mirrors, and the Hall of Battles. There, we dined in a peaceful splendour usually reserved for heads of state.

The people we were with were undoubtedly on the roster of America's 1%, perhaps even the 0.01%. But this was the *antiqua pecunia* wing of the moneyed set, not the Donald Trump wing. By their women shall ye know them. At a gathering of the Trumpian men, their wives – like their suits and cars – tend to be foreign, sleek, and

*“The 0.01% has money so old most have forgotten how it was made”*



Versailles: a peacock display of power

new. These women were more like Barbara Bush than Melania Trump.

For this set, life is about holding on to what you've got. This wing of the 0.01% has money so old that most have forgotten how it was made. David Rockefeller Jr showed

no signs of oil stains on his tuxedo. Nor did the others smell of the slaughterhouses, coal mines, or retail outlets where their fathers and grandfathers had sweated out their fortunes. These were not people who knew how to make money. They knew something just as valuable – how to get rid of it. Many collected art and antiques. They endowed museums. They were also very worldly people, with apartments in Paris or Venice. They supported good works all over the world.

One of those good works was the building in which we dined. When World War II concluded, the Rockefellers wrote a letter to ask the French if perhaps they would like a little help restoring the place where the Treaty of Versailles had been signed. Yes, they answered politely, they would be delighted. And so, the Americans, well stocked with dollars but short on grandiose culture of their own, helped to make Versailles what it is today – monumental, but not lovely; almost ugly, it is a peacock display of power, not taste. It impoverished the French, isolated the aristocracy, galled the commoners, and incited the French Revolution. And the Treaty of Versailles – our dinner was celebrating the 100th anniversary of the signing of this treaty – led to the rise of Hitler and war. Such ugly truths we kept quietly to ourselves at this fine event, enjoyed by all.

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## The bottom line

**£735,000** The amount a medieval chess piece has sold for at auction. It was kept in a drawer in an Edinburgh home after originally being bought for £5 in 1964. The piece belongs to the Lewis Chessmen collection, which is believed to date from the 12th century.

**48.4** The percentage of cars sold in Norway for the first six months of 2019 that were electric. Tesla's Model 3 was the best seller for the period. The company was responsible for 24.5% of all cars sold in Norway throughout June.

**£12m** How much the BBC has set aside to settle the historical tax bills of its presenters, worth 77,000 TV licences. The National Audit Office said the payment would be "irregular", as the BBC was not liable for the money.

**\$2.5m** The estimated cost of Donald Trump's "Salute to America" military parade, held on 4 July for US Independence Day. The White House wouldn't reveal the actual amount, but the president tweeted that the cost "will be very little compared to what it is worth".

**\$13bn** The size of Netflix's annual production budget. The film and television-streaming service announced plans to spend more of it in Britain by setting up a permanent production base at Shepperton Studios in Surrey. Earlier this year, the studios were given the go-ahead for a massive £500m expansion that will make them the second-biggest in the world.

**€126m** How much football club Atletico Madrid has paid Portuguese side Benfica for 19-year-old forward Joao Felix (pictured). It is the fifth-most expensive transfer fee and the second-most expensive for a teenage player behind the €180m Paris St-Germain paid for French player Kylian Mbappé last year.





# The number cruncher



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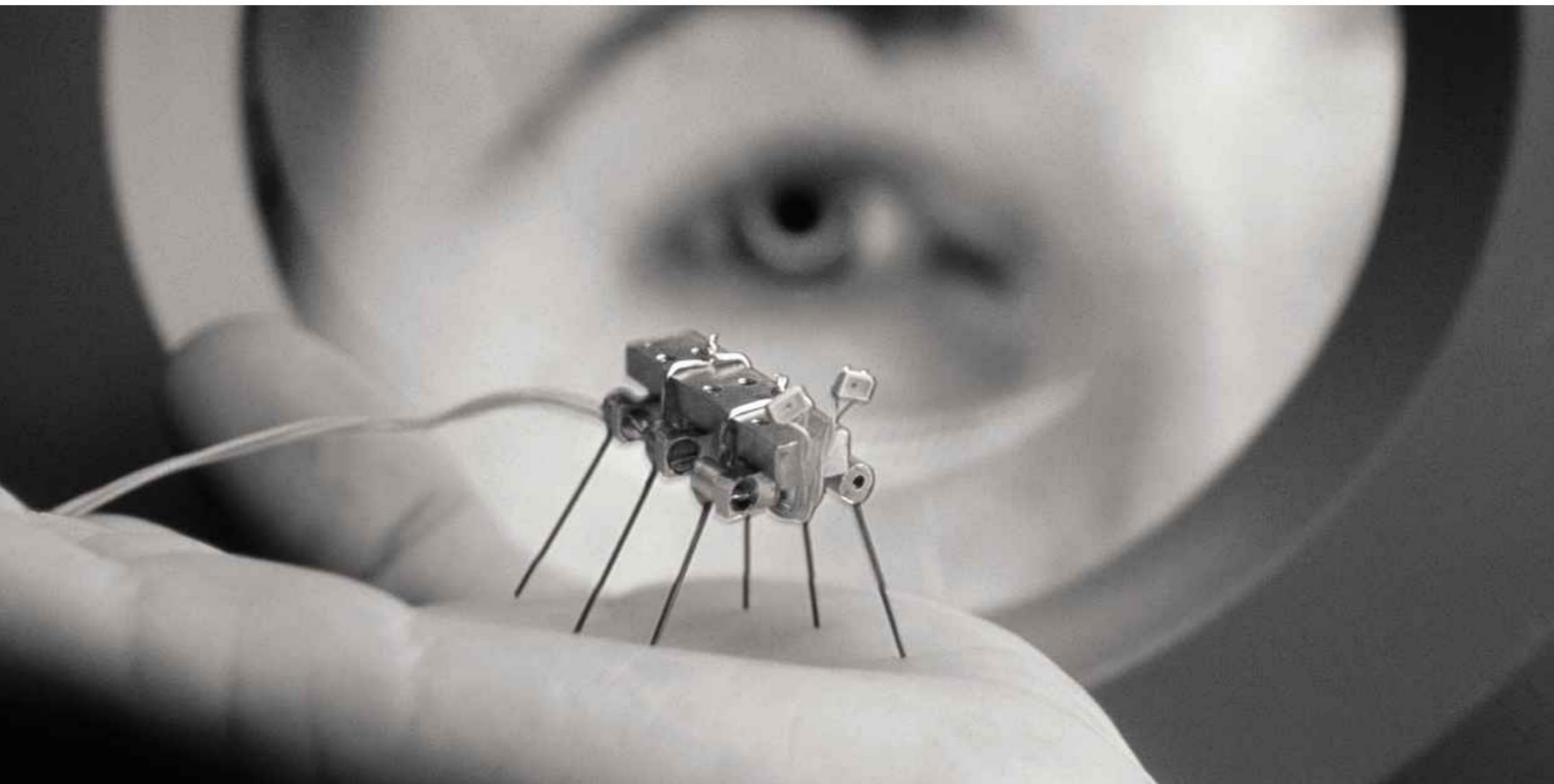
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